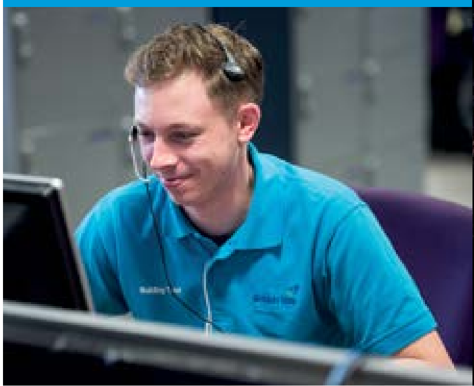
Energy for a changing world



Annual Review 2014 >

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Manage your heating at home or away.

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Our operating environment

We are involved in all elements of the energy value chain from sourcing it to supplying it.

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Group revenue

£29.4bn

2013: £26.6bn

Dividend per share

13.5p

2013: 17.0p

Group Financial Review 35

Centrica has established a strong platform from which to play an important part in the evolution of energy supply and services.

Chief Executive's Statement 09

We have developed a comprehensive framework for managing process safety.

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Performance measures
centrica.com/performance >

ABOUT US

We are a leading integrated energy company with customers at our core.

Our scale is of great benefit to the markets we are in as we secure the future energy needs of our customers.

In increasingly international energy markets, our interests and those of our customers remain inextricably linked.

See this Annual Review and the full Annual Report at **centrica.com/ar14**
and our Corporate Responsibility Performance Review at **centrica.com/cr**

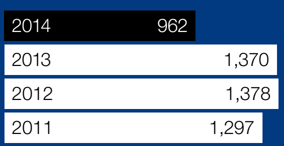
GROUP RESULTS

"2014 was a very difficult year for Centrica and the recent fall in oil and gas prices creates further challenge. We are cutting investment and costs in response. However, it is with regret that, along with reducing capital expenditure and driving efficiency beyond planned levels, we have taken the difficult decision to rebase the dividend by 30%, commencing with the final distribution for 2014. In addition, given the changed external environment, we are reviewing the longer-term strategy and will conclude this by the interim results in July.

Adjusted earnings

£962m

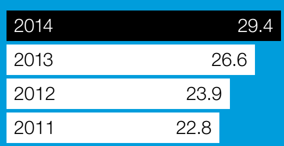
2013: £1,370 million



Group revenue

£29.4bn

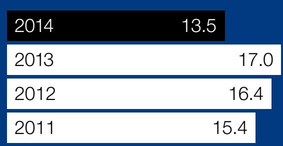
2013: £26.6 billion



Dividend per share

13.5p

2013: 17.0 pence



Financial summary

Year ended 31 December	**2014**	2013	Change
Revenue	**£29.4bn**	£26.6bn	11%
Adjusted operating profit	**£1,746m**	£2,695m	(35%)
Adjusted effective tax rate	**30%**	43%	(13ppt)
Adjusted earnings	**£962m**	£1,370m	(30%)
Adjusted basic earnings per share (EPS)	**19.2p**	26.6p	(28%)
Full year dividend per share	**13.5p**	17.0p	(21%)
Group net debt[i]	**£5,196m**	£4,942m	5%
Group net investment	**£829m**	£2,565m	(68%)
Statutory operating (loss)/profit	**(£1,137m)**	£1,892m	nm
Statutory (loss)/profit for the year attributable to shareholders	**(£1,012m)**	£950m	nm
Net exceptional items after tax included in statutory (loss)/profit	**(£1,161m)**	(£667m)	nm
Basic earnings per share	**(20.2p)**	18.4p	nm

(i) The Group's definition of net debt has been restated to include cash collateral posted or received to support wholesale energy procurement.

Unless otherwise stated, all references to operating profit or loss, taxation, earnings and earnings per share throughout the Annual Review are adjusted figures, reconciled to their statutory equivalents in the Group Financial Review on pages 35 to 39.

Profit measure reconciliation
Unless otherwise stated, all references to operating profit or loss, taxation, earnings and earnings per share throughout the report are adjusted figures, as reconciled to their statutory equivalents in the Group Financial Review.

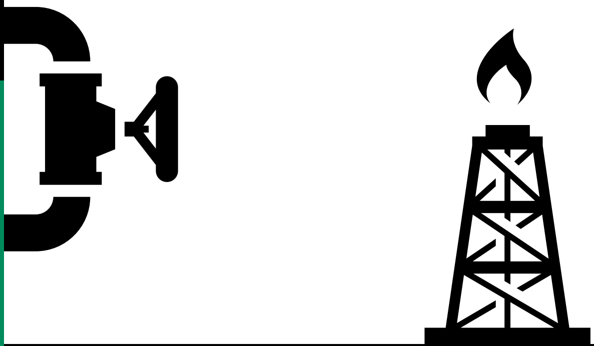
Group Financial Review 35

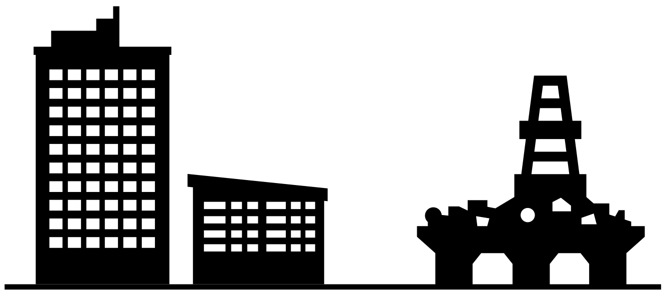
Despite the obvious current challenges, I am confident in the quality of Centrica's team and the platform which has been established. I believe the Group is well-placed to take advantage of the longer-term trends in the global energy markets. Our priorities remain to serve our customers competitively and with integrity, to develop new offers and services, to provide secure and reliable energy supplies and to deliver long-term value for shareholders."

Iain Conn, Chief Executive

2014 Group results

- Group adjusted EPS down 28%, reflecting challenging trading conditions, including extreme weather patterns and falling oil and gas prices. Post-tax impairments of £1,385 million on exploration and production (E&P) and power assets
  - **British Gas** operating profit down, primarily reflecting lower consumption in record warm year, with average dual fuel profit per household falling to £42. Average actual household energy bill around £100 lower than in 2013
  - **Direct Energy** operating profit down due to impact of polar vortex in Q1 and narrowing of energy supply margins in a competitive environment
  - **Centrica Energy** gas operating profit before tax down, reflecting lower market prices. Post-tax earnings largely protected by hedging, tax allowances on previous investments and strong midstream performance. Power profit impacted by unplanned nuclear outages





2015 environment and response

- Primarily due to changes in the external environment, 2015 adjusted earnings are expected to be down compared to 2014
- Taking action in a low commodity price environment
  - 40% reduction in E&P capital expenditure to £650 million by 2016
  - Continued focus on competitiveness, service and efficiency downstream
  - Group-wide performance improvement plan, with a strong cost focus
  - Dividend rebased by 30%, commencing with the 2014 final dividend. 2014 full year dividend of 13.5 pence per share
- Decision to retain UK Combined Cycle Gas Turbine power stations (CCGTs), with bids received significantly below our internal valuation
- Strategic review launched, to be concluded by the interim results in July 2015 covering: (i) outlook and sources of growth; (ii) portfolio mix and capital intensity; (iii) operating capability and efficiency; (iv) Group financial framework

OUR BUSINESSES

Centrica is an integrated energy company. We are made up of a number of strong businesses, participating throughout the energy value chain and across geographies.

British Gas

Adjusted operating profit

£823m

£m

2014	823
2013	1,030
2012	1,093
2011	1,005

Read more in the Business Review 25

What we do

British Gas is the UK's leading energy supplier and provides energy and/or services to around 10.8 million homes in Britain, as well as providing energy to over 850,000 UK business supply points. British Gas Services installs, repairs and maintains boilers and heating systems. We help customers manage their energy consumption with a range of low carbon, energy efficient products and services.

Employees

28,814

2013: 28,579

Customer accounts

23.6m

2013: 24.3m

Lost time injury frequency rate
(per 100,000 hours worked)

0.16

2013: 0.11

British Gas

Direct Energy

Adjusted operating profit

£150m

£m

2014	150
2013	276
2012	310
2011	287

Read more in the Business Review 28

What we do

Direct Energy is one of the largest retail providers of electricity, natural gas and home services across North America. We supply gas and electricity to both residential and commercial and industrial customers and provide energy management solutions.

Employees

5,980

2013: 5,910

Residential customer accounts

4.2m

2013: 6.0m

Lost time injury frequency rate
(per 100,000 hours worked)

0.02

2013: 0.12

Direct Energy

Bord Gáis Energy

Adjusted operating profit

£7m

£m

2014	7

Read more in the Business Review 30

What we do

Bord Gáis Energy is a leading supplier of gas and electricity in the Republic of Ireland and since mid-2014 has been part of the Centrica Group. We have over 600,000 energy customer accounts and offer boiler servicing and repairs.

Employees

280

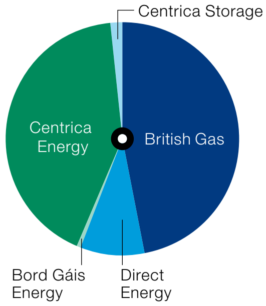
average from date of acquisition

Customer accounts

639,000

Bord Gáis Energy

Breakdown by operating profit



Centrica Energy

Adjusted operating profit

£737m

£m

2014	737
2013	1,326
2012	1,251
2011	1,048

Read more in the Business Review 31

What we do

Centrica Energy is one of the leading producers of gas on the UK continental shelf and has a significant international operating portfolio in Norway, the Netherlands and North America. We also operate a fleet of gas-fired power stations, have offshore wind farms in the UK and a 20% interest in eight UK nuclear power stations.

Employees

2,280

2013: 2,158

Total gas and liquids production

79.5mmboe

2013: 77.3mmboe

Lost time injury frequency rate

(per 100,000 hours worked)

0.19

2013: 0.10

Centrica Storage

Adjusted operating profit

£29m

£m

2014	29
2013	63
2012	89
2011	75

Read more in the Business Review 34

What we do

Centrica Storage has the largest gas storage facility in the UK representing more than 70% of the UK's current storage capacity. We store gas on behalf of utilities, gas traders and gas producers, including other Centrica businesses, before processing it for onward distribution via the National Transmission System.

Employees

305

2013: 319

Asset reliability

96%

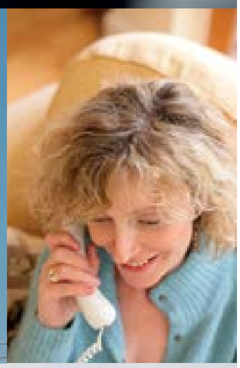
2013: 96%

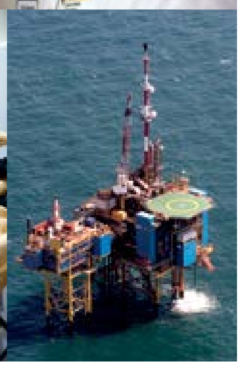
Lost time injury frequency rate

(per 100,000 hours worked)

0.09

2013: 0.06





CHAIRMAN'S STATEMENT

"Centrica is deeply conscious of the cost-of-living challenge facing many of our customers. We remain focused on innovation as a way of helping our customers."

Rick Haythornthwaite
Chairman

"I firmly believe that good corporate governance is an important enabler to the success and reputation of the Group."

Summary Governance 52

Innovating for a smarter future.

Read more in our case study 11

2014 has undoubtedly been a tough year for Centrica and the global energy industry as a whole. In Centrica, we have faced a number of challenges, including extreme weather conditions in both the UK and US, the volatile commodity prices and the focus on affordability and competition. The most recent market events have required us to take a difficult decision regarding the dividend, a decision that the Board has not taken lightly.

Since assuming the role of Chairman on 1 January 2014, I have spent a considerable amount of time talking to, and more importantly listening to, our employees, customers, shareholders and wider stakeholders. What is clear is that the energy sector has remained at the forefront of customers', regulators' and governments' minds throughout the year. The energy trilemma of affordability, decarbonisation and security of supply remains current and the continuing debate on energy is still riddled with confusion. In the UK, there has been a debate around the competitiveness of the UK energy market and this has resulted in the ongoing investigation by the Competition and Markets Authority.

Centrica is deeply conscious of the cost-of-living challenge facing many of our customers. We remain focused on innovation as a way of helping our customers understand and control their energy consumption, helping them reduce their use and cut carbon emissions. We are developing new, simple technologies both in the UK and North America and have acquired relevant businesses to enhance our capabilities in these important areas.

We are fully committed to tackling climate change and have been working to explore pathways for future UK energy policy that are both sustainable and affordable. We conducted research using publicly available data and published our findings – 'Energy choices for the UK: Seeking affordable, secure and sustainable energy supplies'. With this report, our intention is to offer ideas and solutions that help deliver carbon savings cost-effectively and to further the debate on these critical issues.

Security of supply is vital to the UK as our own North Sea gas reserves run out. Additionally, up to one-third of the UK power generation plant is expected to retire by 2020 due to age or environmental regulation. To ensure energy security for the future, we must pursue a diverse energy portfolio to minimise the risk of reliance on one type of energy. Utilising the benefits of the globalisation of the gas market, Centrica has been able to diversify its sources of gas, including the development of its liquefied natural gas (LNG) capability. Importing LNG is just one increasingly important focus area for Centrica as part of our commitment to secure our future energy needs.

Board composition

Much of the Board's attention during the year was focused upon succession planning. As part of our planned and continuing evolution of the Board, there have been a number of changes to the composition of the Board during the year. We advised in last year's report that Mary Francis and Paul Rayner would continue in post during 2014 beyond their nine year term of office as the Board felt that their continued service was of great benefit to the Company. Both Mary and Paul undertook this commitment and stepped down from the Board on 31 December 2014. I would like to express my thanks to each of them for the professionalism and dedication they have demonstrated throughout the time they have served on the Board and the contribution that they have made to the Company. Ian Meakins succeeded Mary Francis as the Company's Senior Independent Director with effect from 1 January 2015.

At the end of the year, Sam Laidlaw stood down as Chief Executive as planned. Sam was an exceptional ambassador for Centrica and has shown outstanding leadership over the past eight years. Under his stewardship, Centrica has achieved strength and scale which is of great benefit to the energy sector, building a technology-based customer service business in British Gas, a downstream business in the US and developing a more balanced upstream business. I would like to thank Sam on behalf of the Board, shareholders and our people for his enormous commitment and contribution to Centrica.

We have explored pathways for future energy policy that are both sustainable and affordable.

centrica.com/energychoices >

Iain Conn took up his office as Chief Executive on 1 January 2015. I very much look forward to working with him as he brings an impressive combination of both upstream and downstream business experience. Iain possesses a deep understanding of the energy sector built up over a lifetime in the industry. His breadth of knowledge and commitment to customers and safety make him ideally suited to lead Centrica in the next phase of its development.

In addition, Nick Luff resigned as a director on 31 August 2014 and Chris Weston resigned on 30 December 2014. I wish them both well in their new roles and thank them for their contributions during their time with Centrica.

CHAIRMAN'S STATEMENT CONTINUED

As part of our succession planning, we appointed Carlos Pascual as a Non-Executive Director of the Company with effect from 1 January 2015. Carlos brings a wealth of experience to the Centrica Board with his exceptionally strong international background in energy affairs. As announced on 18 February 2015, Steve Pusey will be appointed as a Non-Executive Director of the Company with effect from 1 April 2015. Steve's strong technology background will bring a new dimension to the Board.

Board evaluation

Centrica has for many years conducted a thorough review of Board process, practice and culture on an annual basis with the input of an external facilitator at least once every three years. The Board considers such annual review as an essential part of good corporate governance. In 2014, our effectiveness review was facilitated by Independent Audit Limited. They helped ensure that this was rigorous and covered the important influences on the Board's effectiveness. The evaluation was set against a background of change at Board level during the previous 12 months and the findings have helped provide a clear agenda for Board development. The Board and its Committees are now working through a number of suggestions that were made as we strive to achieve excellence as a leadership team.

Outlook

Over the next few months the UK will witness the lead-up to the UK general election and the public focus will remain on the affordability of energy supply. In addition, the regulatory environment in which we operate will continue to be demanding in all our geographies with the Competition and Markets Authority investigation in the UK due to report its findings in December 2015. Specialists and policymakers will continue to debate the energy trilemma. At Centrica, we will keep abreast of the global energy sector at a time of such unprecedented change and respond appropriately for the benefit of all our customers and shareholders.

Despite all the external scrutiny, this is an exciting time for Centrica as we develop our innovative technologies and respond to the changing global energy sector. Our people have a crucial role to play in the opportunities that we face in a business that matters to society. I know with certainty that we have a dedicated group of employees, working in many countries and many environments, and I would like to thank them all for their hard work and commitment over the past year.

Rick Haythornthwaite
Chairman
19 February 2015

The energy trilemma: how do you reduce carbon from energy whilst keeping it affordable and secure?

Affordability

Energy companies should keep bills as low as possible.

Decarbonisation

Energy companies should get out of fossil fuels and into renewable energy.

Energy security

Energy companies should focus on ensuring we have the energy we need.

"The UK must achieve carbon targets to reduce CO_2 emissions by 80% by 2050, even if this means higher bills."

"Renewable power is still more expensive than fossil fuels, so the UK can't just switch immediately."

"We should use gas. It's cheaper, heating 80% of homes at half the cost of electricity."

"The UK needs to invest in our energy infrastructure now in order to keep the lights on in the future."

"Many types of renewables are intermittent, meaning the UK still needs back-up power, such as gas."

Our view

We focus our upstream efforts on bringing gas to the UK. Gas is transportable, remains widely available and is the lowest carbon fossil fuel. As such, it is an essential component of a cost-effective transition to a low carbon future.

In our downstream business, we focus on installing energy efficiency measures to help reduce consumption, which saves our customers money, emits less carbon and reduces stress on supplies.

CHIEF EXECUTIVE'S STATEMENT

"Despite the current challenges, I am convinced that the Group is well placed to build on its existing strengths and be able to compete and contribute materially in global energy markets."

Iain Conn
Chief Executive

Our operations cover all elements of the energy value chain.

Our Operating Environment 14

We measure and track key performance indicators that we believe are important to longer-term success.

Key Performance Indicators 18

CHIEF EXECUTIVE'S STATEMENT CONTINUED

Overview

Centrica occupies a vital role in the energy affairs of the UK in particular and also in the US and the Republic of Ireland. We are a customer facing business and our principal role is to deliver excellence in the supply and reliability of energy and services to those customers. Although we are facing some significant challenges at present, it is clear to me that Centrica has built a solid set of positions, from which we will be able to continue to play an important role in the developing energy markets on both sides of the Atlantic.

The 2014 environment was very difficult for Centrica, with record mild weather in the UK, extreme cold weather in North America early in the year and a highly competitive market environment on both sides of the Atlantic. Upstream, the exploration and production (E&P) business faced falling oil and gas prices, while Centrica Storage was impacted by lower seasonal gas price spreads. Political uncertainty and the launch of the Competition and Markets Authority investigation provided further challenges in the UK.

Operationally, in British Gas these conditions translated into falls in gas and electricity sales volumes of 20% and 8% respectively and a 2% fall in residential energy customer accounts, mostly in the first half of the year. Direct Energy also saw a 3% fall in residential energy customer accounts. In Centrica Energy, oil and gas production volumes of 79.5mmboe were up 3% compared to 2013 but realisations fell as a consequence of lower oil and gas price levels. The power business experienced unplanned outages on the nuclear fleet.

As a result, adjusted earnings per share fell by 28% compared to 2013. We also recognised pre-tax exceptional items of £1,597 million, £1,161 million post-tax, which included substantial impairments on E&P and power assets totalling £1,385 million post-tax, primarily as a result of the current low commodity price environment. These were partially offset by profits on disposal relating to the sale of the Texas gas-fired power stations and the Ontario home services business totalling £224 million.

The Group continues to face a number of challenges as we enter 2015, particularly the significant further reductions in wholesale oil and gas prices since the middle of December 2014 and continuing low spark spreads. While we plan for normal weather patterns in 2015 and, relative to 2014, should see an associated improvement in earnings and cash flows in the customer facing businesses, the current forward price curves for oil and gas are likely to more than offset this. It is not clear that the forward price curves for oil and gas will improve in the near term and we therefore need to plan on the basis that lower wholesale prices will persist for all of 2015 and potentially through 2016 and into 2017. During this time, we expect the E&P supply chain costs to respond to the lower price environment. Until that time, the Group's cash flows from Centrica Energy will be materially impacted.

Centrica balances the significant energy commitments of our downstream obligations to customers with two sources of supply: upstream assets, whose cash flows have been materially impacted by current prices; and our procurement, hedging and optimisation activities which require strong investment grade credit ratings to ensure our supply of energy is delivered efficiently.

We are taking immediate actions to improve cash flows, focusing on reducing E&P capital expenditure relative to 2014 levels by around £250 million in 2015 and by a further £150 million in 2016, and to reduce cash production costs. In addition, we have initiated Group-wide performance improvement efforts, including a strong cost focus, and we will also pay close attention to working capital management.

