Preliminary results for the year ended 31 December 2018

Iain Conn, Group Chief Executive

"Centrica's financial performance in 2018 was mixed against a challenging external backdrop. At the headline level, adjusted operating profit was up 12% and adjusted operating cash flow and net debt were within our target ranges. However, volumes in Spirit Energy and Nuclear were disappointing and recovery in North America Business was slower than expected. Our 2019 financial performance will be impacted by the UK default tariff cap and continuing lower volumes in E&P and Nuclear, meaning our 2018-20 target range for average adjusted operating cash flow is under some pressure. We are taking actions to strengthen the company in 2019 and improve underlying performance in 2020, including driving cost efficiency hard and delivering further divestments, and as a result net debt levels remain underpinned. We have developed material new customer-facing capabilities in both Consumer and Business, exposing Centrica to an expanding opportunity-set, with encouraging indications of stabilisation and growth potential. Our focus is on performance delivery and financial discipline as we satisfy the changing needs of our customers".

HEADLINES

Key financial messages

- Adjusted gross margin up 5% and EBITDA up 15% relative to 2017. Adjusted operating cash flow of £2,245m up 9%, within targeted £2.1-£2.3bn range. Group net debt of £2,656m, within 2018 targeted range of £2.5-£3.0bn.
- 2018 full year dividend per share of 12.0p.
- Adjusted operating profit up 12% to £1,392m, with higher commodity prices and strong Rough gas production benefiting E&P despite disappointing volumes in Spirit Energy.
- £248m of in-year efficiency savings in 2018, taking total cumulative savings since 2015 to £940m. 2018 exceptional restructuring charge of £170m taking total exceptional restructuring costs 2016-18 to £486m.
- Adjusted EPS of 11.2p, down 10% compared to 2017, including a higher adjusted tax rate of 41%.
- 2019 AOCF impacted by the UK default tariff cap, continued lower E&P and Nuclear volumes, and cash tax phasing. Targeting 2019 AOCF in the range £1.8bn-£2.0bn.
- 2019 net debt expected to be in the range £3.0bn-£3.5bn, consistent with the mid-point of our 2018-20 range when adjusted to reflect the adoption of IFRS 16.

Further actions to improve performance and maintain a strong balance sheet

- Targeting £500m of non-core divestments in 2019, with the £230m sale of Clockwork Home Services business in North America already agreed, in line with intention to drive channel and brand rationalisation across the Group.
- Capital reinvestment in 2019 expected to be £1bn.
- A further £250m of efficiency savings expected in 2019 and an additional £500m targeted beyond 2019 which will take annualised total savings to £1.75bn relative to a 2015 baseline.

Strategic development

- Material new capabilities in Centrica Consumer and Centrica Business with encouraging signs of stabilisation and growth potential. Total Consumer account holdings down 1% in 2018. Customer growth in Ireland, UK and North America Services, Connected Home and Distributed Energy & Power.
- Portfolio simplification continues including through Nuclear sale process and £500m divestment programme.
- Spirit Energy focus on performance and strengthening the portfolio, while limiting Centrica exposure and creating options for the future.

Group financial summary

Year ended 31 December	2018	2017	Change
Revenue	**£29.7bn**	£28.0bn	6%
Adjusted gross margin	**£4,253m**	£4,037m	5%
EBITDA	**£2,447m**	£2,137m	15%
Adjusted operating profit	**£1,392m**	£1,247m	12%
Adjusted effective tax rate	**41%**	22%	19ppt
Adjusted earnings for the period attributable to shareholders	**£631m**	£693m	(9%)
Adjusted basic earnings per share (EPS)	**11.2p**	12.5p	(10%)
Full year dividend per share	**12.0p**	12.0p	0%
Adjusted operating cash flow	**£2,245m**	£2,069m	9%
Underlying adjusted operating cash flow growth	**(0.2%)**	(13.0%)	nm
Group net debt	**£2,656m**	£2,596m	2%
Statutory operating profit	**£987m**	£481m	105%
Statutory profit for the period attributable to shareholders	**£183m**	£328m	(44%)
Statutory net cash flow from operating activities	**£1,934m**	£1,840m	5%
Net exceptional items after taxation included in statutory profit	**(£235m)**	(£476m)	51%
Basic earnings per share	**3.3p**	5.9p	(44%)

Prior period results have been restated on transition to IFRS15. See notes 2, 5 and 10 to the Financial Statements and pages 77 to 80 for an explanation of the use of adjusted performance measures.

Group Metrics

Year ended 31 December	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked) [1]	**1.02**	0.98	4%
Brand Net Promoter Score (NPS)			
Consumer			
UK Home	**1**	1	0pt
North America Home	**32**	33	(1pt)
Business			
UK Business	**(12)**	(11)	(1pt)
North America Business	**28**	33	(5pt)
Customer account holdings (period end)			
Consumer			
Energy supply and services ('000s)	**23,723**	24,416	(3%)
Connected Home cumulative customers ('000s)	**1,344**	900	49%
Business			
Energy supply ('000s)	**1,203**	1,268	(5%)
DE&P active customer sites	**5,560**	4,778	16%
Total customer energy consumption			
Gas (mmth)	**12,465**	11,630	7%
Electricity (GWh)	**130,350**	133,869	(3%)
Energy use per Home energy customer (kWh)			
UK	**8,481**	8,367	1%
North America	**24,760**	24,487	1%
Annualised cost per Home customer (£) [2]			
UK	**99**	90	10%
North America	**170**	177	(4%)
Growth revenue (Connected Home, DE&P) (£m) [3]	**276**	225	23%
European E&P total production volumes (mmboe)	**57.9**	48.3	20%
Controllable operating costs (£m) [2]	**2,438**	2,443	(0%)
Controllable operating costs as a % of underlying adjusted gross margin [4]	**60%**	62%	(2ppt)
Direct Group headcount (period end) [5]	**30,520**	33,138	(8%)
Adjusted operating cash flow (£m)	**2,245**	2,069	9%
Underlying adjusted operating cash flow growth [4]	**(0.2%)**	(13.0%)	nm
Group net investment (£m) [4]			
Capital expenditure and acquisitions	**1,014**	949	7%
Net disposals and cash acquired through Spirit Energy transaction	**(46)**	(903)	95%
Total Group net investment (£m)	**968**	46	2,004%
ROACE (post-tax) [4]	**13%**	14%	(1ppt)
Adjusted gross margin (£m)			
Centrica Consumer	**2,606**	2,776	(6%)
Centrica Business	**933**	904	3%
E&P	**714**	357	100%
Total adjusted gross margin (£m)	**4,253**	4,037	5%
Adjusted operating profit (£m)	**1,392**	1,247	12%
Adjusted earnings (£m)	**631**	693	(9%)
Adjusted earnings per share (pence)	**11.2p**	12.5p	(10%)

1. Group and business unit total recordable injury frequency rate (per 200,000 hours worked) is on a 12 month rolling basis.
2. Annualised cost per Home customer is controllable operating costs and controllable cost of sales (costs which management deem can be directly influenced and excluding items such as commodity costs and transmission and distribution costs) per the total of holdings, installs and on demand jobs. North America 2017 restated for foreign exchange movements.
3. Growth revenue is gross revenue for both Connected Home and Distributed Energy & Power.
4. See pages 77 to 80 for an explanation of the use of adjusted performance measures.
5. Direct Group headcount excludes contractors, agency and outsourced staff.

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Interviews with Iain Conn (Group Chief Executive) and Chris O'Shea (Group CFO) are available on centrica.com.

Group Overview

OVERVIEW

Centrica's financial performance in 2018 was mixed, against a backdrop of volatile commodity prices, extreme weather patterns, continued competitive pressures and political and regulatory scrutiny and intervention. Despite disappointing volumes from both Spirit Energy and Nuclear and slower than expected recovery in North America Business, adjusted gross margin, EBITDA and adjusted operating profit all increased. Adjusted operating cash flow and net debt were within our targeted 2018 ranges of £2.1bn-£2.3bn and £2.5bn-£3.0bn respectively.

Operationally, safety performance was varied. The total recordable injury frequency rate was slightly higher than in 2017, significantly due to musculoskeletal injuries in our smart meter installation operations in the UK. However, process safety outputs continued to improve, with a tier 1 & 2 process safety incident rate of 0.06 per 200,000 hours worked compared to 0.14 in 2017. This reflects major improvements at our operated E&P assets, in particular at Morecambe and Rough. In terms of customer service performance, Brand net promoter scores (NPS) were broadly stable overall while total energy supply complaints were lower overall across the UK, Ireland and North America in 2018 compared to 2017. In UK services, we experienced an increase in customer complaints following extreme cold weather in Q1, although these returned to more normal levels in H2.

In 2019 we continue to face a number of challenges. Our 2019 adjusted operating cash flow will be impacted by the UK default tariff cap which was introduced on 1 January 2019, including an unexpected one-off impact of £70m in the first period of the cap. In addition, Spirit Energy volumes are expected to remain in the lower half of its 45-55mmboe range, nuclear volumes remain impacted by current outages while cash tax will be higher than in 2018 reflecting the timing of payments. These impacts will be partly offset by cost efficiency. Taking these factors into account, we are targeting 2019 adjusted operating cash flow in the range £1.8bn-£2.0bn, which is below the targeted range of £2.1bn-£2.3bn on average over 2018-20.

Against this backdrop, we are taking a number of further actions to strengthen the company in 2019 and improve underlying performance in 2020. These actions also underpin our 2018-20 target of maintaining Group net debt in the range £2.7bn-£3.7bn, which has been updated to reflect the adoption of IFRS 16. They include divestments of non-core positions totalling £500m, of which the first £230m has already been achieved through our disposal of the Clockwork home services portfolio in North America. In addition, cash capital investment including any small acquisitions is expected to be around £1.0bn in 2019.

The actions also include further cost efficiency delivery. Having achieved £248m of cost efficiency savings in 2018, taking cumulative savings relative to 2015 to £940m, we are targeting a further £250m of savings in 2019 meaning we will have achieved our 2018-2020 target one year early. We are also targeting an additional £500m of annualised savings beyond 2019, as we target becoming the "most efficient price setter" in our chosen markets. This would take total efficiency programme savings since 2015 to £1.75bn. These actions will underpin our performance, resilience and competitiveness against a challenging and uncertain backdrop.

Our strategic direction remains aligned to external trends, despite regulatory challenges and falling energy use per unit gross domestic product in our core markets. Our propositions are shifting towards what customers need and want and are not limited to energy supply. We are now exposed to an expanding opportunity set, in terms of customers, channels and geography. We have built material new capabilities in Centrica Consumer and Centrica Business and are seeing indicators of stabilisation and growth potential.

We continue to improve and simplify our portfolio of businesses, with non-core divestments and the ongoing Nuclear disposal process. We are also focused on improving the performance and sustainability of the Spirit Energy portfolio, while limiting Centrica's exposure to the sector and creating options for the future. Overall, our focus remains on performance delivery and financial discipline as we continue to satisfy the changing needs of our customers.

2018 FINANCIAL PERFORMANCE

Centrica Consumer

Centrica Consumer adjusted operating profit of £750m was down 15% compared to 2017.

UK Home energy supply adjusted operating profit reduced by 19%, with the benefits of cost efficiency delivery more than offset by the negative impact of a full year effect of the UK prepayment cap, which was implemented in April 2017, higher imbalance charges and a lower average number of energy account holdings, largely reflective of competitive market conditions.

UK Home services adjusted operating profit was down 18%, with extreme cold weather in February and early March resulting in additional one-time call out and associated costs of around £20m. In addition, we invested for

Group Overview (continued)

growth in areas including the on-demand Local Heroes platform and the integration of our Connected Home 'Boiler IQ' and 'Leak Plan' propositions.

Ireland adjusted operating profit was down 6%, but as expected delivered an improved financial result in the second half of the year. This reflects the return to service of the Whitegate gas-fired power station in May, which had been off for its first major maintenance outage since it was commissioned in 2010 during much of the first half of the year.

North America Home adjusted operating profit was up 8% despite less favorable weather conditions for energy supply, reflecting cost efficiencies, improved services performance and the full year impact of our exit from the loss-making residential solar business in H2 2017.

Connected Home gross revenue was up 60% and adjusted gross margin was up 63% compared to 2017, reflecting an 19% increase in the number of new customer additions over the year, a 37% increase in product sales and a 34% increase in revenue per new customer added. The increase in adjusted gross margin and lower adjusted operating costs resulted in the business reporting a lower level of adjusted operating loss than in 2017.

Centrica Business

Centrica Business adjusted operating profit of £121m was down 25% compared to 2017.

UK Business adjusted operating profit recovered to £40m, compared to £4m in 2017, reflecting further cost efficiency, stable account holdings and no repeat of the negative impact of electricity cost volatility in H1 2017.

North America Business also reported increased adjusted operating profit, up 14% to £81m. When excluding the impact of a one-off non-cash charge in 2017 of £62m relating to a reassessment of the historic recognition of unbilled power revenues, underlying adjusted operating profit fell by 39%. This reflected competitive market conditions and the expected squeeze on retail power net margins on multi-year fixed price contracts signed in earlier periods due to the timing effect of capacity charges in the US North East. However, we are seeing a return towards more historically normal unit net margins in future years, with 2019 margin under contract at the end of 2018 ahead of where 2018 margin under contract was at the same time last year.

Distributed Energy & Power (DE&P) revenue was up 14% and adjusted gross margin up by 35%, but we reported an increased adjusted operating loss reflecting continued revenue investment for growth.

Energy Marketing & Trading (EM&T) adjusted operating profit from its core activities of route-to-market services, trading and optimisation and LNG increased, reflecting strong trading performance particularly during periods of cold weather and commodity volatility in H1. However, as indicated in the 2017 Preliminary Results, our legacy flexible gas contracts were loss-making compared to profitable in 2017 and as a result EM&T adjusted operating profit fell by 48%.

Central Power Generation adjusted operating profit fell by 23%, reflecting the impact of lower nuclear volumes due to extended outages at the Hunterston B and Dungeness B power stations.

Exploration and Production

Exploration & Production (E&P), which includes Spirit Energy and Centrica Storage (CSL), delivered adjusted operating profit of £521m in 2018, up by £320m or 159% compared to 2017. This reflects materially higher gas production from CSL's Rough asset, with CSL making an adjusted operating profit of £184m compared to £17m in 2017. It also includes the impact of higher achieved gas and liquids due to higher wholesale commodity prices. In addition, Spirit Energy production was up 6%, although after excluding the impact of the consolidation of the Bayerngas Norge assets, underlying production fell 10%. These factors were more than enough to offset a return to more normalised levels of exploration activity in Spirit Energy, which resulted in increased dry hole costs.

E&P adjusted operating cash flow of £963m was up by £454m compared to 2017, which includes the impact of the timing of tax payments relating to 2018 profit which are likely to be paid in 2019. With total capital expenditure of £497m, within Spirit Energy's targeted £400m-£600m range, the E&P business delivered £483m of free cash flow in 2018.

Centrica Group

Overall, adjusted gross margin and EBITDA were up compared to 2017, by 5% and 15% respectively, while adjusted operating profit was up 12%.

The adjusted net finance cost was down 21%, reflecting the impacts of a bond repurchase programme which completed in March, which led to an exceptional finance charge of £139m, and the maturity of a £400m bond in September.

Group Overview (continued)

However, the Group adjusted effective tax rate increased from 22% to 41%, with the 2017 rate including benefit from the resolution of past tax provisions and a one-off benefit from US tax reforms.

Group adjusted earnings of £631m was 9% lower than in 2017 and adjusted basic EPS was down 10% to 11.2p. The proposed 2018 final dividend is 8.4p, which would leave the full year dividend unchanged at 12.0p.

A net post-tax exceptional charge of £235m was recognised in 2018, compared to a charge of £476m in 2017. This included the net write-back of E&P assets, a provision for an onerous power procurement contract at Spalding and the impairment of UK power generation assets, guaranteed minimum pension equalisation past service cost and costs relating to restructuring and the repurchase of debt.

Total statutory gross profit was down 3% and statutory Group operating profit was up 105%. Statutory profit attributable to shareholders of £183m was down from £328m in 2017. This reflects the impact of the lower adjusted earnings and a net loss after taxation of £181m from the re-measurement of open commodity positions in 2018, compared to a net gain after taxation of £69m in 2017. These more than offset the impact of lower net exceptional charges. Basic EPS was 3.3p in 2018 compared to 5.9p in 2017.

Adjusted operating cash flow increased by 9% to £2,245m compared to 2017, within the Group's £2.1bn-£2.3bn targeted range. This includes some benefit from the timing of E&P tax payments relating to 2018 profit, which are expected to be paid in 2019. After adjusting for commodity and foreign exchange movements, underlying adjusted operating cash flow fell by 0.2%. Statutory net cash flow from operating activities increased by 5% to £1,934m.

Group net debt was £2,656m at the end of 2018. This was slightly higher than at the start of the year and in the lower half of the Group's targeted end-2018 range of £2.5-£3.0bn. From 1 January 2019, Centrica has adopted IFRS16, which will result in the Company recognising assets and lease obligations in respect of operating leases which did not previously meet the requirement for recognition on the balance sheet. The impact is to increase the Group's 2019 opening net debt by approximately £420m to around £3.1bn.

STRATEGIC DIRECTION ALIGNED TO EXTERNAL TRENDS

Centrica is an energy and services company and our purpose is to provide energy and services to satisfy the changing needs of our customers. These changing needs arise from the three fundamental trends we identified as part of our strategic review in 2015, namely decentralisation, customer choice and power, and digitalisation.

Centrica's focus for growth is therefore on the customer businesses in its Centrica Consumer and Centrica Business divisions. Customer needs are very similar globally and many are seeking more than simply energy supply. In response we have built new capabilities and propositions in both divisions and the simplified divisional structure enables Centrica to be more scalable, replicable and efficient. Centrica is now able to access customers, markets and geographies that we have never been exposed to before, bringing growth opportunities outside our traditional, more mature markets.

Our 2018-20 focus remains on performance delivery and financial discipline, as we look to demonstrate customer-led gross margin growth, drive further cost efficiency towards being "the most efficient price setter" in our markets consistent with our desired levels of service and brand positioning, utilise our global divisional structure to improve organisational effectiveness across the Group and work to secure the capabilities we will need for 2020 and beyond. We are seeing encouraging signs of demonstrating gross margin delivery in both Centrica Consumer and Centrica Business, with strong progress made on customer segmentation, customer lifetime value, enhanced customer-led proposition development and improved customer journeys.

MATERIAL NEW CAPABILITIES IN CENTRICA CONSUMER

Centrica Consumer transformation

Across the Consumer division we have made significant improvements in our customer-facing capability over the past three years. We are continuing to invest in the data science that underpins customer segmentation, to understand our customers better and create products and services that are tailored to their needs. Our enhanced capabilities are allowing us to optimise sales, marketing and retention spend towards the most valuable channels and customers.

We also continue to improve our customers digital experience, with customers who interact with us online having higher satisfaction levels. 60% of our customers are now signed up to interact with us through digital channels compared to 55% in 2017 while 50% of all UK transactions are now completed online compared to 45% at the end of 2017. NPS for digital customers in the UK is 5pts higher than those who manage their accounts offline. We are now also able to provide our services customers real time access to our engineers and technicians through our mobile app in the UK and North America.

Group Overview (continued)

We are increasingly utilising digital and data science to tailor offers and rewards for different customer segments, providing customers with more choice, deepening relationships with existing customers and broadening our appeal to new segments. This includes through personalised offers targeted at higher value customers. In the UK we now have 2m customers signed up to our British Gas Rewards programme and have more than 50 different offers available, with customer churn for our Rewards customers around half that of similar non-Rewards customers. Our Bord Gáis rewards programme in Ireland is also having positive effects on our customer satisfaction and retention.

We also continue to focus on increasing choice for our customers, with increased speed of product development and testing and increased bundling, while we are also expanding our offering to a wider range of customer segments through the utilisation of partnership channels.

Centrica Consumer stabilisation and growth potential

The rate of losses in account holdings in Centrica Consumer slowed, falling by 249,000, or less than 1%, in 2018 compared to a decline of 1,352,000 in 2017. A reduction in energy supply accounts was largely offset by growth in UK Home services, North America Home services and Connected Home. The rate of overall losses slowed significantly in H2 compared to H1, with Consumer account holdings falling by 23,000 over the second half.

UK energy supply account holdings fell by 742,000, including 97,000 prepayment accounts. The level of competitive losses largely reflects market switching trends, our efforts to move customers off the SVT, additional churn caused by two SVT tariff increases during the year and our focus on customer value. In North America, energy supply account holdings fell by 25,000 for the full year, but increased in the second half. Our more sophisticated use of data analytics in North America is allowing us to focus on acquiring and retaining the most valuable customer segments through cost effective channels and we delivered a significant increase in sales to higher usage customers at a lower cost to acquire.

We delivered customer growth in our non-energy supply activities. In the UK, our field force remains a unique asset, consistently delivering high levels of customer service with engineer NPS at +60 and is a key sales channel for Connected Home sales. UK services account holdings increased by 43,000 in 2018, the first full year of growth since 2010, as we attracted new customers with bundled energy and services propositions and developed further commercial and sales partnerships. We also saw an increase in the number of installation and on demand jobs, in part reflecting an acceleration of workload from Local Heroes, our digital platform enabled on-demand services offering.

With an assumption of more normalised weather, expected benefits from historic investment in growth, utilisation of more sophisticated pricing and expected further material cost efficiency delivery of at least £50m after inflation, we expect UK Home services adjusted operating profit to show significant improvement in 2019. North America Home services account holdings increased by 23,000, with further growth in Direct Energy paid protection plans, and further account growth and efficiencies are targeted in 2019.

We also saw further growth in products, hubs and subscriptions in Connected Home in 2018, with an acceleration in growth rates in H2. Having reached the 1m customer milestone in May, the cumulative number of customers increased by 444,000 over 2018 and stood at 1.34m at the end of the year. We also sold 1.2m connected home products in the year, meaning we have now sold nearly 3m products in total. This reflects the wider range of products now available on the Hive ecosystem, including our Hive View internal and external cameras, the Hive Hub 360 advanced hub and new lighting product ranges which were all launched in 2018.

We have also introduced subscription options for Hive Video Playback, Hive Link and water leak detection and commenced or announced a range of strategic partnerships, including with EE and Wave in the UK and with Eni gas e luce in Italy. The number of Connected Home subscriptions more than doubled during the year to 194,000.

UK energy supply default tariff cap

In July 2018, the UK Government passed a draft bill requiring Ofgem to impose a cap on all default energy tariffs including the Standard Variable Tariff (SVT). This is in addition to the safeguard tariff already in place for around 4m prepayment households and a further cap extension to another 1m vulnerable customers that took effect from April 2018. The cap took effect for all customers on default tariffs on 1 January 2019.

We have been very clear that we do not believe a price cap is a sustainable solution for the market, and is likely to have unintended consequences for customers and competition. Since the implementation of the cap, the differential between the highest and lowest SVT tariffs in the market has reduced from around £400 during periods of 2018 to around £150 early in 2019. In addition, the number of domestic energy suppliers in the UK has fallen by

Group Overview (continued)

12 since the start of 2018. In February 2019, Ofgem announced that the level of the cap for the period April 2019 to September 2019 would be increasing by £117 to £1,254.

With the cap now in place, we are focused on delivering a sustainable and attractive business in UK Home energy supply. We have already implemented mitigating actions in line with the '14-point plan' we announced in November 2017, a package of proposed actions and measures designed to reform the energy market and benefit customers. We have withdrawn the SVT for new customers, launched a range of new tariffs responding to customer needs and proactively offered our customers a fixed-price offer. As a result, the number of customers on the SVT has reduced from 5.0m at the start of 2017 to 2.9m by the end of 2018, in addition to around 600,000 customers on our new fixed-term default temporary tariff also covered by the price cap. We have continued to simplify bills, customer service levels have improved and we are on track to deliver targeted cost efficiencies of £20 per dual fuel energy supply customer by 2020.

As previously indicated, we expect the price cap to result in some negative near-term impact on earnings and cash flow in UK Home, particularly in 2019, before we have fully realised planned cost efficiencies. The level of the cap for the first quarter of 2019 was set at £68 below the British Gas SVT at the end of 2018.

However, Ofgem's revision to the methodology for calculating supplier wholesale and hedging costs during the transitional period, and our inability to retrospectively mitigate this change, is expected to result in a one-off negative adjusted operating profit impact of around £70m in the initial period of the cap in the first quarter of 2019. In December, we announced we would be seeking judicial review of Ofgem's decision relating only to the treatment of wholesale cost transitional arrangements and Ofgem's decision not to investigate and correct its failure to enable the recovery of the wholesale energy costs that all suppliers incur. Based on the normal timelines for judicial reviews we would expect the process to be concluded in 6-12 months.

Whatever the outcome of the judicial review, we believe the actions we have taken over the past few years have positioned Centrica to serve our customers effectively and deliver a sustainable and profitable energy supply business under the temporary default tariff cap.

MATERIAL NEW CAPABILITIES IN CENTRICA BUSINESS

Centrica Business stabilisation and growth potential

UK Business delivered stable customer accounts over the year, with growth in the number of higher value SME customers. We have enhanced our range of offers through both direct and broker channels, including launching our online-only British Gas Lite proposition, using our customer segmentation and digital capabilities. We also drove an increase in the number of customers taking services offers and boiler installations, while we are actively focusing our Industrial & Commercial acquisition and retention activity on those customers who have a greater propensity to take our Distributed Energy & Power offers.

Our EM&T business also continues to build on its strong capability. We continue to expand our trading and route-to-market offerings, having signed a number of power purchase agreements for balancing and trading renewable capacity. We now have 13.8GW of route-to-market capacity under contract across Europe. In LNG, in February 2019 we signed a sales and purchase agreement to purchase gas from the Mozambique LNG project, in partnership with Tokyo Gas. This adds to Centrica's LNG positions across regions, with our contract with Cheniere to export gas from the Sabine Pass facility in Louisiana due to start in September 2019.

Our DE&P business continues to grow, with all products now marketed under the Centrica Business Solutions brand globally. We have also launched our integrated solutions platform which gives customers access to our DE&P products and solutions in one place, incorporating the capabilities gained from the targeted acquisitions of Panoramic Power, ENER-G Cogen, Neas Energy and REstore. The REstore acquisition in 2017 has provided us with leading demand response capability which we have been able to utilise to launch a 27MW "Virtual Power Plant" at Terhills in Belgium, which pools an 18MW Tesla battery storage project with flexible load and generation from a series of industrial customers.

Our leading indicators in DE&P are demonstrating significant momentum, with order intake up 158% compared to 2017, and the secured order book 51% higher at the end of 2018 compared to the end of 2017. The amount of the 2018 closing secured order book relating to 2019 revenue was £183m, which compares to total 2018 gross revenue of £209m. The majority of new DE&P sales in 2018 were outside the UK, with a number of deals signed with existing North America Business customers, including with large housing corporations. North America and Rest of World formed 68% of the DE&P secured order book at the end of 2018 compared to 50% at the end of 2017.

Group Overview (continued)

Growth potential in North America Business

We retain a strong position and market share as the second largest business energy supply retailer by market share in North America. We are focused on driving improvements in profitability and returns in 2019 following the challenging trading conditions the business has faced over the past 18 months, which when combined with a structural improvement in retail power due to the timing effect of capacity charges is reflected in the higher forward order book in place for 2019. We also remain focused on delivering continued high levels of customer service while we continue to drive enhancements to our systems and processes, helping drive efficiencies and improve controls.

In the year we completed three small bolt-on acquisitions in line with our strategy, adding customers in our core regions of the US Northeast and Mid-Atlantic and in states in which we have less of a presence, specifically Indiana, Kentucky, Tennessee and Ohio. These transactions add around 150bcf and 6.5TWh respectively to our annualised customer gas and power consumption and strengthen our geographical footprint while diversifying risk across the portfolio. We also increased our market share organically in a number of regions, including Canada, Texas and California.

We have also implemented changes in our sales channel mix and products and propositions in response to customer demand, including launching our new Fixed Energy Plus offer, that gives high consuming customers access to real time energy usage and alerts them when system load is peaking allowing them to lower capacity costs by proactively reducing their consumption. We are also increasingly integrating value-added services propositions with our traditional energy supply and risk management offer, with our long-term customer relationships making North America the main focus region for DE&P growth.

EXPLORATION & PRODUCTION PORTFOLIO AND PERFORMANCE

E&P continues to play the role of providing cash flow diversity and balance sheet strength for the Group and the establishment of Spirit Energy in December 2017 has created a self-financing European E&P business.

Spirit Energy 2018 production performance was disappointing relative to our initial expectations and we currently expect 2019 production to be broadly in line with 2018 levels. Our focus remains on improving performance. Spirit Energy also made further progress on its development projects, with Oda proceeding to plan, a positive final investment decision being taken on the Nova field and exploration success at the Hades/Iris and Lille Prinsen prospects. As previously stated, Spirit Energy will continue to look at the potential for further opportunities to strengthen the business, which could include further consolidation with another party.

CSL's Rough asset delivered strong production during the year, although volumes will naturally decline in 2019, in part reflecting its strong performance in 2018. We expect production from Rough in 2019 to be in the 6-8mmboe range. In August, the CSL-operated Easington processing plant was awarded a contract to process gas from the Tolmount field, securing its future until at least 2030.

In August, it was announced that Spirit Energy would invest in exploration and appraisal West of Shetland, after farming into 50% of Hurricane Energy's Greater Warwick Area. Spirit Energy will fund a $180m campaign to drill three wells and prepare for an extended well test, with a rig secured to commence drilling in Q2 2019. The three wells will target the Lincoln discovery and the Warwick exploration prospect, which are estimated to hold 604mmboe 2C contingent resources and 935mmboe of prospective resources respectively. We expect to get initial indications of the results from the first well around the middle of the year.

CONTINUED STRONG COST EFFICIENCY PROGRESS

We delivered £248m of efficiency savings in 2018 as part of its Group-wide cost efficiency programme, with the Group incurring an exceptional pre-tax charge of £170m relating to associated restructuring costs. Cumulative annual savings delivered since 2015 are now £940m, with exceptional restructuring costs of £486m recognised over the past three years.

2018 total controllable costs are 10% lower than in 2015, with the Group having more than absorbed the effects of inflation, foreign exchange movements and additional operating cost investment in growth, which has helped to offset the effects market pressures have had on adjusted gross margin. We also delivered a like-for-like direct headcount reduction of 2,352 over the year.

The efficiencies in 2018 have been delivered predominantly in Centrica Consumer and our Group functions. In UK Home and North America Home we are driving further digitalisation of our customer operations activities in response to customer demand for self-service, and field force effectiveness through the integration of our field operations and associated back office and support activities. We have also delivered further procurement and

Group Overview (continued)

supply chain savings, including from the simplification of our IT systems landscape, while the ongoing transformations of our HR and Finance functions are proceeding to plan.

We expect to deliver around £250m of additional efficiency programme savings in 2019, with further savings from the digitalisation of customer journeys, including focus on self-serve and automation, application of field technology, simplification of our core business processes, continued improvement in functional costs and procurement and supply chain savings. This will take total cumulative savings by the end of 2019 to around £1.2bn and including the roll-over into 2020 means we expect to have achieved our 2020 target of £1.25bn per annum a year early.

Cost efficiency will remain an area of ongoing focus for the Group, and we are targeting a further £500m of efficiencies beyond 2019, which would take the total annualised efficiencies since 2015 to £1.75bn, putting Centrica's total cost base in a strong competitive position in line with our aim to be the "most efficient price setter" in our chosen markets.

PORTFOLIO SIMPLIFICATION

In February 2018 we announced our intention to divest our 20% interest in the entity which owns the UK operating nuclear fleet of power stations, subject to alignment with our partner and being sensitive to Government interests. Having commenced the first round of the sales process in H2 2018, this process is ongoing.

We continue to focus on high-grading and simplifying our portfolio. Reflecting this, we are targeting £500m of non-core divestments in 2019. We have already agreed the sale of our Clockwork home services portfolio and operations in North America for $300m (£230m), in line with our intention to drive channel and brand rationalisation across the Group. The remainder of the divestment programme will be delivered through the disposal of further non-core assets over the balance of year, including possible capital recycling in DE&P and E&P.

UK CAPACITY MARKET

On 15 November 2018, the General Court annulled the European Commission's decision not to raise objections to the state aid scheme establishing an electricity capacity market in the UK. We are currently awaiting further updates from the Department for Business, Energy & Industrial Strategy in order to determine the full implications for the capacity contracts in place for our nuclear, battery and gas-fired generation assets, and for our UK energy supply businesses and the associated allowances for capacity market charges.

OUTLOOK AND SUMMARY

For 2019, a summary of our Group targets is provided below. These all remain subject to the usual variables of weather patterns, commodity prices, operational performance and regulatory change.

- Targeting adjusted operating cash flow of in the range £1.8bn-£2.0bn in 2019.
- £250m of efficiency savings in 2019.
- A like-for-like headcount reduction of 1,500-2,000 in 2019.
- Group capital investment expected to be around £1.0bn in 2019.
- £500m of non-core divestments in 2019.
- Net debt expected to be in a £3.0bn-£3.5bn range in 2019, including the impact of IFRS 16 adoption.

2019 adjusted operating cash flow will be impacted by a number of factors, including the UK energy supply default tariff cap, continued low E&P and Nuclear volumes and cash tax phasing. As a result, the midpoint of our adjusted operating cash flow guidance is around £350m lower than the 2018 result, with around £100m of this reduction also expected to impact 2019 adjusted earnings. However, our net debt levels are underpinned and we are taking further actions in 2019 to improve underlying performance and strengthen 2020, including driving further cost efficiencies, tight control on capital expenditure and £500m of non-core divestments. This continued focus on performance delivery and financial discipline will enable us to offset some of the near-term challenges facing the Group, while maintaining a strong balance sheet.

Our strategic direction remains aligned to external trends, and we have developed material new capabilities in both Centrica Consumer and Centrica Business, exposing Centrica to an expanding opportunity-set. We are seeing encouraging indications of stabilisation and growth potential. We also continue to re-focus and simplify the portfolio both through the ongoing nuclear disposal process and the non-core divestments. Our focus remains on performance delivery and financial discipline, as we continue to satisfy the changing needs of our customers.

Business Review

Centrica Consumer

UK Home

Year ended 31 December	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.46**	1.39	5%
Brand NPS	**1**	1	0pt
Complaints (per 100,000 customers) [1]			
Energy supply	**5,097**	5,167	(1%)
Services	**2,827**	2,170	30%
Customer account holdings (‘000s)			
Energy supply			
Standard variable tariff (SVT)	**4,563**	6,728	(32%)
Temporary	**1,006**	-	nm
Safeguard	**530**	-	nm
Prepayment	**2,175**	2,272	(4%)
Fixed term	**3,858**	3,874	(0%)
Total Energy supply	**12,132**	12,874	(6%)
Services	**7,512**	7,469	1%
Total customer account holdings (‘000s)	**19,644**	20,343	(3%)
Installs and on demand jobs (‘000s)	**375**	327	15%
Energy use per residential energy customer account			
Gas (therms)	**433**	422	3%
Electricity (kWh)	**3,241**	3,382	(4%)
Total energy use per residential energy customer account (kWh)	**8,481**	8,367	1%
Gross revenue (£m)			
Energy supply	**6,916**	7,073	(2%)
Services	**1,476**	1,463	1%
Total gross revenue (£m)	**8,392**	8,536	(2%)
Total adjusted gross margin (£m)	**1,854**	1,987	(7%)
Annualised cost per Home customer (£)	**99**	90	10%
Controllable operating costs as a % of underlying adjusted gross margin	**54%**	49%	5ppt
Adjusted operating profit (£m)			
Energy supply	**466**	572	(19%)
Services	**202**	247	(18%)
Total adjusted operating profit (£m)	**668**	819	(18%)
Adjusted operating cash flow (£m)	**805**	928	(13%)

1. Complaints per 100,000 customers as reported to Ofgem for UK energy supply and the FCA for UK Home services.

Business Review (continued)

UK Home

Our UK Home business experienced continued high levels of competitive intensity and regulatory change during 2018, in addition to periods of volatile weather conditions and commodity prices. Reflecting these factors, UK Home adjusted operating profit was down 18%.

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

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

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

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

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

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

Business Review (continued)

Ireland

Year ended 31 December	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.37**	0.98	40%
Brand NPS	**33**	17	16pt
Complaints (per 100,000 customers) [1]	**6**	9	(33%)
Customer account holdings ('000s)	**691**	679	2%
Energy use per residential energy customer account (kWh)			
Gas (therms)	**387**	369	5%
Electricity (kWh)	**4,597**	4,495	2%
Total energy use per residential energy customer account (kWh)	**7,850**	7,659	2%
Gross revenue (£m)	**907**	827	10%
Adjusted gross margin (£m)	**135**	136	(1%)
Annualised cost per Home customer (£) [2]	**109**	110	(1%)
Controllable operating costs as a % of underlying adjusted gross margin [2]	**58%**	57%	1ppt
Adjusted operating profit (£m)	**44**	47	(6%)
Adjusted operating profit (€m)	**50**	54	(7%)
Adjusted operating cash flow (£m)	**74**	62	19%
Adjusted operating cash flow (€m)	**83**	71	17%

1. Complaints per 100,000 customers as reported to the Commission for Energy Regulation (CER).
2. 2017 restated for foreign exchange movements. See pages 77 to 80 for an explanation of the use of adjusted performance measures.

Bord Gáis Energy performed well again in 2018, delivering an increase in customer account holdings and further improvements in customer service. However, adjusted operating profit was impacted by an extended planned major maintenance outage at Whitegate in H1 2018, the first major overhaul since it was commissioned in 2010. The plant came back online in May and operated at improved efficiency levels over H2 2018 compared to 2017.

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

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

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

Business Review (continued)

North America Home

Year ended 31 December	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.50**	0.83	(40%)
Brand NPS	**32**	33	(1pt)
Energy supply complaints (per 100,000 customers) [1]	**83**	85	(2%)
Customer account holdings ('000s)			
Energy supply			
Texas	**628**	654	(4%)
US North East	**1,010**	983	3%
Canada	**907**	933	(3%)
Total energy supply	**2,545**	2,570	(1%)
Services	**892**	869	3%
Total customer account holdings ('000s)	**3,437**	3,439	(0%)
Installs and on demand jobs ('000s) [2]	**775**	754	3%
Energy use per residential energy customer account			
Gas (therms)	**1,373**	1,390	(1%)
Electricity (kWh)	**10,951**	10,397	5%
Total energy use per residential energy customer account (kWh)	**24,760**	24,487	1%
Gross revenue (£m)			
Energy supply	**2,079**	2,246	(7%)
Services	**454**	476	(5%)
Total gross revenue (£m)	**2,533**	2,722	(7%)
Adjusted gross margin (£m)	**604**	645	(6%)
Adjusted gross margin ($m)	**807**	834	(3%)
Annualised cost per Home customer (£) [3]	**170**	177	(4%)
Controllable operating costs as a % of underlying adjusted gross margin [3]	**70%**	72%	(2ppt)
Adjusted operating profit (£m)			
Energy supply	**135**	146	(8%)
Services	**(12)**	(32)	63%
Total adjusted operating profit (£m)	**123**	114	8%
Adjusted operating profit ($m)			
Energy supply	**181**	189	(4%)
Services	**(16)**	(41)	61%
Total adjusted operating profit ($m)	**165**	148	11%
Adjusted operating cash flow (£m)	**187**	154	21%
Adjusted operating cash flow ($m)	**249**	199	25%

Prior period results have been restated on transition to IFRS15.

1. Complaints per 100,000 customers as reported by various regulatory bodies.
2. Installs and on demand jobs includes a wider range of workload which is now identifiable following improvements to our Management Information systems. 2017 has been restated accordingly.
3. 2017 restated for foreign exchange movements.

Business Review (continued)

North America Home

North America Home performed well in 2018, with a relative stabilisation in account holdings and continued good levels of customer satisfaction. Adjusted operating profit grew for the third consecutive year despite more normal weather conditions for the energy supply business when compared to favourable conditions in 2017, largely reflecting the closure of the loss making residential solar business in H2 2017, adjusted gross margin growth in services and the delivery of further cost efficiencies.

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

Services accounts increased by 3% or 23,000 in 2018, with further growth in Direct Energy paid protection plans. Services adjusted gross margin also improved as a result of more sophisticated customer segmentation-led pricing strategies and growth in our Airtron new residential construction business. We expanded our residential new construction offering with the acquisition in December of T.A.Kaiser Heating & Air, Inc., a multi-city HVAC installation, repair and maintenance company based in Indiana. We continue to focus on the development and offer of bundled propositions and in addition to energy and services bundles, we launched offers combining energy with Hive products and solutions and the Amazon Echo Dot smart device. We also expanded our energy only propositions to include a ‘time of use’ tariff.

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

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

Business Review (continued)

Connected Home

Year ended 31 December	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.18**	0.18	0%
Brand NPS	**38**	39	(1pt)
Cumulative customers (‘000s)	**1,344**	900	49%
New customers in period ('000s)	**444**	373	19%
Products sold in period ('000s)	**1,194**	871	37%
Active subscriptions (‘000s)	**194**	94	106%
Gross revenue (£m)	**67**	42	60%
Adjusted gross margin (£m)	**13**	8	63%
Controllable operating costs as a % of underlying adjusted gross margin	**633%**	1,134%	(501ppt)
Adjusted operating (loss) (£m)	**(85)**	(95)	11%
Adjusted operating cash flow (£m)	**(47)**	(121)	61%

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

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

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

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

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

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

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

Business Review (continued)

Centrica Business

UK Business

Year ended 31 December	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.41**	0.33	24%
Brand NPS	**(12)**	(11)	(1pt)
Complaints (per 100,000 customers) [1]	**4,149**	15,022	(72%)
Customer account holdings ('000s)			
Small and medium enterprises (SME)	**543**	537	1%
Industrial and commercial (I&C)	**106**	116	(9%)
Total customer account holdings ('000s)	**649**	653	(1%)
Total customer energy consumption			
Gas (mmth)	**433**	437	(1%)
Electricity (GWh)	**10,451**	11,299	(8%)
Gross revenue (£m)	**1,857**	1,830	1%
Adjusted gross margin (£m)	**234**	212	10%
Controllable operating costs as a % of underlying adjusted gross margin	**76%**	90%	(14ppt)
Adjusted operating profit (£m)	**40**	4	900%
Adjusted operating cash flow (£m)	**62**	131	(53%)

1. Complaints per 100,000 customers as reported to Ofgem.

UK Business performed well in 2018, delivering improved operational performance, significantly lower level of complaints, and customer account growth in the higher value SME customer segment. Adjusted operating profit increased, with higher adjusted gross margin and lower adjusted operating cost, as periods of cold weather in Q1 2018 were managed well and we experienced no repeat of the Q1 2017 additional costs resulting from commodity volatility and energy volume settlements.

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

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

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

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

Business Review (continued)

North America Business

Year ended 31 December	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.00**	0.00	nm
Brand NPS	**28**	33	(5pt)
Complaints (per 100,000 customers) [1]	**28**	21	33%
Customer account holdings ('000s)	**505**	570	(11%)
Total customer energy consumption			
Gas (mmth)	**7,064**	5,930	19%
Electricity (GWh)	**84,255**	83,980	0%
Gross revenue (£m)	**8,820**	8,158	8%
Adjusted gross margin (£m)			
Gas retail and wholesale	**246**	269	(9%)
Power retail and wholesale	**160**	147	9%
Total adjusted gross margin (£m)	**406**	416	(2%)
Adjusted gross margin ($m)			
Gas retail and wholesale	**334**	343	(3%)
Power retail and wholesale	**209**	190	10%
Total adjusted gross margin ($m)	**543**	533	2%
Controllable operating costs as a % of underlying adjusted gross margin [2]	**69%**	72%	(3ppt)
Adjusted operating profit (£m)	**81**	71	14%
Adjusted operating profit ($m)	**109**	87	25%
Adjusted operating cash flow (£m)	**278**	87	220%
Adjusted operating cash flow ($m)	**376**	102	269%

1. Complaints per 100,000 customers as reported by various regulatory bodies.
2. 2017 restated for foreign exchange movements.

Business Review (continued)

North America Business

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

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

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

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

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

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

Business Review (continued)

Distributed Energy & Power

Year ended 31 December	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked) [1]	**1.42**	0.94	51%
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked) [1]	**0.00**	0.00	nm
NPS	**29**	20	9pt
Optimisation capacity under management (MW)	**2,431**	1,907	27%
Active customer sites	**5,560**	4,778	16%
Secured revenue (order book) (£m)	**559**	370	51%
Gross revenue (£m)	**209**	183	14%
Adjusted gross margin (£m)	**50**	37	35%
Adjusted operating costs as a % of underlying adjusted gross margin [2]	**243%**	212%	31ppt
Adjusted operating (loss) (£m)	**(81)**	(53)	(53%)
Adjusted operating cash flow (£m)	**(61)**	(30)	(103%)

Prior period results have been restated as a result of the transition to IFRS 15.

1. 2017 total recordable injury frequency rate and process safety incident rate relate to both the Distributed Energy & Power and Central Power Generation segments due to shared employees across both business units. 2018 relates to Distributed Energy & Power segment only.
2. 2017 restated for foreign exchange movements and portfolio change.

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

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

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

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

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

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

Business Review (continued)

Energy Marketing & Trading

Year ended 31 December	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.00**	0.00	nm
Adjusted operating profit (£m)	**54**	104	(48%)
Adjusted operating cash flow (£m)	**(66)**	262	nm

The performance of our core Energy Marketing & Trading (EM&T) activities was strong in 2018, as we utilised our enhanced capabilities and asset positions to deliver a strong trading performance across North West Europe, particularly during periods of high market volatility associated with the exceptionally cold weather in Q1. However, financial performance was impacted by our legacy gas contracts which generated losses, reflecting commodity price movements over recent years.

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

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

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

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

Business Review (continued)

Central Power Generation

Year ended 31 December	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked) [1]	**nm**	nm	nm
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked) [1]	**nm**	nm	nm
Nuclear power generated (GWh) [2]	**11,820**	12,777	(7%)
Achieved power price – nuclear (£/MWh)	**45.1**	42.5	6%
Adjusted operating profit (£m)	**27**	35	(23%)
Adjusted operating cash flow (£m)	**50**	58	(14%)

1. Following the disposal of the large CCGTs at Humber and Langage, total recordable injury frequency rate and process safety incident rate is no longer reported.
2. Total power generation now only includes Nuclear generation, following the disposal of the Lincs windfarm joint venture and the large CCGTs at Humber and Langage in 2017.

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

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

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

Business Review (continued)

Exploration & Production

Year ended 31 December	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.20**	0.42	(52%)
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)	**0.09**	0.19	(53%)
Gas production volumes (mmth)			
Europe	**2,592**	2,144	21%
Americas	**-**	895	nm
Total gas production volumes (mmth) [1]	**2,592**	3,039	(15%)
Liquids production volumes (mmboe)			
Europe	**16.2**	13.8	17%
Americas	**-**	2.0	nm
Total liquids production volumes (mmboe) [1]	**16.2**	15.8	3%
Total production volumes (mmboe)			
Europe	**57.9**	48.3	20%
Americas	**-**	16.9	nm
Total production volumes (mmboe) [1]	**57.9**	65.2	(11%)
Average achieved gas sales prices (p/therm)			
Europe	**49.3**	41.8	18%
Americas	**-**	14.8	nm
Average achieved liquid sales prices (£/boe)			
Europe	**41.2**	34.4	20%
Americas	**-**	24.7	nm
Lifting and other cash production costs (£/boe) [2]			
Europe	**14.3**	15.3	(7%)
Americas	**-**	7.1	nm
Gas and liquids realisations (£m)[3]	**1,988**	1,555	28%
Adjusted operating profit (£m)	**521**	201	159%
Adjusted operating profit after tax (£m)	**149**	38	292%
Adjusted operating cash flow (£m)	**963**	509	89%
Net investment (£m) [4]			
Capital expenditure (including small acquisitions)	**497**	480	4%
Net disposals [5]	**(17)**	(367)	(95%)
Net investment (£m)	**480**	113	325%
Free cash flow (£m) [4]	**483**	396	22%

2017 comparatives have been restated to reflect the change to the Group's operating structure, as a result of which the segment formerly known as Centrica Storage is now presented as part of Exploration & Production.

1. Includes 100% share of Canadian assets owned in partnership with Qatar Petroleum until 29 September 2017 and 100% share of Spirit Energy assets owned in partnership with Stadtwerke München effective from 8 December 2017.
2. Lifting and other cash production costs are total operating costs and cost of sales excluding depreciation and amortisation, dry hole costs, exploration costs and profit on disposal.
3. Realisations are total revenues from sales of gas and liquids including hedging and net of NTS costs.
4. See pages 77 to 80 for an explanation of the use of adjusted performance measures.
5. Net Disposals for 2017 includes a net £78m inflow of cash acquired through the Spirit Energy transaction.

Business Review (continued)

Exploration & Production

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

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

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

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

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

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

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

Group Financial Review

Group revenue

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

Operating profit

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

		2018			2017		
Year ended 31 December	Notes	Business performance £m	Exceptional items and certain re-measurements £m	Statutory result £m	Business performance £m	Exceptional items and certain re-measurements £m	Statutory result £m
Adjusted operating profit / (loss)							
UK Home		**668**			819		
Ireland		**44**			47		
North America Home		**123**			114		
Connected Home		**(85)**			(95)		
Centrica Consumer		**750**			885		
UK Business		**40**			4		
North America Business		**81**			71		
Distributed Energy & Power (DE&P)		**(81)**			(53)		
Energy Marketing & Trading (EM&T)		**54**			104		
Central Power Generation (CPG)		**27**			35		
Centrica Business		**121**			161		
Exploration & Production (E&P)		**521**			201		
Total adjusted operating profit	5(c)	**1,392**			1,247		
Interest and taxation on joint ventures and associates	5(c)	**-**			(7)		
Group operating profit / (loss)	5(c)	**1,392**	**(405)**	**987**	1,240	(759)	481
Net finance cost	7	**(273)**	**(139)**	**(412)**	(344)	-	(344)
Taxation	8	**(461)**	**128**	**(333)**	(191)	352	161
Profit / (loss) for the period		**658**	**(416)**	**242**	705	(407)	298
Profit attributable to non-controlling interests		**(27)**			(12)		
Adjusted earnings		**631**			693		

Total adjusted operating profit increased 12% to £1,392m (2017: £1,247m). Centrica Consumer profit fell 15% with lower profit in UK Home reflecting the impacts of the UK energy prepayment tariff cap, lower energy account holdings, increased imbalance costs and high levels of central heating breakdown call-outs in UK Home services in Q1. Centrica Business profit fell by 25%, due to the impact of continued retail power margin pressures in North America Business, legacy gas contracts in EM&T becoming loss-making and an increased loss in DE&P reflecting continued investment in growth. These impacts were partially offset by the improved performance from UK Business and the £62m one-off charge in North America Business not being repeated. Profit from E&P increased 159%, benefitting from the transition of Rough from a storage facility to a production asset, higher European production resulting from the consolidation of Spirit Energy and higher achieved gas and liquids prices.

Group finance charge and tax

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

Group Financial Review (continued)

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

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

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

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

Group adjusted earnings

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

Exceptional items

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

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

The Group also recognised an onerous contract provision of £44 million in relation to the Spalding tolling contract and a £18 million impairment in relation to gas-fired power station assets in the Distributed Energy and Power

Group Financial Review (continued)

segment, following the suspension of the UK Capacity Market in November 2018 and reflecting reductions in clean spark spread price forecasts.

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

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

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

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

Further details can be found in note 6.

Certain re-measurements

The Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair valued under IFRS 9. The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. The operating profit in the statutory results includes a net pre-tax loss of £220m (2017: gain of £125m) relating to these re-measurements, or a loss of £181m after tax (2017: gain of £69m). 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. See note 6 for further details.

Group statutory earnings

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

Dividend

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

Group cash flow, net debt and balance sheet

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

Group Financial Review (continued)

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

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

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

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

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

Net assets increased by £516m to £3,948m (31 December 2017: £3,432m). Total assets decreased by £122m, including reduced cash and cash equivalent balances due to the impact of the debt repurchase programme and higher trade and other receivables and retirement benefit assets. Total liabilities decreased by £638m, with lower borrowings resulting from the debt repurchase programme and bond maturity and, a reduction in the pension liability partially offset by increased trade payables. Further details on pensions can be found in note 14.