Despite these actions, with 2014 adjusted earnings per share of 19.2 pence and with 2015 adjusted earnings per share having been negatively impacted by around 2.5 pence since the interim management statement in November and therefore expected to be down compared to 2014, the Group has taken the very difficult decision to re-base the dividend, commencing with the final payment for 2014. This reduction is driven by three things:

- the need to operate with strong investment grade credit ratings;
- the desire to balance sources and uses of cash in 2015; and
- maintaining a healthy payout ratio.

Going forward, the future level of dividend payments will be determined by the health and growth of the Group's operating cash flow after tax.

In 2014, we had no significant process safety events.

Process safety is a key business priority across all of our high hazard operations and significant effort and resources are being directed towards this area. We have developed a comprehensive framework for managing process safety which is intended to help us achieve our long-term goal of 'our assets are safe and we know it'.

We conducted gap analyses in Centrica Energy Exploration and Production (E&P) Canada and the CE Power thermal generation business in 2014 and all of our businesses have established improvement plans to address process safety issues in one or more of three key areas: identifying major accident hazards and assessing their risks; managing controls across all stages of our activities, from initial design into operations and final decommissioning and closure; and providing assurance that the controls are effective.

During 2014, no high consequence process safety events occurred within Centrica. However, there were 11 significant 'near misses', all of which have been investigated to understand the immediate and root causes, which helps us continually improve. These near misses remind us of the need for constant vigilance against a major accident in our upstream and power businesses.

Explore our non-financial KPIs in our online data centre: centrica.com/performance >

To underpin future growth in cash flows, we have launched a strategic review to be concluded by the time of the interim results in July 2015. The review will focus on four key areas:

- outlook and sources of growth;
- portfolio mix and capital intensity;
- operating capability and efficiency; and
- Group financial framework.

Despite the challenging current environment, my initial assessment of the Group is that Centrica has an excellent and committed team and has established a strong platform from which to play an important part in the evolution of energy supply and services in the UK, Republic of Ireland and North America.

2014 business performance summary

The top priorities for the Group are safety, compliance and market conduct. The lost time injury frequency rate (LTIFR) per 100,000 hours worked was 0.14, up compared to the 2013 level of 0.11. No significant process safety incidents were recorded during the year.

Downstream in the UK, British Gas faced continued political and regulatory scrutiny, competitive market conditions in each division and lower consumption due to the mild weather. Account numbers declined in both energy and services. In residential services, we also experienced a shift in mix towards lower priced products, although we increased our sales of services products in the fourth quarter of the year and returned to account growth.

Overall we delivered improved service levels in British Gas and we have now completed the implementation of a new combined residential energy and services customer relationship management (CRM) platform. We also completed the implementation of a new billing system in British Gas Business, although we have encountered some transitional issues following the migration of accounts which we are now resolving. We continue to lead the industry in smart metering, innovation and connected homes, having installed around 1.3 million residential smart meters and sold over 170,000 smart thermostats in the UK.

Case study

Innovating now for a smarter future

Inspiring smarter energy use

Direct Energy's Innovation to Inspiration tour is showcasing the benefits of smart products to communities across North America.

People are invited to walk around the 'smart home' and 'smart business' exhibits to explore how innovative products, such as smart thermostats, automated water sprinklers and remote controlled appliances, can provide greater control and convenience over energy consumption and bills.

By engaging communities in the evolution of these products, we hope to inspire even more people to use new innovation to improve their interactions with energy.

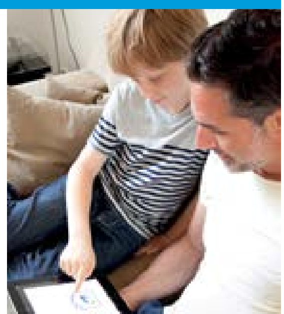
96% of Hive users said they now feel more in control of their heating.

Manage your heating at home or away

We are transforming how energy is managed in homes with Hive, by British Gas.

The Hive Active Heating™ device replaces the existing thermostat and boiler timer in homes. It enables heating to be programmed and controlled remotely via a smartphone, tablet or laptop allowing customers to adjust their heating from the comfort of their own home or while on the move. 96% of Hive users said they now feel more in control of their heating while 70% say it has helped them make energy savings.

Hive Active Heating™ is available to anyone in the UK, irrespective of energy supplier. We have sold over 170,000 Hive Active Heating™ devices and smart thermostats in the UK.



22m

Almost 22 million households in Britain (over 80%) are connected to the internet. We are increasingly reliant on technology to manage everyday activities, such as energy.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

In North America, the business was impacted by extreme cold weather caused by the polar vortex in early 2014, resulting in additional network system charges. In addition, lower margin sales made in prior years impacted Direct Energy Business. However, margins on new B2B sales materially increased in 2014 compared to 2013, reflecting a repricing of risk following the polar vortex, and this will benefit the business in 2015.

Market conditions remained highly competitive for Direct Energy Residential, particularly in the US North. Against this backdrop, we are differentiating our offering through innovative propositions that are attractive to the most valuable customer segments. During the year, we delivered increased sales of protection plans, combined energy and services products and smart thermostats, while also adding residential solar capability through the acquisition of Astrum Solar. In Direct Energy Services, our focus is now on delivering growth in the US and Alberta following the disposal of our Ontario home services business in October 2014.

At the end of June 2014, Centrica completed the acquisition of Bord Gáis Energy, the incumbent gas supplier and largest dual fuel supplier in the Republic of Ireland. The transaction added some 600,000 residential energy accounts, giving us a leading position in an adjacent deregulated market and providing a platform for growth. We will look to use our experience from the UK and US to develop innovative propositions for our customers in the Republic of Ireland, in both energy and services.

In Centrica Energy, upstream gas post-tax earnings in the year were largely protected from falling wholesale prices by the impact of hedging, tax allowances and strong midstream performance. We delivered increased E&P production, reflecting a full year of production from assets acquired in Canada in 2013 in partnership with Qatar Petroleum International (QPI). During the year we further strengthened our important relationship with the State of Qatar, selling a 40% share of our wholly owned gas assets in Western Canada to fully align our interests in the region.

In power generation, nuclear output was lower reflecting the temporary shut-down of four reactors following the discovery of a boiler spine issue at Heysham 1 nuclear power station. All four reactors are now back online, although at reduced power until modifications are made to the boilers during planned maintenance periods.

In Centrica Storage, our Rough gas storage asset reached its highest ever net reservoir volume in November 2014, reflecting mild UK weather and good asset reliability. However, the low seasonal gas price spreads resulted in much reduced year-on-year profitability.

Disposal programme

We completed the disposal of our Texas gas-fired power stations for £411 million in January 2014, releasing capital from non-core assets. In addition, during the year we announced a £1 billion programme of further non-core asset disposals and we completed the sale of our Ontario home services business for £270 million in October 2014. We also ran a process to dispose of our three larger UK CCGTs – Langage, Humber and Killingholme. However, the bids we received were significantly lower than our internal valuation and we have concluded that it is not in the best interest of shareholders to proceed with the disposal of these stations. In addition, the fall in oil and gas prices has made the proposed disposal of our Trinidad and Tobago gas assets more challenging, although we will continue to review our options to release capital from the assets.

Competition and Markets Authority investigation

The Competition and Markets Authority (CMA) investigation into the UK energy market commenced in June 2014, and we continue to engage constructively and comprehensively with this full review by an independent body. The CMA published their updated statement of issues on 18 February 2015 and is expected to set out provisional findings in May or June 2015.

2015 environment and outlook

Against the low commodity price backdrop we are taking positive action to improve earnings and cash flows in 2015 and 2016. We are focused on reducing capital expenditure through driving efficiencies on in-flight projects and putting a hold on certain new projects. Absent a material change in commodity prices, we expect E&P capital expenditure to fall to approximately £800 million in 2015 and to approximately £650 million in 2016, around 40% lower than 2014 levels. We will also maintain a tight control on production costs, examining all internal and external supply costs for

The top priorities for the Group are safety, compliance and market conduct.

our operated fields and working with our partners to reduce costs where we are not the operator. Reflecting these actions, we are targeting a 10% or £100 million reduction in our 2016 lifting and other cash production costs compared to 2014 levels, including absorbing the incremental costs of the Valemon and Cygnus fields which will be on-stream.

In power, the Humber and Langage gas-fired stations are cash generative at the operating level in the current environment. We will retain these assets. However, following a review, we plan to close the Killingholme and Brigg power stations. We will also be taking action to make the management of our power portfolio more efficient.

Downstream, it is vital that we focus on competitive pricing, customer service and operational efficiency. Early in 2015, we were able to announce price reductions for both our British Gas and Bord Gáis Energy residential customers, improving our competitive positions. In North America, margins on new B2B sales improved during 2014, resulting in much improved second half profitability and leaving the business well placed for further profit growth in 2015. We also made good progress in improving our service levels. However, there are further improvements we can make, in part enabled by investment in our IT platforms on both sides of the Atlantic.

We will continue to develop our leading position in smart metering, innovation and connected homes in the UK, which will enable us to offer enhanced customer offerings and drive greater customer engagement while also creating new skilled jobs. Smart meters are already providing significant benefits to over 600,000 British Gas customers, providing an end to estimated bills and a greater ability to monitor and reduce consumption while also delivering higher levels of customer satisfaction.

We will also continue to drive sales of our Hive Active Heating™ smart thermostat, which has extremely positive customer reviews and we have a strong development pipeline of further innovative products, including time-of-use tariffs and a connected boiler. In February 2015 we agreed to acquire AlertMe, the company that provides the technical platform that underpins British Gas' existing connected homes activity, including Hive. The acquisition will enable further development of connected homes' products and services across the Group. In North America, we have also focused on

differentiating our offering to the more valuable customer segments, through joint energy and services products, solar and innovative partnership agreements.

Across the Group, we are reviewing our resource efficiency, with a focus on cost to serve, overhead levels and working capital consumption and have initiated a Group-wide performance improvement plan, including a strong cost focus.

Despite these actions, since our interim management statement in November 2014, the reductions in commodity prices and power margins, the associated impact on our ability to make asset disposals in the current environment and the impact of systems implementation delays in British Gas Business are estimated to have had a negative impact of about 2.5 pence on 2015 adjusted EPS. As a result, we expect adjusted earnings to be down in 2015 compared to 2014. Earnings remain subject to the usual variables of commodity prices, weather and asset performance.

We have also taken the very difficult decision to rebase the dividend from the 2014 final payment. We are proposing a 2014 final dividend of 8.4 pence per share, 30% lower than the 2013 final dividend which, when added to the interim dividend of 5.1 pence, gives a 2014 full year dividend of 13.5 pence. We will also commence a scrip dividend programme as an alternative to the cash dividend, commencing with the final dividend, subject to shareholder approval.

Our primary role as a Group is to supply energy and services to our customers and we provide security for that energy both by owning gas and electricity production and also in midstream by hedging, procurement and optimisation activities. To do this, the Group requires a strong investment grade credit rating.

The Group currently has an A3 credit rating with Moody's and an A- credit rating with S&P, with both agencies having placed their rating on negative outlook in the summer. Since then, the fall in commodity prices has impacted the Group's cashflows, with a corresponding reduction in its credit metrics. The actions we are taking to improve cashflow, through the reduction of capital expenditure and operating costs and the rebasing of the dividend, are therefore necessary both to balance sources and uses of cash in 2015 and to underpin the financial metrics necessary for strong investment grade credit ratings.

Summary

I joined Centrica at the start of the year and have spent my first weeks visiting our operations, meeting people and deepening my understanding of the Group. Despite the challenges we face, under Sam Laidlaw Centrica has built attractive positions and good capabilities in the UK, Republic of Ireland, Norway, Netherlands and North America. Given the current commodity price environment, we are taking a number of immediate actions and regrettably have had to take action to rebase the dividend. We are also conducting a review of our longer-term strategy, including the financial framework for the Company. We will be in a position to share our conclusions by the time of the interim results in July 2015.

I am convinced that the Group is well placed to build on its existing strengths despite the current challenges and is able to compete and contribute materially against the emerging long-term trends in global energy markets.

Iain Conn
Chief Executive
19 February 2015

OUR OPERATING ENVIRONMENT

Our operations cover all elements of the energy value chain, from sourcing to supplying and saving it. We participate in international energy markets with customers across the UK, North America and the Republic of Ireland.

SOURCE IT

We invest in gas and oil exploration and production in the Atlantic basin, particularly in the North Sea and Canada.

GENERATE IT

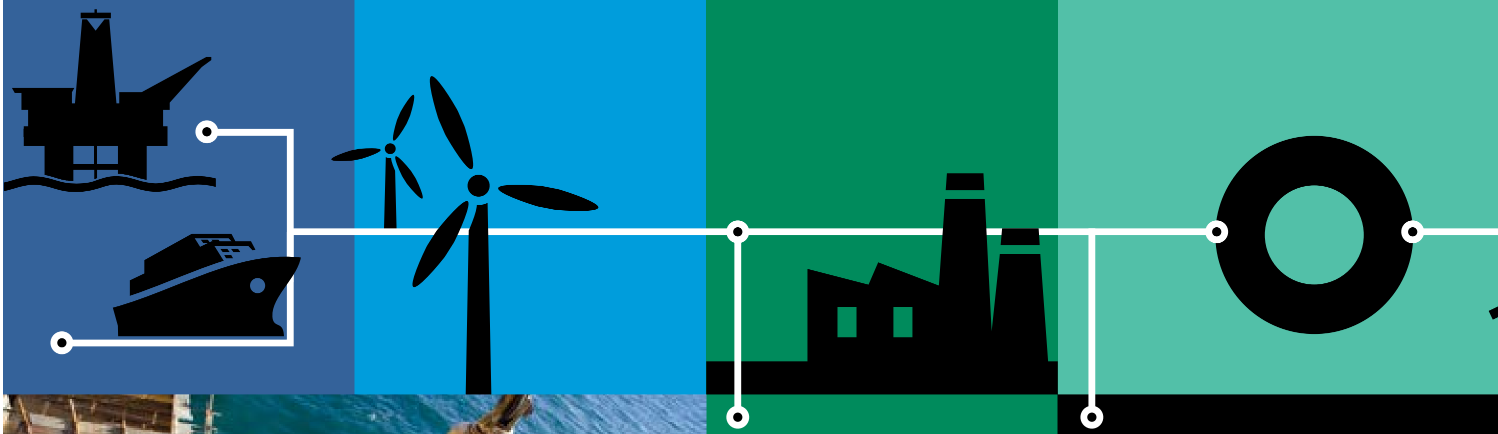
We generate power through our wind farms, nuclear and gas-fired power stations.

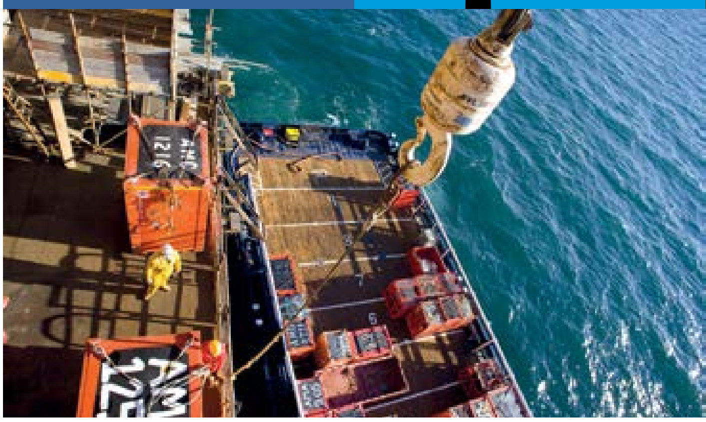
PROCESS IT

Our onshore gas terminals ensure high quality gas enters the transmission system.

STORE IT

Our gas storage facility at Rough is the largest of its kind in the UK.





All of us rely on the gas flowing to heat our homes and businesses and a steady supply of electricity to keep the lights on in our schools, hospitals and factories.

Gas provides around one-third of the UK's primary energy, but import dependency has increased rapidly over the past decade. In 2014 around 50% was imported by pipeline from the continent or by ship in liquefied form, primarily from Qatar.

Central role for global gas

Gas currently plays a major role in the global energy mix, fuelling power generation, powering industry and heating homes. In both gas and oil, oversupply has seen prices fall dramatically in the latter half of 2014, reducing profitability for the oil and gas industry in the short term and leading many companies to cut back expenditure on new projects. Whilst this low price environment could persist for some time, long-term scenarios continue to show gas having a central role as energy markets evolve and move towards a low carbon system. Recent warm weather in the UK has led to high levels of gas in storage but in the long term the UK is becoming increasingly dependent on imports as North Sea reserves decline. In the US, shale gas production continues to grow and is driving the push to increase LNG export capacity with more projects being developed to bring US gas to Europe and Asia.

Progress in UK power

In the UK the results of the first energy capacity market auction have provided some clarity about the future of the market, however significant uncertainty remains about the affordability and incentives for future generation. In the near term the capacity the UK has to meet peak demand is likely to be tight and the returns from gas-fired generation appear to be very low. The costs of a transition to low carbon generation are forecast to be high and the capital and subsidies required to construct some renewables technologies and nuclear continue to go up; we await further clarification after the UK electoral process in 2015.

Our integrated business model, together with our distinctive portfolio of assets and capabilities, gives us opportunities throughout the energy value chain.

Read more overleaf >

TRADE IT

In the UK and North America, we trade gas and power to ensure our customers have a reliable and competitive energy supply.

SUPPLY IT

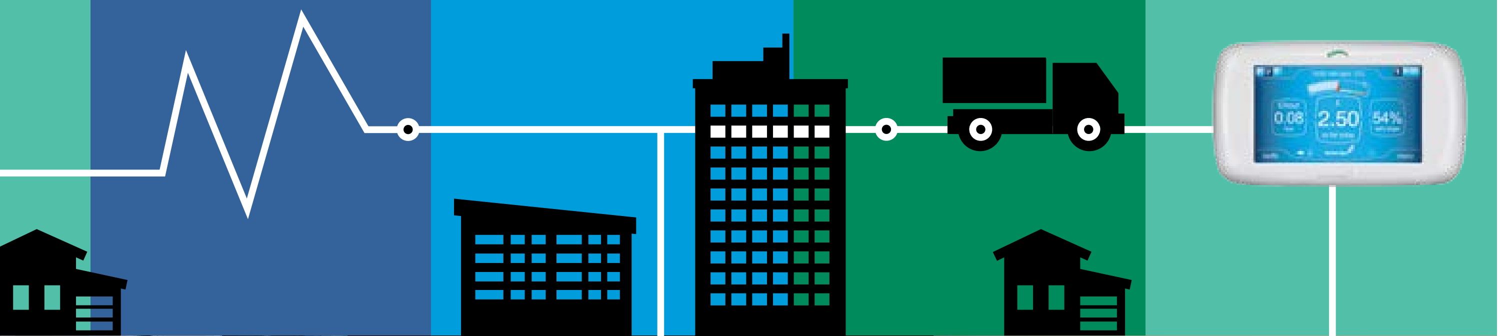
We supply energy to homes and businesses in the UK, North America and the Republic of Ireland.

SERVICE IT

We provide peace of mind with central heating, boiler and cooling maintenance and breakdown cover products.

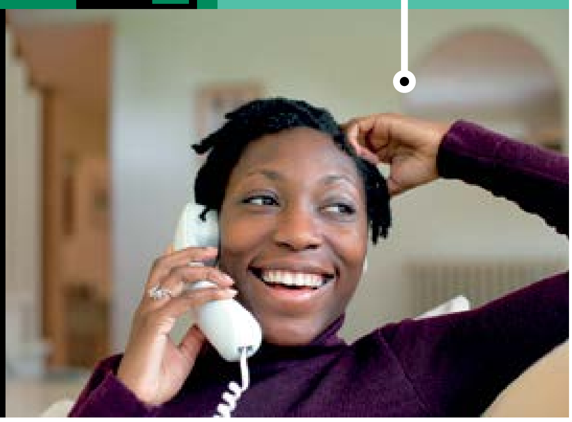
SAVE IT

We offer innovative low carbon, energy efficient products and services to help our customers better manage their energy.



Affordability remains a key topic for consumers and businesses, and will likely be a key focus for politicians throughout the UK electoral process.

In 2014, average UK domestic gas prices were the second lowest in the EU-15.



Focus on affordability, competition and trust

Affordability remains a key concern for both residential and business customers in the UK, with the recent decline in gas prices allowing tariff decreases that make energy more affordable. The overall affordability debate continues to be the focus of political parties as we near the 2015 UK general election, with Labour's price freeze promise a part of the discussion. The ongoing Competition and Markets Authority investigation of the energy sector provides a welcome opportunity for all stakeholders to engage and help rebuild trust and restore market confidence for consumers. Against this backdrop, the UK supply market has been particularly competitive with small suppliers growing at unprecedented rates and customers continuing to value bill transparency and the ability to manage their energy use.

Difficult market conditions in North America

The weather seen in the US North East in the first quarter of 2014 was some of the most extreme in recent years. This caused significant issues in the gas markets in North America, placing extreme demands on infrastructure and driving high levels of price volatility. These issues led to some repricing of risk in the market and the extremely high price spikes borne by some consumers on variable tariffs have led to greater regulatory scrutiny and some market restructuring. Despite this volatility, average gas prices in North America remained low, helping to keep the costs of energy affordable for most customers. The combination of the trajectory of prices and the regulatory market structures in the US North East continues to make North American markets particularly competitive with challenges for independent retailers competing with incumbent utilities.