2018 Acquisitions and disposals

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

On 28 February 2018 the Group acquired NJR Retail Services company for $24m (£17m). On 1 July 2018, the Group acquired North American mid-continent retail operations from BP Canada Energy Marketing Corporation for $39m (£31m). On 31 December 2018 the Group acquired certain retail power operations from Source Power & Gas Business LLC for $26m (£21m). These businesses will all form part of North America Business.

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

Further details on acquisitions, assets purchased and disposals are included in notes 5(e) and 15.

Events after balance sheet date

Details of events after the balance sheet date are described in note 17.

Risks and capital management

The nature of the Group's principal risks and uncertainties are largely unchanged from those set out in its 2017 Annual Report, although there continues to be a high degree of uncertainty surrounding the process for the UK's exit from the European Union. Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note 4. Details on the Group's capital management processes are provided under sources of finance in note 11(a).

Accounting policies

UK listed companies are required to comply with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group's specific accounting measures, including changes of accounting presentation and selected key sources of estimation uncertainty, are explained in notes 1, 2 and 3.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Group Financial Statements in accordance with applicable law, regulations and accounting standards. In preparing the Group Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Group Financial Statements; and
- prepare the Group Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Each of the Directors confirms that, to the best of their knowledge:

- the Group Financial Statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report contained in the Annual Report and Accounts, from which this narrative is extracted, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board on 20 February 2019

Iain Conn	**Chris O'Shea**
Group Chief Executive	**Group Chief Financial Officer**

Group Income Statement

Year ended 31 December	Notes	2018 Business performance £m	2018 Exceptional items and certain re-measurements £m	2018 Results for the year £m	2017 (restated) (i) (ii) Business performance £m	2017 (restated) (i) (ii) Exceptional items and certain re-measurements £m	2017 (restated) (i) (ii) Results for the year £m
Group revenue	5(b)	**29,686**	**–**	**29,686**	28,035	–	28,035
Cost of sales before exceptional items and certain re-measurements		**(25,433)**	**–**	**(25,433)**	(23,998)	–	(23,998)
Re-measurement of certain energy contracts	6	**–**	**(200)**	**(200)**	–	153	153
Cost of sales		**(25,433)**	**(200)**	**(25,633)**	(23,998)	153	(23,845)
Gross profit/(loss)		**4,253**	**(200)**	**4,053**	4,037	153	4,190
Operating costs before exceptional items and credit losses on financial assets		**(2,721)**	**–**	**(2,721)**	(2,716)	–	(2,716)
Credit losses on financial assets (ii)		**(143)**	**–**	**(143)**	(132)	–	(132)
Exceptional items – net write-back/(impairment) of Exploration & Production assets	6	**–**	**90**	**90**	–	(678)	(678)
Exceptional items – net loss on disposal (iii)	6	**–**	**–**	**–**	–	(62)	(62)
Exceptional items – restructuring and business change costs	6	**–**	**(170)**	**(170)**	–	(144)	(144)
Exceptional items – other	6	**–**	**(103)**	**(103)**	–	–	–
Operating costs		**(2,864)**	**(183)**	**(3,047)**	(2,848)	(884)	(3,732)
Share of profits/(losses) of joint ventures and associates, net of interest and taxation	12(a)	**3**	**(22)**	**(19)**	51	(28)	23
Group operating profit/(loss)	5(c)	**1,392**	**(405)**	**987**	1,240	(759)	481
Financing costs	7	**(300)**	**(139)**	**(439)**	(364)	–	(364)
Investment income	7	**27**	**–**	**27**	20	–	20
Net finance cost		**(273)**	**(139)**	**(412)**	(344)	–	(344)
Profit/(loss) before taxation		**1,119**	**(544)**	**575**	896	(759)	137
Taxation on profit/(loss)	6, 8	**(461)**	**128**	**(333)**	(191)	352	161
Profit/(loss) for the year		**658**	**(416)**	**242**	705	(407)	298
Attributable to:							
Owners of the parent		**631**	**(448)**	**183**	693	(365)	328
Non-controlling interests		**27**	**32**	**59**	12	(42)	(30)

Earnings per ordinary share		**2018 Pence**	2017 Pence
Basic	10	**3.3**	5.9
Diluted	10	**3.2**	5.9
Interim dividend paid per ordinary share	9	**3.60**	3.60
Final dividend proposed per ordinary share	9	**8.40**	8.40

(i) Prior year results have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.
(ii) Credit losses on financial assets are now disclosed separately in accordance with IAS 1: 'Presentation of financial statements'. See note 1 for further details.
(iii) Gains and losses on disposal include any impairments and write-backs associated with the assets disposed of upon classification as held for sale.

The notes on pages 34 to 74 form part of these Financial Statements.

Group Statement of Comprehensive Income

Year ended 31 December	2018 £m	2017 (restated) (i) £m
Profit for the year	**242**	298
Other comprehensive income/(loss):		
Items that will be or have been reclassified to the Group Income Statement:		
Gains on revaluation of available-for-sale securities, net of taxation	**–**	5
Net gains on cash flow hedges	**22**	24
Transferred to income and expense on cash flow hedges (ii)	**(10)**	(34)
Transferred to assets and liabilities on cash flow hedges (iii)	**–**	(7)
Cash flow hedging reserve recycled to Group Income Statement on disposal	**–**	10
Taxation on cash flow hedges	**(2)**	1
	10	(6)
Exchange differences on translation of foreign operations (iv)	**105**	(128)
Exchange gains on translation of actuarial reserve	**1**	1
Exchange differences recycled to Group Income Statement on disposal	**–**	8
	116	(120)
Items that will not be reclassified to the Group Income Statement:		
Losses on revaluation of equity instruments measured at fair value through other comprehensive income, net of taxation	**(1)**	–
Net actuarial gains on defined benefit pension schemes	**792**	222
Taxation on net actuarial gains on defined benefit pension schemes	**(135)**	(38)
	656	184
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	**(1)**	43
Other comprehensive income, net of taxation	**771**	107
Total comprehensive income for the year	**1,013**	405
Attributable to:		
Owners of the parent	**953**	432
Non-controlling interests	**60**	(27)

(i) Comparatives have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.
(ii) Cash flow hedging gains of £10 million (2017: £29 million) have been transferred to financing costs in the Group Income Statement. In 2017, £5 million cash flow hedging gains were transferred to operating costs before exceptional items in the Group Income Statement.
(iii) On adoption of IFRS 9: 'Financial instruments', cash flow hedging gains and losses transferred to assets and liabilities are no longer presented as an item in the Group Statement of Comprehensive Income and are now recognised directly in equity.
(iv) Includes £1 million gain (2017: £3 million) in respect of exchange differences on translation of foreign operations attributable to non-controlling interests.

The notes on pages 34 to 74 form part of these Financial Statements.

Group Statement of Changes in Equity

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
1 January 2017	342	1,929	1,504	(1,109)	2,666	178	2,844
Effect of adoption of IFRS 15 (i)	–	–	9	–	9	–	9
1 January 2017 (restated) (i)	342	1,929	1,513	(1,109)	2,675	178	2,853
Profit/(loss) for the year (restated) (i)	–	–	328	–	328	(30)	298
Other comprehensive income	–	–	–	104	104	3	107
Employee share schemes	–	–	4	31	35	–	35
Scrip dividend	6	192	–	–	198	–	198
Dividends paid to equity holders (note 9)	–	–	(661)	–	(661)	–	(661)
Distributions to non-controlling interests	–	–	–	–	–	(3)	(3)
Acquisition of business	–	–	–	24	24	721	745
Disposal of business	–	–	–	–	–	(152)	(152)
Investment by non-controlling interests	–	–	–	–	–	12	12
31 December 2017 (restated) (i)	348	2,121	1,184	(950)	2,703	729	3,432
Adjustment on adoption of IFRS 9 (i)	–	–	28	(28)	**–**	–	**–**
Profit for the year	–	–	183	–	**183**	59	**242**
Other comprehensive income	–	–	–	770	**770**	1	**771**
Transfers to assets and liabilities from cash flow hedging reserve (i)	–	–	–	(1)	**(1)**	–	**(1)**
Employee share schemes	–	–	3	27	**30**	–	**30**
Scrip dividend (note 9)	6	119	–	–	**125**	–	**125**
Dividends paid to equity holders (note 9)	–	–	(673)	–	**(673)**	–	**(673)**
Acquisition of business (note 15)	–	–	–	8	**8**	14	**22**
31 December 2018	**354**	**2,240**	**725**	**(174)**	**3,145**	**803**	**3,948**

(i) See note 1 for further details of adjustments and restatements arising on transition to IFRS 15: 'Revenue from contracts with customers' and IFRS 9: 'Financial instruments'.

The notes on pages 34 to 74 form part of these Financial Statements.

Group Balance Sheet

	Notes	31 December 2018 £m	31 December 2017 (restated) (i) £m
Non-current assets			
Property, plant and equipment		**4,124**	4,132
Interests in joint ventures and associates	12	**1,661**	1,699
Other intangible assets		**1,720**	1,676
Goodwill		**2,736**	2,650
Deferred tax assets		**532**	568
Trade and other receivables, and contract-related assets		**119**	97
Derivative financial instruments	13	**537**	463
Retirement benefit assets	14(d)	**223**	–
Securities	11(b)	**239**	231
		11,891	11,516
Current assets			
Trade and other receivables, and contract-related assets		**5,543**	4,669
Inventories		**459**	409
Derivative financial instruments	13	**1,141**	927
Current tax assets		**187**	289
Securities	11(b)	**68**	5
Cash and cash equivalents	11(b)	**1,268**	2,864
		8,666	9,163
Total assets		**20,557**	20,679
Current liabilities			
Derivative financial instruments	13	**(1,136)**	(733)
Trade and other payables, and contract-related liabilities		**(6,207)**	(5,418)
Current tax liabilities		**(360)**	(336)
Provisions for other liabilities and charges		**(305)**	(264)
Bank overdrafts, loans and other borrowings	11(c)	**(374)**	(707)
		(8,382)	(7,458)
Non-current liabilities			
Deferred tax liabilities		**(384)**	(174)
Derivative financial instruments	13	**(430)**	(287)
Trade and other payables, and contract-related liabilities		**(191)**	(167)
Provisions for other liabilities and charges		**(2,540)**	(2,684)
Retirement benefit obligations	14(d)	**(302)**	(886)
Bank loans and other borrowings	11(c)	**(4,380)**	(5,591)
		(8,227)	(9,789)
Total liabilities		**(16,609)**	(17,247)
Net assets		**3,948**	3,432
Share capital		**354**	348
Share premium		**2,240**	2,121
Retained earnings		**725**	1,184
Other equity		**(174)**	(950)
Total shareholders' equity		**3,145**	2,703
Non-controlling interests		**803**	729
Total shareholders' equity and non-controlling interests		**3,948**	3,432

(i) Prior year comparatives have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.

The Financial Statements on pages 29 to 74, of which the notes on pages 34 to 74 form part, were approved and authorised for issue by the Board of Directors on 20 February 2019 and were signed below on its behalf by:

Iain Conn
Group Chief Executive

Chris O'Shea
Group Chief Financial Officer

Group Cash Flow Statement

Year ended 31 December	Notes	2018 £m	2017 (restated) (i) £m
Group operating profit including share of results of joint ventures and associates		**987**	481
Add back/(deduct) share of losses/(profits) of joint ventures and associates, net of interest and taxation		**19**	(23)
Group operating profit before share of results of joint ventures and associates		**1,006**	458
Add back/(deduct):			
Depreciation, amortisation, write-downs, impairments and write-backs		**1,019**	1,794
Profit on disposals		**(13)**	(41)
Decrease in provisions		**(29)**	(227)
Cash contributions to defined benefit schemes in excess of service cost income statement charge		**(34)**	(104)
Employee share scheme costs		**43**	47
Unrealised losses/(gains) arising from re-measurement of energy contracts		**241**	(45)
Operating cash flows before movements in working capital		**2,233**	1,882
Increase in inventories		**(43)**	(56)
(Increase)/decrease in trade and other receivables		**(831)**	263
Increase in trade and other payables		**884**	29
Operating cash flows before payments relating to taxes and exceptional charges		**2,243**	2,118
Taxes paid		**(61)**	(102)
Payments relating to exceptional charges in operating costs		**(248)**	(176)
Net cash flow from operating activities		**1,934**	1,840
Purchase of businesses, net of cash acquired		**(85)**	17
Sale of businesses		**20**	593
Purchase of property, plant and equipment and intangible assets	5(e)	**(926)**	(882)
Sale of property, plant and equipment and intangible assets		**26**	14
Investments in joint ventures and associates		**(3)**	(6)
Dividends received from joint ventures and associates	12(c)	**22**	58
Disposal of interests in joint ventures and associates		**–**	218
Interest received		**15**	22
Purchase of securities	11(b)	**(76)**	(2)
Net cash flow from investing activities		**(1,007)**	32
Payments for own shares		**(11)**	(11)
Distribution to non-controlling interests		**–**	(7)
Financing interest paid		**(305)**	(318)
Repayment of borrowings and finance leases (ii)	11(b)	**(1,673)**	(271)
Equity dividends paid		**(551)**	(463)
Net cash flow from financing activities		**(2,540)**	(1,070)
Net (decrease)/increase in cash and cash equivalents		**(1,613)**	802
Cash and cash equivalents including overdrafts at 1 January		**2,737**	1,960
Effect of foreign exchange rate changes		**4**	(25)
Cash and cash equivalents including overdrafts at 31 December	11(b)	**1,128**	2,737
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents		**1,268**	2,864
Overdrafts included within current bank overdrafts, loans and other borrowings		**(140)**	(127)

(i) Prior period comparatives have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.
(ii) Includes cash flows related to exceptional costs for the Group's debt repurchase programme. See note 6 for further details.

The notes on pages 34 to 74 form part of these Financial Statements.

Notes to the Financial Statements

1. General information, basis of preparation and summary of significant new accounting policies and reporting changes

This section details new accounting standards, amendments to standards and interpretations, whether these are effective in 2018 or later years, and if and how these are expected to impact the financial position and performance of the Group.

(a) General information

Centrica plc (the 'Company') is a public company limited by shares, domiciled and incorporated in the UK, and registered in England and Wales. The address of the registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD. The Company, together with its subsidiaries comprise the 'Group'. The Company has its listing on the London Stock Exchange.

The Financial Statements for the year ended 31 December 2018 included in this announcement were authorised for issue in accordance with a resolution of the Board of Directors on 20 February 2018.

The preliminary results for the year ended 31 December 2018 have been extracted from audited accounts (with the exception of notes 18 to 23 which have not been audited) which have not yet been delivered to the Registrar of Companies. The Financial Statements set out in this announcement do not constitute statutory accounts for the year ended 31 December 2018 or 31 December 2017. The financial information for the year ended 31 December 2017 is derived from the statutory accounts from that year. The report of the auditors on the statutory accounts for the year ended 31 December 2018 was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

(b) Basis of preparation

The accounting policies applied in these Financial Statements for the year ended 31 December 2018 are consistent with those of the Annual Financial Statements for the year ended 31 December 2017, as described in those financial statements, with the exception of standards, amendments and interpretations effective in 2018 and other presentational changes.

(c) Standards, amendments and interpretations effective or adopted in 2018

From 1 January 2018, the following standards and amendments are effective in the Group's consolidated Financial Statements:

- IFRS 9: 'Financial instruments'
- IFRS 15: 'Revenue from contracts with customers'
- The impact of adoption of these standards and the key changes to the accounting policies are disclosed below.

The following standards and amendments to IFRSs became effective for the period beginning on 1 January 2018 and did not have a material impact on the consolidated financial statements:

- IFRIC 22: Foreign Currency Transactions and Advance Consideration;
- Classification and Measurement of Share-Based Payment Transactions – Amendments to IFRS 2;
- Annual Improvements 2014-2016 Cycle; and
- Transfers of Investment Property – Amendments to IAS 40.

IFRS 9

The Group adopted IFRS 9 from 1 January 2018. In accordance with the transition provisions in the Standard, comparatives have not been restated.

Classification of financial assets

IFRS 9 requires the use of two criteria to determine the classification of financial assets: the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. The Standard goes on to identify three categories of financial assets – amortised cost; fair value through profit or loss (FVTPL); and fair value through other comprehensive income (FVOCI).

As a result of adopting IFRS 9, certain debt financial instruments previously classified as available-for-sale and measured at FVOCI have been reclassified and are now measured at FVTPL. The value of debt instruments reclassified at 1 January 2018 was £74 million. Consequently, on the same date £28 million of previous fair value gains, net of taxation, were reclassified from the available-for-sale reserve to retained earnings.

The Group's remaining available-for-sale assets were equity instruments and at 1 January 2018 the Group elected to classify these at FVOCI, thereby retaining the previous measurement treatment. Certain cash and cash equivalents (money market funds) have also been classified as FVTPL on adoption of IFRS 9.

A summary of all reclassifications, which have resulted in no change to the carrying value of any financial instrument, is shown below. All other financial instruments (cash and deposits, trade receivables, borrowings, derivative instruments etc.) measurement categories and carrying amounts remain the same.

Type of financial instrument	IAS 39 measurement category	IFRS 9 measurement category	**1 January 2018 £m**
Non-current financial assets			
Equity securities	Available-for-sale	FVOCI	**34**
Debt securities	Available-for-sale	FVTPL	**74**
Current financial assets			
Cash and cash equivalents – money market funds	Amortised cost	FVTPL	**2,022**

1. General information, basis of preparation and summary of significant new accounting policies and reporting changes

Impairment

IFRS 9 mandates the use of an expected credit loss model to calculate impairment losses rather than an incurred loss model, and therefore it is not necessary for a credit event to have occurred before credit losses are recognised. The new impairment model applies to the Group's financial assets, contract assets and loan commitments.

No changes to the Group's impairment provisions were made on transition to IFRS 9. The majority of trade receivables reside in the Group's energy supply and services businesses, where a sophisticated provision matrix approach is already applied to establish impairment provisions and the inclusion of specific expected credit loss considerations did not have a material impact. In addition, a significant portion of the Group's other financial assets subject to IFRS 9's requirements are in the Group's Treasury function where investment ratings of counterparties result in low credit risk and the calculated loss according to the assessed default rate of these counterparties is not material. Credit losses on financial assets are now disclosed separately on the face of the Group Income Statement in accordance with IAS 1: 'Presentation of financial statements'.

Hedge accounting

The Group has not applied IFRS 9's hedge accounting requirements and continues to account for its hedge relationships in accordance with IAS 39.

IFRS 15

The Group adopted IFRS 15: 'Revenue from contracts with customers' from 1 January 2018. The primary impact of application is the revision of accounting policies to reflect the five-step approach to revenue recognition required by IFRS 15, resulting in insignificant adjustments to amounts previously recognised in the financial statements, although comparatives have been restated.

The key changes to accounting policies are described below.

Energy supply to business and residential customers

The Group supplies gas and electricity to residential and business customers in the UK, Ireland and North America. The vast majority of contractual energy supply arrangements have no fixed duration, require no minimum consumption by the customer and can be terminated by either party at any time. The Group has determined that no enforceable rights and obligations exist at inception of the contract and arise only once the cooling off period is complete and the Group is the legal supplier of energy to the customer. The performance obligation is the supply of energy over the contractual term; the units of supply represent a series of distinct goods that are substantially the same with the same pattern of transfer to the customer. The performance obligation is considered to be satisfied as the customer consumes based on the units of energy delivered. This is the point at which revenue is recognised.

In respect of energy supply contracts, the Group considers that it has the right to consideration from the customer for an amount that corresponds directly with the value delivered to the customer through their consumption. It is the judgement of the Group that the customer consumes energy as the Group supplies and, as a result, the Group recognises revenue for the amount which the entity has a right to invoice. The Group's assessment of the amount that it has a right to invoice includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (known as unread revenue). Unread gas and electricity comprises both billed and unbilled revenue and is estimated through the billing systems, using historical consumption patterns, on a customer-by-customer basis, taking into account weather patterns, load forecasts and the differences between actual meter readings being returned and system estimates. Actual meter readings continue to be compared to system estimates between the balance sheet date and the finalisation of the accounts.

The Group holds a number of energy supply contracts that specify a minimum consumption volume over a specified contractual term. The transaction price for these contracts is the minimum supply volume multiplied by the contractually agreed price per unit of energy. Revenue from the sale of additional volumes is considered to be variable and not included in the transaction price. Revenue for these contracts continues to be recognised as invoiced.

Energy services provided to business and residential customers

Energy services in the scope of IFRS 15 relate to the installation, repair and maintenance of central heating, ventilation and air conditioning systems as well as smaller installation services across the UK, Ireland and North America.

In the UK, delivery of an item is considered a separate performance obligation to the installation of the item, both satisfied at a point in time. Delivery is the point at which control passes to the customer as the customer takes physical possession of the asset. It is also the point at which the Group has the right to consideration. Delivery and installation usually occur at the same point in time and consequently revenue is recognised for both performance obligations simultaneously.

The five-year warranty provided with a boiler is not considered a separate performance obligation.

Certain heating, ventilation and air conditioning (HVAC) system installations in North America are considered to be a single performance obligation satisfied over time, representing the Group's promise to deliver to the customer a functioning HVAC system. The duration of these contracts may be over a number of weeks and the performance obligation is deemed to be satisfied over this period. Revenue is recognised on an input basis with reference to costs incurred.

Sales of own gas and liquid production

Revenue arising from the sale of produced gas is recognised in a manner consistent with energy supply contracts with the revenue recognition profile reflecting the supply of gas to the customer. In respect of oil sales, each barrel of oil is considered a separate performance obligation satisfied at a point in time – on delivery.

Notes to the Financial Statements (continued)

1. General information, basis of preparation and summary of significant new accounting policies and reporting changes

The rights and obligations identifiable within a contract where the Group holds sellers' nomination rights are considered to be enforceable from inception of the contract. The transaction price for the contract will include variable consideration based on forecast production and market prices. The point at which the performance obligation is satisfied and revenue recognised is the point at which control of the commodity passes to the customer according to the contractual trading terms, usually on shipment or delivery to a specified location.

Transition approach

In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year.

The Group has applied the following practical expedients on initial application:

- IFRS 15:C5(a) (i, ii): Exemption from the requirement to apply the standard to contracts that begin and end within the same annual reporting period and contracts completed at the beginning of the earliest period presented; and
- IFRS 15:C5(b): Use of the transaction price at the date the contract was completed for completed contracts with variable consideration rather than estimating variable consideration amounts in the comparative reporting periods.

None of the above practical expedients had a material effect on the Financial Statements.

In summary, the adjustments resulted in a £12 million increase in revenue, and a £5 million decrease in earnings for the year ended 31 December 2017. The following adjustments were also made to the amounts recognised in the comparative balance sheet presented in these consolidated Financial Statements:

	31 December 2017 £m				**31 December 2017 £m**
	IAS 18 carrying amount £m	Reclassification £m	Energy supply contract commissions (i) £m	Franchise revenue (ii) £m	**IFRS 15 carrying amount £m**
Trade and other receivables and contract related assets:					
> 1 year	87	8	2	–	**97**
< 1 year	4,668	(8)	9	–	**4,669**
Trade and other payables and contract related assets:					
< 1 year	(5,412)	–	–	(6)	**(5,418)**
Deferred tax liabilities	(173)	–	(3)	2	**(174)**

(i) Commissions paid on acquisition of energy supply contracts have been capitalised as a cost to obtain a contract. These costs will be amortised over the average contract duration.
(ii) Consideration received from franchisees previously recognised as revenue upon receipt is deferred and recognised over the life of the franchise agreement.

The impact on the Group's opening retained earnings is as follows:

1 January	**2018 £m**	2017 £m
Retained earnings (before IFRS 9 application):	**1,180**	1,504
Energy supply contract commissions, net of taxation	**8**	13
Franchise revenue, net of taxation	**(4)**	(4)
	1,184	1,513

(d) Standards and amendments that are issued but not yet applied by the Group

Endorsed by the EU

The Group has not applied the following standards and amendments in the consolidated Group Financial Statements as they are not yet effective, although they have been endorsed by the EU and will be effective from 1 January 2019, unless otherwise indicated:

- IFRS 16: 'Leases';
- IFRIC Interpretation 23: 'Uncertainty over income tax treatments'; and
- Amendments to IFRS 9: 'Prepayment features with negative compensation'.

IFRS 16

IFRS 16: 'Leases' was issued in January 2016 and will have a significant impact on the Group's consolidated Financial Statements as all leases will be recognised on the balance sheet (with the exception of short-term and low value leases), with a corresponding right-of-use asset also recognised.

The Group will apply the standard from its mandatory adoption date of 1 January 2019, utilising the simplified transition approach with existing lease assessments being grandfathered and comparatives not being restated for the year prior to initial application. All right-of-use assets will be measured at the amount of the lease liability on adoption.

Existing lease arrangements have been reviewed during the year to determine the impact of adoption, along with other contractual arrangements to identify the existence of embedded leases. The lease portfolio of the Group will not change significantly as a result of IFRS 16 as the standard primarily affects the accounting for arrangements previously assessed as operating leases.

1. General information, basis of preparation and summary of significant new accounting policies and reporting changes

At the reporting date, the Group's operating lease commitment of £343 million includes £5 million short-term leases which will be recognised on a straight-line basis as an expense in profit or loss. After adjusting for these items and the re-measurement of the existing Spalding finance lease, the Group expects to recognise incremental lease liabilities and associated right-of-use assets of approximately £420 million at 1 January 2019, thereby increasing net debt.

There is no deferred tax impact on initial application.

The Group does not expect a material earnings impact to arise as a result of application however, as all future cash flows will be treated as financing there will be an annual improvement to operating cash flows (and consequently, adjusted operating cash flow) in the region of £100 million.

Management does not currently expect the future application of other standards and amendments to have a material impact on the amounts reported and disclosed in the consolidated Financial Statements.