BUSINESS MODEL

We are a leading integrated energy company with customers at our core. Operating across the energy value chain creates benefits for us and for others.

Integration reduces our risk

Integration lowers our risk profile. Broadly speaking, the drivers of risk in our upstream and downstream businesses are not correlated, so vertical integration can help to reduce our overall risk exposure. Energy companies need to be strong and stable to continue to reliably procure and produce energy for our customers and to invest in future energy needs.

Adds scale

The combined strength of our Company gives confidence to international counterparties allowing us to enter long-term deals that are critical to securing energy supplies. It also means we can execute unique deals which combine elements throughout the value chain utilising both upstream assets and customer facing relationships.

Reduces our costs

Integration means that the Company has a lower cost of capital than we would have as independent businesses. This allows us to provide lower levels of capital for our commodity trading activities. It also reduces duplication of overheads as our downstream supply and upstream businesses share management and overhead costs between them.

Widens our range of investment opportunities

Being an integrated energy company means that we have an increased range of options to invest in: for example, in gas production, expanding midstream activities or customer facing investments such as smart metering, new systems to improve customer service or developing connected homes products.

Creates benefits for others

Economic
In 2014 we paid £864 million in dividends to shareholders.

Social
In 2014, we invested £21.3 million at our six academies alongside workshops and coaching, to train 1,200 apprentices and nearly 10,000 engineers.

Environmental
We calculate we have helped save over 13 million tonnes of CO_2 equivalent ($mtCO_2e$) through products installed in UK homes and businesses.

STRATEGIC PRIORITIES

Our strategic priorities focus on utilising our distinctive portfolio of assets and capabilities to serve customers and drive the business forward.

We measure our performance with our key performance indicators.

Read more overleaf >

Innovate to drive growth and service excellence

Our strategic priorities

- Lead with great service and efficient operations
- Enable our customers to control their energy use in a simpler, smarter, more efficient way
- Grow in selected markets, building on our leading capabilities

What we've achieved in 2014

- Continued growth and development of our smart heating products and connected homes agenda
- Purchase of Astrum Solar to provide our North American customers with residential solar propositions
- Acquisition of Bord Gáis Energy to enter the Irish gas and power supply markets

Read more in the Business Review 25

Integrate our natural gas business, linked to our core markets

Our strategic priorities

- Grow and diversify our exploration and production portfolio for value
- Develop our midstream business to integrate along the gas value chain
- Maintain a low carbon power hedge and invest where we see value

What we've achieved in 2014

- Further strengthening of relationship with Qatar Petroleum International in exploration and production through alignment of all Canadian assets into a strategic partnership
- Took delivery of first 'Free on Board' cargoes as we look to increase our presence and capability in LNG

Read more in the Business Review 31

Increase our returns through efficiency and continued capital discipline

Our strategic priorities

- Continuously focus on safety
- Further develop organisational capability
- Deliver value to shareholders

What we've achieved in 2014

- Return of capital to shareholders following the disposal of the Texas gas-fired power stations
- Development of a comprehensive framework for managing process safety recognising it as a key business priority

Read more in the Financial Review 35

KEY PERFORMANCE INDICATORS

We monitor our performance by measuring and tracking key performance indicators (KPIs) that we believe are important to our longer-term success. Long-term sustainable performance of these KPIs is linked to the remuneration arrangements of our Executive Directors and senior executives.

Innovate to drive growth and service excellence

Integrate our natural gas business, linked to our core markets

Increase our returns through efficiency and continued capital discipline

More on Strategic Priorities 17

Deloitte LLP review selected non-financial key performance indicators, providing limited assurance using the International Standard on Assurance Engagements (ISAE) 3000. The full assurance statement, together with the Basis of Reporting, are available online.

For more information visit centrica.com/CRassurance >

Financial performance indicators

Adjusted operating profit

Operating profit is our key measure for financial performance. For remuneration purposes, operating profit is adjusted to a post-tax basis and by a charge on capital to set the economic profit performance targets.

With challenging trading conditions, including extreme weather patterns and falling oil and gas prices, adjusted operating profit was down by 35%.

Strategic priorities

Link to reward
Short and long-term incentive

Adjusted operating profit £m

£1,746m

2014	1,746
2013	2,695
2012	2,743

Adjusted basic earnings per share (EPS)

EPS is an industry standard determining corporate profitability for shareholders. EPS is adjusted to reflect better the performance of the business.

With extreme weather and a highly competitive environment on both sides of the Atlantic EPS was down by 28%.

Strategic priorities

Link to reward
Long-term incentive

EPS pence

19.2p

2014	19.2
2013	26.6
2012	26.6

Total shareholder return (TSR)

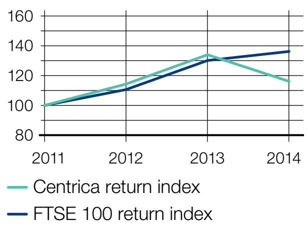
The Board believes that TSR is a valuable KPI to assess the Company's performance in the delivery of shareholder value.

Performance of our TSR fell below the FTSE 100 return index over the three-year period ending in 2014 and, therefore, Executive Directors' shares eligible for vesting under the Long-Term Incentive Scheme were reduced by a factor of 0.7.

Strategic priorities

Link to reward
Long-term incentive

TSR indices unaudited



Source: Datastream

Non-financial performance indicators

Lost time injury frequency rate (LTIFR)

Safety is the highest priority in our business. We work hard to embed a best practice approach to safety across all activities to drive improvements.

In 2014, our LTIFR increased by 27% to 0.14 per 100,000 hours worked (high performance range). This rise was in part due to improvements in reporting.

Strategic priorities

Link to reward
Long-term incentive

LTIFR per 100,000 hours worked

0.14

2014	0.14
2013	0.11
2012	0.20

Process safety

In our upstream operations, we concentrate on improving process safety. This focus enables us to prevent potential major incidents, such as fires, explosions or the release of hazardous substances.

There were no significant process safety events in 2014 (high performance range). We are, however, updating our framework for managing process safety and rolling out improvement programmes to reduce the frequency of high potential events.

Strategic priorities

Link to reward
Long-term incentive

Significant events

0

(2013 and 2012: 0)

Customer satisfaction

Customer satisfaction is measured using net promoter scores (NPS) for both British Gas and Direct Energy.

British Gas' NPS rose to +23 (median performance range) in 2014. Improvements were due partly to implementation of new customer service systems.

Direct Energy's NPS decreased slightly to +38 (high performance range).

Strategic priorities

Link to reward
Long-term incentive

Net promoter scores

British Gas

2014	+23
2013	+15
2012	+30

Direct Energy

2014	+38
2013	+40
2012	+39

Employee engagement

Creating opportunities that develop and motivate our people is a key driver of employee engagement. We use employee feedback to ensure Centrica remains a great place to work and to highlight where we can make improvements.

Our engagement score declined slightly to 4.79 out of 6 in 2014 (median performance range), down from 4.81 in 2013. Engagement levels continue to be above average compared with peer companies.

Strategic priorities

Link to reward
Long-term incentive

Employee engagement

4.79 out of 6

2014	4.79
2013	4.81
2012	4.72

SUMMARY OF PRINCIPAL RISKS

A summary of the principal risks and uncertainties which may impact the delivery of our strategic priorities is shown below together with an indication of how those risks have changed during the year.

As our business and the operating environment continues to evolve, so too will the nature of the risks we face. This view is, therefore, current at this point in time but may change during the year.

Read more about these risks and their corresponding mitigating actions.
Principal Risks and Uncertainties 40

Principal risk category	Summary description	Climate indicator
Health, safety, environment and security (HSES)	HSES hazards associated with our operations	No change
Political, regulatory and compliance	Changes and interventions in the political or regulatory landscape and their impacts on our compliance obligations	Risk has increased
Trust and perception	Competitive positioning and perception of the Centrica brands and the provision of good quality service to our customers	No change
Strategic growth	Changes and events in the external market or environment which could impact delivery of Centrica's strategy	Risk has increased
Commodity costs	Exposure to increasingly volatile world energy markets	Risk has increased
Change management	Execution of change programmes and business restructuring	No change
Information systems and security	Availability, integrity and security of IT systems and data essential for our operations	Risk has increased
People	Attraction, retention and development of people	Risk has increased

HOW WE DO BUSINESS

Our purpose is to help people today and secure energy for tomorrow. This means helping our customers, supporting our people and communities, while securing future energy supplies in a safe and responsible way.

Our five key focus areas

- Prioritising safety
- Helping our customers
- Supporting our people and communities
- Securing energy responsibly
- Reducing carbon emissions

Our view on taxation

Read more about taxation 24

External assurance

Selected metrics have been reviewed by Deloitte LLP, some of which can be viewed on page 19. The International Standard on Assurance Engagements (ISAE) 3000 has been used by Deloitte to provide limited assurance. The full assurance statement, together with the Basis of Reporting, are available online.

centrica.com/CRassurance >

See our business and CR performance measures

centrica.com/performance >

We have the strongest commitment to safety which we believe is the foundation of our business. Across all our activities, we have robust safety systems in place to protect our customers, people and communities.

Energy is an essential part of our customers' lives. We work hard to make energy supply more competitive and efficient while also investing to provide customers with a better service. Our innovative products and services make it easier for customers to manage their energy and we are committed to supporting those who need help with their energy bills.

In order to achieve this, we must invest in our people's skills and build strong relationships with communities where we live and work.

At the same time, we must secure the energy our customers need, now and in the future.

We also recognise that energy has an environmental impact which we strive to reduce. In 2014, we were awarded an 'A' for action and 100 out of 100 for disclosure on climate change by CDP, an international non-governmental organisation (NGO) that reports to investors representing around a third of the world's invested capital.

To ensure we maintain our strong approach to corporate responsibility (CR), our progress is overseen by the Corporate Responsibility Committee (CRC), who review our targets and performance across the business.

Explore more online

Further details on Centrica's CR activities can be explored online as part of our 2014 CR reporting.

centrica.com/CR >

Prioritising safety

Ensuring we work to the highest safety standards

Keeping our customers and people safe

Extracting and supplying energy is a hazardous activity which is why safety is the top priority for our business.

When working in our customers' homes, all engineers are trained to minimise risks associated with their work and we assess their performance to identify where improvements can be made. Since 2011, customer injuries such as trips and falls have reduced by 55%.

We also strive to protect our people from safety incidents. Our total recordable injury frequency rate improved to 0.50 per 100,000 hours worked, from 0.76 in 2013.

However, the lost time injury frequency rate increased from 0.11 per 100,000 hours worked in 2013 to 0.14. This was due in part to improved rigour in reporting.

We have continued to focus on improving process safety and, although no significant process safety events occurred during 2014, we aim to reduce the number of high potential events which have remained at similar levels to 2013. Consequently, we are updating our framework for managing process safety and have developed improvement programmes to help us better understand and reduce safety risks.

HOW WE DO BUSINESS CONTINUED

Helping our customers

Making energy easier for customers and supporting those in need

Helping customers with energy bills

The cost of energy is of major public concern, especially in the UK. The average daily charge of British Gas' energy is £3.16. Over 85% of these costs are set by external factors comprising wholesale energy costs, distribution charges and government taxes that include support for carbon targets and vulnerable customers.

We buy energy in advance, in order to protect customers from volatile wholesale costs. In 2014, we lowered prices by 3.2% following changes by the UK government to the Energy Company Obligation (ECO) programme. We also reduced domestic gas prices by 5% in early 2015, reflecting a fall in wholesale costs.

We let customers know if they could save money by moving to a different British Gas tariff and have eliminated cancellation fees from our tariffs.

Following sustained cold weather in the US, Direct Energy was the first to cap energy prices and advocated for regulatory change to shield people from price spikes caused by high demand.

Supporting people in need

We recognise the important role we can play in supporting people who need help with their energy bills.

During 2014, we assisted nearly 1.8 million vulnerable households in the UK through direct support, mandatory government programmes and charity partnerships. Over the last decade, the British Gas Energy Trust (an independent charity funded by British Gas through mandatory and voluntary contributions) provided £75 million worth of debt relief and advice. In 2014 we gave £12.3 million.

In North America, a contribution of $538,000 was made through our Neighbor-to-Neighbor bill assistance programme in Texas.

Innovating to give more choice

Energy use is transforming and we are leading the way. Our innovative products give customers greater choice and control over their energy consumption and bills.

By the end of 2014, British Gas had installed 1.7 million smart meters in the UK, around 1.3 million of which are for residential customers. 90% of smart meter customers we surveyed now take simple steps to reduce energy use. We have sold over 170,000 Hive Active Heating™ devices and smart thermostats in the UK, enabling people to control their heating remotely.

Direct Energy is helping customers save up to 20% on heating and cooling bills with the Nest Learning Thermostat.

Improving customer service

We are investing in training and systems to improve customer service.

Training for call centre advisers in Direct Energy increased by over 60% to 10 hours per month. In British Gas, we are now beginning to see the benefits of new billing and customer service systems reflected by an overall improvement in service levels.

Customer satisfaction increased in British Gas, demonstrated by a net promoter score (NPS) of +23, up from +15 in 2013. Direct Energy's NPS has declined slightly to +38 from +40 in 2013.

Supporting our people and communities

Creating connections that contribute positively to society

Investing in skills and our people

It is critical that we equip our people with the right expertise to serve our customers.

In 2014, British Gas invested £21.3 million in engineer training and grew future skills through 1,200 apprenticeships. We are also helping tackle youth unemployment with Movement to Work by creating 450 customer service work experience placements by the end of 2015.

Creating opportunities that develop and motivate our people is a key driver of employee engagement. Although engagement scores continued to be above average for peer companies in 2014, feedback declined slightly to 4.79 out of 6, down from 4.81 in 2013.

Securing sustainable supply chains

We work with suppliers to embed responsible business practices and reduce risk in our supply chain.

In 2014, 57 potentially higher risk suppliers completed a risk assessment of their social and environmental performance. Where improvement areas were identified, we collaborated with suppliers to raise standards.

Our supplier risk score is 51 (low risk), which is better than the multi-industry average of 41 (medium risk). This is an improvement on our 2013 score of 49 (low risk).

Building stronger relationships with communities

We aim to develop mutually beneficial relationships with communities. We contributed over £406 million to communities in 2014, of which more than £401 million went to alleviate fuel poverty and climate change, mostly through mandated government programmes in the UK.

We collaborate across sectors to bring together the right expertise to support people in need. British Gas continued to work with charity partner, Shelter, in our shared goal to improve the conditions of one million privately rented homes by 2017. As a result of safety and energy efficiency measures, alongside joint campaigning that has brought about changes in legislation, we estimate that we are over halfway towards our target.

We also support innovative energy-related solutions through Ignite, the UK's first corporate impact investment fund focused on energy, backed by Centrica. Over 10 years, Ignite will invest £10 million alongside our people's expertise to grow social enterprises. In 2014, £5 million was deployed.

Securing energy responsibly

Sourcing competitive and efficient long-term energy supplies, while managing our impact

Gas at the centre of our strategy

We see gas as a vital part of the energy mix alongside our existing investments in low carbon nuclear and renewables. It provides a reliable back-up for intermittent renewable energy, is the lowest carbon fossil fuel and remains more affordable than other fuels apart from coal, which is high carbon. Gas is expected to continue to heat around 80% of UK homes into 2030.

Diversifying gas supplies

While gas reserves are more readily available in North America, UK imports have increased as North Sea oil and gas reserves continue to decline.

To meet this challenge, we are seeking new sources of gas and competing in global markets. We are exploring the potential of natural gas from shale in the UK through our 25% stake in the Bowland exploration licence, operated by Cuadrilla Resources.

Long-term deals to obtain LNG have also been secured, including a 20-year agreement with our partner, Cheniere, in the US.

Managing our operations responsibly

We have a responsibility to secure energy supplies in a way that reduces adverse impacts on communities and the environment.

We work closely with Cuadrilla to ensure our strong track record in safe and responsible development for oil and gas, alongside the contractual best practice obligations we have implemented, are applied in the exploration of natural gas from shale as part of our partnership.

In a UK first, we have commitment to open the two proposed exploration sites to the British Geological Survey. Upon approval, they will undertake independent monitoring during the hydraulic fracturing process.

Reducing carbon emissions

Cutting carbon in homes, businesses and across our operations

Limiting customer carbon

Our customers' energy use forms the biggest source of emissions associated with our business. We are helping reduce energy use, emissions and bills by installing products that help improve energy efficiency such as insulation and smart meters, which give customers greater understanding of their energy consumption.

We calculate that the products we have installed in UK homes and businesses since 2010 have saved over 13mtCO_2e, which is comparable to the average annual emissions of 2.6 million UK homes. This includes nearly 282,000 energy efficiency measures installed in 2014 through the UK government's mandatory ECO programme, which will generate lifetime carbon savings of 5.5mtCO_2e. Over £510 million will also be saved on bills for vulnerable people.

We also help our customers save carbon through solar installations. In 2014, Direct Energy acquired Astrum Solar, enabling us to install solar panels in homes across North America. Since the acquisition in July 2014, we have installed 5.5MWp of generation capacity. Our investment fund with SolarCity financed 17.9MWp of solar projects for business customers.

Reducing our carbon footprint

The majority of our direct emissions relate to our power stations. In 2014, our carbon intensity of power generation declined 23% from 2013 to 154gCO_2/kWh. This reduction exceeded our target and was due primarily to the sale of gas-fired power plants in North America. We are reassessing our carbon intensity target of power generation in 2015 now that there is more certainty following the UK capacity market auctions.

We are working to reduce the carbon emitted during the production of oil and gas. For example, by improving the energy efficiency of our Netherlands offshore operations, we have avoided over 40,000tCO_2e since 1998.

We have greater control over the emissions from our property, fleet and travel. Across our core business, emissions have fallen by over 25% since 2007 against our 20% reduction target due by the end of 2015. This brings our internal carbon footprint to 80,288tCO_2e in 2014. We are a UK leader in electric commercial fleet transport, which helps reduce our emissions and deliver savings from running costs.

Our greenhouse gas emissions

In 2014, our total carbon emissions (Scope 1 and 2) reduced to 5,583,902tCO_2e from 7,044,012tCO_2e in 2013. This reduction was primarily driven by the sale of our North American gas-fired power stations. Our Scope 1 emissions from power stations, upstream production, offices and fleet were 5,452,507tCO_2e, down from 6,928,589tCO_2e in 2013. Scope 2 emissions, which include those from electricity we purchase for our own use, were 131,395tCO_2e, compared with 115,423tCO_2e in 2013. Our Group carbon intensity based on revenue improved to 190tCO_2e/£m, from 265tCO_2e/£m in 2013.

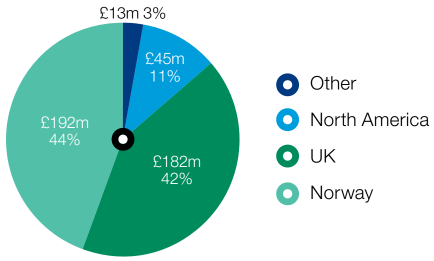
We report on an equity basis with practices drawn from WRI/WBCSD Greenhouse Gas Protocol, IPIECA's Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions and Defra's Environmental Reporting Guidelines.

HOW WE DO BUSINESS CONTINUED

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 Chief Financial Officer, with the oversight of the Board and the Audit Committee.

Group adjusted tax charge



Taxes paid in the UK

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.

We maintain a transparent and constructive relationship with HMRC in the UK. 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 government on tax policy where we believe we are in a position as a Group to provide valuable commercial insight.

Taxes paid outside the UK

Wherever in the world we do business 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 are always transparent and 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.

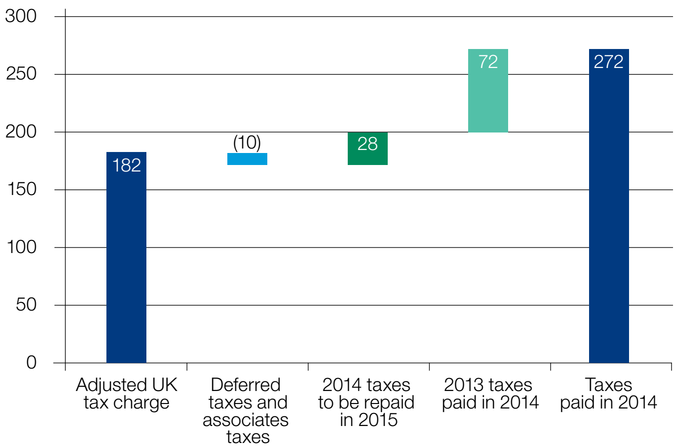
We ensure that income and costs, including costs of financing operations, are appropriately recognised on a fair and sustainable basis across all countries where the Group has a business presence. We understand that this is not an exact science and we engage openly with tax authorities to explain our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

Outside the UK, the Group carries on business and realises profits primarily in countries with high statutory rates of tax.

Group activities	Statutory tax rates on profits %
UK supply of energy and services	21
UK oil and gas production	62/81
Norway oil and gas production	78
Netherlands oil and gas production	50
United States supply of energy and services	35
Canada supply of energy and services and oil and gas production	25
Republic of Ireland supply of energy and services	12.5

As at December 2014.

Breakdown of UK adjusted tax charge £m



BRITISH GAS

British Gas has a clear strategy focused on three priorities: deliver great service, transform to grow and engage our stakeholders.

What we do

British Gas Residential
We supply gas and electricity to residential customers in the UK. We lead the industry in technology, innovation and smart connected homes. Driving service excellence is a core priority and our innovative products and digital platforms enable us to offer customers convenience as well as helping them to reduce their consumption and save money.

British Gas Services
We provide a comprehensive range of services from boiler installation and repair to plumbing and drain cover, all underpinned by a nationwide network of engineers, six engineering academies and a state-of-the-art nationwide parts distribution centre.

British Gas Business
We supply gas and electricity as well as energy-related services to businesses throughout the UK.

Risks

- Restoring public trust.
- Further political and regulatory intervention and reform.
- Compliance with existing laws and regulation.
- Challenging competitive environments and market conditions.
- The need to manage exposure to volatile commodity prices and adverse weather.
- Health and safety risks arising from our operations.
- The need to maintain service levels.
- Maintaining our data security and integrity.

Principal Risks and Uncertainties 40

The year in figures

Year ended 31 December	2014	2013
Residential energy supply operating profit (BGR)	**£439m**	£571m
Residential services operating profit (BGS)	**£270m**	£318m
Business energy supply and services operating profit (BGB)	**£114m**	£141m
Total British Gas operating profit	**£823m**	£1,030m
BGR post-tax margin	**4.1%**	4.5%
BGR customer accounts (year end, '000)[i]	**14,778**	15,146
BGS product holdings (year end, '000)	**7,970**	8,227
BGB supply points (year end, '000)[ii]	**854**	916
BGR average gas consumption per customer (therms)	**408**	492
BGR average electricity consumption per customer (kWh)	**3,498**	3,688
British Gas total gas consumption (mmth)	**4,085**	5,126
British Gas total electricity consumption (TWh)	**39.1**	42.4

(i) 2013 residential energy customer accounts have been restated to exclude 110,000 accounts subsequently reclassified as dormant.
(ii) 2013 business energy supply points have been restated to include 4,000 supply points to align to industry reporting changes.

See our full performance measures at centrica.com/performance >

The net promoter score for our engineers increased to a record high.

Corporate responsibility

- Improved customer service systems contributed to higher customer satisfaction measured by our net promoter score which increased to +23 from +15 in 2013.
- Installed around 1.3 million residential smart meters in the UK.
- Helped nearly 1.8 million vulnerable households with bill assistance, debt advice and energy efficiency improvements.

How We Do Business 21

BRITISH GAS CONTINUED

British Gas faced a challenging environment in 2014, with the warmest year on record in the UK, difficult trading conditions, major systems migrations and continued political, regulatory and media focus. Against this backdrop, British Gas has a clear strategy focused on three priorities: deliver great service, transform to grow and engage our stakeholders.

British Gas Residential

British Gas Residential operating profit fell, reflecting lower average gas and electricity consumption predominantly due to the mild weather in the UK in 2014 compared to colder than normal temperatures in 2013. The average actual customer bill of £1,152 in 2014 was around £100 lower than in 2013 and the average profit per customer of £42 was nearly £10 lower than last year.

The number of residential accounts on supply reduced by 368,000 in 2014 and ended the year at 14.8 million. At the end of the year, we reviewed our definition of energy accounts on supply, which resulted in a downwards restatement of the number of opening accounts by 110,000. We experienced significant losses in the first quarter of the year, following an increase in residential prices in November 2013. However, the rate of losses was reduced over the balance of the year, with British Gas being the first energy company to reduce prices following proposed changes to the Energy Company Obligation (ECO) programme announced in December 2013, improved service levels and the launch of competitively priced offerings. The market remains highly competitive, with recent reductions in standard tariffs and most suppliers also offering a range of fixed price products.

Service levels in British Gas Residential improved with average call answering times lower than 2013, helping drive a significant improvement in our contact net promoter score (NPS). The British Gas brand NPS also recovered during the year, ending in positive territory for the first time since March 2012. In the fourth quarter, we completed the migration of all our residential customers onto a new customer relationship management (CRM) platform and the new system is helping deliver a more integrated customer experience.

A simplified product range

We have simplified our product range to four residential tariffs and have made further improvements in our transparency of bill costs. We were the first energy supplier to reduce retail tariffs in 2014, following proposed ECO changes.

Listening to what customers want

The British Gas Customer Board, made up of independent representatives and chaired by Ann Robinson, Head of Consumer Policy at uSwitch.com, was set up three years ago as part of our commitment to listen to customers. The Board continues to challenge and advise us on issues such as customer service, simplifying the bill and smart meter roll-out.

Innovation and smart connected homes

In the UK, we continue to lead the industry in technology, innovation and smart connected homes. Around two-thirds of our customer interactions are made through digital channels, with around half of those now initiated from a mobile or tablet device. Customer downloads of our top-rated app have now surpassed 1.5 million and we were recently awarded 'Most Popular Website' in the utility category in the 'Website of the Year' 2014 awards.

We have installed around 1.3 million residential smart meters in the UK. Over 500,000 British Gas customers with smart meters now regularly receive our unique smart energy report, 'my energy', which provides a comprehensive analysis of their energy consumption including a breakdown by type of use, benchmarking against similar homes, personalised energy saving tips and access to an online tool. The report is helping to improve levels of customer satisfaction and the overall perception of British Gas.

We have taken the lead in the roll-out of smart meters to prepayment customers and the ongoing trial of our SMETS1 capable prepayment meter will enable us to commence the full roll-out by the end of 2015. Additionally, leveraging our experience from Direct Energy, we have also successfully trialled our smart meter enabled 'Free Saturdays or Sundays' energy tariffs, with a full launch planned in the second half of 2015.

The end of estimated bills

Smart meters work by sending meter readings direct to the energy supplier and, for residential customers, they come with an in-home monitor to show how much energy is being used and how much it is costing in real time. They put an end to estimated billing and are transforming the way customers think about and use energy.

We have now sold over 170,000 smart thermostats with sales of our Hive Active Heating™ product currently running at around 3,000 a week and have established retail partnerships with Apple, John Lewis and Amazon. Hive has been received extremely positively with over 90% of customers recommending the product and 96% saying they feel more in control of their heating than before. In February 2015, we announced the acquisition of AlertMe, the provider of the technical platform that underpins our existing connected homes activity, including Hive, and will enable ownership and control over a scalable technology platform, software development capability, data analytics and a patent portfolio. We have a strong development pipeline of further innovative products with a 'connected boiler' and 'virtual in home display' both currently on commercial trial and with planned launch dates in the second half of 2015.

Helping people today

Helping customers to reduce and control their energy consumption is the most sustainable way to keep bills down. We have made good progress in delivering our commitments under the ECO programme and we completed our March 2015 targets in December 2014, subject to Ofgem confirmation. To date, we have delivered energy efficiency measures to over 350,000 households under the programme.

We continue to lead the industry in helping customers most in need and in 2014 we helped nearly 1.8 million households. There are also fewer residential energy customers in debt than a year ago and on average these customers have lower levels of debt. We have one of the widest eligibility criteria among all energy suppliers for the Warm Home Discount, which benefited over 500,000 customers during the year by up to £140. The bills of our customers most in need were on average 13% lower in 2014 than in 2013.

British Gas Services

British Gas Services operating profit reduced reflecting the decline in the number of contract holdings, lower on-demand volumes due to warmer weather, higher pension costs and the change in product mix towards flexible, cheaper product offerings.

While retention levels for contract customers remained high, the sales environment has been challenging. As a result, the number of product holdings fell by 257,000 in the year, to slightly under eight million. However, we returned to growth in the final quarter of the year. This follows the migration of all accounts onto the new billing and CRM platform and the completion of comprehensive sales and conduct training for our front-line staff, as well as the development of an enhanced digital offering and innovative customer propositions. The market for central heating installations showed signs of recovery in the year and the number of boilers installed increased by 3% in the year compared to 2013.

British Gas Services delivered very high levels of customer service in 2014, both in our contact centres and in customers' homes. Customer complaints fell by 14% compared to last year, while the NPS for our engineers increased to a record high of +68 in December 2014. New terms and conditions, aimed at delivering greater operational flexibility to meet customer needs, were agreed with our engineers and their union in 2014 and are now in place.

British Gas Business

British Gas Business operating profit fell, primarily due to lower average consumption as a result of the mild weather, competitive pressures leading to lower margins and accounts and a higher bad debt charge due to the impact of the transition to a new billing system.

The number of business supply points fell by 62,000 in 2014 reflecting the highly competitive conditions in the business energy market and our decision to lead the industry in ending the auto-rollover of contracts at renewal. Towards the end of the year, cleansing of data following the implementation of the new billing system resulted in the removal of 49,000 supply points.

As a result of some transitional issues following the implementation of a new billing system, which we are now resolving, we now expect to deliver £100 million of targeted reductions in operating costs and bad debt by the end of 2016, a year later than originally planned. These savings will help to offset the margin pressures from a competitive market.

To drive growth in BGB, we are focusing our proposition development on dual fuel, energy efficiency and joint energy and services offers. We continue to develop our business services capabilities and revenues from these activities grew by 10% in the year. In July 2014, we announced our participation in the Generation Community scheme to deliver up to £60 million in solar photovoltaic solutions for Local Authority and Housing Association properties. The ability to offer energy management services, products and technologies is a key differentiator and will help us retain existing customers and acquire new ones.

DIRECT ENERGY

We are differentiating our offering through innovative propositions that are attractive to the most valuable customer segments.

What we do

Direct Energy Residential
We supply gas and electricity to customers' homes throughout North America. We are focused on differentiating our offering by developing innovative bundled energy and protection plan products.

Direct Energy Business
We supply gas, electricity and energy management solutions to commercial and industrial customers. We also have trading activities in the North American wholesale energy markets.

Direct Energy Services
We provide our residential customers with choice and support in managing their energy use and cutting costs through our portfolio of innovative products and services. We provide services from air conditioning and plumbing to solar installations.

Risks

- Further political and regulatory intervention and reform.
- Challenging competitive environments and market conditions.
- The need to manage exposure to volatile commodity prices and adverse weather.
- Health and safety risks arising from our operations.
- Compliance with existing laws and regulation.
- The need to maintain service levels.
- Recruitment and retention of skilled personnel.

Principal Risks and Uncertainties 40

The year in figures

Year ended 31 December	2014	2013
Residential energy supply operating profit (DER)	£90m	£163m
Business energy supply operating profit (DEB)	£32m	£77m
Residential and business services operating profit (DES)	£28m	£36m
Total Direct Energy operating profit	£150m	£276m
Total Direct Energy operating profit (excluding polar vortex impact)	£215m	£276m
DER customer accounts (year end, '000)	3,256	3,360
DES product holdings (year end, '000)[i]	897	2,608
DER average gas consumption per customer (therms)	1,403	1,296
DER average electricity consumption per customer (kWh)	10,888	10,862
DEB total gas volumes (mmth)	5,923	1,839
DEB total electricity volumes (TWh)	96.9	63.9
Direct Energy total gas volumes (mmth)	8,163	3,883
Direct Energy total electricity volumes (TWh)	116.3	83.4

(i) DES 2014 product holding reflects the disposal of the Ontario home services business, which had 1.9 million product holdings at the time of disposal.

See our full performance measures at centrica.com/performance >

We continue to develop a broad range of innovative energy and services product offerings.

Corporate responsibility

- Completed around 600 residential solar installations (5.5MWp of generation capacity), following our acquisition of Astrum Solar in July 2014.
- Provided $538,000 to the Neighbor-to-Neighbor bill assistance programme in Texas.
- Awarded grants totalling $225,000 to 45 non-profit organisations through our energy efficiency programme, Reduce Your Use For Good.

How We Do Business 21

Direct Energy faced challenging conditions in 2014, with extreme weather caused by the polar vortex in the first quarter of the year leading to additional network system charges estimated at approximately $110 million (£65 million) and margin pressures across most of our markets in energy supply. Overall operating profit fell by 46% compared to 2013 and on a constant currency basis fell by 43%. However, during the year we added significant value through the completion of disposals of non-core assets, recognising a £219 million profit on disposal on the sale of our Texas gas-fired power stations and a £122 million profit on disposal from the sale of our Ontario home services business.

A $100 million cost reduction programme was launched at the start of the year, to help improve Direct Energy's competitive position. The programme was successfully completed towards the end of 2014.

The outlook for 2015 is more positive and we are positioned for growth, with the effect of increased sold B2B unit margins in 2014 following the polar vortex starting to positively impact profitability. We also continue to develop a broad range of innovative energy and services product offerings to improve customer retention and attract the highest value customers in our residential energy business, to build innovative partnership offerings in our B2B business in compressed natural gas (CNG) and solar and have additional growth opportunities in residential services following our acquisition of Astrum Solar.

Direct Energy Residential

Direct Energy Residential operating profit fell due to additional costs relating to the extreme weather conditions in early 2014 and a competitive sales environment in both Texas and the US North East, which led to a reduction in unit margins. The number of residential energy accounts decreased by 104,000 over 2014, predominantly reflecting the expected decline in Ontario, with the Energy Consumer Protection Act (ECPA) making retention of customers difficult, and the impact of the competitive market in Texas. Against this challenging backdrop, we remain focused on delivering high levels of customer service and higher levels of customer retention and we have now successfully implemented a new residential billing platform in Alberta.

Sales through digital channels doubled in 2014 compared to 2013, with the acquisition of Bounce Energy in 2013 having provided a leading internet-based platform and digital marketing capabilities. We are also focused on differentiating our offering to the more valuable customer segments through the development of innovative products and bundled energy and services offerings, which we started selling in the first half of the year and now have over 189,000 joint residential and services customers with sales averaging around 6,000 per week during the fourth quarter. We have also sold over 39,000 smart thermostats through our partnerships with Nest and Honeywell.

Direct Energy Business

The integration of the Hess Energy Marketing acquisition is now fully completed and the business is performing ahead of our investment case. Direct Energy is now the largest commercial and industrial (C&I) gas supplier and the second largest C&I power supplier in the competitive US retail market, as well as a top 10 wholesale gas marketer in North America in the Platts third quarter rankings. In addition to enhanced scale, the business is also set up to benefit from portfolio diversification and expansion along the gas value chain.

Despite increased volumes resulting from the Hess Energy Marketing acquisition, Direct Energy Business operating profit fell, reflecting the one-off impact of the polar vortex, lower margins on power sales made in prior periods and mild weather late in the year resulting in low levels of commodity price volatility and leading to fewer optimisation opportunities. However, average C&I sold unit margins in the second half of 2014 were 35% higher for gas and 50% higher for power compared to the second half of 2013, reflecting a repricing of risk following the polar vortex, with second half profit being significantly higher than in 2013. Combined with a lower amortisation charge relating to the Hess acquisition, this leaves the business well placed for strong underlying growth in 2015.

We continue to develop innovative propositions for our C&I customers. We have a partnership agreement with Panoramic Power to offer wireless energy sensors to help customers better understand their power consumption. We are also helping our customers implement energy efficiency projects through a network of partners across the US. In the fourth quarter, we agreed a joint venture with Xpress Natural Gas on a CNG station in New York State, that will enable us to transport CNG to customers with no access to distributed natural gas. In solar, to date we have deployed around 60% of our $125 million fund with SolarCity and are expanding our offering, both in funds and the types of projects we support.

In January 2014, we completed the sale of our three Texas gas-fired power stations for £411 million. Following the sale, we are supporting our downstream demand needs in Texas through a combination of the liquid physical and financial power markets and a three-year heat rate call option for an equivalent amount of capacity.

Direct Energy Services

In Direct Energy Services we completed the sale of the Ontario home services business for C$532 million (£294 million) in October 2014. This was an attractive opportunity to realise value from the business in a region where joint energy and services opportunities are more limited and focus our attention on opportunities in the US and Alberta, where we see good prospects for growth.

Total Direct Energy Services operating profit reduced by 22%, although profit from the non-Ontario business remained flat. Excluding the Ontario home services business, which had 1.9 million customer accounts, the number of services accounts was up 23%. We now have over 312,000 protection plan customers across the US, while our HVAC (heating, ventilation and air conditioning) leasing proposition continues to perform well as customers are willing to undertake a higher value of work when purchased through rental payments as opposed to upfront payment. In addition, the future pipeline of work for our residential new construction, commercial and solar business was $79 million, a record for the business. The business continued to deliver high levels of customer service, with NPS closing the year at +62.

In July 2014, we entered the rapidly growing US residential solar market through the acquisition of Astrum Solar. This transaction enables Direct Energy to sell solar alongside its existing range of energy and services products, as we look to develop further attractive propositions to attract the highest value customers. We completed around 600 residential solar installations in 2014 following the acquisition, 50% more than Astrum Solar installed over the same period in 2013.

BORD GÁIS ENERGY

Our acquisition of Bord Gáis Energy gives us a leading position in an adjacent deregulated market and provides a platform for growth.

What we do

Bord Gáis Energy is a leading energy supplier in the Republic of Ireland and offers a wide range of customer focused solutions including flexible payment options, online account management capabilities and a number of simple price plans. We also have an emergency breakdown service and are committed to helping customers by remaining true to our core values of simplicity, integrity and understanding.

Our CCGT plant – the 445MW Whitegate plant, in County Cork – is capable of providing power for up to 400,000 homes.

Risks

- Maintaining public trust.
- Further political and regulatory intervention and reform.
- Challenging competitive environments and market conditions.
- The need to manage exposure to volatile commodity prices and adverse weather.
- Maintaining expected levels of plant reliability and availability.
- Health and safety risks arising from our operations.
- Compliance with existing laws and regulation.

Principal Risks and Uncertainties 40

Six months in figures

Period ended 31 December	2014
Total Bord Gáis Energy operating profit	£7m
Residential energy customer accounts (year end, '000)	608
Residential average gas consumption per customer (therms)	127
Residential average electricity consumption per customer (kWh)	2,373
Total gas volumes (mmth)	106
Total electricity volumes (TWh)	1.4
Total power generated (TWh)	0.9

See our full performance measures at centrica.com/performance >

Corporate responsibility

- Invested €239,000 in the Better Energy Communities energy efficiency scheme, run by the Sustainable Energy Authority of Ireland.
- Donated €50,000 to the Society of St. Vincent de Paul, which gives practical assistance to vulnerable people.

How We Do Business 21

On 30 June 2014, Centrica completed the acquisition of Bord Gáis Energy in the Republic of Ireland, a supply business with power generation capacity in an adjacent deregulated market, providing a good platform for growth. Bord Gáis Energy is the incumbent gas supplier and largest dual fuel supplier in the Republic of Ireland with over 600,000 residential accounts and 30,000 business supply points.

The business made an operating profit of £7 million in the first six months of Centrica's ownership, including one-time integration and acquisition costs and some unplanned outages at the Whitegate gas-fired power station. In 2015 we expect the business to contribute around €40 million (£31 million) EBITDA, in line with the investment case.

CENTRICA ENERGY

We have a responsibility to secure energy supplies in a way that reduces adverse impacts on communities and the environment.

What we do

Exploration and production
Our upstream oil and gas business operates in the Irish Sea, the UK, Norwegian and Dutch sectors of the North Sea and North America.

Power generation
Our power generation business has a fleet of gas-fired power stations, wind farms and a 20% share in EDF Energy's UK nuclear power plants.

Midstream
Our midstream trading and optimisation operation trades in oil, gas and power to ensure we meet the energy needs of our customers. It also includes our growing LNG business.

Risks

- Exposure to adverse long-term trends in commodity prices as well as short-term price volatility.
- Further political and regulatory intervention and reform.
- Health and safety risks arising from our assets and operations.
- Realising full value from our portfolio of assets and contracts.
- Successful execution of major capital projects.

Principal Risks and Uncertainties 40

The year in figures

Year ended 31 December	**2014**	2013
Gas operating profit	**£606m**	£1,155m
Power operating profit/(loss)	**£131m**	£171m
Gas-fired	**(£120m)**	(£133m)
Renewables (operating assets)	**£27m**	£36m
Renewables (one-off write-offs, profit/loss on disposal)	**(£17m)**	(£11m)
Nuclear	**£210m**	£250m
Midstream	**£31m**	£29m
Total Centrica Energy operating profit	**£737m**	£1,326m
Gas operating profit after tax	**£302m**	£325m
Gas production (mmth)[i]	**3,772**	3,557
Liquids production (mmboe)[i]	**17.3**	18.7
Total gas and liquids production (mmth)[i]	**4,822**	4,690
Total gas and liquids production (mmboe)[i]	**79.5**	77.3
Upstream proven and probable reserves (mmboe)[ii]	**585**	711
Total UK power generated (TWh)	**22.1**	21.7

(i) Includes 100% share of Canadian assets owned in partnership with QPI.
(ii) Centrica's share of reserves, including a 60% share of Canadian assets owned in partnership with QPI, and excluding Rough cushion gas of 30mmboe. Includes the impact of QPI's investment in 40% of our wholly-owned Canadian gas and liquids assets in the year.