Not endorsed by the EU

The Group has not applied the following standards and amendments in the consolidated Group Financial Statements as they are not yet effective and they have not been endorsed by the EU:

- IFRS 17: 'Insurance contracts', effective from 1 January 2021;
- Amendments to IAS 19: 'Plan amendment, curtailment or settlement' effective from 1 January 2019;
- Amendments to IAS 28: 'Long-term interests in associates and joint ventures', effective from 1 January 2019;
- Annual Improvements to IFRS Standards 2015-2017 Cycle: Amendments to IFRS 3: 'Business combinations', IFRS 11: 'Joint arrangements', IAS 12: 'Income taxes' and IAS 23: 'Borrowing costs', effective from 1 January 2019;
- Amendments to references to the Conceptual Framework in IFRS Standards, effective from 1 January 2020;
- Amendments to IFRS 3: 'Business Combinations', effective 1 January 2020; and
- Amendments to IAS 1 and IAS 8: Definition of 'Material', effective 1 January 2020.

IFRS 17: 'Insurance contracts' was issued in May 2017. Assuming it is endorsed by the EU, this new standard will not be effective before 1 January 2021 (a proposal has been made to postpone the current effective date to 1 January 2022). The Group currently has fixed-fee service contracts that it accounts for as insurance contracts under IFRS 4: 'Insurance contracts'. Under IFRS 17, subject to certain conditions, there is an accounting policy choice to account for these contracts under IFRS 17 or IFRS 15. As this could change the accounting for these contracts, this will be considered during the implementation of IFRS 17.

The amendments to IAS 19 apply to plan amendments, curtailments or settlements that occur on or after 1 January 2019, and the amendments to IFRS 3 and IFRS 11 apply to acquisitions of additional interests in joint arrangements for which the acquisition date is on or after 1 January 2019. As these types of transactions can vary in size and are non-recurring in nature, the Group cannot quantify the effect that these amendments could potentially have in the future.

Management does not currently expect the future application of the other interpretations and amendments to have a material impact on the amounts reported and disclosed in the consolidated Financial Statements.

In November 2018 the IFRIC issued a tentative pronouncement on the Physical Settlement of Contracts to Buy or Sell a non-Financial Item. This tentatively concluded that, for physical commodity trades within the scope of IFRS 9, entities should not transfer previously recognised, unrealised mark-to-market movements to different income statement line items upon realisation. If ratified, this decision would require a change to the Group's revenue and cost of sale presentation, although there would be no impact on gross profit.

(e) Other restatements

Following the announcement made by the Group in June 2017 that the Rough facility could not safely be returned to storage and injection operations, and the granting of a production consent from January 2018, the Rough field has operated as a producing gas asset. Therefore, reflecting this change in activity, and the segmental performance information reviewed by the Group's Executive Committee (which is the Group's Chief Operating Decision Maker as defined by IFRS 8: 'Operating segments'), the Group's reportable segments have been revised to present Centrica Storage (of which the Rough field is the principal asset) as part of Exploration & Production. Comparatives have been re-presented accordingly.

Notes to the Financial Statements (continued)

2. Centrica specific accounting measures

This section sets out the Group's specific accounting measures applied in the preparation of the consolidated Financial Statements. These measures enable the users of the accounts to understand the Group's underlying and statutory business performance separately.

(a) Use of adjusted performance measures

The Directors believe that reporting adjusted profit, adjusted earnings per share and adjusted operating cash flow provides additional useful information on business performance and underlying trends. These measures are used for internal performance purposes. The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

The measure of operating profit used by management to evaluate segment performance is adjusted operating profit. Adjusted operating profit is defined as operating profit before:

- exceptional items; and
- certain re-measurements;

but including:

- the Group's share of business performance results from joint ventures and associates before interest and taxation.

Exceptional items and certain re-measurements are excluded because these items are considered by the Directors to distort the Group's underlying business performance. See note 2(b) for further details. The Group's share of results from joint ventures and associates is presented before interest and taxation because this gives a consistent measurement of results compared to wholly owned subsidiaries.

Note 5 contains an analysis of adjusted operating profit by segment and a reconciliation of adjusted operating profit to operating profit after exceptional items and certain re-measurements.

Note 5 also contains an analysis of adjusted operating profit after taxation by segment and a reconciliation to the statutory results for the year. Adjusted operating profit after taxation is defined as adjusted operating profit, net of associated taxation, before:

- the impact of changes to UK and US corporation tax rates; and
- certain corporate and other taxation.

Given the significant variance in tax rates for different jurisdictions and different businesses within the Group, this measure provides management with an analysis of each segment's contribution to overall earnings. The impact of changes to UK and US corporation tax rates is excluded because it predominantly relates to future tax impacts rather than the current year performance. The measure excludes interest and related tax impacts because this measure provides an analysis of the segment's operating performance and its contribution to earnings before the impact of the financing of the segment.

Adjusted earnings is defined as earnings before:

- exceptional items net of taxation; and
- certain re-measurements net of taxation.

A reconciliation of adjusted earnings and adjusted earnings per share is provided in note 10.

Adjusted operating cash flow is used by management to assess the cash generating abilities of each segment. Adjusted operating cash flow is defined as net cash flow from operating activities before:

- payments relating to exceptional items;
- deficit reduction payments made to the UK defined benefit pension schemes; and
- movements in variation margin and cash collateral that are included in net debt;

but including:

- dividends received from joint ventures and associates.

Payments related to exceptional items are excluded because the Directors do not consider these to represent underlying business performance. Deficit reduction payments and movements in variation margin and cash collateral are excluded because the Directors do not consider these to represent the operating cash flows generated by underlying business performance, as they are predominantly triggered by wider market factors and, in the case of variation margin and cash collateral, these represent timing differences. Dividends received from joint ventures and associates are considered by the Directors to represent operating cash flows generated by the Group's operations that are structured in this manner.

(b) Exceptional items and certain re-measurements

The Group reflects its underlying financial results in the 'business performance' column of the Group Income Statement. To be able to provide users with this clear and consistent presentation, the effects of 'certain re-measurements' of financial instruments, and 'exceptional items', are reported in a different column in the Group Income Statement.

The Group is an integrated energy business. This means that it utilises its knowledge and experience across the gas and power (and related commodity) value chains to make profits across the core markets in which it operates. As part of this strategy, 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 its customers (downstream demand). These trades are designed to reduce the risk of holding such assets, contracts or downstream demand and are subject to strict risk limits and controls.

2. Centrica specific accounting measures

Primarily because some of these trades include terms that permit net settlement, they are prohibited from being designated as 'own use' and so IFRS 9: 'Financial instruments' requires them to be individually fair valued. Fair value movements on these commodity derivative trades 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. Therefore, these certain re-measurements are reported separately and are subsequently reflected in business performance when the underlying transaction or asset impacts profit or loss.

The arrangements discussed above and reflected as certain re-measurements are all managed separately from proprietary energy trading activities where trades are entered into speculatively for the purpose of making profits in their own right. These proprietary trades are included in the business performance column of the Group Income Statement, in the results before certain re-measurements.

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Again, to ensure the business performance column reflects the underlying results of the Group, these exceptional items are also reported in the separate column in the Group Income Statement. Items that may be considered exceptional in nature include disposals of businesses or significant assets, business restructurings (including property rationalisation costs), significant onerous contract charges/releases, asset impairments/write-backs, certain pension costs/past service credits, the tax effects of these items and the effect of changes in UK upstream tax rates.

3. Critical accounting judgements and key sources of estimation uncertainty

This section sets out the key areas of judgement and estimation that have the most significant effect on the amounts recognised in the consolidated Financial Statements.

(a) Critical judgements in applying the Group's accounting policies

Such key judgements include the following:

- the presentation of selected items as exceptional (see notes 2 and 6);
- the use of adjusted profit, adjusted earnings per share and adjusted operating cash flow measures (see notes 2, 5 and 10); and
- the classification of energy contracts as derivative financial instruments and presentation as certain re-measurements (see notes 2, 6 and 13).

In addition, management has made the following key judgements in applying the Group's accounting policies that have the most significant effect on the consolidated Group Financial Statements.

Leases – third-party power station tolling arrangements

The Group's Spalding long-term power station tolling contract in the UK is considered a lease.

The arrangement provided Centrica with the right to nominate 100% of the plant capacity for the duration of the contract in return for a mix of capacity payments and operating payments based on plant availability.

The Spalding contract runs until 2021 and Centrica holds an option to extend the tolling arrangement for a further eight years, exercisable by 30 September 2020. If extended, Centrica is granted an option to purchase the station at the end of this further period. Management has determined that the arrangement should be accounted for as a finance lease, as the lease term was judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at the inception date of the arrangement amounted to substantially all of the fair value of the power station at that time.

Details of the interest charges and finance lease payable are included in notes 7 and 11 respectively.

As a result of the suspension of the UK Capacity Market, alongside reductions in forecast future peak spark spreads, an onerous contract provision has been recognised in relation to the Spalding contract. See note 6 for further details.

Spirit Energy consolidation and preference shares

During 2017, the Group acquired Bayerngas Norge's exploration and production business and combined this with the Group's existing Exploration & Production business to form Spirit Energy business (SE). The Group, through its board majority, can control decisions that represent Board Reserved Matters, which include the approval or amendment of the Business Plan or the Budget. The Directors consider that the right to approve or amend the Business Plan or Budget provides control over the relevant activities that most significantly influence the variable returns of the SE business. The Group, through its board majority, has power over this decision. Whilst SE has been established as an independent business, this is judged not to prevent the Group concluding that it controls SE. Additionally, Fundamental Reserved Matters, which require unanimous consent, are judged to represent minority protection rather than decision making rights associated with the relevant activities. Consequently, SE is fully consolidated with a non-controlling interest of 31%.

The Group and SWM Gasbeteiligungs GmbH & Co. KG hold preference shares in Spirit Energy Limited (the parent company of SE), the redemption and conversion rights of which have been reviewed by the Directors and in each case the redemption is at the discretion of the issuer. Whilst the agreements provide incentives for the Group to redeem these shares through the waiver of its dividend under certain circumstances, and the agreements indicate an intention to redeem, the Group has concluded that Spirit Energy Limited retains the discretion to avoid redemption and therefore the preference shares do not represent an obligation. Similarly, the conversion rights are at the discretion of Spirit Energy Limited and do not create an obligation. The preference shares pay a fixed coupon or dividend of 5.5% plus a floating element subject to a cap of 1.5%, and again despite the agreement stating a dividend policy and the intention to pay dividends, these remain at the discretion of the directors of Spirit Energy Limited. Accordingly, the preference shares are deemed to represent equity rather than a financial liability and therefore the 31% held by SWM Gasbeteiligungs GmbH & Co. KG forms part of the Group's non-controlling interest balance.

Notes to the Financial Statements (continued)

3. Critical accounting judgements and key sources of estimation uncertainty

Energy Company Obligation

The Energy Company Obligation (ECO) order requires UK-licensed energy suppliers to improve the energy efficiency of domestic households. Targets are set in proportion to the size of historic customer bases. ECO phase 1 and ECO phase 2 had delivery dates of 31 March 2015 and 30 September 2018 (extended from 31 March 2017), respectively. ECO phase 3 is currently effective with a delivery date of 31 March 2022. Although this phase includes certain sub-obligations, there are no interim targets and, consistent with previous years, the Group continues to judge that it is not legally obligated by the order until delivery date. Accordingly, the costs of delivery are recognised as incurred, when cash has been spent or unilateral commitments made, resulting in obligations that could not be avoided.

Metering contracts

The Department for Business, Energy & Industrial Strategy has modified UK gas and electricity supply licences requiring all domestic premises to be fitted with compliant smart meters for measuring energy consumption by 31 December 2020. The Group has a number of existing rental contracts for non-compliant meters that include penalty charges if these meters are removed from use before the end of their deemed useful lives. The Group considers that these contracts are not onerous until the meters have been physically removed from use and, therefore, only recognises a provision for penalty charges at this point.

In 2015, as part of the smart meter roll-out, the Group renewed meter rental arrangements with third parties, with a further extension of one contract in 2018. The Group assessed that these were not leases because at inception of the contract there were no specified assets, the Group did not have the right to physically or operationally control the smart meters and other parties took more than an insignificant amount of the output from the assets.

LNG contracts

The Group is active in the liquified natural gas (LNG) market, both procuring long-term LNG supply arrangements, and transacting in shorter-term LNG cargoes. Contracts to buy and sell LNG are not considered to meet the definition of a derivative as there is currently no active market for LNG and accordingly, contracts are not capable of being net settled. As a result, they are accounted for on an accruals basis.

(b) Key sources of estimation uncertainty

Estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, including current and expected economic conditions, and, in some cases, actuarial techniques. Although these estimates and associated assumptions are based on management's best knowledge of current events and circumstances, actual results may differ.

Revenue recognition – unread gas and electricity meters

Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (known as unread revenue). Unread gas and electricity comprises both billed and unbilled revenue. It is estimated through the billing systems, using historical consumption patterns, on a customer-by-customer basis, taking into account weather patterns, load forecasts and the differences between actual meter readings being returned and system estimates. Actual meter readings continue to be compared to system estimates between the balance sheet date and the finalisation of the accounts.

An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits that will flow to the Group, including bill cancellation and re-bill rates. Estimated revenue is restricted to the amount the Group expects to be entitled to in exchange for energy supplied. The judgements applied, and the assumptions underpinning these judgements, are considered to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognised. Unbilled revenue recognised on the balance sheet within trade and other receivables at 31 December 2018 was £1,542 million (2017: £1,585 million).

Industry reconciliation process – cost of sales

Industry reconciliation procedures are required as differences arise between the estimated quantity of gas and electricity the Group deems to have supplied and billed customers, and the estimated quantity industry system operators deem the individual suppliers, including the Group, to have supplied to customers. The difference in deemed supply is referred to as imbalance. The reconciliation procedures can result in either a higher or a lower value of industry deemed supply than has been estimated as being supplied to customers by the Group, but in practice tends to result in a higher value of industry deemed supply. The Group reviews the difference to ascertain whether there is evidence that its estimate of amounts supplied to customers is inaccurate or whether the difference arises from other causes. The Group's share of the resulting imbalance is included within commodity costs charged to cost of sales. Management estimates the level of recovery of imbalance that will be achieved either through subsequent customer billing or through developing industry settlement procedures. The adjustments for imbalance at 31 December 2018 are not significant. Changes resulting from these management estimates can be material with adjustments of up to £30 million having been made in the last few years, although it could possibly be higher than these amounts in the future.

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of gas and oil fields is reviewed periodically and is based on reserves, price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be incurred until 2040.

The level of provision held is also sensitive to the discount rate used to discount the estimated decommissioning costs. The real discount rate used to discount the decommissioning liabilities at 31 December 2018 is unchanged at 1.2%. A 1% change in this discount rate would change the decommissioning by approximately £200 million.

Significant judgements and estimates are also made about the costs of decommissioning nuclear power stations and the costs of waste management and spent fuel. These estimates could impact the carrying value of our Nuclear investment. Various arrangements and indemnities are in place with the Secretary of State with respect to these costs.

3. Critical accounting judgements and key sources of estimation uncertainty

Gas and liquids reserves

The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production method of depreciating producing gas and liquids property, plant and equipment (PP&E) as well as being a significant estimate affecting decommissioning and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition is described on page 75.

The impact of a change in estimated 2P reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If 2P reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value.

Determination of fair values – energy derivatives

Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques.

Impairment of long-lived assets

The Group has several material long-lived assets, which are assessed or tested for impairment at each reporting date in accordance with the Group's accounting policy as described in note 6. The Group makes judgements and estimates in considering whether the carrying amounts of these assets or cash generating units (CGUs) are recoverable. The key assets that are subjected to impairment tests are upstream Exploration & Production gas and oil assets, Nuclear investment (20% economic interest accounted for as an investment in associate) and goodwill, as detailed below.

Exploration & Production gas and oil assets

The recoverable amount of the Group's gas and oil assets is determined by discounting the post-tax cash flows expected to be generated by the assets over their lives taking into account those assumptions that market participants would consider when assessing fair value. The cash flows are derived from projected production profiles of each field, based predominantly on expected 2P reserves and take into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on internal model inputs.

Exploration & Production gas and oil assets now include assets previously held as Storage facility assets within the segment formerly known as Centrica Storage.

Further details of the assumptions used in determining the recoverable amounts, the impairments and the impairment reversals booked during the year and sensitivity to the assumptions are provided in note 6.

Nuclear investment

The recoverable amount of the Nuclear investment is based on the value of the existing UK nuclear fleet operated by EDF. The existing fleet value is calculated by discounting pre-tax cash flows derived from the stations based on forecast power generation and power prices, whilst taking account of planned outages and the possibility of life extensions. An assumption that the UK Capacity Market remains suspended until September 2019, with a prospective resumption thereafter, did not lead to an impairment. Further details of the methodology and assumptions are provided in note 6. Note that the Nuclear investment was not considered to be an asset held for sale as at the reporting date as its disposal was not deemed to be highly probable within one year.

Goodwill

Goodwill does not generate independent cash flows and accordingly is allocated at inception to specific CGUs or groups of CGUs for impairment testing purposes. The recoverable amounts of these CGUs are derived from estimates of future cash flows (as described in the asset classes above) and hence the goodwill impairment tests are also subject to these key estimates. The results of these tests may then be verified by reference to external market valuation data.

Further details on the goodwill balances and the assumptions used in determining the recoverable amounts are provided in note 6. Sensitivity to the assumptions is also found in note 6 for goodwill allocated to Exploration & Production CGUs.

Credit provisions for trade and other receivables

The methodology for determining provisions for credit losses on trade and other receivables uses an expected credit loss model, which calculates the expected loss applicable to the receivable balance over its lifetime. Although the provisions recognised are considered appropriate, the use of different assumptions or changes in economic conditions could lead to movements in the provisions and therefore impact the Group Income Statement.

Pensions and other post-employment benefits

The cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits. The Group is permitted to recognise a pension scheme asset because it has an unconditional right to a refund on any winding up of the schemes or if gradual settlement of liabilities over time is assumed. Further details, including sensitivities to these assumptions, are provided in note 14.

Brexit

The Group has considered the potential impact of a no-deal Brexit. Economists have suggested that a no-deal Brexit could lead to lower base interest rates and higher inflation, following a likely weakening of sterling against other currencies. This would have an impact on the Group's pension scheme discount rate assumptions (if high quality corporate bond yields follow base rates) and could change forward energy prices (particularly in sterling terms). The sensitivity of the Group's pension schemes to a change in key assumptions is disclosed in note 14. The sensitivity of a change in forward energy prices and the impact this would have on impairment of the

Notes to the Financial Statements (continued)

3. Critical accounting judgements and key sources of estimation uncertainty

Group's assets is disclosed in note 6. Macroeconomic impacts on existing trade receivable recoverability are expected to be immaterial but could have a greater impact on future trade receivable recoverability.

4. Risk management

The Group's normal operating, investing and financing activities expose it to a variety of risks. Risk management is fundamental to the way the Group is governed and managed. The system of risk management and internal control is set out in the 2017 Annual Report and Accounts.

During 2018, the risks which were prioritised for leadership attention related to:

- risk of political or regulatory intervention, or change to the political or regulatory landscape;
- risk of financial loss due to the Group's exposure to market movements, including commodity prices and volumes, inflation, interest rates and currency fluctuations;
- risk of failure to protect the health, safety, and security of customers, employees and third parties, and the risk of causing a negative impact on the environment; and
- risk that the Group does not deliver its strategy due to insufficient capability to execute it in line with plan or failure to adapt quickly enough to respond to changes in the external environment.

The Group's financial performance and price competitiveness is dependent upon its ability to manage exposure to wholesale commodity prices for gas, oil, carbon and power, interest rates for long-term borrowing, fluctuations in various foreign currencies, and environmental factors. Financial risk is reviewed quarterly by the senior Finance stakeholders and the executive Group Ethics, Risk Assurance, Control and Compliance Committee (GERACCC) to review Group financial exposures and assess compliance with risk limits. The four main areas of financial risk are managed as follows:

- commodity price risk management is carried out in accordance with individual business unit policies and directives including appropriate escalation routes;
- treasury risk management, including management of currency risk, interest rate risk and liquidity risk is carried out by a central Group Treasury function in accordance with the Group's financing and treasury policy, as approved by the Board;
- wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's credit risk policy; and
- downstream customer credit risk management is carried out in accordance with individual business unit credit policies.

Credit risk for financial assets

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Group continually reviews its rating thresholds for counterparty credit limits, and updates these as necessary, based on a consistent set of principles. It continues to operate within its limits. In both the US and Europe there is an effort to maintain a balance between exchange-based trading and bilateral transactions. This allows for a reasonable balance between counterparty credit risk and potential liquidity requirements. In addition, the Group actively manages the trade-off between credit and liquidity risks by optimising the use of contracts with collateral obligations and physically settled contracts without collateral obligations.

Liquidity risk management and going concern

The Group has a number of treasury and risk policies to monitor and manage liquidity risk. Cash forecasts identifying the Group's liquidity requirements are produced regularly and are stress-tested for different scenarios, including, but not limited to, reasonably possible increases or decreases in commodity prices and the potential cash implications of a credit rating downgrade. The Group seeks to ensure that sufficient financial headroom exists for at least a 12-month period to safeguard the Group's ability to continue as a going concern. It is the Group's policy to maintain committed facilities and/or available surplus cash resources of at least £1,200 million, raise at least 75% of its net debt (excluding non-recourse debt) in the long-term debt market and to maintain an average term to maturity in the recourse long-term debt portfolio greater than five years.

At 31 December 2018, the Group had undrawn committed credit facilities of £3,879 million (2017: £3,530 million) and £1,079 million (2017: £2,664 million) of unrestricted cash and cash equivalents. 174% (2017: 238%) of the Group's net debt has been raised in the long-term debt market and the average term to maturity of the long-term debt portfolio was 11.1 years (2017: 10.8 years).

The Group's liquidity is impacted by the cash posted or received under margin and collateral agreements. The terms and conditions of these agreements depend on the counterparty and the specific details of the transaction. Cash is generally returned to the Group or by the Group within two days of trade settlement. Refer to note 11(b) for the movement in cash posted or received as collateral.

The level of undrawn committed bank facilities and available cash resources has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern.

5. Segmental analysis

The Group's operating segments are those used internally by management to run the business and make decisions. The Group's operating segments are based on products and services. The operating segments are also the Group's reportable segments. The Group's results are discussed in the Business Review (pages 10 to 23).

(a) Segmental structure

The types of products and services from which each reportable segment derived its revenues during the year are detailed below:

Segment	Description
Centrica Consumer	
UK Home	(i) The supply of gas and electricity to residential customers in the UK; and (ii) the installation, repair and maintenance of domestic central heating, plumbing and drains, gas appliances and kitchen appliances, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in the UK.
Ireland	(i) The supply of gas, electricity and energy management solutions to residential, commercial and industrial customers in the Republic of Ireland; (ii) power generation in the Republic of Ireland; and (iii) the repair and maintenance of domestic central heating in the Republic of Ireland.
North America Home	(i) The supply of gas and electricity to residential customers in North America; and (ii) the installation and maintenance of heating, ventilation and air conditioning (HVAC) equipment and water heaters and the provision of breakdown services, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in North America.
Connected Home	The supply of new technologies and energy efficiency solutions to residential customers in all geographies in which the Group operates.
Centrica Business	
UK Business	The supply of gas and electricity and provision of energy-related services to business customers in the UK.
North America Business	(i) The supply of gas, electricity and energy-related services to business customers in North America; and (ii) procurement, trading and optimisation of energy in North America.
Distributed Energy & Power	The supply of energy efficiency solutions, flexible generation and new technologies to commercial and industrial customers in all geographies in which the Group operates. Flexible merchant generation is also provided to the UK system operator.
Energy Marketing & Trading	Trading and optimisation of energy.
Central Power Generation	Generation of power from the Spalding combined cycle gas turbine tolling contract and nuclear assets in the UK.
Exploration & Production	Production and processing of gas and oil and the development of new fields, principally within Spirit Energy, to maintain reserves in the UK and Europe. Following a reorganisation of the Group's reporting segments, the segment formerly known as Centrica Storage is now included as part of Exploration & Production. See note 1 for further details.

Notes to the Financial Statements (continued)

5. Segmental analysis

(b) Revenue

Gross segment revenue represents revenue generated from the sale of products and services to both third parties and to other reportable segments of the Group. Group revenue reflects only the sale of products and services to third parties. Sales between reportable segments are conducted on an arm's length basis.

Group revenue from contracts with customers reflects the value of revenue arising from contracts with customers in the scope of IFRS 15: 'Revenue from contracts with customers'. Revenue from other sources arises from contracts in the scope of other standards, for example IFRS 4: 'Insurance contracts' and IFRS 9: 'Financial instruments'.

			2018			2017
Year ended 31 December	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m	Gross segment revenue (restated) (i) £m	Less inter-segment revenue (restated) (i) £m	Group revenue (restated) (i) £m
Centrica Consumer						
UK Home	8,392	(6)	8,386	8,536	(5)	8,531
Ireland	907	–	907	827	–	827
North America Home	2,533	–	2,533	2,722	–	2,722
Connected Home	67	(23)	44	42	(14)	28
	11,899	(29)	11,870	12,127	(19)	12,108
Centrica Business						
UK Business	1,857	(1)	1,856	1,830	(2)	1,828
North America Business	8,820	–	8,820	8,158	–	8,158
Distributed Energy & Power	209	(2)	207	183	(4)	179
Energy Marketing & Trading	5,752	(196)	5,556	4,766	(234)	4,532
Central Power Generation	744	(230)	514	622	(196)	426
	17,382	(429)	16,953	15,559	(436)	15,123
Exploration & Production	2,121	(1,258)	863	1,744	(940)	804
	31,402	(1,716)	29,686	29,430	(1,395)	28,035

(i) Revenue has been restated on transition to IFRS 15: 'Revenue from contracts with customers'. Segmental revenues have also been restated to reflect the new operating structure of the Group, under which the segment formerly known as Centrica Storage is shown as part of Exploration & Production. See note 1 for further details.

5. Segmental analysis

The table below shows the Group revenue arising from contracts with customers, and therefore in the scope of IFRS 15, and revenue arising from contracts in the scope of other standards.