Corporate responsibility

- Long-term contracts totalling £47 billion in commitments so far to supply gas and power to our customers.
- Commitment to open the two proposed exploration sites for natural gas from shale, of which we have a 25% non-operating share, to the British Geological Survey. This ensures independent monitoring during the hydraulic fracturing process.
- Zero significant process safety events occurred in 2014.

See our full performance measures at centrica.com/performance >

We are seeking new sources of gas and competing in global markets.

How We Do Business 21

CENTRICA ENERGY CONTINUED

Centrica Energy's diversified upstream and midstream portfolio and hedging helped to mitigate against the impact of a falling wholesale oil and gas price environment in 2014. However, the lower wholesale price environment creates a challenging backdrop and we are enforcing strict financial discipline, with the management team taking action to reduce capital expenditure and costs and progressing asset disposals to release capital.

Gas

Our E&P business continued to see good production from previous investments in Norway and Canada. However, production from the UK and Netherlands was disappointing. Total gas and liquids production increased by 3% to 79.5mmboe, with gas volumes up 6% and liquids volumes down 7%.

Production in the Americas increased by 68% reflecting a full year of production from the assets acquired from Suncor in September 2013, in partnership with Qatar Petroleum International (QPI). During 2014, we strengthened our relationship with QPI, who invested in 40% of our wholly owned Canadian gas and liquids assets in October for C$215 million (£119 million), fully aligning our interests in the region. The partnership also acquired a package of natural gas assets in Alberta from Shell Canada Energy for C$42 million (£23 million) and production from these assets, combined with new production wells, helped the Canadian business end the year at record high production volumes.

Production in Europe decreased by 16%, partly as a result of the disposals of three packages of North Sea assets, all announced in late 2013. We experienced some production issues in the UK and Netherlands, with gas export constraints in the Greater Markham Area (GMA) and lower than expected flows from York. However, production rates in the GMA increased towards the end of the year and a fourth well was brought online at York in the second half. Our assets in Norway performed well, with strong production from the Kvitebjorn asset, ahead of our original investment case.

Energy choices

We are deeply conscious of the cost of living challenge facing many of our customers and are fully committed to tackling climate change. This is why we have been exploring options for future UK energy policy. Our findings are published in a detailed report that has been widely reviewed. Our intention is to offer ideas and solutions that help deliver carbon savings without adding unnecessary costs on to households and businesses.

Download the report at centrica.com/energychoices >

Securing gas supplies

The gas market is becoming increasingly global. We are diversifying our sources of gas and recently we have focused on growing our presence in LNG imports. Shipping LNG – where the gas is cooled to minus 161 degrees Celsius to liquid form, at 1/600 of its original volume, for ease of transport – is an increasingly important part of how Centrica is working to secure the UK's energy needs.

Partners for success

Building strong relationships with our industry partners, such as Cheniere and QPI, has been critical to our success. We want and need to be a Group that people desire to work with. Reputation is important to us and we conduct ourselves with integrity and respect and seek to do repeat business with our key partners.

The large scale Valemon project in the Norwegian North Sea was brought on-stream in January 2015, with further wells being drilled over 2015 and into 2016 to maximise the recoverable reserves from the field. The Cygnus project in the Southern North Sea remains on schedule to produce first gas around the end of 2015. We also produced first gas from the Kew field at the start of 2014 and from an additional well drilled at Grove in the second half of the year. Two wells drilled adjacent to the Butch discovery, Butch East and Butch South West, did not find further commercial hydrocarbons. However, the results contributed valuable information that will enable us to optimise the development of the main Butch field.

On exploration, six out of seven wells drilled in Europe were successful in finding hydrocarbons and three, Valemon North, Cepheus and Pegasus, were classified as commercial discoveries. We also wrote down exploration costs in respect of Solberg, Ivory and Novus drilled in 2014 and Fulham and Olympus, which were drilled in previous years and face significant development challenges to be commercial in the current price environment. In addition we wrote off exploration licences originally acquired as part of the Venture acquisition and impaired the Bains asset and a recent failed well drilled on Buckland.

In the year we recognised exceptional post-tax impairments of £712 million relating to our E&P assets, predominantly as a result of declining oil and gas prices, including £265 million on our assets in Trinidad and Tobago. We will continue to review our options to release capital from these assets.

Centrica Energy's proven and probable (2P) reserves reduced by 18% to 585mmboe, reflecting production in the year and the sale of a 40% share of our wholly owned gas assets in Western Canada to QPI. This also reflects a reduction in reserve expectations from some UK fields, with updated production flow data as well as the lower price environment making a number of future developments uneconomic and leading to an earlier forecast cessation of production on some assets.

In view of the current oil and gas price levels, we have taken action to scale back exploration and development expenditure across the portfolio, particularly in Canada where we have flexibility to manage drilling programmes in line with the sharp price drop. In 2014, total E&P capital expenditure was above £1 billion and we expect this to reduce to approximately £800 million in 2015. We have taken further steps to reduce expenditure in 2016 to approximately £650 million, which is substantially below previous guidance. Reflecting lower capital expenditure, we expect total production in 2015 to be around 75mmboe.

Our midstream business performed well as we managed periods of wholesale market volatility and falling commodity prices. We also optimised our flexible gas contracts during the fall in summer gas prices to realise additional value, resulting in a significant increase in the midstream gas profit in 2014, partially offset by a consequential reduction in expected results for 2015. In LNG, Federal Energy Regulatory Commission (FERC) approval for the fifth train at Cheniere's Sabine Pass export facility is anticipated around the end of the first quarter of 2015, and the project remains on course to enable the first commercial delivery through our contract by the end of 2018. We also took delivery of our first 'Free on Board' cargoes in the fourth quarter, as we look to increase our presence and capability in LNG.

Gas operating profit fell by 48% despite increased production, reflecting lower wholesale oil and gas prices. However, profit after tax was only down 7%, reflecting the benefits from forward hedging, a strong midstream performance, production mix weighted towards lower taxed assets, non-recurring small field tax allowances and a tax credit relating to the disposal of the Greater Kittiwake assets. Unit lifting and other cash production costs increased by 6%, principally reflecting lower production from European fields.

In the low wholesale price environment, we have acted to manage our cost base, examining all our internal and external supply costs for our operated fields. We are also working with our partners to reduce costs where we are not the operator. Reflecting these actions, we are targeting our 2016 lifting and other cash production costs to be around 2013 levels. This requires a 10% reduction on 2014 as well as absorbing the incremental costs of Valemon and Cygnus which will be on-stream.

Power

In December 2014, the UK's first power capacity auction took place for capacity in 2018/19. The auction clearing price was £19.40/kw/year, significantly below market expectations. Our Humber and Langage gas-fired power stations were both successful in the auction, as were all the nuclear reactors in which we have a 20% equity interest. However, our remaining four operational gas-fired stations at Barry, Brigg, Killingholme and Peterborough were unsuccessful, as was King's Lynn which is currently mothballed.

During the year, we commenced a process to dispose of our three larger UK gas-fired power stations. However, the low capacity auction price resulted in an expected consequential decline in bidder confidence, and we decided that a disposal was no longer highly probable. As a result, the assets were reclassified out of assets held for sale as at 31 December 2014. In 2015 we received bids that were lower than our internal valuation and we have concluded that it is not in the best interest of shareholders to proceed with the disposal of these stations. Humber and Langage are cash generative at the operating level in the current environment and we will, therefore, retain these assets. However, following a review, we plan to close the Killingholme and Brigg power stations. We will also be taking action to make the management of our power portfolio more efficient.

Reflecting the result of the capacity auction and declining power prices, we recognised a post-tax impairment of £459 million on our UK gas-fired power generation assets and a post-tax impairment of £214 million on our investment in the UK nuclear fleet.

In 2014, output from our interest in the UK nuclear fleet was down 7% compared to 2013, reflecting the temporary shut down of four reactors at the Heysham 1 and Hartlepool power stations following discovery of a boiler spine issue at Heysham 1 in August. All reactors have now returned to service following inspections of all boiler spines at the affected reactors which found no further defects. However, the four affected reactors will operate at 75–80% power until modifications are made to the boilers during standard maintenance periods in 2015 and 2016. Reflecting the lower output, nuclear operating profit fell 16%.

Gas-fired generation volumes were 12% higher than in 2013, although market spark spreads remained low throughout the year and the forward market currently shows little sign of recovery in 2015. Our gas-fired business reported a reduced operating loss of £120 million, which includes a £39 million depreciation saving as a result of the three larger power stations being classified as held for sale assets for eight months in 2014.

Our wind assets delivered generation volumes up 20%, reflecting a full contribution from the Lincs offshore wind farm. Reflecting our focus on capital discipline, at the half year we reviewed the economic viability of the Round 3 Irish Sea Zone project, Celtic Array, following discussions with The Crown Estate and our partners in the project, DONG Energy, and we have now handed the licence back to The Crown Estate. As a result, we recognised a charge of £40 million, principally in respect of writing off the total book value of the project. In November 2014, the sale of the Lincs transmission assets under the offshore transmission owner (OFTO) regime was completed in line with book value, while in December 2014, we sold our 50% non-operated interest in the Barrow offshore wind farm to DONG Energy for £50 million, with Centrica recognising a £26 million pre-tax profit from the disposal.

Renewables operating profit fell by 60% compared to 2013, reflecting a reduced contribution from the disposal of assets and increased costs associated with writing down developments.

CENTRICA STORAGE

Our Rough gas storage facility makes an important contribution to the UK's security of supply.

What we do

Our Rough gas storage facility is the largest in the UK, able to meet approximately 10% of the UK's winter peak day demand and representing more than 70% of the UK's current storage capacity. Rough is situated in the North Sea, 18 miles off the coast of East Yorkshire. Centrica Storage also owns and operates the Easington gas processing terminal, which processes both gas from Rough and from Centrica Energy's York gas field for onward distribution via the National Transmission System.

In accordance with undertakings given to the Secretary of State for Trade and Industry in 2003, Centrica Storage is legally, financially and physically separate from all other Centrica businesses.

Risks

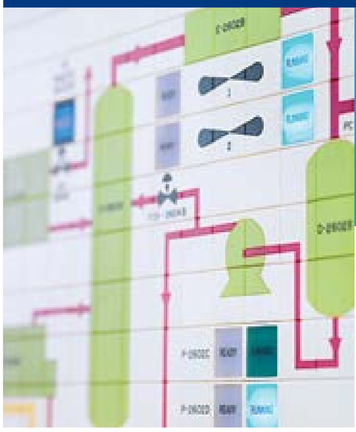
- Compliance with existing laws and regulation.
- Further political and regulatory intervention and reform.
- Exposure to the spread between winter and summer gas prices.
- Health and safety risks arising from our assets and operations.

Principal Risks and Uncertainties 40

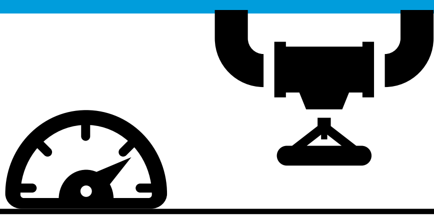
The year in figures

Year ended 31 December	2014	2013
Total Centrica Storage operating profit	**£29m**	£63m

See our full performance measures at centrica.com/performance >



Rough represents 70% of the UK's current storage capacity.



Corporate responsibility

- Continued our focus on safety, with one lost time injury in 2014, equalling 2013.
- Zero significant process safety events occurred in 2014.

How We Do Business 21

The Rough gas storage asset reached its highest ever net reservoir volume (NRV) in November 2014, reflecting the lower level of withdrawal in the first quarter due to the warmer than normal weather combined with continued good asset reliability.

Seasonal gas price spreads fell to historic lows towards the end of 2013 due to the abundance of flexible supply across North West Europe and warm weather. As a result the average Standard Bundled Unit (SBU) price for the 2014/15 storage year fell to 20.0 pence, lower than the 23.3 pence achieved in 2013/14 and the 33.9 pence achieved in 2012/13. This resulted in a 21% reduction in SBU revenue in 2014 compared to 2013 and operating profit fell by 54%.

At the start of 2014, we commenced a three-year programme to deliver £15 million of cost reductions through operational improvements and capital discipline. We are on track to deliver this with significant progress in the year on business restructuring, reductions in capital expenditure and improved maintenance planning.

GROUP FINANCIAL REVIEW

Against the low commodity price backdrop we are taking positive action to improve earnings and cash flows in 2015 and 2016.

Group revenue
£29.4bn
2013: £26.6 billion

Net assets
£3,071m
2013: £5,257 million

Net finance cost
£266m
2013: £243 million

Adjusted operating profit
£1,746m
2013: £2,695 million

Net debt
£5,196m
2013: £4,942 million

Operating cash flow
£1,217m
2013: £2,940 million

Adjusted tax charge
£432m
2013: £1,022 million

Statutory (loss)/profit
(£1,012m)
2013: £950 million

Dividend
13.5p
2013: 17.0 pence

Adjusted basic EPS
19.2p
2013: 26.6 pence

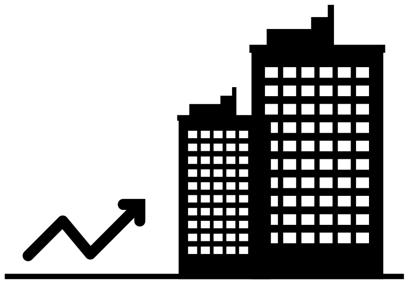
GROUP FINANCIAL REVIEW CONTINUED

Group revenue

Group revenue increased by 11% to £29.4 billion (2013: £26.6 billion). British Gas gross revenue decreased by 9%, reflecting the impact of record mild weather in the UK in 2014 compared to colder than normal temperatures in 2013. Residential energy supply gross revenue fell by 12%, with the warmer weather resulting in a 21% fall in total gas consumption and a 9% fall in total electricity consumption. Residential services gross revenue was broadly flat, with the impact of higher central heating installation volumes and inflationary price increases offset by lower product holdings and a shift towards lower priced offerings. Business energy supply and services gross revenue fell by 3%, with lower consumption due to the warm weather and lower average accounts only partially offset by higher retail tariffs.

Direct Energy gross revenue increased by 62%. This primarily reflects a full year of revenue from the Hess Energy Marketing acquisition completed in November 2013, with business energy supply gross revenue more than doubling as a result. Residential energy supply gross revenue increased by 2%, reflecting additional gas volume as a result of extreme weather conditions across much of North America. Residential and business services gross revenue fell by 8%, reflecting the disposal of the Ontario home services business in October.
Bord Gáis Energy reported gross revenue of £391 million in the six months of trading following completion of the acquisition at the end of June 2014.

Centrica Energy gross revenue fell by 17%. Gas gross revenue fell by 21%, reflecting falling oil and gas prices and power gross revenue fell by 3% primarily reflecting lower nuclear output. Centrica Storage gross revenue fell by 21% reflecting lower seasonal gas price spreads.



Operating profit

Throughout the Annual Review, reference is made to a number of different profit measures, which are shown below:

Year ended 31 December	2014 Business performance £m	2014 Exceptional items and certain re-measurements £m	2014 Statutory result £m	2013 Business performance £m	2013 Exceptional items and certain re-measurements £m	2013 Statutory result £m
Adjusted operating profit						
British Gas	823			1,030		
Direct Energy	150			276		
Bord Gáis Energy	7			–		
Centrica Energy	737			1,326		
Centrica Storage	29			63		
Total adjusted operating profit	1,746			2,695		
Depreciation of fair value uplifts from Strategic Investments (nuclear post-tax)	(78)			(66)		
Interest and taxation on joint ventures and associates	(100)			(111)		
Group operating (loss)/profit	1,568	(2,705)	(1,137)	2,518	(626)	1,892
Net finance cost	(266)	–	(266)	(243)	–	(243)
Taxation	(375)	773	398	(942)	243	(699)
(Loss)/profit for the year	927	(1,932)	(1,005)	1,333	(383)	950
Attributable to non-controlling interests	(24)			–		
Depreciation of fair value uplifts from Strategic Investments, after taxation	59			37		
Adjusted earnings	962			1,370		

British Gas operating profit fell by 20%. Residential energy supply operating profit fell by 23%, with lower revenue only partially offset by lower total wholesale commodity costs. Residential energy supply operating profit also included £46 million of costs from transportation and LNG capacity, previously reported in Centrica Energy, which enables the business to bring gas into the UK. Residential services profit fell by 15% reflecting lower margins in challenging trading conditions and a lower average number of contracts. Business energy supply and services operating profit fell 19% reflecting the lower revenue, competitive pressures resulting in lower margins, and a higher bad debt charge due to the impact of the transition to a new billing system.

Direct Energy operating profit fell by 46%. This predominantly reflects challenging competitive market conditions leading to a narrowing of margins in both residential and business energy supply, in particular in our legacy B2B power business, and additional ancillary and other charges incurred as a result of the polar vortex, estimated at approximately $110 million (£65 million). Residential energy supply profit fell by 45% and business energy supply profit fell by 58%. Residential and business services profitability fell by 22%, reflecting the sale of the Ontario home services business.

Bord Gáis Energy made an operating profit of £7 million in the six months post acquisition, including one-time acquisition-related costs.

Centrica Energy operating profit fell by 44%. In gas, despite increased production, the benefits of prior year hedging and strong midstream performance, operating profit almost halved reflecting the impact of a lower wholesale price environment. Power profitability fell by 23%, reflecting lower output from the nuclear fleet and higher net losses associated with asset impairments and disposals.

Centrica Storage operating profit more than halved, reflecting the impact of low seasonal gas price spreads.

Group finance charge and tax

Net finance cost increased to £266 million (2013: £243 million), reflecting higher notional interest. The taxation charge reduced to £375 million (2013: £942 million) and after taking account of tax on joint ventures and associates and the impact of fair value uplifts, the adjusted tax charge was £432 million (2013: £1,022 million). The resultant adjusted effective tax rate for the Group was 30% (2013: 43%), reflecting a shift in the mix of profit towards the lower taxed downstream businesses. In addition, a number of items acted to reduce the rate, specifically upstream small field tax allowances, deferred tax credits relating to the disposal of the Greater Kittiwake assets and a reorganisation of Power legal entities. Without these allowances and credits, the adjusted UK effective tax rate would have been 29%. An effective tax rate calculation, showing the UK and non-UK components, is shown below.

On 30 June 2014, the Group acquired Bord Gáis Energy's gas and electricity supply business in the Republic of Ireland, including the Whitegate gas-fired power station.

Bord Gáis Energy 30

Effective tax rate calculation

Year ended 31 December	**UK £m**	**Non-UK £m**	**2014 Total £m**	UK £m	Non-UK £m	2013 Total £m
Adjusted operating profit	**1,285**	**461**	**1,746**	1,903	792	2,695
Share of joint ventures'/associates' interest	**(62)**	**–**	**(62)**	(60)	–	(60)
Net finance cost	**(152)**	**(114)**	**(266)**	(146)	(97)	(243)
Adjusted profit before taxation	**1,071**	**347**	**1,418**	1,697	695	2,392
Taxation on profit	**125**	**250**	**375**	493	449	942
Tax impact of depreciation of Venture fair value uplift	**19**	**–**	**19**	29	–	29
Share of joint ventures'/associates' taxation	**38**	**–**	**38**	51	–	51
Adjusted tax charge	**182**	**250**	**432**	573	449	1,022
Adjusted effective tax rate	**17%**	**72%**	**30%**	34%	65%	43%

GROUP FINANCIAL REVIEW CONTINUED

Group earnings and dividend

Reflecting all of the above, profit for the year fell to £927 million (2013: £1,333 million) and after adjusting for profits attributable to non-controlling interests and fair value uplifts, adjusted earnings were £962 million (2013: £1,370 million). Adjusted basic earnings per share (EPS) was 19.2 pence (2013: 26.6 pence).

The statutory loss attributable to shareholders for the year was £1,012 million (2013: profit £950 million). The reconciling items between Group profit for the year from business performance and statutory loss/profit are related to exceptional items and certain re-measurements. The change compared to 2013 is due to lower profit from business performance, a net loss from certain re-measurements of £771 million (2013: profit £284 million) and higher net exceptional charges of £1,161 million (2013: £667 million). The Group reported a statutory basic EPS loss of 20.2 pence (2013: profit 18.4 pence).

In addition to the interim dividend of 5.1 pence per share, we propose a final dividend of 8.4 pence, giving a total ordinary dividend of 13.5 pence for the year (2013: 17.0 pence).

Group cash flow, net debt and balance sheet

Group operating cash flow before movements in working capital was lower at £2,726 million (2013: £3,737 million), reflecting the reduced profit from business performance. After working capital adjustments, tax, and payments relating to exceptional charges, net cash flow from operating activities was £1,217 million (2013: £2,940 million), which includes the impact of a net outflow of £640 million (2013: £82 million inflow) of cash collateral due to falling commodity prices.

The net cash outflow from investing activities was lower at £651 million (2013: £2,351 million), reflecting the disposal of the Texas gas-fired power stations and Ontario home services business and significant acquisition spend in 2013 primarily related to the Hess Energy Marketing acquisition.

On 29 July 2014, the Group acquired a 100% equity interest in Astrum Solar's residential business in the US.

Direct Energy 28

The net cash outflow from financing activities was £663 million (2013: £791 million). The outflow was lower than in 2013 due to the investment by QPI in our Canadian upstream gas business and a lower cash outflow from the purchase of treasury shares under the share repurchase programme.

Reflecting all of the above, the Group's net debt at 31 December 2014 was £5,196 million (2013: £4,942 million), which now includes within its definition cash collateral posted or received, to support wholesale energy procurement.

During the year, net assets reduced to £3,071 million (2013: £5,257 million). This reflects the impact of dividend payments, the share repurchase programme and the statutory loss in the year.

Exceptional items

Net exceptional pre-tax charges of £1,597 million were incurred during the year (2013: £1,064 million). Taxation on these charges generated a credit of £436 million (2013: £397 million) which resulted in exceptional post-tax charges of £1,161 million (2013: £667 million).

Reflecting declining wholesale oil and gas prices, the Group recognised a total pre-tax impairment charge of £1,189 million (post-tax charge £712 million) on a number of E&P assets.

Reflecting declining clean spark spreads and capacity market auction prices, the Group recognised a pre-tax impairment charge of £371 million (post-tax charge £297 million) relating to Langage and Humber power stations and a pre-tax impairment charge of £164 million (post-tax charge £162 million) on its other UK gas-fired power stations. The Group also recognised an impairment charge of £214 million (post-tax charge £214 million) on its nuclear investment, also due to declining power prices and the capacity market auction prices.

On 22 January 2014, the Group disposed of its Texas gas-fired power stations to Blackstone Group LP for consideration of $685 million (£411 million). As a result, an exceptional pre-tax gain of £219 million was recognised during the year. Taxation on this gain generated a charge of £77 million, resulting in an exceptional post-tax gain of £142 million.

On 20 October 2014, the Group disposed of the Ontario home services business for cash consideration of C$426 million (£235 million) as well as shares in the acquirer, Enercare Inc., of C$106 million (£59 million), which are listed on the Toronto Stock Exchange (TSX). As a result, an exceptional pre-tax gain of £122 million was recognised during the year. Taxation on this gain generated a charge of £40 million, resulting in an exceptional post-tax gain of £82 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 IAS 39. The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. The operating loss in the statutory results includes net pre-tax losses of £1,108 million (2013: net gains of £438 million) relating to these re-measurements, largely as a result of falling forward prices, particularly in the second half of the year. 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.

Acquisitions and disposals

On 30 June 2014, the Group acquired Bord Gáis Energy's gas and electricity supply business in the Republic of Ireland, including the Whitegate gas-fired power station, for total consideration of €214 million (£172 million).

On 29 July 2014, the Group acquired a 100% equity interest in Astrum Solar's residential business for consideration of $53 million (£33 million).

On 27 June 2014, the Group acquired natural gas assets in the Foothills region of Alberta from Shell Canada Energy for C$42 million (£23 million). The assets were acquired by CQECP, the 60:40 partnership with QPI.

In addition to the disposals of the Ontario home services business and the Texas gas-fired power stations, referenced in 'Exceptional items', the Group disposed of the Barrow offshore wind farm to DONG Energy for a consideration of £50 million.

Events after the balance sheet date

On 13 February 2015, Centrica announced that British Gas will acquire AlertMe, a UK-based connected homes company that provides innovative energy management products and services. The net cost to British Gas will be £44 million, taking into account an existing 21% holding in AlertMe. It is anticipated that the transaction will close by the end of the first quarter of 2015.

Risks and capital management

The Group's principal risks and uncertainties as disclosed in 2013 remain largely unchanged. However, the combination of a number of individual risks coming together in 2014 have impacted the results, as outlined above.

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.

PRINCIPAL RISKS AND UNCERTAINTIES

The following risks, both short and long term, could impact our future performance. The list is not exhaustive and items are not prioritised. The list, and the nature of the risks, may change during the year.

Health, safety, environment and security (HSES)

Risk climate

No change

Strategic priorities

What are the risks?

There are inherent hazards in our operations, in particular those relating to the integrity of our physical operating assets and to oil and gas exploration, production, transportation and storage and power generation. This includes non-controlled interests in organisations with whom we contract. The management of these assets is also subject to various laws, regulations and permits.

In addition, our engineers visit customer premises to undertake essential repair and maintenance work on gas and electrical installations, appliances and plumbing and drain services.

Security events such as malicious attacks, criminal or activist activity can also cause disruption to our operations.

Failure to manage risks arising from these assets and operations could result in major injuries or loss of life, significant disruption to production or services, damage to our reputation and environmental damage. The costs related to the recovery, clean up or any resultant litigation could have a material financial impact.

Insurance proceeds may not be adequate to fully cover all liabilities, lost revenue or increased expenses resulting from a major incident, particularly involving oil and gas exploration and production activities or the nuclear fleet.

Compliance with laws, regulations and permits, or changes to existing commitments, could significantly impact the cost of operation and make it uneconomic to continue managing certain assets.

How do we manage these risks?

The management of HSES risk is overseen by the Board and Executive Committee and remains one of our core priorities with a continued focus across all our assets and operations.

We undertake regular reviews and independent assessments of the processes in place to manage these risks to ensure they remain effective and continue to develop. This includes any third parties involved in our operations and building strong relationships and supporting any local communities we work within. We also continue to invest in training to ensure we maintain safe operating practices in both our upstream and downstream businesses.

Security intelligence and operating procedures, together with crisis management and business continuity plans, are regularly evaluated and tested to provide assurance that we are capable of responding promptly and adequately to such events.

Further information on our safety activities and performance can be found in 'How We Do Business' on page 21.

Looking forward

- Delivery of process safety improvement plans in our upstream business.
- Increased volume of smart meter installations in customer premises.

Political, regulatory and compliance

Risk climate

Risk has increased

What are the risks?

The markets in which we operate are subject to detailed legislation and regulation across different jurisdictions. This complex structure is continually evolving and any changes or uncertainty, or ineffective or incomplete implementation of any new obligations could adversely affect our business.

A worsening of the international political climate increases the possibility of sanctions or other trade limiting actions that could impact our ability to source commodities. Political and regulatory direction will play a major part in our continued progress. Future LNG exports from our gas facility project in North America could face US government limitations or refusal.

Following the 2014 Scottish referendum, there is uncertainty over the new powers, including areas such as fuel poverty and energy efficiency, that will be devolved to Scotland and also any changes that could be made to the tax system in Scotland compared to the rest of the UK.

The lead-up to the UK general election has and could continue to result in consumer group lobbying, political statements and manifesto pledges that do not translate well into considered policy. This could increase the pressure on regulators to act, resulting in sharp fluctuations in investor confidence, an increase in the cost of capital and a reduction in the credit worthiness of energy buyers.

Innovate to drive growth and service excellence

Integrate our natural gas business, linked to our core markets

Increase our returns through efficiency and continued capital discipline

More on strategic priorities 17

Strategic priorities

The CMA market investigation is due to conclude at the end of 2015 and could result in recommendations that are unfavourable to our business model. Ofgem is also focused on increasing transparency over energy company finances, as well as increasing pressure to lower retail energy bills as wholesale energy prices have decreased.

How do we manage these risks?

Our Group business principles, policy framework and corporate responsibility framework govern how we conduct our affairs.

We are committed to an open, transparent and competitive UK energy market that provides choice for consumers. We lead the industry in putting our customers in charge of their energy consumption through innovative products such as our Tariff Checker and Hive Active Heating™.

We proactively engage with our stakeholders, including government, legislators and regulators in order to shape proposals and manage risks. We work with regulators to find a better approach to intervention that agrees clear targets, for example switching times or complaint handling, against which we could demonstrate progress. We work with political parties to develop a consensus on energy policy that supports the transition to a secure, low cost, low carbon UK.

Looking forward

- Decision and any resulting remedial actions from the CMA energy market investigation.

Trust, perception and customer service

Risk climate

No change

Strategic priorities

What are the risks?

The challenges of day-to-day costs of living, including energy, have had a very negative impact on the public's perception of energy suppliers. The fall in wholesale energy prices and the timing of the reduction in consumers' bills, has further heightened political and media attention in this area. This is not only a concern for our customers but also damages investor confidence, increasing the prospect of potential further government or regulatory intervention at a time when substantial investment is required to secure supplies of energy.

Media attention and the position taken by political parties in the run-up to the UK general election could also lead to further uncertainty, as the political consensus that existed over key questions of energy policy has broken down.

Customers may switch supplier if they experience unacceptable customer service levels or if it is perceived that we are failing to maintain service quality.

The increased use of social media allows customers and consumer groups to engage, share views and take part in direct action and other campaigns more readily than before. Poor perception of the Centrica brands, our service levels or our level of transparency could undermine trust in us and lead to campaigns for change, as well as challenges in attracting and retaining new customers.

Hydraulic fracturing in the UK together with the Group's exploration licence in Norwegian waters close to the Arctic could cause adverse publicity and damage to our brands as we explore opportunities for unconventional energy supply and generation or related technologies as part of our business strategy.

How do we manage these risks?

We remain focused on providing affordable energy and excellent service, working to deliver a fair, simplified and transparent offering to consumers and protecting the most vulnerable, fuel-poor households through initiatives to improve energy efficiency or with financial advice and aid. Through improved customer billing and CRM systems, taking the lead on smart metering and developing new innovative products, we help put customers in control of their energy consumption and reduce carbon emissions. In 2014, we led the industry in deciding to end the auto-rollover of contracts at renewal for our business customers.

To help people today and secure energy for tomorrow, we engage with NGOs, consumer and customer groups, political parties, regulators, charities and other stakeholders to understand their views and concerns, working together to identify solutions to help reduce bills and improve transparency to help rebuild trust in the industry. We have entered into initiatives, including our partnership with Shelter, and the launch last year of the Centrica backed pioneering social impact investment fund Ignite.

We actively manage our reputation with a number of different stakeholders including customers, investors, opinion-formers, employees, the media, governments and government agencies, political parties, and regulatory and trade union bodies.

Looking forward

- Media and political effect of the UK general election.
- Progressing with development of our UK hydraulic fracturing interest.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Strategic growth

Risk climate

Risk has increased

Strategic priorities

What are the risks?

Despite positive signs of recovery in the UK, uncertainty remains in the global economy and the economic sentiment could impact many parts of our business.

The UK market faces potential pressure in both the run-up to the UK general election and in the policy decisions taken by the next government.

The UK is also becoming increasingly dependent on gas imports and, as a result, international energy prices.

Growth in our North American downstream business will also be dependent in part on the successful integration of a number of newly acquired businesses.

The current political debate has exacerbated significant uncertainty in the UK energy landscape. This could impact future power, storage and upstream investment and the attractiveness of the UK energy supply business.

A number of emerging technologies and innovations have the potential to be disruptive to our business. In our upstream business, we face competition in developing and applying new technology to maximise recovery, in making unconventional sources of oil and gas economic and in generating power through low carbon solutions.

Improved energy efficiency and changing customer behaviour as a result of greater environmental awareness, reaction to past price increases and long-term weather patterns have led to a reduction in energy demand in our downstream business.

In the UK, gas demand is forecast to continue to decline over the next decade with the emergence of smart connected home solutions and electricity demand is forecast to decline by a smaller amount or remain flat. The retail energy environment is highly competitive across residential and business segments as well as energy services, including new business areas, such as smart enabled applications.

In the UK, the number of small suppliers has grown significantly and we have seen increasing levels of switching for the supply of energy and services. We could see heightened competitive pressures as new players, such as insurance companies, telecom companies, supermarkets and other large retail companies enter the services market and seek to strengthen their positions. The value of customer data has increased and the widening range of virtual interaction with customers through digital media, smart technology, the internet and mobile devices plays a greater role in the retail energy sector.

Climate change, new technologies and global economic conditions may be subject to circumstances beyond our control resulting in an adverse impact on our strategic growth.

How do we manage these risks?

We continue to pursue a range of options across the energy chain and in different geographies to both deepen our customer relationships and secure our future energy requirements. We remain committed to developing diverse alternative sources of supply and continue to explore for shale gas in the UK.

We continue to seek cost efficiency through innovation and investment in systems, positioning ourselves to deliver targets whilst maintaining a stable platform for investment.

The way we heat, power and light our homes is changing through a combination of environmental and financial concerns and the ease of use and prevalence of mobile and connected devices. The investment we are making in smart connected homes through smart meters, personalised customer energy usage reports, smart and time of use tariffs, applications for remote heating control and US appliance rental programmes has allowed us to create greater consumer visibility and control over energy consumption. Our innovative products will radically alter the way we operate and we continue to lead the industry as we look to develop connected boiler technology.

In 2014 we bought the former state-owned Irish energy company Bord Gáis Energy as we continue our focus on entering new deregulated markets. We will look to expand a services capability in this new market and introduce some of our established smart technology and products for the benefit of our new customer base.

Looking forward

- Impact of new market entrants (community, small, unconventional and existing).
- Impact of technology and innovation.

Commodity costs

Risk climate

Risk has increased

Strategic priorities

What are the risks?

A significant proportion of our profitability and price competitiveness is dependent upon our ability to manage exposure to increasingly volatile world energy markets. Commodity prices can fluctuate based on a large number of factors including supply and demand, as well as political and economic factors. Current international political factors may trigger an expectation of or actual disruption in supplies.

The price of gas in the UK market is particularly important for us given we supply a significant proportion of Britain's gas needs. As the country secures an increasing proportion of gas from abroad, its price and availability will be increasingly shaped by international forces, combined with the additional challenge of transitioning to lower carbon generation.

Shale gas has already transformed the US energy market where gas prices have fallen to historic lows. The low cost of natural gas may result in new market entrants and cause margins to tighten. Shale gas could further influence global energy markets over time, in particular liquefied natural gas (LNG), which is becoming an increasingly important source of natural gas in the UK.

Seasonal variations and economic conditions make it difficult to forecast future energy demand, leading to significant uncertainties around commodity prices and the potential to result in a surplus of gas which cannot be sold profitably in the wholesale market or with short commodity positions that cannot be covered at a cost that can be passed on to customers. The Group also has a number of contractual capacity contracts, the economic value of which depends on market prices.

In 2014, we saw a significant fall in commodity prices, particularly in the second half of the year, impacting the profitability of our UK businesses. In the US, the extreme weather of the polar vortex caused significant market volatility in electricity and natural gas prices. Commodity price increases or decreases may require us to change the price at which we sell energy to our customers on variable tariffs. We may not be able to pass through all increases in commodity prices to customers in a given year. Where we do pass increased commodity prices on, or if we fail to pass on decreased commodity prices, customers may seek to switch to competitors.

Commodity price decreases may reduce profits and over the longer term may make certain exploration and development projects and existing operating assets uneconomic. Assets, including goodwill, may be impaired if future cash flows from such assets are insufficient to cover their cost on the balance sheet.

How do we manage these risks?

We have an active forward buying and selling programme to mitigate the risks of sudden commodity price movements and track supply chain risks to ensure security of supply.

Strategic investment decisions are made within a capital allocation framework that tests projected returns against various commodity price scenarios and are rigorously evaluated against Board-approved criteria prior to commitment.

We continue to selectively invest in assets around our existing hubs, while managing costs, looking to divest non-core and uneconomic assets, delivering new projects and purchasing stakes in other assets.

We continue to secure energy contracts, invest in low carbon and gas-fired power generation and purchase gas and oil producing assets to develop our portfolio, support downstream operations through contractual arrangements, asset ownership and make progress accessing new markets and securing new sources of gas. This enables us to secure energy supplies for the future whilst sheltering customers from volatility in the wholesale gas market.

Looking forward

- Impact of sustained downward pressure on oil and gas prices.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Change management

Risk climate

No change

Strategic priorities

What are the risks?

The successful delivery of business change is fundamental to our future success and includes organisational, cultural and technical transformation.

The delivery of certain large change programmes is technically complex. Planning to deliver too much change could result in a stretch on resources, undermine system integrity, cost more than originally planned or take longer than estimated to implement. Change programmes could also suffer from quality issues and planned benefits may not be realised or individual products as widely accepted as anticipated.

The scale of change in our downstream business is significant. Delays or challenges with changes to billing and other systems, the implementation of smart connected home products in the UK and US and integration of a number of acquisitions could adversely affect our operations, reputation and financial position if not successfully delivered.

We regularly review our assets, investments and organisational structures, seeking to divest or change those that no longer meet expected returns, to keep our cost base as low as possible. These changes can involve difficult decisions for our people and there is a risk that industrial relations could deteriorate.

How do we manage these risks?

Change activity is managed through a combination of programme and project boards and is regularly reviewed at both the business unit and executive level.

We have a defined capital allocation framework against which to review business asset and investment performance and will be increasingly selective in our investments, directing capital towards projects based on their ability to deliver business benefits against the framework.

We have a dedicated project management directorate to improve governance of large capital change programmes undertaken in our upstream business. Dedicated programme and project managers are assigned to all major change initiatives and apply defined methodologies and tools, together with defined governance processes, supported by both functional and business unit teams.

As part of our ambition to lead the energy industry and have the strong future we are capable of, we embrace innovative technology in our product offerings to customers, our IT systems and the way in which we operate our business. We have implemented new billing and CRM systems in our energy and services businesses in the UK and North America. We have developed new products that put UK and US customers in greater control of their energy consumption and we have led the smart meter roll-out in the UK.

Looking forward

- The delivery of a number of UK and Norwegian upstream projects.
- Embedding new billing and customer relationship management systems.

Information systems and security

Risk climate

Risk has increased

What are the risks?

Our business operations rely on information systems maintaining a high degree of availability, integrity and security, including those from third-party providers.

With the increasing digitisation of information, the use of social media and the continually evolving external cyberthreat landscape, corporate organisations are targets for malicious and unauthorised attempts to access information. Our businesses could be compromised by an incident arising from the accidental or deliberate exposure of sensitive data or intellectual property, inadvertent or deliberate changes to data or changes in asset control systems.

Attempts to appropriately collect, secure and dispose of information now face far greater scrutiny from regulators, customers and employees. Information security breaches could seriously affect our reputation, lead to legal action and regulatory sanctions and system outages that could cause financial and operational loss.

EU, US and Canadian data privacy requirements and proposed amendments, as well as regulatory changes, increase the requirements around public notification of any data breach and also the ability of the regulator to impose associated fines or penalties for non-compliance.

Strategic priorities

How do we manage these risks?
Our information security strategy seeks to integrate information system, personnel and physical aspects, overseen by the Information Risk Steering Group, which reports to the Group Risk Management Committee.

We seek to detect and investigate threats and incidents, including engaging with key technology partners and suppliers, to ensure potentially vulnerable systems are identified.

We regularly evaluate the adequacy of our infrastructure and IT security controls, undertake employee awareness and training and test our contingency and recovery processes.

We work collaboratively with working groups across the energy industry and public and private sectors.

These measures allow for controls and responses to be put in place that are both effective and proportionate, including cybersecurity crisis management and business continuity plans that have been evaluated and tested to provide assurance that they are capable of responding promptly and adequately to any such events, whilst recognising the evolving nature of the threat landscape.

Looking forward
- Compliance with the 2014 EU Data Protection Regulation and introduction of the 2014 EU Cyber Mandate.
- Increase in the Smart Metering and Connected Homes programme with the inherent risks associated with sensitive data.

People

Risk climate
Risk has increased

Strategic priorities

What are the risks?
The attraction, retention, development and succession of senior management and individuals with key skills are critical factors in the successful execution of strategy.

Cultural transformation, ambitious technical-change programmes, changes to our current structure and business operations could all result in challenges with attraction and retention for key roles across the business and have an adverse impact on the engagement of our people.

Ineffective trade union relationships could result in the threat of industrial action in our upstream business operations and engineering workforce.

Insufficient capability and capacity, at a time when we are subject to high levels of public scrutiny, could limit our ability to exploit opportunities and/or realise the full value of investments.

How do we manage these risks?
We have a clearly defined people strategy based on developing the right culture and engagement, talent development, training and reward and recognition.

We regularly review our organisational capability, critical business areas, reward strategies for key skills, talent management and learning and development programmes. We also perform external benchmarking to ensure we are attracting and retaining the talent we need to be competitive.

We engage with trade unions on restructuring and issues that could impact terms and conditions with clear and open processes to promote an environment of trust and honesty.

We provide channels for employees to discuss concerns, including whistleblowing, and regularly review the procedures in place to support them in the delivery and development of their role.

We continually promote wellbeing and equality through processes and campaigns to improve the vitality and fair treatment of all our people.

Looking forward
- Engagement and development of senior management team.
- Identification and succession of British Gas Managing Director and Chief Financial Officer positions.

The Strategic Report was approved by a duly authorised Committee of the Board of Directors on 19 February 2015 and signed on its behalf by:

Grant Dawson
General Counsel & Company Secretary
19 February 2015

BOARD OF DIRECTORS

Full biographies can be found at centrica.com.

Committee membership key

A – Audit
CR – Corporate Responsibility
D – Disclosure
E – Executive
N – Nominations
R – Remuneration

1. Rick Haythornthwaite

Chairman

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 is Chairman of the Nominations Committee.

Committee membership: N (Chairman), R

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. 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 non-executive director.

External appointments: Chairman of the global board of MasterCard Inc. and PSI, a private fund. Chairman of the Southbank Centre in London and the World Wide Web Foundation.