Year ended 31 December	2018 Revenue from contracts with customers in scope of IFRS 15 £m	2018 Revenue arising on realisation of contracts in scope of IFRS 9 £m	2018 Revenue from FFS and insurance contracts in scope of IFRS 4 £m	2018 Revenue from leasing contracts in scope of IAS 17 £m	2018 Group Revenue £m
Centrica Consumer					
UK Home	**7,370**	**–**	**1,016**	**–**	**8,386**
Ireland	**677**	**230**	**–**	**–**	**907**
North America Home	**2,415**	**–**	**118**	**–**	**2,533**
Connected Home	**44**	**–**		**–**	**44**
	10,506	**230**	**1,134**	**–**	**11,870**
Centrica Business					
UK Business	**1,445**	**403**	**8**	**–**	**1,856**
North America Business	**7,449**	**1,371**	**–**	**–**	**8,820**
Distributed Energy & Power	**206**	**–**	**–**	**1**	**207**
Energy Marketing & Trading	**1,521**	**4,035**	**–**	**–**	**5,556**
Central Power Generation	**6**	**508**	**–**	**–**	**514**
	10,627	**6,317**	**8**	**1**	**16,953**
Exploration & Production (ii)	**984**	**(121)**	**–**	**–**	**863**
	22,117	**6,426**	**1,142**	**1**	**29,686**

Year ended 31 December	2017 Revenue from contracts with customers in scope of IFRS 15 £m	2017 Revenue arising on realisation of contracts in scope of IFRS 9 £m	2017 Revenue from FFS and insurance contracts in scope of IFRS 4 £m	2017 Revenue from leasing contracts in scope of IAS 17 £m	2017 Group Revenue (restated) (i) £m
Centrica Consumer					
UK Home	7,501	–	1,030	–	8,531
Ireland	632	195	–	–	827
North America Home	2,606	–	116	–	2,722
Connected Home	28	–		–	28
	10,767	195	1,146		12,108
Centrica Business					
UK Business	1,395	425	8	–	1,828
North America Business	6,919	1,239	–	–	8,158
Distributed Energy & Power	166	–	–	13	179
Energy Marketing & Trading	1,701	2,831	–	–	4,532
Central Power Generation	11	415	–	–	426
	10,192	4,910	8	13	15,123
Exploration & Production (ii)	736	68	–	–	804
	21,695	5,173	1,154	13	28,035

(i) Revenue has been restated on transition to IFRS 15: 'Revenue from contracts with customers'. Segmental revenues have also been restated to reflect the new operating structure of the Group, under which the segment formerly known as Centrica Storage is shown as part of Exploration & Production. See note 1 for further details.

(ii) In 2018 Exploration & Production Group revenue includes negative amounts arising on the realisation of out-of-the-money commodity swap contracts that fall within the scope of IFRS 9.

The Group applies the practical expedient in paragraph 121 of IFRS 15 and therefore does not disclose information related to the transaction price allocated to remaining performance obligations on the basis that the Group recognises revenue from the satisfaction of the performance obligations within energy supply contracts in accordance with Paragraph B16, as described at note 1.

Notes to the Financial Statements (continued)

5. Segmental analysis

Disaggregation of revenue and non-current assets

The key economic factors impacting the nature, timing and uncertainty of revenue and cash flows are considered to be driven by the type and broad geographical location of the customer. Therefore, revenue from contracts with customers has been disclosed by segment.

The only material exception to the above arises in the UK Home and North America Home segments, which include both energy supply revenue and services revenue. The split of revenue in the scope of IFRS 15 between these material sources is shown below.

			2018			2017
Year ended 31 December	Energy supply (i) £m	Energy services (ii) £m	Total £m	Energy supply (i) £m	Energy services (ii) £m	Total £m
UK Home	6,746	624	7,370	6,902	599	7,501
North America Home	2,079	336	2,415	2,244	362	2,606

(i) Energy supply reflects revenue earned from the supply of gas and electricity to residential customers and excludes revenue earned from related services, such as meter installations.
(ii) Energy services revenue in the scope of IFRS 15 includes energy-related services detailed above and excludes contracts in the scope of IFRS 4.

The Group monitors and manages performance by reference to its operating segments and not solely on a geographical basis. However, provided below is an analysis of revenue and certain non-current assets by geography.

	Revenue (based on location of customer)		Non-current assets (based on location of assets) (i)	
Year ended 31 December	2018 £m	2017 (restated) (ii) £m	2018 £m	2017 (restated) (ii) £m
UK	14,000	13,506	5,814	5,849
Republic of Ireland	841	769	124	102
Germany	772	608	–	–
Norway	605	359	1,768	1,758
Rest of Europe	1,707	1,565	470	445
United States of America	10,290	9,591	1,774	1,663
Canada	1,170	1,411	360	378
Rest of the world	301	226	8	5
	29,686	28,035	10,318	10,200

(i) Non-current assets comprise goodwill, other intangible assets, PP&E, interests in joint ventures and associates and non-financial assets within trade and other receivables, and contract-related assets.
(ii) Comparatives have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.

5. Segmental analysis

(c) Operating profit before and after taxation

The measure of profit used by the Group is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements. This includes business performance results of equity-accounted interests before interest and taxation.

This note also details adjusted operating profit after taxation. Both measures are reconciled to their statutory equivalents.

Year ended 31 December	Adjusted operating profit/(loss) 2018 £m	Adjusted operating profit/(loss) 2017 (restated) (i) £m	Adjusted operating profit/(loss) after taxation 2018 £m	Adjusted operating profit/(loss) after taxation 2017 (restated) (i) £m
Centrica Consumer				
UK Home	**668**	819	**543**	674
Ireland	**44**	47	**39**	37
North America Home	**123**	114	**92**	69
Connected Home	**(85)**	(95)	**(71)**	(71)
	750	885	**603**	709
Centrica Business				
UK Business	**40**	4	**33**	5
North America Business	**81**	71	**60**	44
Distributed Energy & Power	**(81)**	(53)	**(65)**	(41)
Energy Marketing & Trading	**54**	104	**46**	87
Central Power Generation	**27**	35	**26**	47
	121	161	**100**	142
Exploration & Production	**521**	201	**149**	38
Adjusted operating profit	**1,392**	1,247	**852**	889
Share of joint ventures'/associates' interest and taxation	**–**	(7)		
Operating profit before exceptional items and certain re-measurements	**1,392**	1,240		
Exceptional items (note 6)	**(183)**	(884)		
Certain re-measurements included within gross profit (note 6)	**(200)**	153		
Re-measurement of certain associates' contracts (net of taxation) (note 6)	**(20)**	(28)		
Share of associates' exceptional operating cost (note 6)	**(2)**	–		
Total exceptional items and certain re-measurements included in operating profit	**(405)**	(759)		
Operating profit after exceptional items and certain re-measurements	**987**	481		

Year ended 31 December	2018 £m	2017 (restated) (i) £m
Adjusted operating profit after taxation (ii)	**852**	889
Impact of changes to corporate tax rates (note 8) (iii)	**–**	34
Corporate and other taxation, and interest (net of taxation) (iv)	**(194)**	(218)
Business performance profit for the year	**658**	705
Exceptional items and certain re-measurements (net of taxation) (note 6)	**(416)**	(407)
Statutory profit for the year	**242**	298

(i) Prior year comparatives have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. 2017 results have also been restated to reflect the change to the Group's operating structure, as a result of which the segment formerly known as Centrica Storage is now presented as part of Exploration & Production. See note 1 for further details.
(ii) Segment adjusted operating profit after taxation includes profit of £29 million (2017: £7 million) attributable to non-controlling interests.
(iii) The 2017 amount relates to a change to the US tax rate.
(iv) Includes joint ventures'/associates' interest, net of associated taxation.

Notes to the Financial Statements (continued)

5. Segmental analysis

(d) Included within adjusted operating profit

Presented below are certain items included within adjusted operating profit, including further details of impairments of property, plant and equipment and write-downs relating to exploration and evaluation assets.

	Share of results of joint ventures and associates before interest and taxation		Depreciation and impairments of property, plant and equipment		Amortisation, write-downs and impairments of intangibles	
Year ended 31 December	**2018 £m**	2017 (restated) (i) £m	**2018 £m**	2017 (restated) (i) £m	**2018 £m**	2017 (restated) (i) £m
Centrica Consumer						
UK Home	**–**	–	**(45)**	(51)	**(103)**	(108)
Ireland	**–**	–	**(4)**	(3)	**(8)**	(9)
North America Home	**–**	–	**(13)**	(13)	**(41)**	(50)
Connected Home	**–**	–	**(2)**	(1)	**(16)**	(11)
	–	–	**(64)**	(68)	**(168)**	(178)
Centrica Business						
UK Business	**–**	–	**(2)**	(2)	**(13)**	(12)
North America Business	**–**	–	**(8)**	(8)	**(36)**	(40)
Distributed Energy & Power	**–**	–	**(9)**	(8)	**(13)**	(8)
Energy Marketing & Trading	**–**	–	**(2)**	(1)	**(11)**	(10)
Central Power Generation	**3**	58	**–**	(10)	**–**	–
	3	58	**(21)**	(29)	**(73)**	(70)
Exploration & Production	**–**	–	**(639)**	(571)	**(59)**	(14)
Other (ii)	**–**	–	**(12)**	(5)	**(22)**	(9)
	3	58	**(736)**	(673)	**(322)**	(271)

(i) Segmental results have been restated to reflect the change to the Group's operating structure as a result of which the segment formerly known as Centrica Storage is now presented as part of Exploration & Production. See note 1 for further details.
(ii) The Other segment includes corporate functions, subsequently recharged.

Impairments of property, plant and equipment

During 2018, no impairments of property, plant and equipment were recognised in business performance. During 2017, a £2 million impairment charge was recognised in the Distributed Energy & Power segment. Considering its size and nature this impairment was recognised within business performance.

Write-downs and impairments of intangible assets

During 2018, £54 million of write-downs (2017: £9 million) relating to exploration and evaluation assets were recognised in the Exploration & Production segment. All such current and prior year write-downs were recognised within business performance as they were not deemed exceptional in nature.

5. Segmental analysis

(e) Capital expenditure

Capital expenditure represents additions, other than assets acquired as part of business combinations, to property, plant and equipment and intangible assets. Capital expenditure has been reconciled to the related cash outflow.

Year ended 31 December	Capital expenditure on property, plant and equipment 2018 £m	Capital expenditure on property, plant and equipment 2017 (restated) (i) £m	Capital expenditure on intangible assets other than goodwill 2018 £m	Capital expenditure on intangible assets other than goodwill 2017 (restated) (i) £m
Centrica Consumer				
UK Home	**14**	69	**409**	398
Ireland	**21**	2	**12**	8
North America Home	**7**	18	**13**	5
Connected Home	**3**	4	**35**	31
	45	93	**469**	442
Centrica Business				
UK Business	**–**	1	**195**	190
North America Business	**8**	6	**288**	290
Distributed Energy & Power	**95**	106	**11**	9
Energy Marketing & Trading	**11**	3	**80**	77
Central Power Generation	**–**	28	**20**	–
	114	144	**594**	566
Exploration & Production	**367**	434	**118**	40
Other (ii)	**44**	36	**84**	36
Capital expenditure	**570**	707	**1,265**	1,084
Capitalised borrowing costs	**(14)**	(10)	**(4)**	–
Inception of new finance leases and movements in payables and prepayments related to capital expenditure	**18**	(87)	**(55)**	1
Purchases of emissions allowances and renewable obligation certificates	**–**	–	**(854)**	(813)
Net cash outflow (iii)	**574**	610	**352**	272

(i) Segmented results have been restated to reflect the change to the Group's operating structure as a result of which the segment formerly known as Centrica Storage is now presented as part of Exploration & Production. See note 1 for further details.
(ii) The Other segment includes corporate functions, subsequently recharged.
(iii) The cash outflow relating to intangible assets includes £114 million (2017: £41 million) relating to exploration and evaluation of gas and oil assets.

Notes to the Financial Statements (continued)

5. Segmental analysis

(f) Adjusted operating cash flow

Adjusted operating cash flow is used by management to assess the cash generating abilities of each segment. Adjusted operating cash flow is net cash flow from operating activities before payments relating to exceptional items, deficit payments to the UK defined benefit pension schemes, movements in variation margin and cash collateral that are included in net debt, but including dividends from joint ventures and associates. This measure is reconciled to the net cash flow from operating activities.

Year ended 31 December	2018 £m	2017 (restated) (i) £m
Centrica Consumer		
UK Home	**805**	928
Ireland	**74**	62
North America Home	**187**	154
Connected Home	**(47)**	(121)
	1,019	1,023
Centrica Business		
UK Business	**62**	131
North America Business	**278**	87
Distributed Energy & Power	**(61)**	(30)
Energy Marketing & Trading	**(66)**	262
Central Power Generation	**50**	58
	263	508
Exploration & Production	**963**	509
Other	**–**	29
Adjusted operating cash flow	**2,245**	2,069
Dividends received from joint ventures and associates	**(22)**	(58)
UK pension deficit payments (note 14(g))	**(98)**	(131)
Payments relating to exceptional charges	**(248)**	(176)
Movements in margin and cash collateral included in net debt (note 11(b))	**57**	136
Net cash flow from operating activities	**1,934**	1,840

(i) Segmental results have been restated to reflect the change to the Group's operating structure as a result of which the segment formerly known as Centrica Storage is now presented as part of Exploration & Production. See note 1 for further details.

6. Exceptional items and certain re-measurements

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Items which may be considered exceptional in nature include disposals of businesses or significant assets, business restructurings, significant onerous contract charges and releases, significant debt repurchase costs and asset write-downs/impairments and write-backs.

(a) Total exceptional items and certain re-measurements

Year ended 31 December	2018 £m	2017 £m
Exceptional items (Note 6 (b)) (i)	**(324)**	(884)
Certain re-measurement (losses)/gains (Note 6 (c)) (i)	**(220)**	125
Exceptional items and certain re-measurements before taxation	**(544)**	(759)

(i) Exceptional items and certain re-measurements include re-measurement losses of £20 million (2017: £28 million) and exceptional costs of £2 million (2017: nil) arising from the Group's equity accounted interests in joint ventures and associates.

6. Exceptional items and certain re-measurements

(b) Exceptional items

Year ended 31 December	2018 £m	2017 £m
Net write-back/(impairment) of Exploration & Production assets (i)	90	(408)
Impairment of UK gas storage assets (ii)	–	(270)
Provision for onerous power procurement contract and impairment of UK power generation assets (iii)	(62)	–
Guaranteed minimum pension equalisation past service cost (iv)	(43)	–
Restructuring costs (v)	(170)	(88)
Business change costs	–	(56)
Loss on disposal of Exploration & Production businesses and material assets	–	(134)
Net gain on disposal of Central Power Generation businesses and assets	–	72
Exceptional items included within Group operating profit	**(185)**	(884)
Debt repurchase costs included within financing costs(vi)	(139)	–
Exceptional items included within Group operating profit before taxation	**(324)**	(884)
Net taxation on exceptional items (note 8)	89	408
Net exceptional items after taxation	**(235)**	(476)

(i) In the Exploration & Production segment both impairments and write-backs of assets have been booked relating to the value of certain UK and Norwegian gas and oil fields. Predominantly due to the impact of an increase in near-term liquid prices and a reduction in long-term price forecasts, together with forecast production profiles for specific fields, there has been a net write-back of £57 million (post-tax £57 million). Also included is the reduction of decommissioning provisions (pre-tax £33 million, post-tax £23 million) and the net write-back of a deferred tax asset associated with Exploration & Production investment allowance and PRT (post-tax £18m) related to assets previously impaired through exceptional items.

(ii) The segment formerly known as Centrica Storage is now presented as part of Exploration & Production. See note 1 for further details.

(iii) Following the suspension of the UK Capacity Market in November 2018 and reductions in clean spark spread price forecasts, an onerous contract provision of £44 million (post-tax £36 million) has been reflected in relation to the Spalding tolling contract in the Central Power Generation segment and a pre-tax impairment charge of £18 million (post-tax £15 million) has been recognised in relation to gas-fired power station assets in the Distributed Energy & Power segment. It has been assumed that the UK Capacity Market remains suspended until September 2019, with only prospective resumption thereafter.

(iv) On 26 October 2018, the High Court of Justice of England and Wales issued a judgment requiring equality of treatment for men and women in relation to Guaranteed Minimum Pension benefits in contracted out UK pension schemes (for the period of 1978 to 1997). As a result of this judgment, the scheme liabilities have been recalculated and a past service cost of £41 million (post-tax £31 million) has been reflected in the Income Statement in relation to Centrica Group schemes and £2 million (post-tax £2 million) in relation to Nuclear associate schemes.

(v) Following the announcement of phase 2 of the Group's cost efficiency programme, the Group has incurred restructuring costs principally relating to redundancy, data migration, digitisation of the customer journey, business closures and other transformational activity. The post-tax impact was £136 million.

(vi) The Group's debt repurchase programme resulted in c. £1.1 billion of debt instruments being repurchased in advance of their maturity date. Due to the premium paid above existing carrying values and related swap realisations and transaction fees, a one-off Income Statement financing cost of £139 million (post-tax £113 million) has been incurred.

(c) Certain re-measurements

Certain re-measurements are the fair value movements on energy contracts entered into to meet the future needs of our customers or to sell the energy produced from our upstream assets. These contracts are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued, and are therefore separately identified in the current period and reflected in business performance in future periods when the underlying transaction or asset impacts the Group Income Statement.

Year ended 31 December	2018 £m	2017 £m
Certain re-measurements recognised in relation to energy contracts:		
Net losses arising on delivery of contracts	(127)	(54)
Net (losses)/gains arising on market price movements and new contracts	(73)	207
Net re-measurements included within gross profit	**(200)**	153
Net losses arising on re-measurement of certain associates' contracts (net of taxation)	(20)	(28)
Net re-measurements included within Group operating profit	**(220)**	125
Taxation on certain re-measurements (note 8) (i)	39	(56)
Net re-measurements after taxation	**(181)**	69

(i) 2017 includes a £37 million charge due to the effect of changes in US tax rates.

Notes to the Financial Statements (continued)

6. Exceptional items and certain re-measurements

(d) Impairment accounting policy, process and sensitivities

The Group tests the carrying amounts of goodwill, PP&E and intangible assets (with the exception of exploration assets) for impairment annually, or more frequently if events or changes in circumstances indicate that the recoverable amounts may be lower than their carrying amounts. Interests in joint ventures and associates and exploration assets are reviewed annually for indicators of impairment and tested for impairment where such an indicator arises. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount is the higher of value in use (VIU) and fair value less costs of disposal (FVLCD).

At inception, goodwill is allocated to each of the Group's CGUs or groups of CGUs that expect to benefit from the business combination in which the goodwill arose. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. Any impairment is expensed immediately in the Group Income Statement. Any CGU impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU.

The impairment tests for the Exploration & Production gas and oil assets and CGUs (including goodwill) and the Distributed Energy & Power customer CGU, have used FVLCD to determine their recoverable amounts. This methodology is deemed to be appropriate for these assets and CGUs as it is based on the post-tax cash flows arising from the underlying assets and is consistent with the approach taken by management to evaluate the economic value of the underlying assets. In 2017, this methodology also applied to the Group's associate investment in Nuclear; however, in the current year a VIU calculation has been used to determine the recoverable amount of this investment. Any future sales proceeds could be lower than this VIU. VIU calculations have also been used to determine recoverable amounts for all other CGUs that include goodwill, indefinite-lived intangible assets and UK power generation assets. For Nuclear, headroom exists at the year end. Were prices to fall by 10% over the asset lives an impairment of £365 million would ensue.

FVLCD discount rate and cash flow assumptions

The price assumptions used to determine recoverable amounts for FVLCD calculations are based on the liquid market prices for the three-year period, 2019 to 2021. The average price for the period 2019 to 2023 was 53p per therm for NBP, US$62 per barrel for Brent, and £51 per MWh for baseload power (all in real terms). The long-term price assumptions thereafter are derived using valuation techniques based on available external data and with reference to market comparators.

Exploration & Production assets

A net impairment write-back of £57 million (2017: write-off of £494 million), being a gross write-back of £127 million, offset by a gross write-off of £70 million, has been recorded within exceptional items for Exploration & Production assets alongside £33 million (2017: £86 million) from reductions in decommissioning provisions. For those assets subject to the net impairment write-backs, the associated recoverable amounts (net of decommissioning costs) of £820 million are categorised within Level 3 of the fair value hierarchy. FVLCD is determined by discounting the post-tax cash flows expected to be generated by the gas and oil production and development assets, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows are derived from projected production profiles of each field, taking into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available (that is outside the active period for each commodity), prices are determined based on internal model inputs. The date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, production costs, the contractual duration of the licence area and the selling price of the gas and liquids produced. As each field has specific reservoir characteristics and economic circumstances, the post-tax cash flows for each field are computed using individual economic models. Post-tax cash flows used in the FVLCD calculation for the first five years are based on the Group's Board-approved business plans and strategic shape assumptions and, thereafter, are based on long-term production and cash flow forecasts, which management believes reflects the assumptions of a market participant.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 9.5% (2017: 8.5%) to determine the FVLCD. The discount rate and inflation rate used in the FVLCD calculation are determined in the same manner as the rates used in the VIU calculations, with the exception of the adjustment required to determine an equivalent pre-tax discount rate.

The valuation of Exploration & Production assets and goodwill are particularly sensitive to the price assumptions made in the impairment calculations. To illustrate this, the price assumptions for gas and oil have been varied by +/–10%. Changes in price generate different production profiles and in some cases the date that an asset ceases production. This has been considered in the sensitivity analysis. Otherwise, all other operating costs, life of field capital expenditure and abandonment expenditure assumptions remain unchanged. For Exploration & Production assets, an increase in gas and oil prices of 10% would potentially reverse £128 million (2017: £224 million) of previous post-tax impairment charges of the exploration and production assets. A reduction of 10% would potentially give rise to further post-tax impairments of the underlying exploration and production assets of £97 million (2017: £160 million) but no post-tax impairment of goodwill (2017: nil) due to adequate headroom.

7. Net finance cost

Financing costs mainly comprise interest on bonds and bank debt, the results of hedging activities used to manage foreign exchange and interest rate movements on the Group's borrowings, and notional interest arising on discounting of decommissioning provisions and pensions. An element of financing cost is capitalised on qualifying projects.

Investment income predominantly includes interest received on short-term investments in money market funds, bank deposits, and government bonds.

Year ended 31 December	**Financing costs £m**	**Investment income £m**	**Total £m** (**2018**)	Financing costs £m	Investment income £m	Total £m (2017)
Cost of servicing net debt:						
Interest income	**–**	**20**	**20**	–	19	19
Interest cost on bonds, bank loans and overdrafts [(i)]	**(250)**	**–**	**(250)**	(289)	–	(289)
Interest cost on finance leases	**(12)**	**–**	**(12)**	(14)	–	(14)
	(262)	**20**	**(242)**	(303)	19	(284)
Net gains on revaluation [(ii)]	**–**	**7**	**7**	–	1	1
Notional interest arising from discounting	**(56)**	**–**	**(56)**	(71)	–	(71)
	(318)	**27**	**(291)**	(374)	20	(354)
Capitalised borrowing costs [(iii)]	**18**	**–**	**18**	10	–	10
Financing (cost)/income before exceptional items	**(300)**	**27**	**(273)**	(364)	20	(344)
Exceptional items (note 6(b)) [(i)]	**(139)**	**–**	**(139)**	–	–	–
(Cost)/income	**(439)**	**27**	**(412)**	(364)	20	(344)

(i) During 2018 the Group decreased its outstanding bond debt principal by £1,000 million and US$681 million, including £600 million and US$681 million as part of the debt repurchase programme. As a result of this programme an exceptional financing cost of £139 million (2017: nil) was recognised. See notes 6(b) and 11(c) for further details.

(ii) Includes gains and losses on fair value hedges, movements in fair value of other derivatives primarily used to hedge foreign exchange exposure associated with inter-company loans, and foreign currency gains and losses on the translation of inter-company loans.

(iii) Borrowing costs have been capitalised using an average rate of 4.75% (2017: 4.55%). Capitalised interest has attracted tax deductions totalling £3 million (2017: £8 million), with deferred tax liabilities being set up for the same amounts.

Notes to the Financial Statements (continued)

8. Taxation

The taxation note details the different tax charges and rates, including current and deferred tax arising in the Group. The current tax charge is the tax payable on this year's taxable profits together with amendments in respect of tax provisions made in earlier years. This tax charge excludes the Group's share of taxation on the results of joint ventures and associates. Deferred tax represents the tax on differences between the accounting carrying values of assets and liabilities and their tax bases. These differences are temporary and are expected to unwind in the future.

Analysis of tax charge

Year ended 31 December	2018 Business performance £m	2018 Exceptional items and certain re-measurements £m	2018 Results for the year £m	2017 Business performance £m	2017 Exceptional items and certain re-measurements £m	2017 Results for the year £m
Current tax						
UK corporation tax	**(44)**	**49**	**5**	(50)	(20)	(70)
UK petroleum revenue tax	**50**	**–**	**50**	63	–	63
Non-UK tax	**(278)**	**9**	**(269)**	(35)	7	(28)
Adjustments in respect of prior years – UK	**17**	**2**	**19**	29	(31)	(2)
Adjustments in respect of prior years – non-UK	**(16)**	**1**	**(15)**	(10)	(2)	(12)
Total current tax	**(271)**	**61**	**(210)**	(3)	(46)	(49)
Deferred tax						
Origination and reversal of temporary differences – UK	**(70)**	**51**	**(19)**	(44)	169	125
UK petroleum revenue tax	**(1)**	**(14)**	**(15)**	(6)	207	201
Origination and reversal of temporary differences – non-UK	**(120)**	**32**	**(88)**	(255)	(23)	(278)
Change in tax rates	**–**	**–**	**–**	34	(37)	(3)
Adjustments in respect of prior years – UK	**(11)**	**(3)**	**(14)**	57	90	147
Adjustments in respect of prior years – non-UK	**12**	**1**	**13**	26	(8)	18
Total deferred tax	**(190)**	**67**	**(123)**	(188)	398	210
Total taxation on profit/(loss) [(i)]	**(461)**	**128**	**(333)**	(191)	352	161

(i) Total taxation on profit/(loss) excludes taxation on the Group's share of profits of joint ventures and associates.