2. Iain Conn

Chief Executive

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

Committee membership: E (Chairman), CR, D (Chairman)

Skills and experience: Iain has a wealth of experience heading a global consumer brand. He possesses a deep understanding of the energy sector built up over a lifetime in the industry with a commitment to customers and safety. Iain was previously Chief Executive, Downstream, of BP's refining and marketing division. Iain was a Board member of BP for 10 years from 2004 and has previously held a number of senior roles throughout BP.

External appointments: Iain is a non-executive director of BT Group plc. He is Chairman of the Advisory Board of Imperial College Business School and a member of the Council of Imperial College.

3. Margherita Della Valle
Non-Executive Director

Margherita joined the Board on 1 January 2011 and became Chairman of the Audit Committee on 1 July 2013.

Committee membership: A (Chairman), CR, N, R

Skills and experience: Margherita brings considerable corporate finance and accounting experience and she has a sound background in marketing. She was chief financial officer for Vodafone's European region from April 2007 to October 2010 and chief financial officer of Vodafone Italy from 2004 to 2007. Previously she joined Omnitel Pronto Italia in Italy in 1994 and held various consumer marketing positions in business analytics and customer base management prior to moving to finance. Omnitel was acquired by Vodafone Group in 2000.

External appointments: Group financial controller of Vodafone Group plc.

4. Mark Hanafin
Managing Director, International Upstream

Mark was appointed to the Board on 14 July 2008.

Committee membership: E

Skills and experience: Mark has senior management experience across the energy value chain from E&P through to product sales. He has excellent midstream and trading credentials as well as a strong track record in developing supply and marketing businesses. Before joining Centrica, Mark spent 21 years with Royal Dutch Shell, most recently as CEO of Shell Energy North America in Houston. Prior to joining Shell, he worked for General Electric Company having qualified as a chartered engineer.

External appointments: Non-executive director of EDF Energy Nuclear Generation Group Limited.

5. Lesley Knox
Non-Executive Director

Lesley joined the Board on 1 January 2012 and is Chairman of the Remuneration Committee.

Committee membership: A, N, R (Chairman)

Skills and experience: Lesley brings a wealth of strategic and financial experience across a range of businesses to the Board and she is an experienced remuneration committee chair. She was previously with British Linen Bank and a founder director of British Linen Advisers. She was senior non-executive director of Hays Plc and also spent 15 years with Kleinwort Benson.

External appointments: Non-executive director of SABMiller Plc, trustee of the Grosvenor Estates and chairman of Grosvenor Group Limited.

6. Mike Linn
Non-Executive Director

Mike joined the Board on 1 June 2013.

Committee membership: A, N, R

Skills and experience: Mike has considerable experience in the energy sector, particularly exploration and production and the US market. He founded and was previously chairman, CEO and president of LINN Energy, LLC.

External appointments: Non-executive director of LINN Energy, LLC, non-executive board member of Nabors Industries, Black Stone Minerals and Western Refining Logistics and senior advisor to Quantum Energy Partners. Member of the National Petroleum Council and inducted into the All American Wildcatters.

7. Ian Meakins
Senior Independent Director

Ian joined the Board on 1 October 2010 and became Senior Independent Director on 1 January 2015.

Committee membership: A, N, R

Skills and experience: Ian has broad general management and board experience and considerable knowledge of managing businesses with strong brands. Ian is currently CEO of Wolseley plc and was, until April 2009, chief executive of Travelex Holdings Ltd. Between 2000 and 2004, he was president, European Major Markets and Global Supply for Diageo plc, spending over 12 years with the company in a variety of international management positions.

External appointments: Group chief executive of Wolseley plc.

8. Carlos Pascual
Non-Executive Director

Carlos joined the Board on 1 January 2015.

Committee membership: A, N, R

Skills and experience: Carlos has held a number of senior positions in the energy industry and is a senior leader 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: Carlos is a senior vice president at IHS Inc. and a non-resident senior fellow at the Centre on Global Energy Policy at Columbia University.

9: Steve Pusey
Non-Executive Director

Steve will join the Board on 1 April 2015.

Committee membership: A, N, R

Skills and experience: Steve has a wealth of international experience as a senior customer facing business technology leader. He has considerable experience in the telecommunications industry in both the wireline and wireless sectors and in business applications and solutions. Steve has also worked with Nortel and British Telecom and is a graduate of the Advanced Management Program at Harvard University.

External appointments: Chief Technology Officer of Vodafone Group plc. Steve will retire from this role on 31 July 2015.

Past Directors

Mary Francis CBE
Retired as a director on 31 December 2014.

Sam Laidlaw
Retired as a director on 31 December 2014.

Nick Luff
Resigned as a director on 31 August 2014.

Paul Rayner
Retired as a director on 31 December 2014.

Chris Weston
Resigned as a director on 30 December 2014.

SENIOR EXECUTIVES

1. Jeff Bell

Interim Chief Financial Officer

Appointed Interim Chief Financial Officer on 1 September 2014.

Skills and experience: Jeff has a broad range of finance experience. He joined the Group's Direct Energy business in Toronto in 2002 as Vice President of Finance and moved to the Group's head office in 2008 to support the Group Chief Executive and to lead the Group Strategy team. In 2011, he was appointed Director of Corporate Finance. Prior to Centrica, Jeff worked in Toronto for both KPMG, where he qualified as a chartered accountant, and the Boston Consulting Group.

2. Grant Dawson

General Counsel & Company Secretary

Appointed as General Counsel & Company Secretary since the demerger from British Gas plc in February 1997 having joined British Gas in October 1996.

Skills and experience: Grant was called to the Bar in 1982, he spent most of his career in industry joining the legal department of Racal Electronics plc in 1984 and then STC plc as legal adviser in 1986 until they were 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.

3. Badar Khan

President and CEO, Direct Energy

Appointed President and CEO, Direct Energy on 1 April 2013, having joined Centrica in July 2003.

Skills and experience: Badar has extensive expertise in both upstream and customer facing energy businesses. Prior to his appointment as President and CEO, Direct Energy, from August 2009 Badar was President, Upstream and Trading of Direct Energy. Badar's previous roles within Centrica include Managing Director, British Gas Business and Vice President (and subsequently Senior Vice President), Direct Energy, responsible for the US North. Previously, he was a senior officer of a private retail energy company in the US and a management consultant with Deloitte.

4. Ian Peters

Interim Managing Director, British Gas

Appointed Interim Managing Director, British Gas on 1 December 2014.

Skills and experience: Ian has extensive management expertise in a range of energy and financial service positions. Prior to his appointment as Interim Managing Director, British Gas, Ian was Managing Director of Residential Energy in British Gas from 2010 having been Chief Operating Officer from 2007. Ian's previous roles at Centrica have included overseeing the acquisition of Dyno-Rod and Managing Director of British Gas Business. Ian joined Centrica in 2002 as Managing Director of Goldfish Bank. Previously, he worked for Marsh, NatWest and Royal Bank of Scotland.

5. Jill Shedden

Group Director, Human Resources

Appointed as Group Director, Human Resources on 1 July 2011.

Skills and experience: Jill was previously HR Director for Centrica Energy having joined British Gas plc as a graduate in 1988 and has since held a wide range of roles across the Group including HR Director for British Gas Business and British Gas Residential.

INDEPENDENT AUDITORS' STATEMENT

TO THE MEMBERS OF CENTRICA PLC

We have examined the supplementary financial information included within the Strategic Report with supplementary material for the year ended 31 December 2014, which comprises the Summary Group Balance Sheet as at 31 December 2014 and the Summary Group Income Statement, Summary Group Statement of Changes in Equity and Summary Group Cash Flow Statement for the year then ended.

Respective responsibilities of the Directors and the auditors

The Directors are responsible for preparing the Strategic Report with supplementary material, in accordance with the Companies Act 2006, which includes information extracted from the full annual Financial Statements and the auditable part of the Directors' Remuneration Report of Centrica plc for the year ended 31 December 2014.

Our responsibility is to report to you our opinion on the consistency of the summary financial information, included within the Strategic Report with supplementary material, with those full annual Financial Statements and the auditable part of the Directors' Remuneration Report.

This statement, including the opinion, has been prepared for and only for the Company's members as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

Our examination involved agreeing the balances disclosed in the summary financial information to full annual Financial Statements. Our audit report on the Company's full annual Financial Statements and the auditable part of the Directors' Remuneration Report describes the basis of our opinion on those Financial Statements and the auditable part that report.

Opinion

In our opinion the supplementary financial information is consistent with the full annual Financial Statements and the auditable part of the Directors' Remuneration Report of Centrica plc for the year ended 31 December 2014.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory auditors
London 19 February 2015

SUMMARY GROUP INCOME STATEMENT

Year ended 31 December	2014 Business performance £m	2014 Exceptional items and certain re-measurements £m	2014 Results for the year £m	2013 Business performance £m	2013 Exceptional items and certain re-measurements £m	2013 Results for the year £m
Group revenue	29,408	–	29,408	26,571	–	26,571
Cost of sales before exceptional items and certain re-measurements	(25,043)	–	(25,043)	(21,464)	–	(21,464)
Exceptional items – onerous provision	–	–	–	–	(125)	(125)
Re-measurement of energy contracts	–	(1,134)	(1,134)	–	413	413
Gross profit	4,365	(1,134)	3,231	5,107	288	5,395
Operating costs before exceptional items	(2,903)	–	(2,903)	(2,735)	–	(2,735)
Exceptional items – impairments	–	(1,938)	(1,938)	–	(939)	(939)
Exceptional items – gains on disposals	–	341	341	–	–	–
Share of profits of joint ventures and associates, net of interest and taxation	106	26	132	146	25	171
Group operating (loss)/profit	1,568	(2,705)	(1,137)	2,518	(626)	1,892
Net finance cost	(266)	–	(266)	(243)	–	(243)
(Loss)/profit before taxation	1,302	(2,705)	(1,403)	2,275	(626)	1,649
Taxation on (loss)/profit	(375)	773	398	(942)	243	(699)
(Loss)/profit for the year	927	(1,932)	(1,005)	1,333	(383)	950
Attributable to:						
Owners of the parent	903	(1,915)	(1,012)	1,333	(383)	950
Non-controlling interests	24	(17)	7	–	–	–

Earnings per ordinary share	2014 Pence	2013 Pence
Basic	(20.2)	18.4
Diluted	(20.2)	18.3
Interim dividend paid per ordinary share	5.10	4.92
Final dividend proposed per ordinary share	8.40	12.08

	2014 £000	2013 £000
Directors' remuneration	8,345	7,707

SUMMARY GROUP BALANCE SHEET

31 December	2014 £m	2013 £m
Non-current assets	**14,574**	15,717
Current assets	**8,118**	7,428
Assets of disposal groups classified as held for sale	**–**	301
Current liabilities	**(9,610)**	(7,898)
Non-current liabilities	**(10,011)**	(10,192)
Liabilities of disposal groups classified as held for sale	**–**	(99)
Net assets	**3,071**	5,257
Total shareholders' equity and non-controlling interests	**3,071**	5,257

SUMMARY GROUP STATEMENT OF CHANGES IN EQUITY

	2014 £m	2013 £m
1 January	**5,257**	5,927
Profit for the year	**(1,012)**	950
Other comprehensive loss	**(222)**	(360)
	4,023	6,517
Employee share schemes	**71**	57
Purchase of treasury shares	**(422)**	(502)
Dividends	**(867)**	(864)
Taxation on share based payments	**(5)**	(16)
Non-controlling interests	**271**	65
31 December	**3,071**	5,257

SUMMARY GROUP CASH FLOW STATEMENT

31 December	2014 £m	2013 £m
Cash generated from operations	**2,049**	4,056
Taxation and other operating cash flows	**(832)**	(1,116)
Net cash flow from operating activities	**1,217**	2,940
Net cash flow from investing activities	**(651)**	(2,351)
Net cash flow from financing activities	**(663)**	(791)
Net decrease in cash and cash equivalents	**(97)**	(202)
Cash and cash equivalents at 1 January	**719**	931
Effect of foreign exchange rate changes	**(1)**	(10)
Cash and cash equivalents at 31 December	**621**	719

The Summary Financial Statements on pages 50 and 51 were approved and authorised for issue by the Board of Directors on 19 February 2015 and were signed on its behalf by:

Iain Conn
Chief Executive

SUMMARY CORPORATE GOVERNANCE REPORT

Annual Report

The Auditors have issued an unqualified report on the Annual Financial Statements and the auditable part of the Remuneration Report containing no statement under section 498 of the Companies Act 2006 (the Act). The Auditors' Report in respect of consistency between the Strategic Report and the Group Financial Statements is also unqualified. These Summary Financial Statements are a summary of the Annual Report and Accounts 2014 and the Summary Governance Report contains information from the Annual Report and Accounts but not the full text of that report. They do not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group and of its policies and arrangements concerning the Directors' remuneration as would be provided by the Annual Report and Accounts 2014.

The Annual Report and Accounts 2014 can be downloaded from the Company's website at centrica.com or can be obtained, free of charge, from Equiniti, the Company's Registrars. Shareholders may also elect to receive the Annual Report and Accounts instead of the Annual Review for all future years. Contact details for Equiniti can be found on page 57.

Dividends

For 2014, an interim dividend of 5.10 pence per share was paid on 12 November 2014. The Directors propose that, subject to approval at the 2015 Annual General Meeting (AGM), a final dividend of 8.4 pence per share will be paid on 25 June 2015 to those shareholders registered on 1 May 2015. This would make a total dividend for the year of 13.5 pence per share (2013: 17.00 pence per share).

Summary Corporate Governance Report

The Board believes that good corporate governance is central to contributing to Centrica's performance. A clearly defined framework of roles, responsibilities and delegated authorities is in place and this supports the Board's aim to deliver sustainable growth for the benefit of shareholders, employees and customers. A report on how the principles of the UK Corporate Governance Code (the Code) were applied is set out in the Corporate Governance Report in the Annual Report and Accounts. The Company has confirmed that throughout the year, it has complied with the provisions set out in the Code.

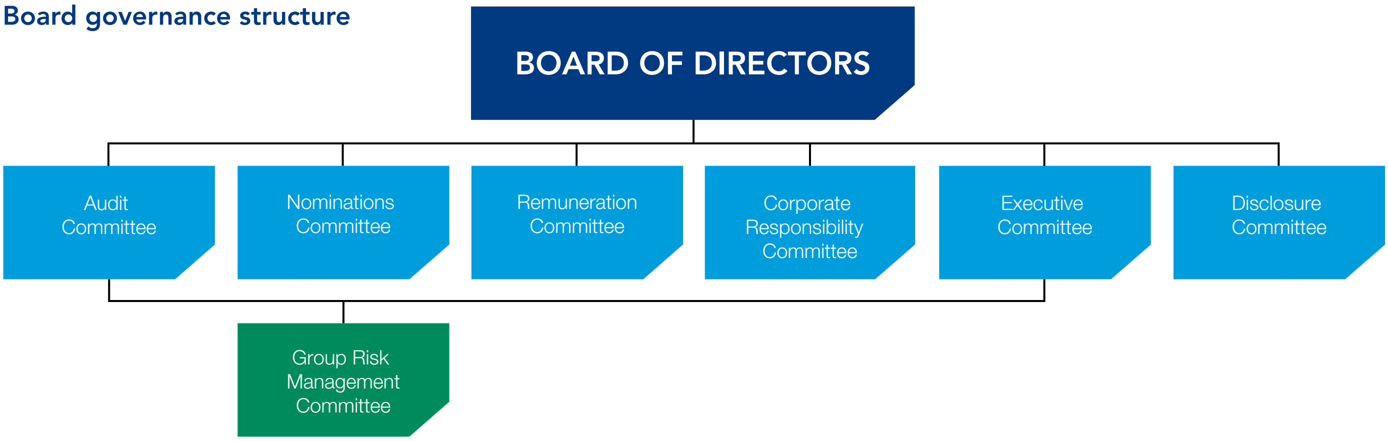
As reported last year, Mary Francis and Paul Rayner continued in post for 2014 beyond their nine year term of office. However, the Board felt that their continued service was of great benefit to the Board during a transitional period and that both these Non-Executive Directors continued to demonstrate independence and judgement in carrying out their roles.

Board of Directors

The Board comprises a balance of Executive Directors and independent Non-Executive Directors which promotes thorough debate and consideration of the important issues facing Centrica and the Group's performance. The powers of the Directors are set out in the Company's Articles of Association (Articles). In addition, the Directors have responsibilities and duties under legislation, in particular the Act. The Board has a schedule of matters specifically reserved for its approval which is reviewed annually to ensure best practice. Both the Articles and a copy of the full schedule of matters reserved are available on the Company's website.

The Chairman is responsible for the leadership and management of the Board. In doing so, he is responsible for promoting high ethical standards and best practice in corporate governance and ensures the effective contribution of all Directors. The Chief Executive is responsible for the executive leadership and day-to-day management of the Company, to ensure the delivery of the strategy agreed by the Board. The Senior Independent Director acts as a sounding board for the Chairman and serves as an intermediary for the other Directors, as well as shareholders, as required.

Board governance structure



The Board currently operates six Committees to oversee the standards of the Group: Audit, Nominations, Remuneration, Corporate Responsibility, Executive and Disclosure. The Board is currently reviewing the Board Committees' structure in order to ensure there is a thorough assessment of both financial and non-financial risk and associated issues. The roles and responsibilities for each Committee are set out in formal terms of reference which are approved by the Board and are available on our website.

Board appointments, evaluation and development

The Company's current approach to Board composition, evaluation, diversity and succession planning is detailed in the Corporate Governance Report in the Annual Report and Accounts.

During the year under review, there were a number of changes to the Board. Both Nick Luff and Chris Weston resigned as Directors on 31 August 2014 and 30 December 2014 respectively. Sam Laidlaw, Paul Rayner and Mary Francis retired as Directors of the Company on 31 December 2014. As announced in December 2014, Ian Meakins succeeded Mary Francis to become the Company's Senior Independent Director with effect from 1 January 2015.

Iain Conn was appointed as a Director of the Company and became Chief Executive on 1 January 2015. In addition, Carlos Pascual was appointed as a Director of the Company with effect from 1 January 2015. On 18 February 2015, it was announced that Steve Pusey would be appointed as a Director of the Company with effect from 1 April 2015.

Every Director shall stand for re-appointment at each AGM. Details of the Directors of the Company, including their biographies and their Board Committee memberships, are set out on pages 46 and 47. All new Directors appointed to the Board receive a comprehensive induction programme tailored to meet their individual needs.

The Board considers the annual review of the Board, its Committees and Directors as an essential part of good corporate governance. In 2014, the Board's review of its effectiveness was facilitated by Independent Audit Limited using their 'Thinking Board' online assessment service. Their facilitation helped ensure that our review was rigorous and covered the important influences on the Board's effectiveness. As independent advisers, they discussed with us the focus and coverage of our Board and Committee questionnaires, administered the questionnaires on a confidential basis, analysed the results independently from the Board and management, and presented the findings and their suggestions in a paper which was discussed with the Chairman and provided to all Directors.

Ongoing development and training is also provided to all Directors, as agreed with the Chairman. During the year, Directors received regular updates and presentations on changes and developments to the business and to the legislative and regulatory environments in which the Group operates.

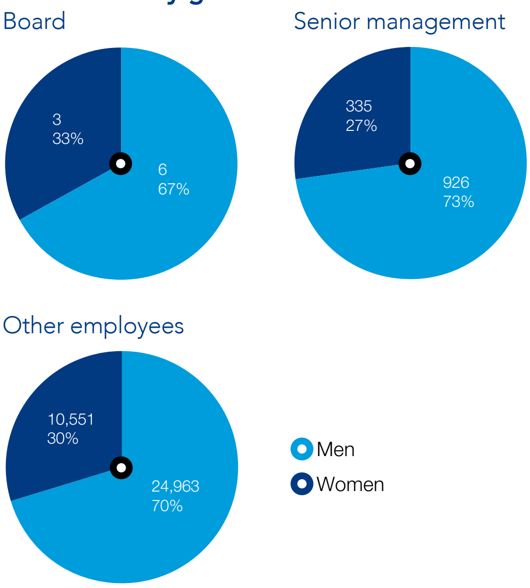
Diversity

Centrica is committed to the merits of diversity in all its forms at Board level and throughout the Group. As at 31 December 2014, 33% of the Board were women, although due to the Board changes that took place in January 2015 this figure reduced to 25%.

Our employment policies and practices reflect a culture where decisions are based on individual ability and potential in relation to the business' needs. We are committed to promoting equal opportunities and diversity as part of creating an inclusive working environment that attracts and retains the best people.

At senior management level, 27% are women, whilst 30% of employees excluding the Board and senior management are women as indicated in the charts below. During the year, Centrica was ranked as 19th in the 2014 'Female FTSE 100 Index', was recognised for its family-friendly policies in the 2014 Top Employers for Working Families Benchmark and received a special award for flexible working practices. Centrica has various initiatives taking place relating to gender diversity. These include coaching and mentoring and the Pearls Programme which identified 25 women across the business to participate in a programme designed to deliver a unique environment for growth and learning. Centrica has partnered with the Women's Oil Council which is a business network in the oil and gas industry and is working with the Women's Business Council which makes recommendations to government and UK businesses on how women's contribution to growth can be optimised.