UK tax rates

The Group carries out the majority of its activities in the UK. Most activities in the UK are subject to the standard rate for UK corporation tax, which for 2018 was 19% (2017: 19.25%). Upstream gas and oil production activities are taxed at a UK corporation tax rate of 30% (2017: 30%) plus a supplementary charge of 10% (2017: 10%) to give an overall rate of 40% (2017: 40%). In addition, certain upstream assets in the UK are under the petroleum revenue tax (PRT) regime, which has a current rate of 0% (2017: 0%), giving an overall effective rate of 40% (2017: 40%).

The UK corporation tax rate will reduce to 17% from 1 April 2020. At 31 December 2018, the relevant UK deferred tax assets and liabilities included in these consolidated Group Financial Statements were based on the reduced rate having regard to their reversal profiles.

Non-UK tax rates

Norwegian upstream profits are taxed at the standard rate of 23% (2017: 24%) plus a special tax of 55% (2017: 54%) resulting in an aggregate tax rate of 78% (2017: 78%). Profits earned in the US were taxed at a Federal rate of 21% (2017: 35%) together with state taxes at various rates dependent on the state. Taxation for other jurisdictions is calculated at the rate prevailing in those respective jurisdictions, with rates ranging from 12.5% in the Republic of Ireland to 50% in the Netherlands. The tax charges were not material in such jurisdictions.

Prior year adjustments reflect changes made to estimates or to judgements when further information becomes available.

9. Dividends

Dividends represent the return of profits to shareholders and are paid twice a year; in June and November. Dividends are paid as an amount per ordinary share held. The Group retains part of the profits generated to meet future investment plans or to fund share repurchase programmes.

	2018			2017		
	£m	**Pence per share**	**Date of payment**	£m	Pence per share	Date of payment
Prior year final dividend (i)	**470**	**8.40**	**28 Jun 2018**	459	8.40	29 Jun 2017
Interim dividend	**203**	**3.60**	**22 Nov 2018**	202	3.60	30 Nov 2017
	673			661		

(i) Included within the prior year final dividend are forfeited dividends of £1 million (2017: £2 million) older than 12 years that were written back in accordance with Group policy.

The Directors propose a final dividend of 8.40 pence per ordinary share (totalling £479 million) for the year ended 31 December 2018. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 13 May 2019 and, subject to approval, will be paid on 27 June 2019 to those shareholders registered on 10 May 2019.

The Company offers a scrip dividend alternative to its shareholders. £47 million of the £470 million prior year final dividend was in the form of ordinary shares to shareholders opting in to the scrip dividend alternative. The market value per share at the date of payment was £1.46 per share resulting in the issue of 32 million new shares and £45 million of share premium.

Similarly, £78 million of the £203 million interim dividend was taken as a scrip dividend. The market value per share at the date of payment was £1.46 resulting in the issue of 53 million new shares and £74 million of share premium.

The Group has sufficient distributable reserves to pay dividends to its ultimate shareholders. Distributable reserves are calculated on an individual legal entity basis and the ultimate parent company, Centrica plc, currently has adequate levels of realised profits within its retained earnings to support dividend payments. At 31 December 2018, Centrica plc's company-only distributable reserves were c.£2.7 billion. On an annual basis, the distributable reserve levels of the Group's subsidiary undertakings are reviewed and dividends paid up to Centrica plc to replenish its reserves.

10. Earnings per ordinary share

Earnings per share (EPS) is the amount of profit or loss attributable to each share. Basic EPS is the amount of profit or loss for the year divided by the weighted average number of shares in issue during the year. Diluted EPS includes the impact of outstanding share options.

Basic earnings per ordinary share has been calculated by dividing the profit attributable to equity holders of the Company for the year of £183 million (2017: £328 million) by the weighted average number of ordinary shares in issue during the year of 5,623 million (2017: 5,537 million). The number of shares excludes 40 million ordinary shares (2017: 53 million), being the weighted average number of the Company's own shares held in the employee share trust and treasury shares purchased by the Group as part of the share repurchase programme.

The Directors believe that the presentation of adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for certain re-measurements and exceptional items assists with understanding the underlying performance of the Group, as explained in note 2.

In addition to basic and adjusted basic earnings per ordinary share, information is presented for diluted and adjusted diluted earnings per ordinary share. Under this presentation the weighted average number of shares used as the denominator is adjusted for potentially dilutive ordinary shares.

Weighted average number of shares

Year ended 31 December	**2018 Million shares**	2017 Million shares
Weighted average number of shares – basic	**5,623**	5,537
Dilutive impact of share-based payment schemes (i)	**48**	42
Weighted average number of shares – diluted	**5,671**	5,579

(i) The dilutive impact of share-based payment schemes is included in the calculation of diluted EPS, unless it has the effect of increasing the profit or decreasing the loss attributable to each share.

Notes to the Financial Statements (continued)

10. Earnings per ordinary share

Basic to adjusted basic earnings per share reconciliation

Year ended 31 December	2018 £m	2018 Pence per ordinary share	2017 (restated) (i) £m	2017 (restated) (i) Pence per ordinary share
Earnings – basic	**183**	**3.3**	328	5.9
Net exceptional items after taxation (notes 2 and 6) (ii)	**266**	**4.7**	435	7.9
Certain re-measurement losses/(gains) after taxation (notes 2 and 6) (ii)	**182**	**3.2**	(70)	(1.3)
Earnings – adjusted basic	**631**	**11.2**	693	12.5
Earnings – diluted	**183**	**3.2**	328	5.9
Earnings – adjusted diluted	**631**	**11.1**	693	12.4

(i) 2017 comparatives have been restated on adoption of IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.
(ii) Net exceptional loss after taxation of £235 million (2017: £476 million) is increased by £31 million (2017: reduced by £41 million) for the purpose of calculating adjusted basic and adjusted diluted EPS. The adjustment reflects the share of net exceptional items attributable to non-controlling interests. Similarly, certain re-measurement losses of £181 million (2017: £69 million gains) are increased by £1 million (2017: £1 million) to reflect the share of net re-measurement losses attributable to non-controlling interests.

11. Sources of finance

(a) Capital structure

The Group seeks to maintain an efficient capital structure with a balance of net debt and equity as shown in the table below:

31 December	2018 £m	2017 (restated) (i) £m
Net debt	**2,656**	2,596
Shareholders' equity	**3,145**	2,703
Capital	**5,801**	5,299

(i) 2017 comparatives have been restated on adoption of IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.

Debt levels are restricted to limit the risk of financial distress and, in particular, to maintain a strong credit profile. The Group's credit standing is important for several reasons: to maintain a low cost of debt, limit collateral requirements in energy trading, hedging and decommissioning security arrangements, and to ensure the Group is an attractive counterparty to energy producers and long-term customers.

The Group monitors its current and projected capital position on a regular basis, considering a medium-term view of at least three years, and different stress case scenarios, including the impact of changes in the Group's credit ratings and significant movements in commodity prices. A number of financial ratios are monitored, including those used by the credit rating agencies.

The level of debt that can be raised by the Group is restricted by the Company's Articles of Association. Borrowings is limited to the higher of £10 billion and a gearing ratio of three times adjusted capital and reserves. The Group funds its long-term debt requirements through issuing bonds in the capital markets and taking bank debt. Short-term debt requirements are met primarily through issuance of commercial paper. The Group maintains substantial committed facilities and uses these to provide liquidity for general corporate purposes, including short-term business requirements and back-up for commercial paper.

British Gas Insurance Limited (BGIL) is required under PRA regulations to hold a minimum capital amount and has complied with this requirement in 2018 (and 2017). BGIL's capital management policy and plan is subject to review and approval by the BGIL board. Reporting processes provide relevant and timely capital information to management and the board. A medium-term capital management plan forms part of BGIL's planning and forecasting process, embedded into approved timelines, management reviews and board approvals.

In the period from 2015-2018, the Group has reduced its overall levels of net debt, in accordance with its strategic objectives and financial framework. The Group regularly reviews its cash and gross debt positions and considers opportunities for early retirement of debt in order to maintain a more efficient balance sheet.

11. Sources of finance

(b) Net debt summary

Net debt predominantly includes capital market borrowings offset by cash, cash posted or received as collateral, securities and certain hedging financial instruments used to manage interest rate and foreign exchange movements on borrowings.

Presented in the derivatives and current and non-current borrowings, finance leases and interest accruals columns shown below are the assets and liabilities that give rise to financing cash flows.

	Cash and cash equivalents, net of bank overdrafts (i) (ii) £m	Cash posted/ (received) as collateral (iii) £m	Current and non-current securities (iv) £m	Current and non-current borrowings, finance leases and interest accruals £m	Derivatives £m	Net debt £m
1 January 2017	1,960	496	232	(6,452)	291	(3,473)
Net cash outflow from purchase of securities	(2)	–	2	–	–	–
Cash outflow from payment of capital element of finance leases	(45)	–	–	45	–	–
Cash outflow from repayment of borrowings	(226)	–	–	226	–	–
Remaining cash inflow and movement in cash posted/received under margin and collateral agreements (v)	1,393	(136)	–	–	–	1,257
Revaluation	–	–	4	36	23	63
Financing interest paid	(318)	–	–	322	(48)	(44)
Increase in interest payable and amortisation of borrowings	–	–	–	(328)	–	(328)
Acquisition of businesses	–	–	–	(66)	–	(66)
New finance lease agreements	–	–	–	(53)	–	(53)
Exchange adjustments	(25)	(24)	(2)	99	–	48
31 December 2017	2,737	336	236	(6,171)	266	(2,596)
Net cash outflow from purchase of securities	(76)	–	76	–	–	**–**
Cash outflow from payment of capital element of finance leases	(56)	–	–	56	–	**–**
Cash outflow from repayment of borrowings	(1,617)	–	–	1,516	(38)	**(139)**
Remaining cash inflow and movement in cash posted/received under margin and collateral agreements (v)	441	(57)	–	–	–	**384**
Revaluation	–	–	(6)	39	25	**58**
Financing interest paid	(305)	–	–	288	(20)	**(37)**
Increase in interest payable and amortisation of borrowings	–	–	–	(262)	–	**(262)**
New finance lease agreements	–	–	–	(36)	–	**(36)**
Exchange adjustments	4	11	1	(44)	–	**(28)**
31 December 2018	**1,128**	**290**	**307**	**(4,614)**	**233**	**(2,656)**

(i) Cash and cash equivalents includes £189 million (2017: £200 million) of restricted cash. This includes cash totalling £100 million (2017: £65 million) within the Spirit Energy business that is not restricted by regulation but is managed by its own treasury department.

(ii) Cash and cash equivalents are net of £140 million bank overdrafts (2017: £127 million). This is offset by a corresponding gross up in current borrowings.

(iii) Collateral is posted or received to support energy trading and procurement activities. It is posted when contracts with marginable counterparties are out of the money and is received when contracts are in the money. These positions reverse when contracts are settled and the collateral is returned. Of the net cash collateral posted as at 31 December 2018, £157 million (2017: £29 million) is included within trade and other payables, £446 million (2017: £253 million) within trade and other receivables, and £1 million (2017: £112 million) has been settled against net derivative financial liabilities. The items to which the cash posted or received as collateral under margin and collateral agreements relate are not included within net debt.

(iv) Securities balances include £126 million (2017: £128 million) of index-linked gilts which the Group uses for short-term liquidity management purposes. Securities balances also include £68 million (2017: £74 million) debt instruments and £45 million (2017: £34 million) equity instruments, all measured at fair value, as described in note 1. In addition to the above, securities include £68 million (2017: nil) of deposits with maturities greater than three months, which are measured at amortised cost. The Group has posted £26 million (2017: £29 million) of non-current securities as collateral against an index-linked swap maturing on 16 April 2020.

(v) Including non-cash movements relating to the reversal of collateral amounts posted when the related derivative contract settles (where these daily margin amounts posted reduce the ultimate amount payable/receivable on settlement of the related derivative contract).

Notes to the Financial Statements (continued)

11. Sources of finance

(c) Borrowings, finance leases and interest accruals summary

31 December	Coupon rate %	Principal m	2018 Current £m	2018 Non-current £m	2018 Total £m	2017 Current £m	2017 Non-current £m	2017 Total £m
Bank overdrafts			**(140)**	**–**	**(140)**	(127)	–	(127)
Bank loans (> 5 year maturity)			**–**	**(149)**	**(149)**	–	(138)	(138)
Bonds (by maturity date):								
19 September 2018	7.000	£400	**–**	**–**	**–**	(411)	–	(411)
1 February 2019	3.213	€100	**(90)**	**–**	**(90)**	–	(89)	(89)
25 September 2020	Floating	US$80	**–**	**(63)**	**(63)**	–	(59)	(59)
22 February 2022	3.680	HK$450	**–**	**(45)**	**(45)**	–	(43)	(43)
10 March 2022 (i) (ii)	6.375	£246	**–**	**(255)**	**(255)**	–	(531)	(531)
16 October 2023 (i) (ii)	4.000	US$302	**–**	**(237)**	**(237)**	–	(563)	(563)
4 September 2026 (i) (ii)	6.400	£52	**–**	**(56)**	**(56)**	–	(225)	(225)
16 April 2027	5.900	US$70	**–**	**(55)**	**(55)**	–	(51)	(51)
13 March 2029 (i) (ii)	4.375	£552	**–**	**(553)**	**(553)**	–	(751)	(751)
5 January 2032 (iii)	Zero	€50	**–**	**(60)**	**(60)**	–	(57)	(57)
19 September 2033 (ii)	7.000	£770	**–**	**(769)**	**(769)**	–	(763)	(763)
16 October 2043 (i)	5.375	US$367	**–**	**(283)**	**(283)**	–	(437)	(437)
12 September 2044	4.250	£550	**–**	**(537)**	**(537)**	–	(537)	(537)
25 September 2045	5.250	US$50	**–**	**(38)**	**(38)**	–	(36)	(36)
10 April 2075 (ii) (iv)	5.250	£450	**–**	**(449)**	**(449)**	–	(455)	(455)
10 April 2076 (v)	3.000	€750	**–**	**(672)**	**(672)**	–	(664)	(664)
			(90)	**(4,072)**	**(4,162)**	(411)	(5,261)	(5,672)
Obligations under finance leases (vi)			**(59)**	**(159)**	**(218)**	(49)	(192)	(241)
Interest accruals			**(85)**	**–**	**(85)**	(120)	–	(120)
			(374)	**(4,380)**	**(4,754)**	(707)	(5,591)	(6,298)

(i) Before the effect of the debt repurchase programme dated March 2018, the notional values of the bonds were as follows: 2022 maturity – £500 million, 2023 – US$750 million, 2026 - £200 million, 2029 - £750 million, 2043 - US$600 million.
(ii) Bonds or portions of bonds maturing in 2022, 2023, 2026, 2029, 2033 and 2075 have been designated in a fair value hedge relationship.
(iii) €50 million of zero coupon notes have an accrual yield of 4.200%, which will result in a €114 million repayment on maturity.
(iv) The Group has the right to repay at par on 10 April 2025 and every interest payment date thereafter.
(v) The Group has the right to repay at par on 10 April 2021 and every interest payment date thereafter.
(vi) Contingent rents paid under finance lease obligations during the year were £40 million (2017: £39 million).

12. Joint ventures and associates

Share of results of joint ventures and associates represents the results of businesses where we exercise joint control or significant influence and generally have an equity holding of up to 50%.

(a) Share of results of joint ventures and associates

The Group's share of results of joint ventures and associates for the year ended 31 December 2018 principally arises from its interest in Nuclear - Lake Acquisitions Limited, an associate, reported in the Central Power Generation segment.

	2018			2017		
Year ended 31 December	**Share of business performance £m**	**Share of exceptional items and certain re-measurements £m**	**Share of results for the year £m**	Share of business performance £m	Share of exceptional items and certain re-measurements £m	Share of results for the year £m
Income	**489**	**–**	**489**	538	–	538
Expenses before exceptional items and certain re-measurements	**(486)**	**–**	**(486)**	(480)	–	(480)
Re-measurement of certain contracts	**–**	**(21)**	**(21)**	–	(29)	(29)
Exceptional items	**–**	**(2)**	**(2)**	–	–	–
Operating profit/(loss)	**3**	**(23)**	**(20)**	58	(29)	29
Financing costs	**(3)**	**–**	**(3)**	(1)	–	(1)
Taxation on profit/(loss)	**3**	**1**	**4**	(6)	1	(5)
Share of post-taxation results of joint ventures and associates	**3**	**(22)**	**(19)**	51	(28)	23

(b) Reconciliation of share of results of joint ventures and associates to share of adjusted results of joint ventures and associates

Year ended 31 December	**2018 £m**	2017 £m
Share of post-taxation results of joint ventures and associates	**(19)**	23
Certain re-measurements and exceptionals (net of taxation)	**22**	28
Financing costs	**3**	1
Taxation (excluding taxation on certain re-measurements and exceptionals)	**(3)**	6
Share of adjusted results of joint ventures and associates	**3**	58

(c) Interests in joint ventures and associates

	2018	2017
	Investments in joint ventures and associates £m	Investments in joint ventures and associates £m
1 January	**1,699**	1,697
Additions	**3**	6
Disposals	**–**	(4)
Share of (loss)/profit for the year	**(19)**	23
Share of other comprehensive (loss)/income	**(1)**	43
Impairment (i)	**–**	(4)
Dividends (ii)	**(22)**	(60)
Exchange adjustments	**1**	(2)
31 December	**1,661**	1,699

(i) In 2017 this includes an impairment of shareholder loans of £1 million, subsequently disposed.
(ii) In 2017 a non-cash £2 million tax credit was received in lieu of payment of a dividend.

Notes to the Financial Statements (continued)

12. Joint ventures and associates

(d) Share of joint ventures' and associates' assets and liabilities

31 December	Associates Nuclear £m	Other £m	2018 Total £m	2017 Total £m
Share of non-current assets	3,800	11	**3,811**	3,689
Share of current assets	647	13	**660**	701
	4,447	24	**4,471**	4,390
Share of current liabilities	(134)	(5)	**(139)**	(140)
Share of non-current liabilities	(2,082)	–	**(2,082)**	(1,962)
	(2,216)	(5)	**(2,221)**	(2,102)
Cumulative impairment	(586)	(3)	**(589)**	(589)
Interests in joint ventures and associates	**1,645**	**16**	**1,661**	1,699
Net cash included in share of net assets	83	–	**83**	84

13. Derivative financial instruments

The Group uses derivative financial instruments to manage the risk arising from fluctuations in the value of certain assets or liabilities, associated with treasury management, energy sales and procurement. These derivatives are held at fair value, and are predominantly unrealised positions, expected to unwind in future periods. The Group also uses derivatives for proprietary energy trading purposes.

Purpose	Accounting treatment
Proprietary energy trading and treasury management	Carried at fair value, with changes in fair value recognised in the Group's results for the year, before exceptional items and certain re-measurements. (i)
Energy procurement/ optimisation	Carried at fair value, with changes in fair value reflected in certain re-measurements.

(i) With the exception of certain energy derivatives related to cross-border transportation and capacity contracts.

In cases where a derivative qualifies for hedge accounting, derivatives are classified as fair value hedges or cash flow hedges.

The carrying values of derivative financial instruments by product type for accounting purposes are as follows:

31 December	2018 Assets £m	2018 Liabilities £m	2017 Assets £m	2017 Liabilities £m
Derivative financial instruments – held for trading under IFRS 9:				
Energy derivatives – for procurement/optimisation	**567**	**(704)**	1,020	(868)
Energy derivatives – for proprietary trading	**837**	**(787)**	48	(70)
Interest rate derivatives	**–**	**(26)**	–	(28)
Foreign exchange derivatives	**30**	**(38)**	32	(32)
Derivative financial instruments in hedge accounting relationships:				
Interest rate derivatives (i)	**59**	**(10)**	128	(6)
Foreign exchange derivatives (i)	**185**	**(1)**	162	(16)
Total derivative financial instruments	**1,678**	**(1,566)**	1,390	(1,020)
Included within:				
Derivative financial instruments – current	**1,141**	**(1,136)**	927	(733)
Derivative financial instruments – non-current	**537**	**(430)**	463	(287)

(i) Included within these categories are £233 million (2017: £266 million) of derivatives used to hedge movements in net debt. See note 11(b).

13. Derivative financial instruments

The contracts included within energy derivatives are subject to a wide range of detailed specific terms, but comprise the following general components, analysed on a net carrying value basis:

31 December	2018 £m	2017 £m
Short-term forward market purchases and sales of gas and electricity:		
UK and Europe	**(236)**	(93)
North America	**65**	123
Structured gas purchase contracts	**100**	153
Structured gas sales contracts	**–**	(2)
Structured power purchase contracts	**(2)**	(16)
Other	**(14)**	(35)
Net total	**(87)**	130

14. Post-retirement benefits

The Group manages a number of final salary and career average defined benefit pension schemes. It also has defined contribution schemes. The majority of these schemes are in the UK.

(a) Summary of main post-retirement benefit schemes

Name of scheme	Type of benefit	Status	Country	Number of active members as at 31 December 2018	Total membership as at 31 December 2018
Centrica Engineers Pension Scheme	Defined benefit final salary pension	Closed to new members in 2006	UK	**3,037**	**8,538**
	Defined benefit career average pension	Open to service engineers only	UK	**3,330**	**5,429**
Centrica Pension Plan	Defined benefit final salary pension	Closed to new members in 2003	UK	**2,756**	**8,613**
Centrica Pension Scheme	Defined benefit final salary pension	Closed to new members in 2003	UK	**7**	**10,501**
	Defined benefit career average pension	Closed to new members in 2008	UK	**1,263**	**4,118**
	Defined contribution pension	Open to new members	UK	**13,897**	**20,544**
Bord Gáis Energy Company Defined Benefit Pension Scheme	Defined benefit final salary pension	Closed to new members in 2014	Republic of Ireland	**128**	**173**
Bord Gáis Energy Company Defined Contribution Pension Plan	Defined contribution pension	Open to new members	Republic of Ireland	**221**	**286**
Direct Energy Marketing Limited Pension Plan	Defined benefit final salary pension	Closed to new members in 2004	Canada	**7**	**374**
Direct Energy Marketing Limited	Post-retirement benefits	Closed to new members in 2012	Canada	**8**	**257**

The Centrica Engineers Pension Scheme (CEPS), Centrica Pension Plan (CPP) and Centrica Pension Scheme (CPS) form the significant majority of the Group's defined benefit obligation and are referred to below as the 'Registered Pension Schemes'. The other schemes are individually, and in aggregate, immaterial.

Independent valuations

The Registered Pension Schemes are subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employer contributions, which together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes.

The latest full actuarial valuations were carried out at the following dates: the Registered Pension Schemes at 31 March 2015, the Bord Gáis Energy Company Defined Benefit Pension Scheme at 1 January 2017 and the Direct Energy Marketing Limited Pension Plan at 1 January 2018. These have been updated to 31 December 2018 for the purpose of meeting the requirements of IAS 19. Investments held in all schemes have been valued for this purpose at market value.

Notes to the Financial Statements (continued)

14. Post-retirement benefits

Governance

The Registered Pension Schemes are managed by trustee companies whose boards consist of both company-nominated and member-nominated directors. Each scheme holds units in the Centrica Combined Common Investment Fund (CCCIF), which holds the majority of the combined assets of the Registered Pension Schemes. The board of the CCCIF is currently comprised of nine directors: three independent directors, three directors appointed by Centrica plc (including the Chairman) and one director appointed by each of the three Registered Pension Schemes.

Under the terms of the Pensions Act 2004, Centrica plc and each trustee board must agree the funding rate for its defined benefit pension scheme and a recovery plan to fund any deficit against the scheme-specific statutory funding objective. This approach was first adopted for the triennial valuations completed at 31 March 2006, and has been reflected in subsequent valuations, including the 31 March 2015 valuations.

(b) Risks

The Registered Pension Schemes expose the Group to the following risks:

Asset volatility

The pension liabilities are calculated using a discount rate set with reference to AA corporate bond yields. If the growth in plan assets is lower than this, this will create an actuarial loss within other equity. The CCCIF is responsible for managing the assets of each scheme in line with the liability-related investment objectives (which were updated in 2017) that have been set by the trustees of the schemes, and invests in a diversified portfolio of assets. The schemes are relatively young in nature (the schemes opened in 1997 on the formation of Centrica plc on demerger from BG plc (formerly British Gas plc), and only took on liabilities in respect of active employees). Therefore, the CCCIF holds a significant proportion of return-seeking assets; such assets are generally expected to provide a higher return than corporate bonds, but result in greater exposure to volatility and risk in the short term. The investment objectives are to achieve a long-term target return of 4% per annum in nominal terms, subject to a maximum level of modelled downside risk exposure.

Interest rate

A decrease in the bond interest rate will increase the net present value of the pension liabilities. The relative immaturity of the schemes means that the duration of the liabilities is longer than average for typical UK pension schemes, resulting in a relatively higher exposure to interest rate risk.

Inflation

Pensions in deferment, pensions in payment and pensions accrued under the career average schemes increase in line with the Retail Prices Index (RPI) and the Consumer Prices Index (CPI). Therefore scheme liabilities will increase if inflation is higher than assumed, although in some cases caps are in place to limit the impact of significant movements in inflation. Furthermore, a pension increase exchange (PIE) option implemented in 2015 is available to future retirees, which gives the choice to receive a higher initial pension in return for giving up certain future increases linked to RPI, again limiting the impact of significant movements in inflation.

Longevity

The majority of the schemes' obligations are to provide benefits for the life of scheme members and their surviving spouses; therefore increases in life expectancy will result in an increase in the pension liabilities. The relative immaturity of the schemes means that there is comparatively little observable mortality data to assess the rates of mortality experienced by the schemes, and means that the schemes' liabilities will be paid over a long period of time, making it particularly difficult to predict the life expectancy of the current membership. Furthermore, pension payments are subject to inflationary increases, resulting in a higher sensitivity to changes in life expectancy.

Salary

Pension liabilities are calculated by reference to the future salaries of active members, and hence salary rises in excess of assumed increases will increase scheme liabilities. During 2011, changes were introduced to the final salary sections of CEPS and CPP such that annual increases in pensionable pay are capped to 2%, resulting in a reduction in salary risk. During 2016, a salary cap on pensionable pay for the CPS career average and CPP schemes was implemented. Both the 2011 and 2016 changes result in a reduction in salary risk.

Foreign exchange

Certain assets held by the CCCIF are denominated in foreign currencies, and hence their values are subject to exchange rate risk.

The CCCIF has long-term hedging policies in place to manage interest rate, inflation and foreign exchange risks.

The table below analyses the total liabilities of the Registered Pension Schemes, calculated in accordance with accounting principles, by type of liability, as at 31 December 2018.

Total liabilities of the Registered Pension Schemes 31 December	**2018** **%**
Actives – final salary – capped	**28**
Actives – final salary – uncapped and crystallised benefits	**5**
Actives – career average	**7**
Deferred pensioners	**30**
Pensioners	**30**
	100

14. Post-retirement benefits

(c) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes have been given below:

Major assumptions used for the actuarial valuation 31 December	**2018** **%**	2017 %
Rate of increase in employee earnings:		
Subject to 2% cap	**1.7**	1.7
Other not subject to cap	**2.2**	2.3
Rate of increase in pensions in payment	**3.1**	3.1
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**2.0**	2.0
In line with RPI	**3.1**	3.1
Discount rate	**3.0**	2.6

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date have been based on a combination of standard actuarial mortality tables, scheme experience and other relevant data, and include an allowance for future improvements in mortality. The longevity assumptions for members in normal health are as follows:

Life expectancy at age 65 for a member		**2018**		2017
31 December	**Male** **Years**	**Female** **Years**	Male Years	Female Years
Currently aged 65	**22.9**	**24.5**	23.0	24.6
Currently aged 45	**24.3**	**26.0**	24.5	26.1

The other demographic assumptions have been set having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuations of the pension schemes.

For the Registered Pension Schemes, marginal adjustments to the assumptions used to calculate the pension liability, or significant swings in bond yields or stock markets, can have a large impact in absolute terms on the net assets of the Group. Reasonably possible changes as at 31 December to one of the actuarial assumptions would have affected the scheme liabilities as set out below:

Impact of changing material assumptions		**2018**		2017
31 December	**Increase/ decrease in assumption**	**Indicative effect on scheme liabilities %**	Increase/ decrease in assumption	Indicative effect on scheme liabilities %
Rate of increase in employee earnings subject to 2% cap	**0.25%**	**+/-0**	0.25%	+/–0
Rate of increase in pensions in payment and deferred pensions	**0.25%**	**+/-5**	0.25%	+/–5
Discount rate	**0.25%**	**-/+6**	0.25%	–/+6
Inflation assumption	**0.25%**	**+/-5**	0.25%	+/–5
Longevity assumption	**1 year**	**+/-3**	1 year	+/–3

The indicative effects on scheme liabilities have been calculated by changing each assumption in isolation and assessing the impact on the liabilities. For the reasonably possible change in the inflation assumption, it has been assumed that a change to the inflation assumption would lead to corresponding changes in the assumed rates of increase in uncapped pensionable pay, pensions in payment and deferred pensions.

The remaining disclosures in this note cover all of the Group's defined benefit schemes.

(d) Amounts included in the Group Balance Sheet

31 December	**2018** **£m**	2017 £m
Fair value of plan assets	**8,487**	8,451
Present value of defined benefit obligation	**(8,566)**	(9,337)
Net liability recognised in the Group Balance Sheet	**(79)**	(886)
Pension liability presented in the Group Balance Sheet as:		
Retirement benefit assets	**223**	–
Retirement benefit liabilities	**(302)**	(886)

The Trust Deed and Rules for the Registered Pension Schemes provide the Group with a right to a refund of surplus assets assuming the full settlement of scheme liabilities. No asset ceiling restrictions have been applied in the consolidated Financial Statements.

Notes to the Financial Statements (continued)

14. Post-retirement benefits

(e) Movements in the year

	2018 Pension liabilities £m	2018 Pension assets £m	2017 Pension liabilities £m	2017 Pension assets £m
1 January	**(9,337)**	**8,451**	(9,075)	7,938
Items included in the Group Income Statement:				
Current service cost	**(120)**	**–**	(125)	–
Contributions by employer in respect of employee salary sacrifice arrangements (i)	**(29)**	**–**	(31)	–
Total current service cost	**(149)**	**–**	(156)	–
Past service cost (ii)	**(41)**	**–**	(7)	–
Interest (expense)/income	**(239)**	**218**	(245)	215
Items included in the Group Statement of Comprehensive Income:				
Returns on plan assets, excluding interest income	**–**	**(145)**	–	309
Actuarial gain from changes to demographic assumptions	**42**	**–**	70	–
Actuarial gain/(loss) from changes in financial assumptions	**912**	**–**	(120)	–
Actuarial loss from experience adjustments	**(17)**	**–**	(37)	–
Exchange adjustments	**1**	**–**	1	–
Items included in the Group Cash Flow Statement:				
Employer contributions	**–**	**216**	–	236
Contributions by employer in respect of employee salary sacrifice arrangements (i)	**–**	**29**	–	31
Other movements:				
Plan participants' contributions	**(2)**	**2**	(2)	2
Benefits paid from schemes	**277**	**(277)**	287	(287)
Acquisition of businesses (iii)	**–**	**–**	(8)	7
Scheme closures (iii)	**8**	**(7)**	–	–
Transfers from provisions for other liabilities and charges	**(21)**	**–**	(45)	–
31 December	**(8,566)**	**8,487**	(9,337)	8,451

(i) A salary sacrifice arrangement was introduced on 1 April 2013 for pension scheme members. The contributions paid via the salary sacrifice arrangement have been treated as employer contributions and included within current service cost, with a corresponding reduction in salary costs.
(ii) A £41 million past service cost was recognised in the year as a result of GMP equalisation. See note 6. A £7 million charge was recognised in 2017 as a result of the curtailment for certain employees within the Registered Pension Schemes upon the combination of the Group's Exploration & Production business with Bayerngas Norge.
(iii) As part of the combination of the Group's Exploration & Production business with Bayerngas Norge in 2017, a Norwegian defined benefit pension scheme was acquired. The scheme was then closed in 2018.

In addition to current service cost on the Group's defined benefit pension schemes, the Group also charged £58 million (2017: £45 million) to operating profit in respect of defined contribution pension schemes. This included contributions of £17 million (2017: £13 million) paid via a salary sacrifice arrangement.

(f) Pension scheme assets

The market values of plan assets were:

31 December	2018 Quoted £m	2018 Unquoted £m	2018 Total £m	2017 Quoted £m	2017 Unquoted £m	2017 Total £m
Equities	**1,991**	**351**	**2,342**	2,121	303	2,424
Corporate bonds	**1,118**	**–**	**1,118**	1,303	–	1,303
High-yield debt	**595**	**1,360**	**1,955**	280	1,451	1,731
Liability matching assets	**1,581**	**994**	**2,575**	1,663	952	2,615
Property	**–**	**395**	**395**	–	374	374
Cash pending investment	**102**	**–**	**102**	4	–	4
	5,387	**3,100**	**8,487**	5,371	3,080	8,451

Unquoted assets are valued by the fund managers with reference to the expected cash flows associated with the assets. These valuations are reviewed annually as part of the CCCIF audit. Included within equities are £1 million of ordinary shares of Centrica plc (2017: nil) via pooled funds that include a benchmark allocation to UK equities. Included within corporate bonds are nil (2017: £1 million) of bonds issued by Centrica plc held within pooled funds over which the CCCIF has no ability to direct investment decisions. Apart from the investment in the Scottish Limited Partnerships which form part of the asset-backed contribution arrangements described in note 14(g), no direct investments are made in securities issued by Centrica plc or any of its subsidiaries or property leased to or owned by Centrica plc or any of its subsidiaries.

14. Post-retirement benefits

Included within the Group Balance Sheet within non-current securities are £91 million (2017: £94 million) of investments, held in trust on behalf of the Group, as security in respect of the Centrica Unfunded Pension Scheme. Of the pension scheme liabilities above, £63 million (2017: £63 million) relate to this scheme.

(g) Pension scheme contributions

The Group estimates that it will pay £91 million of ordinary employer contributions during 2019, at an average rate of 24% of pensionable pay, together with £27 million of contributions paid via a salary sacrifice arrangement. At 31 March 2015 (the date of the latest full agreed actuarial valuations) the weighted average duration of the liabilities of the Registered Pension Schemes was 24 years.

At the 31 March 2015 triennial review of the UK Registered Pension Schemes the Technical Provisions deficit was £1,203 million. The Group is committed to additional annual cash contributions to fund the pension deficit and this funding is provided through asset-backed contribution arrangements. The contribution during the year was £98 million, with the remaining annual contributions being £98 million per annum for 2019-2022, £81 million per annum for 2023-2026 and £76 million per annum for 2027-2030, through these arrangements. A £995 million security package over certain of the Group's assets, enforceable in the unlikely event the Group is unable to meet its obligations, is also in place.

The next UK Registered Pension Schemes triennial review, based on the position at 31 March 2018, is in progress. The Group is likely to remain in a Technical Provisions deficit position in excess of the agreed contributions noted above. Whilst negotiations are ongoing, a separate £75 million cash deficit contribution was made on 2 January 2019.

Deficit payments are also being made in respect of the Direct Energy Marketing Limited Pension Plan in Canada. £1 million was paid in 2018 with further annual contributions of £1 million to be paid in 2019.

15. Acquisitions and disposals

This section details acquisitions and disposals made by the Group

(a) 2018 business combinations and asset acquisitions

On 28 February 2018 the Group acquired NJR Retail Services Company for cash consideration of US$24 million (£17 million) of which US$13 million (£10 million) was deferred. The provisional fair value of assets and liabilities acquired was US$18 million (£13 million) resulting in goodwill of US$6 million (£4 million).

On 1 July 2018 the Group acquired North American mid-continent retail operations from BP Canada Energy Marketing Corporation constituting a business for cash consideration of US$39 million (£31 million). The provisional fair value of assets and liabilities acquired was US$18 million (£15 million) resulting in goodwill of US$21 million (£16 million).

On 27 November 2018, the Group acquired T.A. Kaiser Heating and Air Inc. for cash consideration of US$19 million (£15 million). The provisional fair value of assets and liabilities acquired was US$19 million (£15 million).

On 31 December 2018 the Group acquired certain retail power operations from Source Power & Gas Business LLC. As this transaction was accounted for as an asset acquisition, cash consideration of US$26 million (£21 million) was allocated to the assets acquired.

£18 million of deferred consideration was paid in respect of the Bord Gáis acquisition.

Acquisition-related costs have been charged to 'operating costs before exceptional items and credit losses on financial assets' in the Group Income Statement for an aggregated amount of £1 million.

Pro forma information

The pro forma consolidated results of the Group, assuming the acquisitions had been made at the beginning of the year, would not be materially different.

(b) 2017 business combinations – measurement period adjustments

During the year, there have been no material updates to the fair value of assets and liabilities recognised for businesses acquired in 2017. In 2017 the Group's existing Exploration & Production business was combined with Bayerngas Norge AS with the Group owning 69% of the newly formed business, Spirit Energy Limited. During 2018, goodwill in respect of this acquisition increased by £4 million and other assets by £18 million with corresponding adjustments to other equity (£8 million) and non-controlling interests (£14 million). Goodwill in respect of other prior year acquisitions increased by £2 million.

(c) Disposals

All disposals undertaken by the Group during the year were immaterial, both individually and in aggregate. None of these disposals are material enough to be shown as discontinued operations on the face of the Group Income Statement as they do not represent a separate major line of business or material geographical area of operations.

Notes to the Financial Statements (continued)

16. Commitments and contingencies

(a) Commitments

Commitments are not held on the Group's Balance Sheet as these are executory arrangements, and relate to amounts that we are contractually required to pay in the future as long as the other party meets its contractual obligations.

The Group procures commodities through a mixture of production from gas fields, power stations, wind farms and procurement contracts. Procurement contracts include short-term forward market purchases of gas and electricity at fixed and floating prices. They also include gas and electricity contracts indexed to market prices and long-term gas contracts with non-gas indexation. The commitments in relation to commodity purchase contracts disclosed below are stated net of amounts receivable under commodity sales contracts, where there is a right of offset with the counterparty.

The total volume of gas to be taken under certain long-term structured contracts depends on a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis. The commitments disclosed below are based on the expected minimum quantities of gas and other commodities that the Group is contracted to buy at estimated future prices.

The Group's 20-year agreement with Cheniere to purchase 89bcf per annum of LNG volumes for export from the Sabine Pass liquefaction plant in the US commits the Group to capacity payments of £3.8 billion (included in 'LNG capacity' below) between 2019 and 2039. It also allows the Group to make up to £6.9 billion of commodity purchases based on market gas prices and foreign exchange rates as at the balance sheet date. The target date for first commercial delivery is estimated by the terminal operator as September 2019.

31 December	2018 £m	2017 £m
Commitments in relation to the acquisition of property, plant and equipment:		
Development of Norwegian Nova oil and gas field	**143**	–
Development of Norwegian Oda gas and oil field	**38**	55
Development of Danish Hejre gas and oil field	**–**	219
Development of Norwegian Maria gas and oil field	**–**	31
Other Exploration & Production capital expenditure	**195**	162
Development of King's Lynn A power station	**11**	50
Other capital expenditure	**5**	29
Commitments in relation to the acquisition of intangible assets:		
Renewable obligation certificates	**4,326**	4,261
Other intangible assets	**592**	372
Other commitments:		
Commodity purchase contracts	**48,055**	42,324
LNG capacity	**4,371**	4,401
Transportation capacity	**1,013**	997
Other long-term commitments (i)	**669**	577
Operating lease commitments:		
Future minimum lease payments under non-cancellable operating leases	**343**	388

(i) Other long-term commitments include amounts in respect of executory contracts, power station tolling fees and the smart meter roll-out programme.

16. Commitments and contingencies

At 31 December the maturity analyses for commodity purchase contract commitments and the total minimum lease payments under non-cancellable operating leases were:

	Commodity purchase contract commitments		Total minimum lease payments under non-cancellable operating leases	
31 December	**2018 £billion**	2017 £billion	**2018 £m**	2017 £m
<1 year	**13.9**	11.2	**99**	120
1–2 years	**7.9**	6.0	**64**	77
2–3 years	**5.2**	4.4	**50**	46
3–4 years	**4.0**	3.7	**36**	38
4–5 years	**4.0**	3.6	**27**	30
>5 years	**13.1**	13.4	**67**	77
	48.1	42.3	**343**	388

Operating lease payments recognised as an expense in the year were as follows:

Year ended 31 December	**2018 £m**	2017 £m
Minimum lease payments (net of sub-lease receipts)	**80**	90
Contingent rents – renewables (i)	**59**	73

(i) The Group has entered into long-term arrangements with renewable providers to purchase physical power, renewable obligation certificates and levy exemption certificates from renewable sources. Payments made under these contracts are contingent upon actual production and so there is no commitment to a minimum lease payment (2017: nil). Payments made for physical power are charged to the Group Income Statement as incurred and disclosed as contingent rents.

(b) Guarantees and indemnities

This section discloses any guarantees and indemnities that the Group has given, where we may have to provide security in the future against existing and future obligations that will remain for a specific period.

In connection with the Group's energy trading, transportation and upstream activities, certain Group companies have entered into contracts under which they may be required to prepay, provide credit support or provide other collateral in the event of a significant deterioration in creditworthiness. The extent of credit support is contingent upon the balance owing to the third party at the point of deterioration.

The Group has provided a number of securities in respect of decommissioning liabilities associated with field developments owned, or partly owned, by Spirit Energy and its subsidiaries. These securities are provided to fellow partners and previous owners of these fields, who may be liable for Spirit Energy's share of the decommissioning costs, in the event of default by the Group. The most significant securities relate to the Morecambe and Statfjord fields. As at 31 December 2018, £612 million (2017: £694 million) of letters of credit and on demand payment bonds have been issued in respect of decommissioning obligations included in the Group Balance Sheet.

As additional assets are developed or acquired, additional securities may be provided.

(c) Contingent liabilities

Bacton entry capacity charging methodology

Under proposals for a new UK gas transmission charging methodology currently being considered by Ofgem, it is possible that the Exploration & Production segment may be subject to top-up charges in the future for entry capacity purchased for the now defunct Bacton storage project. Management's best estimate of the value of this contingent liability is £20 million.

The Group has no other material contingent liabilities.

Notes to the Financial Statements (continued)

17. Events after the balance sheet date

The Group updates disclosures in light of new information being received, or a significant event occurring, in the period between 31 December 2018 and the date of this report.

Dividends

The Directors propose a final dividend of 8.40 pence per ordinary share (totalling £479 million) for the year ended 31 December 2018. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 13 May 2019 and, subject to approval, will be paid on 27 June 2019 to those shareholders registered on 10 May 2019.

Mozambique LNG purchase

Energy Marketing & Trading has signed a joint purchase agreement with Tokyo Gas to take 2.6 million tonnes of LNG per year from the Mozambique LNG Project until the early 2040s. The project is targeting a final investment decision in the first half of 2019, with commencement of deliveries anticipated from 2023.

Disposal of Clockwork business

On 15 February 2019 the Group signed an agreement to dispose of the equity in a number of entities which collectively make up the Clockwork business ("Clockwork") - a component of North America Home Services. Clockwork consists of retail and franchise operations under the brands 'One Hour Air Conditioning and Heating', 'Benjamin Franklin Plumbing' and 'Mister Sparky Electric'. The net assets of the entities to be disposed of, plus the carrying amount of associated intangibles and estimated allocation of goodwill, result in approximately £117 million (US$150 million) of assets to be divested in exchange for consideration of approximately £234 million (US$300 million). The disposal may trigger a potential impairment of a shared IT system of up to £66 million (US$85 million). The goodwill allocation exercise, impairment review and recycling of any foreign exchange balances from reserves will be finalised prior to the expected transaction completion date of April 2019.

The assets of the disposal group were not held for sale at 31 December 2018 as the sale was not considered to be highly probable at this date.

18. Seasonality of operations

Certain activities of the Group are affected by weather and temperature conditions. As a result of this, amounts reported for the six-month period ended 31 December 2018 may not be indicative of the amounts that would be reported for a full year due to seasonal fluctuations in customer demand for gas, electricity and services, the impact of weather on demand and commodity prices, market changes in commodity prices and retail tariffs.

Customer demand for gas in the UK, Republic of Ireland and North America is driven primarily by heating load and is generally higher in the winter than in the summer, and higher from January to June than from July to December. Customer demand for electricity in the UK and the Republic of Ireland generally follows a similar pattern to gas, but is more stable. Customer demand for electricity in North America is also more stable than gas but is driven by heating load in the winter and cooling load in the summer. Generally, demand for electricity in North America is higher in the winter and summer than it is in the spring and autumn, and higher from July to December than it is from January to June.

Customer demand for home services in the UK is generally higher in the winter than it is in the summer, and higher in the earlier part of the winter as that is typically when heating systems tend to break down most, so that customer demand from July to December is higher than from January to June. Customer demand for home services in North America follows a similar pattern, but is also higher in the summer as a result of servicing of cooling systems.

Gas production volumes in the UK are generally higher in the winter when gas prices are higher. Gas production volumes are generally higher from January to June than they are from July to December as outages are generally planned for the summer months when gas demand and prices are at their lowest. Gas production volumes in North America are generally not seasonal.

Power generation volumes from the Group's thermal power stations are dependent on spark spread prices, which is the difference between the price of electricity and the price of gas multiplied by a conversion rate and, as a result, are not as seasonal as gas production volumes in the UK, as wholesale prices for both gas and electricity are generally higher in the winter than they are in the summer. As the nuclear power stations in which the Group holds an interest are used to meet baseload power demand, volumes of power generated by these stations are not as seasonal as those generated by the Group's thermal power station assets.

The impact of seasonality on customer demand and wholesale prices has a direct effect on the Group's financial performance and cash flows.

Notes to the Financial Statements (continued)

19. Group Income Statement for the six months ended 31 December

Six months ended 31 December	Notes	2018 Business performance £m	2018 Exceptional items and certain re-measurements £m	2018 Results for the period £m	2017 (restated) (i) (ii) Business performance £m	2017 (restated) (i) (ii) Exceptional items and certain re-measurements £m	2017 (restated) (i) (ii) Results for the period £m
Group revenue	21(a)	**14,365**	**–**	**14,365**	13,736	–	13,736
Cost of sales before exceptional items and certain re-measurements		**(12,368)**	**–**	**(12,368)**	(11,941)	–	(11,941)
Re-measurement of energy contracts	22(c)	**–**	**(200)**	**(200)**	–	376	376
Cost of sales		**(12,368)**	**(200)**	**(12,568)**	(11,941)	376	(11,565)
Gross profit/(loss)		**1,997**	**(200)**	**1,797**	1,795	376	2,171
Operating costs before exceptional items and credit losses on financial assets		**(1,337)**	**–**	**(1,337)**	(1,321)	–	(1,321)
Credit losses on financial assets (ii)		**(45)**	**–**	**(45)**	(61)		(61)
Exceptional items	22(a)	**–**	**(113)**	**(113)**	–	(553)	(553)
Operating costs		**(1,382)**	**(113)**	**(1,495)**	(1,382)	(553)	(1,935)
Share of profits/(losses) in joint ventures and associates, net of interest and taxation	22	**1**	**(20)**	**(19)**	28	(33)	(5)
Group operating profit/(loss)	21(b)	**616**	**(333)**	**283**	441	(210)	231
Financing costs		**(136)**	**–**	**(136)**	(181)	–	(181)
Investment income		**13**	**–**	**13**	8	–	8
Net finance cost		**(123)**	**–**	**(123)**	(173)	–	(173)
Profit/(loss) before taxation		**493**	**(333)**	**160**	268	(210)	58
Taxation on profit/(loss)		**(216)**	**60**	**(156)**	(12)	247	235
Profit/(loss) for the period		**277**	**(273)**	**4**	256	37	293
Attributable to:							
Owners of the parent		**273**	**(328)**	**(55)**	246	40	286
Non-controlling interests		**4**	**55**	**59**	10	(3)	7

Earnings per ordinary share		2018 Pence	2017 Pence
Basic	23	**(1.0)**	5.0
Diluted	23	**(1.0)**	5.0

(i) Prior year results have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.
(ii) Credit losses on financial assets are now disclosed separately in accordance with IAS 1: 'Presentation of financial statements'. See note 1 for further details.

20. Group Cash Flow Statement for the six months ended 31 December

Six months ended 31 December	2018 £m	2017 (restated) (i) £m
Group operating profit including share of results of joint ventures and associates	**283**	231
Add back share of loss of joint ventures and associates, net of interest and taxation	**19**	5
Group operating profit before share of results of joint ventures and associates	**302**	236
Add back/(deduct):		
Depreciation, amortisation, write-downs, impairments and write-backs	**469**	923
(Profit)/loss on disposals	**(11)**	19
Decrease in provisions	**(43)**	(189)
Cash contributions to defined benefit schemes in excess of service cost income statement charge	**30**	(40)
Employee share scheme costs	**24**	23
Unrealised losses/(gains) arising from re-measurement of energy contracts	**244**	(291)
Operating cash flows before movements in working capital	**1,015**	681
Increase in inventories	**(105)**	(75)
Increase in trade and other receivables	**(985)**	(458)
Increase in trade and other payables	**1,331**	747
Operating cash flows before payments relating to taxes and exceptional charges	**1,256**	895
Taxes paid	**(67)**	(78)
Payments relating to exceptional charges in operating costs	**(131)**	(86)
Net cash flow from operating activities	**1,058**	731
Purchase of businesses, net of cash acquired	**(27)**	20
Sale of businesses	**13**	565
Purchase of property, plant and equipment and intangible assets	**(491)**	(500)
Sale of property, plant and equipment and intangible assets	**3**	3
Investments in joint ventures and associates	**(3)**	(2)
Dividends received from joint ventures and associates	**–**	38
Disposal of interests in joint ventures and associates	**–**	(1)
Interest received	**8**	7
(Purchase)/sale of securities	**(19)**	4
Net cash flow from investing activities	**(516)**	134
Distribution to non-controlling interests	**–**	(2)
Financing interest paid	**(145)**	(175)
Repayment of borrowings and finance leases	**(433)**	(93)
Equity dividends paid	**(124)**	(205)
Net cash flow from financing activities	**(702)**	(475)
Net (decrease)/increase in cash and cash equivalents	**(160)**	390
Cash and cash equivalents including overdrafts at 1 July	**1,303**	2,360
Effect of foreign exchange rate changes	**(15)**	(13)
Cash and cash equivalents including overdrafts at 31 December	**1,128**	2,737
Included in the following line of the Group Balance Sheet:		
Cash and cash equivalents	**1,268**	2,864
Overdrafts included within current bank overdrafts, loans and other borrowings	**(140)**	(127)

(i) Prior period comparatives have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.