Breakdown by gender



Internal Control

The Board is responsible for the Group's system of financial reporting, internal controls and risk management. The Audit Committee's key function is to support the Board in fulfilling its responsibilities in reviewing the effectiveness of the Company's financial reporting, internal controls and risk management. As part of this role, the Committee provides advice to the Board on whether the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders to assess the Company's performance, business model and strategy.

The Board, with the advice of the Audit Committee, has reviewed the effectiveness of the system of risk management and internal control, for the period from 1 January 2014 to the date of this report and is satisfied that the Group complies with the guidance issued by the Financial Reporting Council.

The Board will continue to routinely challenge management in order to ensure that the system of risk management and internal control is constantly improving and remains fit for purpose.

Relations with shareholders

The Board recognises and values the importance of maintaining an effective investor relations and communication programme. The Board is proactive in obtaining an understanding of shareholder views on a number of key matters affecting the Group and receives formal investor feedback regularly.

In 2014, Centrica's shareholder engagement programme included:

- formal presentations for the announcement of the Group's 2013 preliminary and interim results;
- meetings between the Chief Executive and Chief Financial Officer and the Company's major shareholders during the year;
- meetings between Iain Conn and the Company's major shareholders, as part of Iain Conn's induction process;
- the Chairman of the Remuneration Committee meeting with a number of the Company's major shareholders during the year to discuss the Company's remuneration arrangements;
- the Chairman and Senior Independent Director meeting with major institutional shareholders in order to gain a first-hand understanding of their concerns and key issues and provide regular updates of these to the Board; and
- a meeting with our largest investors and leading proxy advisors to provide insight into the key focus and considerations of the Board and its Committees and a better understanding of the governance measures operating across the business.

The Company's AGM provides all shareholders with the opportunity to develop further their understanding of the Company. Shareholders can ask questions of the full Board on the matters put to the meeting, including the Annual Report and Accounts and the running of the Company generally. The Company intends to send the Notice of AGM and any related papers to shareholders at least 20 working days before the meeting. All Directors attend the AGM unless unforeseen circumstances arise. Committee Chairmen are normally present to take questions at the AGM.

Our website 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.

SUMMARY REMUNERATION REPORT

Executive Directors' remuneration

The Remuneration Committee (Committee) believes that the remuneration arrangements are completely aligned with the Executive Directors' (Executives') underlying commitment to act in the best interests of sustainable shareholder value creation, whilst ensuring behaviours remain consistent with the governance and values of the business.

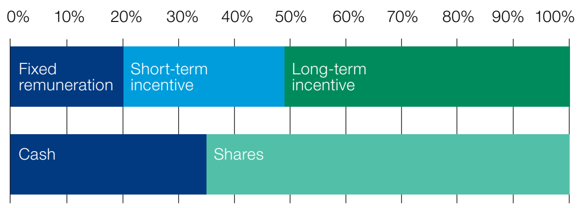
Key objectives of reward framework

The Policy aims to deliver a remuneration package:

- to attract and retain high calibre Executives in a challenging and competitive business environment;
- that delivers an appropriate balance between fixed and variable compensation for each Executive;
- that places a strong emphasis on performance, both short term and long term;
- strongly aligned to the achievement of strategic objectives and the delivery of sustainable value to shareholders; and
- that seeks to avoid creating excessive risks in the achievement of performance targets.

Reward framework

The core design of the total remuneration framework for Executives ensures that a substantial portion of the maximum opportunity is dependent upon performance as indicated below. Total remuneration comprises fixed pay and variable performance related pay, which is further divided into short-term incentive (with a one-year performance period) and long-term incentive (with a three-year performance period).



Key performance indicators (KPIs) have been selected that align with our vision: to be the leading integrated energy company with customers at our core and also support our strategic priorities. In addition, our underlying principles of operating safely and with an engaged workforce are included.

The KPIs, which are set out in detail on pages 18 and 19, influence the design and underpin the selection of performance criteria used within the incentive arrangements as demonstrated in the table below. If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee.

In addition, Executives are subject to a minimum shareholding guideline. Under the long-term incentive plan there are mandatory holding periods of three to five years from grant or award date, to provide further alignment with the returns to our shareholders.

Remuneration Policy

Prior to the beginning of 2014, the Committee had set out future plans to review and revise the incentive arrangements for Executives as the existing schemes come to an end. Therefore, during the year we undertook two shareholder consultation exercises. The first with a group of major shareholders to explore the appetite for far reaching reform and the second with a larger group of major shareholders to seek views on a proposed new programme developed with feedback from the first consultation in mind.

The resulting proposal for incentive arrangements from 27 April 2015 onwards is set out in the Remuneration Policy on pages 66 to 73 of the Annual Report and is available at centrica.com. This new Policy represents a simplification of scheme design, a reduced overall incentive opportunity and better alignment with the strategic direction and evolved shape of the Group.

Remuneration in 2014

For 2014, the total variable earning opportunity remained unchanged from the prior year and stretching performance measures were set by the Committee. Downstream, trading conditions remained challenging, with record mild weather in the UK, extreme cold weather in North America early in the year, and a highly competitive market environment on both sides of the Atlantic. Accordingly, British Gas, Direct Energy and the Group as a whole failed to reach the target operating profit level set by the Committee. In Centrica Energy, nuclear output in UK power generation was lower than expected, reflecting the temporary shut-down of four reactors. Upstream gas post-tax earnings in the year were largely protected from falling wholesale prices by the impact of hedging, tax allowances and strong midstream performance. As a result Centrica Energy marginally exceeded its operating profit target.

Health and safety performance remained strong during the year. Our employee engagement score declined slightly, but we remained above average when compared with our peers. We delivered improved service levels in British Gas which put us into the median NPS performance zone. NPS performance in Direct Energy remained in the high performance zone being consistent with the prior two years.

Performance against the long-term financial targets resulted in EPS growth falling short of the RPI +3% per annum minimum hurdle whilst the absolute aggregate economic profit exceeded the minimum threshold of £2.6 billion by £21 million.

The resulting vesting level from the long-term awards related to the 2012 to 2014 three-year period appropriately reflected the mixed performance across the range of KPIs, an outcome which the Committee felt reflected the true underlying performance of the business.

KPI	Incentive link
Adjusted operating profit	AIP primary financial measure, LTIP economic profit three-year measure
Earnings per share (EPS)	LTIP EPS growth measure
Total shareholder return (TSR)	AIP deferred share investment and minimum shareholding requirement
Lost time injury frequency rate (LTIFR)	LTIP non-financial KPI dashboard
Process safety	LTIP non-financial KPI dashboard
Customer satisfaction	LTIP non-financial KPI dashboard
Employee engagement	LTIP non-financial KPI dashboard

SUMMARY REMUNERATION REPORT CONTINUED

This table sets out information on the remuneration of the Directors for the financial year ended 31 December 2014.

Single figure for total remuneration (audited)

	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
£000	**Salary/ fees**	Salary/ fees	**Bonus (cash)**	Bonus (cash)	**(viii) Bonus (deferred)**	Bonus (deferred)	**(ix) Benefits**	(ix) Benefits	**(x) LTIPs**	LTIPs	**(xi) Pension**	(xi) Pension	**Total**	Total
Executives														
Sam Laidlaw	**967**	950	**592**	851[(xii)]	**–**	–	**61**	55	**1,369**	–	**418**	379	**3,407**	2,235
Phil Bentley[(i)]	**–**	318	**–**	238	**–**	–	**–**	22	**471**	–	**–**	48	**471**	626
Mark Hanafin	**606**	585	**–**	368	**432**	158	**25**	31	**732**	–	**265**	230	**2,060**	1,372
Nick Luff[(ii)]	**407**	610	**–**	333	**–**	–	**28**	29	**–**	–	**187**	246	**622**	1,218
Chris Weston[(iii)]	**605**	553	**–**	281	**–**	120	**46**	174	**–**	–	**166**	154	**817**	1,282
													7,377	6,733
Non-Executives														
Rick Haythornthwaite[(iv)]	**495**	14	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**495**	14
Sir Roger Carr[(v)]	**–**	490	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	490
Margherita Della Valle	**88**	77	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**88**	77
Mary Francis	**105**	105	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**105**	105
Lesley Knox	**85**	85	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**85**	85
Mike Linn[(vi)]	**65**	38	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**65**	38
Andrew Mackenzie[(vii)]	**–**	23	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	23
Ian Meakins	**65**	65	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**65**	65
Paul Rayner	**65**	77	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**65**	77
													968	974
Total													**8,345**	7,707

(i) Phil Bentley resigned as an Executive Director on 30 June 2013 and remained an employee of Centrica until 31 December 2013. During the period between 31 July and 31 December 2013, he received basic salary and benefits. The figures in this table include his emoluments for the period to 30 June 2013.
(ii) Nick Luff resigned as an Executive Director on 31 August 2014.
(iii) Chris Weston resigned as an Executive Director on 30 December 2014.
(iv) Rick Haythornthwaite was appointed as a Non-Executive Director on 14 October 2013 and as Chairman on 1 January 2014.
(v) Sir Roger Carr resigned as Chairman on 31 December 2013.
(vi) Mike Linn was appointed as a Non-Executive Director on 1 June 2013.
(vii) Andrew Mackenzie resigned as a Non-Executive Director on 10 May 2013.
(viii) Mark Hanafin deferred his full AIS award into the DMSS in accordance with the rules of the plan.
(ix) Benefits for Executives include car and fuel, health and medical, financial planning advice, matching shares received under the Share Incentive Plan, the gain from any options exercised under the HMRC-approved Sharesave plan and long service awards. Benefits for Chris Weston in 2013 include expenses and benefits paid under the terms of his international assignment agreement including for his relocation from the US to the UK.
(x) The long-term incentives include the value of the LTIS and DMSS matching awards due to vest in April 2015, relating to the three-year performance period ending in 2014. The share price used to calculate the value of the awards is the three-month average to 31 December 2014 which was 290.42p. Dividend equivalent values are also included. The performance outcome is set out on pages 75 and 76 of the Annual Report.
(xi) The value of the increase in defined benefit pension accrual for Phil Bentley and Chris Weston has been calculated in line with current reporting regulations at 20 times the increase in accrued pension for the year (less an allowance for the contributions paid by the member and CPI inflation of 2.2% in 2013 and 2.7% in 2014). Notional contributions of 40% of base salary to the CUPS DC Scheme for Sam Laidlaw, Mark Hanafin and Nick Luff have been included in this table as if CUPS DC were a cash balance scheme and therefore include notional investment returns.
(xii) Sam Laidlaw elected to donate his entire 2013 bonus to charity.

MANAGING YOUR SHARES

Manage your shares
Centrica's share register is administered and maintained by our Registrar, Equiniti, who you can contact directly if you have any queries about your shareholding. For more general enquires, there is information available in the Shareholder Centre on our website, which includes frequently asked questions and forms that are available to download to:

- register for electronic communications;
- transfer your shares;
- change your registered name or address;
- register a lost share certificate and obtain a replacement;
- consolidate your share certificates;
- manage your dividend payments;
- buy, sell or transfer shares through Centrica FlexiShare; and
- notify the death of a shareholder.

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.

Duplicate documents
If you receive more than one copy of shareholder documents, it is likely that you have multiple accounts on the share register, perhaps with a slightly different name or address. To combine your shareholdings, please contact Equiniti and provide your shareholder reference numbers. This also helps us to reduce our environmental impact and save paper.

American Depositary Receipts (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 from our website or please contact:

ADR Depositary
BNY Mellon Shareowner Services
PO Box 30170
College Station, TX 77842-3170
Email: shrrelations@cpushareownerservices.com
Website: mybnymdr.com
Telephone: +1-888-269-2377 (toll-free in the US) or
+1-201-680-6825 (from outside the US)

Manage your shares online
We actively encourage our shareholders to receive communications via email and view documents electronically via our website.

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 Annual Review on the day they are published. You will also receive alerts to let you know that you can view your electronic tax voucher and cast your AGM vote online.

You can also manage your shareholding online by registering for Shareview (shareview.co.uk), a free, secure online site where you can access your information and complete a number of functions including:

- viewing information about your shareholding or dividend payments;
- updating your records, including changing your address or bank mandate instructions; and
- appointing a proxy for the AGM.

When contacting Equiniti or registering online, you should have your shareholder reference number at hand. This can be found on your share certificate, dividend tax voucher or any other correspondence you have received from Equiniti.

Centrica FlexiShare
FlexiShare is an easy way to hold Centrica shares without a share certificate. Your shares are held by a nominee company, Equiniti Corporate Nominees 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 comes with a number of benefits:

- low cost share dealing rates, full details of which are available on the Shareholder Centre together with dealing charges; and
- quicker settlement periods for buying and selling shares.

Website
A wealth of other information is also available on our website, including:

- regular updates about our business;
- comprehensive share price information;
- financial results; and
- dividend payment dates and amounts.

This Annual Report can also be viewed online by visiting centrica.com/ar14.

Contact Equiniti
Contact details for our Registrar:

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

Telephone: 0871 384 2985* and outside the UK+44 (0)121 415 7061

Textphone: 0871 384 2255* and outside the UK+44 (0)121 415 7028

Online: help.shareview.co.uk

*Calls to this number cost 8 pence per minute plus network extras. Lines are open from 8.30 am to 5.30 pm, Monday to Friday, UK time.

help.shareview.co.uk >

Manage more online
You can view and manage your shareholding online. Go to the electronic communications section of the Shareholder Centre on our website at centrica.com/shareholdercentre.

centrica.com/shareholdercentre >

MANAGING YOUR SHARES CONTINUED

Dividends

Dividends on Centrica shares are usually paid in June and November. Details of the dividends for the year ended 31 December 2014 can be found on page 52.

You are encouraged to have your dividends paid directly to your bank or building society account. This means that you will receive the money on the day it is paid which avoids the risk of dividend cheques being delayed or lost in the post. If you do choose to receive your dividends in this way, a consolidated tax voucher will be sent to you in March each year.

If you do not have a UK bank or building society account, Equiniti is able to pay dividends in local currencies in over 30 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.

Scrip dividends

At the 2015 AGM, Centrica will seek shareholder approval for the introduction of a Scrip dividend programme (Scrip). If approved, the Scrip will enable shareholders to receive new, fully paid Centrica shares instead of cash dividends. The Scrip will allow those shareholders who wish to participate the opportunity to increase their shareholding without incurring dealing charges and stamp duty.

The Scrip will be made available to all shareholders entered on the Company's register at the record date. If you are resident outside the UK, you should check with Equiniti to ensure participation is permitted in your jurisdiction. If you hold your shares indirectly, you should contact your nominee at the time the Scrip is launched to confirm if you are able to participate.

The number of new shares that you receive will depend on the amount of cash dividend that you are entitled to and the Scrip reference price. Only whole shares will be issued and any residual cash that is left over, will be retained and added to the amount of cash available for the next dividend.

Once the new shares have been issued, a Scrip dividend statement will be sent to you along with a new share certificate. If shares are held in FlexiShare, you will receive an account statement and CREST members will have their accounts credited directly.

Eligible shareholders will be invited to join the Scrip when it launches and the invitation will contain all necessary details. The Scrip will be offered in June 2015 when the 2014 final dividend is paid and will replace the Dividend Reinvestment Plan.

Unclaimed dividends

We work with a specialist tracing agency, ProSearch, to identify shareholders whose details are not up to date and who have outstanding cash entitlements. During 2014 we conducted a tracing programme which reunited 3,237 shareholders who we lost contact with, with their unclaimed dividends. To ensure you continue to receive all our communications and mailings, please notify Equiniti when your address details change.

Together with Equiniti, we have introduced an electronic queries service to enable our shareholders to manage their investment 24/7. Details of this service can be found at shareview.co.uk.

Financial calendar – 2015

19 February 2015
Preliminary results

27 April 2015
Interim management statement
Annual General Meeting

30 July 2015
Interim results

19 November 2015
Interim management statement

February 2016
Preliminary results

Dividend calendar – 2015

30 April 2015
Ex-dividend date for 2014 final dividend

1 May 2015
Record date for 2014 final dividend

25 June 2015
Payment date for 2014 final dividend

September 2015
Ex-dividend date for 2015 interim dividend

September 2015
Record date for 2015 interim dividend

November 2015
Payment date for 2015 interim dividend

Scrip timetable

27 April 2015
Annual General Meeting
Approval of 2014 final dividend and Scrip dividend programme by shareholders

30 April 2015
Ex-dividend date

1 May 2015
Record date

7 May 2015
Scrip reference share price set

13 May 2015
Scrip invitation mailed to all shareholders

4 June 2015 4.30pm
Deadline for the receipt of election forms from shareholders

24 June 2015
Share certificates/FlexiShare statements posted

25 June 2015
Dividend payment date/first day of dealing in new shares

Annual General Meeting

27 April 2015
Will be held at 2pm at ExCeL London, One Western Gateway, Royal Victoria Dock, London E16 1XL

Share dealing services

If you wish to buy or sell Centrica shares and hold a share certificate, you can do this by using the services of a stockbroker or high street bank; or through telephone or online services.

In order to sell your shares in this way, you will need to present your share certificate at the time of sale. Alternatively, if you hold your shares through FlexiShare, you can buy and sell Centrica shares through the Shareview portal.

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 these 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.

Centrica share history

Centrica's shares were first traded on the London Stock Exchange on 17 February 1997 following the demerger from British Gas plc. Since then there have been three events affecting the share capital, as shown below, with full details available from Equiniti and on our website:

- 1999 share consolidation;
- 2004 share consolidation; and
- 2008 rights issue.

Capital gains tax

The information provided below is primarily for the purpose of individual shareholders resident in the UK calculating their personal tax liability. Shareholders who are in any doubt as to their tax position or who are subject to tax in a jurisdiction other than the UK should consult an appropriate professional adviser.

Capital gains tax (CGT) is a tax on the profit or gain you make when you sell, or otherwise dispose of, an asset such as shares. You will only be liable for CGT if the gain you make (the positive difference between the value of the shares on the day you sold them minus the value on the day you acquired them), together with any other CGT chargeable gains that you make in the same tax year, exceeds the annual exemption limit (£11,000 for the 2014/15 tax year and £11,100 for the 2015/16 tax year).

Shareholders who held British Gas shares at demerger would have received one Centrica share and one BG plc share for each British Gas share held. The base cost distribution of British Gas shares were allocated between Centrica and BG plc, 27.053% and 72.947% respectively.

Due to the range of individual circumstances, shareholders are advised to contact HMRC or seek independent advice when calculating their CGT liability. Further information about CGT can be found on the HMRC website at: hmrc.gov.uk/cgt/shares/index.htm or on our website.

Shareholder fraud warning

Shareholders are advised to be very wary of any suspicious or unsolicited mail or telephone calls in relation to their Centrica shares. These may offer to buy shares at a discount, sell shares at a premium or offer a free company report. These communications can imply a connection with Centrica and are often from overseas based brokers who are very persuasive and extremely persistent, with professional websites to support their activities. They often use high pressure tactics to attract investors into scams which turn out to be worthless or non-existent and can cost shareholders money or their shares.

If you do find yourself involved in a scam, you are encouraged to take the following steps:

- obtain the full name of the person and organisation and make a record of any other information they give you, for example, telephone number, address, web address;
- if the caller persists, simply hang up; and
- report the matter to the Financial Conduct Authority (FCA) so that they can investigate.

You are advised to deal only with financial services firms that are authorised by the FCA. You can check the firm is properly authorised by the FCA before getting involved by visiting fca.org.uk/register. If you do deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme if anything goes wrong.

For more detailed information on how you can protect yourself from an investment scam, or to report a scam, go to fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams/reporting-form or call 0800 111 6768.

Details of any share dealing services that Centrica endorses are available on our website and are included in Company mailings.

Financial Conduct Authority

Contact the FCA to report a scam

Telephone: 0800 111 6768
Online: fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams/reporting-form

Telephone: 0800 111 6768 >

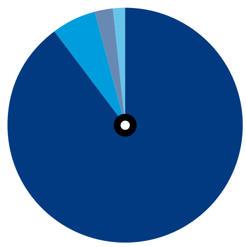
ANALYSIS OF SHAREHOLDERS

Average size of individual holdings
513

Average size of FlexiShare holdings
1,833

Total number of Centrica plc FlexiShare holders
70,765

Share distribution



- Institutions 4,527,555,241
- Individuals 311,467,418
- Centrica FlexiShare 129,707,655
- Treasury 76,860,164

Number of holders with 500 or fewer shares
454,204

Total number of shares held by FlexiShare participants
129,707,655

Range analysis of register
Breakdown of shareholdings overall

Range	Number of holdings
1 – 500	454,204
501 – 1,000	94,899
1,001 – 5,000	66,903
Over 5,001	7,993
Total*	**623,999**

*excludes Treasury holding

Range analysis of register
Breakdown of shareholdings with over 5,001 shares

Range	Number of holdings
5,001 – 10,000	4,884
10,001 – 50,000	1,963
50,001 – 100,000	227
100,001 – 1,000,000	542
1,000,001 – maximum	377
Total*	**7,993**

*excludes Treasury holding

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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

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Berkshire
SL4 5GD

Company registered in
England and Wales
No. 3033654