Notes to the Financial Statements (continued)

21. Segmental analysis for the six months ended 31 December

(a) Revenue

Six months ended 31 December	2018 Gross segment revenue £m	2018 Less inter-segment revenue £m	2018 Group revenue £m	2018 Group revenue from contracts with customers (IFRS 15) £m	2017 Gross segment revenue (restated) (i) £m	2017 Less inter-segment revenue (restated) (i) £m	2017 Group revenue (restated) (i) £m	2017 Group revenue from contracts with customers (IFRS 15) £m
Centrica Consumer								
UK Home	**3,866**	**(4)**	**3,862**	**3,347**	4,001	(3)	3,998	3,478
Ireland	**437**	**–**	**437**	**320**	405	–	405	304
North America Home	**1,280**	**–**	**1,280**	**1,220**	1,276	–	1,276	1,218
Connected Home	**46**	**(17)**	**29**	**29**	26	(9)	17	17
	5,629	**(21)**	**5,608**	**4,916**	5,708	(12)	5,696	5,017
Centrica Business								
UK Business	**901**	**(1)**	**900**	**695**	878	–	878	676
North America Business	**4,430**	**–**	**4,430**	**3,800**	3,979	–	3,979	3,453
Distributed Energy & Power	**125**	**–**	**125**	**124**	93	(3)	90	89
Energy Marketing & Trading	**2,738**	**(55)**	**2,683**	**604**	2,500	(130)	2,370	1,286
Central Power Generation	**373**	**(93)**	**280**	**1**	292	(93)	199	5
	8,567	**(149)**	**8,418**	**5,224**	7,742	(226)	7,516	5,509
Exploration & Production	**906**	**(567)**	**339**	**463**	939	(415)	524	446
	15,102	**(737)**	**14,365**	**10,603**	14,389	(653)	13,736	10,972

(i) Revenue has been restated on transition to IFRS 15: 'Revenue from contracts with customers'. Segmental revenues have also been restated to reflect the new operating structure of the Group, under which the segment formerly known as Centrica Storage is shown as part of Exploration & Production. See note 1 for further details

21. Segmental analysis for the six months ended 31 December

(b) Operating profit before and after taxation

Six months ended 31 December	Adjusted operating profit/(loss) 2018 £m	Adjusted operating profit/(loss) 2017 (restated) (i) £m	Adjusted operating profit/(loss) after taxation 2018 £m	Adjusted operating profit/(loss) after taxation 2017 (restated) (i) £m
Centrica Consumer				
UK Home	**275**	330	**225**	275
Ireland	**29**	14	**26**	11
North America Home	**57**	56	**42**	34
Connected Home	**(41)**	(51)	**(36)**	(37)
	320	349	**257**	283
Centrica Business				
UK Business	**17**	4	**14**	5
North America Business	**31**	(41)	**23**	(24)
Distributed Energy & Power	**(44)**	(34)	**(37)**	(27)
Energy Marketing & Trading	**6**	(1)	**8**	2
Central Power Generation	**15**	11	**15**	30
	25	(61)	**23**	(14)
Exploration & Production	**265**	145	**75**	32
Adjusted operating profit	**610**	433	**355**	301
Share of joint ventures'/associates' interest and taxation	**6**	8		
Operating profit before exceptional items and certain re-measurements	**616**	441		
Exceptional items (note 22b)	**(113)**	(553)		
Certain re-measurements included within gross profit (note 22c)	**(200)**	376		
Re-measurements of certain associates' contracts (net of taxation) (note 22c)	**(18)**	(33)		
Share of associates' exceptional operating cost (note 22b)	**(2)**	–		
Total exceptional items and certain re-measurements included in operating profit	**(333)**	(210)		
Operating profit after exceptional items and certain re-measurements	**283**	231		

Six months ended 31 December	2018 £m	2017 (restated) (i) £m
Adjusted operating profit after taxation (ii)	**355**	301
Impact of changes to corporate tax rates (iii)	**–**	34
Corporate and other taxation, and interest (net of taxation) (iv)	**(78)**	(79)
Business performance profit for the period	**277**	256
Exceptional items and certain re-measurements (net of taxation) (note 22)	**(273)**	37
Statutory profit for the period	**4**	293

(i) Comparatives have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. 2017 results have also been restated to reflect the change to the Group's operating structure, as a result of which the segment formerly known as Centrica Storage is now presented as part of Exploration & Production. See note 1 for further details.
(ii) Segment adjusted operating profit after taxation includes a profit of £6 million (2017: £3 million) attributable to non-controlling interests.
(iii) The 2017 amount relates to a change to the US tax rate.
(iv) Includes joint ventures'/associates' interest, net of associated taxation.

Notes to the Financial Statements (continued)

22. Exceptional items and certain re-measurements for the six months ended 31 December

(a) Total exceptional items and certain re-measurements

Six months ended 31 December	2018 £m	2017 £m
Exceptional items (note 22(b))	**(115)**	(553)
Certain re-measurement (losses)/gains (note 22(c))	**(218)**	343
Exceptional items and certain re-measurements before taxation	**(333)**	(210)

(b) Exceptional items

Six months ended 31 December	2018 £m	2017 £m
Net write-back/(impairment) of Exploration & Production assets	**90**	(311)
Net loss on disposal of Central Power Generation businesses and assets	**–**	(7)
Loss on disposal of Exploration & Production businesses and material assets	**–**	(125)
Guaranteed minimum pension equalisation past service cost	**(43)**	–
Provision for onerous power procurement contract and impairment of UK power generation assets	**(62)**	–
Restructuring costs	**(100)**	(54)
Business change costs	**–**	(56)
Exceptional items included within Group operating profit	**(115)**	(553)
Net taxation on exceptional items	**49**	345
Net exceptional items after taxation	**(66)**	(208)

(c) Certain re-measurements

Six months ended 31 December	2018 £m	2017 £m
Certain re-measurements recognised in relation to energy contracts:		
Net gains arising on delivery of contracts	**51**	56
Net (losses)/gains arising on market price movements and new contracts	**(251)**	320
Net re-measurements included within gross profit	**(200)**	376
Net losses arising on re-measurement of certain associates' contracts (net of taxation)	**(18)**	(33)
Net re-measurements included within Group operating profit	**(218)**	343
Taxation on certain re-measurements	**11**	(98)
Net re-measurements after taxation	**(207)**	245

23. Earnings per ordinary share for the six months ended 31 December

	2018		2017 (restated) (i)	
Six months ended 31 December	£m	Pence per ordinary share	£m	Pence per ordinary share
(Loss)/earnings – basic	**(55)**	**(1.0)**	286	5.0
Net exceptional items after taxation (note 22(b)) (ii)	**97**	**1.7**	206	3.7
Certain re-measurement losses/(gains) after taxation (note 22(c)) (ii)	**231**	**4.1**	(246)	(4.4)
Earnings – adjusted basic	**273**	**4.8**	246	4.3
(Loss)/earnings – diluted	**(55)**	**(1.0)**	286	5.0
Earnings – adjusted diluted	**273**	**4.7**	246	4.3

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

(ii) Net exceptional loss after taxation of £66 million (2017: £208 million) is increased by £31 million (2017: reduced by £2 million) for the purpose of calculating adjusted basic and adjusted diluted EPS. The adjustment reflects the share of net exceptional items attributable to non-controlling interests. Similarly, certain re-measurement losses of £207 million (2017: £245 million gain) are increased by £24 million (2017: £1 million) to reflect the share of net re-measurement losses attributable to non-controlling interests.

Gas and Liquids Reserves (Unaudited)

The Group's estimates of reserves of gas and liquids are reviewed as part of the full year reporting process and updated accordingly.

A number of factors affect the volumes of gas and liquids reserves, including the available reservoir data, commodity prices and future costs. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

The Group discloses 2P gas and liquids reserves, representing the central estimate of future hydrocarbon recovery. Reserves for Centrica operated fields are estimated by in-house technical teams composed of geoscientists and reservoir engineers. Reserves for non-operated fields are estimated by the operator, but are subject to internal review and challenge.

As part of the internal control process related to reserves estimation, an assessment of the reserves, including the application of the reserves definitions is undertaken by an independent technical auditor. An annual reserves assessment has been carried out by Gaffney, Cline & Associates for the Group's global reserves. Reserves are estimated in accordance with a formal policy and procedure standard.

The Group has estimated 2P gas and liquids reserves in Europe.

The principal fields in Spirit Energy are Kvitebjørn, Statfjord, Hejre, Ivar Aasen, Cygnus, Maria, South and North Morecambe, Rhyl and Chiswick. The principal non-Spirit Energy field is Rough. The European reserves estimates are consistent with the guidelines and definitions of the Society of Petroleum Engineers, the Society of Petroleum Evaluation Engineers and the World Petroleum Council's Petroleum Resources Management System using accepted principles.

Estimated net 2P reserves of gas (billion cubic feet)	Spirit Energy (i)	Rough	**Total**
1 January 2018	879	142	**1,021**
Revisions of previous estimates (ii)	(48)	28	**(20)**
Disposals of reserves in place (iii)	(5)	–	**(5)**
Production (iv)	(128)	(67)	**(195)**
31 December 2018	698	103	**801**

Estimated net 2P reserves of liquids (million barrels)	Spirit Energy (i)	Rough	**Total**
1 January 2018	105	–	**105**
Revisions of previous estimates (ii)	(24)	–	**(24)**
Disposals of reserves in place (iii)	(1)	–	**(1)**
Production (iv)	(11)	–	**(11)**
31 December 2018	69	–	**69**

Estimated net 2P reserves (million barrels of oil equivalent)	Spirit Energy (i)	Rough	**Total**
31 December 2018 (v)	186	17	**203**

(i) Spirit Energy is a business that combined the Group's legacy Exploration & Production business with that of Bayerngas Norge AS in 2017, with the Group owning 69% of Spirit Energy. The movements represent Centrica's 69% interest.

(ii) Revision of previous estimates include those associated with North and South Morecambe, North Sea fields, Norway and the Rough reserves

(iii) Reflects the disposal of interests in the Armada gas and liquid assets.

(iv) Represents total sales volumes of gas and oil produced from the Group's reserves.

(v) Includes the total of estimated gas and liquids reserves at 31 December 2018 in million barrels of oil equivalent.

Liquids reserves include oil, condensate and natural gas liquids.

OFGEM Consolidated Segmental Statement

The Ofgem Consolidated Segmental Statement (CSS) segments our Supply and Generation activities and provides a measure of profitability, weighted average cost of fuel, and volumes, in order to increase energy market transparency for consumers and other stakeholders.

The following is an extract of the audited CSS and is prepared in accordance with Standard Condition 19A of the Electricity and Gas Supply Licences and Standard Condition 16B of the Electricity Generation Licences. This extract should be read in conjunction with the full CSS which includes the Statement, the audit opinion and the basis of preparation. These are available on www.centrica.com/2018-prelims.

Ofgem consolidated segmental statement

Year ended 31 December 2018

		Electricity Generation			Electricity Supply		Gas Supply		
	Unit	Nuclear	Thermal	**Aggregate Generation Business**	Domestic	Non-Domestic	Domestic	Non-Domestic	**Aggregate Supply Business**
Total revenue	**£m**	**540.8**	**236.7**	**777.5**	**3,054.9**	**1,393.4**	**3,860.3**	**431.2**	**8,739.8**
Sales of electricity & gas	£m	527.5	217.2	**744.7**	2,965.9	1,393.4	3,779.9	431.2	**8,570.4**
Other revenue	£m	13.3	19.5	**32.8**	89.0	–	80.4	–	**169.4**
Total operating costs	**£m**	**(353.0)**	**(262.4)**	**(615.4)**	**(2,958.9)**	**(1,372.6)**	**(3,383.5)**	**(398.0)**	**(8,113.0)**
Direct fuel costs	£m	(100.7)	(154.7)	**(255.4)**	(973.2)	(533.7)	(1,627.9)	(221.5)	**(3,356.3)**
Direct costs	£m	(212.5)	(103.1)	**(315.6)**	(1,432.8)	(688.1)	(1,063.9)	(107.9)	**(3,292.7)**
Network costs	£m	(42.8)	(5.4)	**(48.2)**	(751.2)	(339.6)	(948.6)	(87.5)	**(2,126.9)**
Environmental and social obligation costs	£m	–	(44.9)	**(44.9)**	(633.1)	(328.7)	(68.1)	–	**(1,029.9)**
Other direct costs	£m	(169.7)	(52.8)	**(222.5)**	(48.5)	(19.8)	(47.2)	(20.4)	**(135.9)**
Indirect costs	£m	(39.8)	(4.6)	**(44.4)**	(552.9)	(150.8)	(691.7)	(68.6)	**(1,464.0)**
WACOF/E/G	**£/MWh, P/th**	**(8.5)**	**(86.8)**	**N/A**	**(53.8)**	**(50.8)**	**(54.0)**	**(51.1)**	**N/A**
EBITDA	**£m**	**187.8**	**(25.7)**	**162.1**	**96.0**	**20.8**	**476.8**	**33.2**	**626.8**
DA	£m	(142.1)	(2.6)	**(144.7)**	(47.6)	(10.1)	(59.0)	(4.4)	**(121.1)**
EBIT	**£m**	**45.7**	**(28.3)**	**17.4**	**48.4**	**10.7**	**417.8**	**28.8**	**505.7**
Volume	TWh, MThms	11.8	2.3	N/A	18.1	10.5	3,015.6	433.3	N/A
Average customer numbers/sites	'000s	N/A	N/A	N/A	5,588.3	450.3	6,930.2	194.4	N/A

		Electricity Supply Domestic	Electricity Supply Non-Domestic	Gas Supply Domestic	Gas Supply Non-Domestic	Aggregate Supply Business
Supply EBIT	**margin**	**1.6%**	**0.8%**	**10.8%**	**6.7%**	**5.8%**
Supply PAT	**£m**	**39.4**	**8.6**	**337.6**	**23.9**	**409.5**
Supply PAT	**margin**	**1.3%**	**0.6%**	**8.7%**	**5.5%**	**4.7%**

2017 Summarised CSS

Year ended 31 December 2017

		Electricity Generation			Electricity Supply		Gas Supply		
	Unit	Nuclear	Thermal	Aggregate Generation Business	Domestic	Non-Domestic	Domestic	Non-Domestic	Aggregate Supply Business
Total revenue	£m	548.1	367.2	915.3	3,100.5	1,379.6	3,972.8	419.5	8,872.4
EBIT	£m	62.1	(38.2)	23.9	(46.6)	(16.1)	613.0	21.6	571.9

		Electricity Supply Domestic	Electricity Supply Non-Domestic	Gas Supply Domestic	Gas Supply Non-Domestic	Aggregate Supply Business
Supply EBIT	margin	(1.5)%	(1.2)%	15.4%	5.1%	6.4%
Supply PAT	£m	(38.5)	(12.0)	503.9	18.5	471.9
Supply PAT	margin	(1.2)%	(0.9)%	12.7%	4.4%	5.3%

Additional Information – Explanatory Notes (Unaudited)

Definitions and reconciliation of adjusted performance measures

Centrica's 2018 Preliminary Results include a number of non-GAAP measures. These measures are chosen as they provide additional useful information on business performance and underlying trends. They are also used to measure the Group's performance against its strategic financial framework. They are not however, defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Where possible they have been reconciled to the statutory equivalents from the primary statements (Group Income Statement ('I/S'), Group Balance Sheet ('B/S'), Group Cash Flow Statement ('C/F')) or the notes to the Financial Statements.

Adjusted operating profit, adjusted earnings and adjusted operating cash flow have been defined and reconciled separately in notes 2, 5 and 10 to the Financial Statements where further explanation of the measures is given. Additional performance measures are used within this announcement to help explain the performance of the Group and these are defined and reconciled below.

Adjusted gross margin, Underlying adjusted gross margin and Controllable operating costs as a % of underlying adjusted gross margin

Adjusted gross margin is a metric used to assess the gross profit performance of the business without the distorting effects of certain re-measurements. Underlying adjusted gross margin removes the impact of foreign exchange rate movements and acquisitions and disposals, thereby providing a like-for-like measure.

Controllable operating costs are the Group's operating costs as adjusted to remove exceptional items and other non-controllable costs (e.g. depreciation, amortisation, smart metering, solar costs, dry hole costs, impairments and foreign exchange movements). Controllable operating costs as a % of underlying adjusted gross margin is a metric that assesses operating costs under the Group's control relative to its gross margin on a like-for-like basis.

Year ended 31 December		2018 £m	2017 (restated) (i) £m
Gross profit	I/S	**4,053**	4,190
Certain re-measurements	6(c)	**200**	(153)
Adjusted gross margin		**4,253**	4,037
Foreign exchange movements (ii)		**–**	(38)
Acquisitions/disposals (iii)		**(178)**	(70)
Underlying adjusted gross margin		**4,075**	3,929

(i) Comparatives have been restated on adoption of IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.
(ii) The foreign exchange movement has been calculated by applying the average 2018 rate to the 2017 adjusted gross margin of entities with functional currencies other than GBP.
(iii) Removes the impact of acquisitions and disposals (2018: acquisition of Bayerngas in 2017, 2017: disposal of Canadian and Trinidadian E&P assets in 2017).

Year ended 31 December		2018 £m	2017 (restated) (i) £m
Operating costs	I/S	**3,047**	3,732
Exceptional items included in operating costs		**(183)**	(884)
Adjusted operating costs		**2,864**	2,848
Foreign exchange movements (ii)		**–**	(16)
Non-controllable costs		**(426)**	(389)
Controllable operating costs		**2,438**	2,443
Underlying adjusted gross margin	above	**4,075**	3,929
Controllable operating costs as a % of underlying adjusted gross margin		**60%**	62%

(i) Comparatives have been restated on adoption of IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.
(ii) The foreign exchange movement has been calculated by applying the average 2018 rate to the 2017 adjusted operating costs of entities with functional currencies other than GBP.

EBITDA

EBITDA is a business performance measure of operating profit, after adjusting for depreciation and amortisation. It provides a performance measure in its own right, and provides a bridge between the Income Statement and the Group's key cash metrics.

Year ended 31 December		2018 £m	2017 (restated) (i) £m	Change
Group operating profit	I/S	**987**	481	
Exceptional items included within Group operating profit and certain re-measurements before taxation	I/S	**405**	759	
Share of profits of joint ventures and associates, net of interest and taxation	I/S	**(3)**	(51)	
Depreciation and impairments of property, plant and equipment	5(d)	**736**	673	
Amortisation, write-downs and impairments of intangibles	5(d)	**322**	271	
Impairment of joint ventures and associates	12(c)	**–**	4	
EBITDA		**2,447**	2,137	15%

(i) Comparatives have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.

Additional Information – Explanatory Notes (Unaudited) (continued)

The table below shows how EBITDA reconciles to AOCF.

Year ended 31 December		2018 £m	2017 (restated) (i) £m
EBITDA		**2,447**	2,137
Profit on disposals (ii)		**(12)**	(20)
Decrease in provisions (ii)		**(154)**	(189)
Cash contributions to defined benefit pension schemes, net of service cost income statement charge (ii)		**(75)**	(104)
UK pension deficit payments	5(f)	**98**	131
Employee share scheme costs	C/F	**43**	47
Re-measurement of energy contracts (ii)		**41**	108
Net movement in working capital (ii)		**(47)**	139
Taxes paid	C/F	**(61)**	(102)
Dividends received from joint ventures and associates	C/F	**22**	58
Margin cash movements	5(f), 11(b)	**(57)**	(136)
Adjusted operating cash flow		**2,245**	2,069

(i) Comparatives have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.
(ii) These line items relate to business performance only and therefore differ from amounts quoted in the IFRS Financial Statements.

Underlying adjusted operating cash flow

Adjusted operating cash flow is the key metric used to assess the cash generating performance of the Group. Underlying adjusted operating cash flow makes further adjustments for foreign exchange and the commodity price movements that most impact the Group, which are outside its control, along with other material one-off items, to provide a comparable year-on-year measure of cash generation that more closely reflects business performance.

The calculation has been amended to make adjustments to rebase adjusted operating cash flow to reflect the prevailing foreign exchange and commodity prices in 2015 rather than those in the current reporting period. This provides a fixed reference point and prevents the need to continually recalculate the comparative periods and allows management to measure underlying adjusted operating cash flow growth since 2015, the announcement of the Strategic Review.

Year ended 31 December		2018 £m	2017 £m	Change	2016 £m
Adjusted operating cash flow	5(f)	**2,245**	2,069		2,686
Commodity price – E&P and Nuclear (i)		**(254)**	(100)		(46)
Foreign exchange movements (ii)		**(44)**	27		11
UK price caps impact		**46**	–		–
UK Business working capital impact		**–**	–		(357)
Underlying adjusted operating cash flow		**1,993**	1,996	(0.2%)	2,294

(i) The commodity price adjustment has been calculated by applying the average commodity price in 2015 to production and generation volumes for 2018, 2017 and 2016 net of taxation.
(ii) The foreign exchange movement has been calculated by applying the average 2015 rate to the 2018, 2017 and 2016 adjusted operating cash flow net of taxation of entities with functional currencies other than GBP.

Underlying adjusted operating cash flow is adjusted operating cash flow as defined in note 2 and reconciled in note 5(f). It has been adjusted for the impacts of commodity price movements on E&P and nuclear assets and foreign exchange movements. In 2018 the impact of the Safeguard Tariff and prepayment cap have been removed for the purposes of calculating underlying adjusted operating cash flow. In 2016 the measure was adjusted for one-off working capital movements in UK Business. This followed billing performance issues after the implementation of a new system in 2014, impacting the Group's ability to collect cash from customers and therefore its adjusted operating cash flow. As a consequence, in 2016 the working capital movement for UK Business was removed from underlying adjusted operating cash flow.

Definitions and reconciliation of adjusted performance measures

Group net investment

With an increased focus on cash generation, capital discipline and reducing net debt, Group net investment provides a measure of the Group's capital expenditure from a cash perspective and allows the Group's capital discipline to be assessed.

Year ended 31 December		2018 £m	2017 £m	Change
Capital expenditure (including small acquisitions) (i)		**1,014**	949	
Material acquisitions (>£100 million) (ii)		**–**	–	
Cash acquired through Spirit Energy transaction (iii)		**–**	(78)	
Net disposals (iv)		**(46)**	(825)	
Group net investment		**968**	46	2,004%
Dividends received from joint ventures and associates	C/F	**(22)**	(58)	
Interest received	C/F	**(15)**	(22)	
Purchase of securities	C/F	**76**	2	
Net cash flow from investing activities	C/F	**1,007**	(32)	

(i) Capital expenditure is the net cash flow on capital expenditure and purchases of businesses (less than £100 million). See table (a).
(ii) Material acquisitions is the net cash flow on acquisitions of businesses over £100 million. See table (b).
(iii) Cash acquired through the Spirit Energy transaction has been excluded since this is an unusual acquisition whereby there was no cash consideration and hence this has been separately highlighted in the Group net investment analysis.
(iv) Net disposals is the net cash flow from sales of businesses, property, plant and equipment and intangible assets, net of investments in joint ventures and associates. See table (c).

Group net investment is capital expenditure including acquisitions less net disposals. It excludes cash flows from investing activities not associated with capital expenditure as detailed in the table above.

(a) Capital expenditure (including small acquisitions)

Year ended 31 December		2018 £m	2017 £m	Change
Purchase of property, plant and equipment and intangible assets	C/F	**926**	882	
Purchase of businesses, net of cash acquired	C/F	**85**	(17)	
Investment in joint ventures and associates	C/F	**3**	6	
Less: material acquisitions (>£100 million)		**–**	–	
Less: cash acquired through Spirit Energy transaction (i)		**–**	78	
Capital expenditure (including small acquisitions)		**1,014**	949	7%

(i) Cash acquired through the Spirit Energy transaction has been excluded since this is an unusual acquisition whereby there was no cash consideration and hence this has been separately highlighted in the Group net investment analysis.

(b) Material acquisitions (>£100 million)

Year ended 31 December		2018 £m	2017 £m
Purchase of businesses, net of cash acquired	C/F	**85**	(17)
Less: non-material acquisitions (<£100 million)		**(85)**	17
Material acquisitions (>£100 million)		**–**	–

(c) Net disposals

Year ended 31 December		2018 £m	2017 £m
Disposal of interests in joint ventures and associates	C/F	**–**	(218)
Sale of businesses	C/F	**(20)**	(593)
Sale of property, plant and equipment and intangible assets	C/F	**(26)**	(14)
Net disposals		**(46)**	(825)

Additional Information – Explanatory Notes (Unaudited) (continued)

Definitions and reconciliation of adjusted performance measures

E&P free cash flow

Free cash flow is used as an additional cash flow metric for the E&P business due to its asset intensive nature. This metric provides a measure of the cash generating performance of the E&P business, taking account of its investment activity.

Year ended 31 December		2018 £m	2017 (restated) (i) £m	Change
E&P adjusted operating cash flow	5(f)	**963**	509	
Capital expenditure (including small acquisitions)		**(497)**	(480)	
Cash acquired through Spirit Energy transaction		**–**	78	
Net disposals		**17**	289	
Free cash flow		**483**	396	22%

(i) E&P cash flows in the table above have been restated to reflect the new operating structure of the Group and therefore include cash flows arising from the segment formerly known as Centrica Storage.

E&P free cash flow is E&P's adjusted operating cash flow, as defined in note 2 and reconciled in note 5(f), less the business's capital expenditure and net disposals as defined above. See the definition of Group net investment for further details on the definition of 'Capital expenditure (including small acquisitions)' and 'Net disposals'.

Return on average capital employed (ROACE)

Post-tax ROACE is one of the key performance metrics in the financial framework of the Group and represents the return the Group makes from capital employed in its wholly owned assets and its investments in joint ventures and associates.

Year ended 31 December		2018 £m	2017 (restated) (i) £m
Adjusted operating profit	5(c)	**1,392**	1,247
Share of joint ventures'/associates' interest and taxation	12(a)	**–**	(7)
Taxation on profit – business performance	I/S	**(461)**	(191)
Exclude taxation on interest – business performance		**(65)**	(81)
Return attributable to non-controlling interests	5(c)	**(29)**	(7)
Return		**837**	961
Net assets	B/S	**3,948**	3,432
Less: non-controlling interests	B/S	**(803)**	(729)
Less: net retirement benefit obligations	14(d)	**79**	886
Less: net cash and cash equivalents, bank overdrafts, loans and other borrowings, securities and cash posted/(received) as collateral	11(b)	**2,889**	2,862
Less: derivative financial instruments	13	**(112)**	(370)
Less: deferred tax liabilities associated with retirement benefit obligations and derivative financial instruments		**130**	18
Effect of averaging and other adjustments		**215**	780
Average capital employed		**6,346**	6,879
ROACE		**13%**	14%

(i) Comparatives have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.

Average capital employed takes the Group's net assets excluding net debt and deducts the net retirement benefit obligation and other derivative financial instruments (together with their associated deferred tax balances) because these represent unrealised positions and therefore do not reflect true capital employed. They are also subject to market driven volatility which could materially distort the ROACE calculation.

Disclosures

Disclaimers

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

This announcement 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.

For further information

Centrica will hold its 2018 Preliminary Results presentation for analysts and institutional investors at 9.30am (UK) on Thursday 21 February 2019. There will be a live audio webcast of the presentation and slides. Please register for the webcast at https://webcasts.centrica.com/centrica093.

A live audio broadcast of the presentation will be available by dialing in using the following numbers. Please use the number for your dialing location:

United Kingdom (Local): 020 3059 5868

All other locations: +44 20 3059 5868

An archived webcast and full transcript of the presentation and the question and answer session will be available on the Centrica website at https://www.centrica.com/investors/financial-reporting/preliminary-results-2018 on Monday 25 February 2019.

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Financial calendar

Trading Update	13 May 2019
Annual General Meeting	13 May 2019
Ex-dividend date for 2018 final dividend	9 May 2019
Record date for 2018 final dividend	10 May 2019
Final date to elect to participate in 2018 final scrip dividend programme	6 June 2019
2018 final dividend payment date	27 June 2019
2019 Interim Results announcement	30 July 2019

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