# Interim results for the period ended 30 June 2019

### Iain Conn, Group Chief Executive

"Centrica faced an exceptionally challenging environment in the first half of 2019, which impacted earnings and cash flows. We have also regrettably had to make the decision to rebase the dividend due to our changed circumstances including the UK energy price cap and increased demands on our cash flows, including additional pension contributions. The outlook is more positive for the second half of the year and we expect this momentum to continue into 2020, while we expect to meet our cash flow and net debt targets for 2019.

Today, we have announced our intention to exit oil and gas production. This will complete our shift towards the customer, as we focus on our distinctive strengths, with an emphasis on helping our customers transition to a lower carbon future. This major refocusing of our portfolio will unlock further efficiencies enabling us to be even more cost-competitive, as we focus on being a leading Energy Services and Solutions provider."

## GROUP FINANCIAL SUMMARY

| Six months ended 30 June | 2019 | 2018 | Change |
|---|---|---|---|
| Adjusted revenue[1] | **£13,808m** | £14,020m | (2%) |
| Adjusted gross margin | **£1,927m** | £2,256m | (15%) |
| EBITDA | **£1,075m** | £1,324m | (19%) |
| Adjusted operating profit | **£399m** | £782m | (49%) |
| Adjusted effective tax rate | **47%** | 39% | 8ppt |
| Adjusted earnings for the period attributable to shareholders | **£134m** | £358m | (63%) |
| Adjusted basic earnings per share (EPS) | **2.4p** | 6.4p | (63%) |
| Interim dividend per share | **1.5p** | 3.6p | (58%) |
| Adjusted operating cash flow | **£744m** | £1,101m | (32%) |
| Group net debt | **£3,376m**[2] | £2,886m | 17% |
| Statutory operating (loss) / profit | **(£446m)** | £704m | nm |
| Statutory profit / (loss) for the period attributable to shareholders | **(£550m)** | £238m | nm |
| Statutory net cash flow from operating activities | **£177m** | £876m | (80%) |
| Net exceptional items after taxation included in statutory profit | **(£260m)** | (£169m) | (54%) |
| Basic earnings per share | **(9.6p)** | 4.3p | nm |

1. The Group has amended the presentation of energy derivative contracts and re-presented prior period accordingly. See note 3(c) to the Financial Statements for further details.
2. Includes an impact of Centrica adopting IFRS 16 from 1 January 2019 of £394m. See notes 3(a) and 12(b) for further details.

See notes 3, 4 and 9 to the Financial Statements and pages 58 to 61 for an explanation of the use of adjusted performance measures.

## FIRST HALF RESULTS AND OUTLOOK

- A challenging environment in H1 2019 impacted adjusted earnings and adjusted operating cash flow.
- Overall growth in Centrica Consumer customer accounts of 314,000. UK Home accounts down 38,000 with energy supply accounts down 178,000, but with growth in May and June. UK services accounts up 140,000.
- 2019 full year adjusted earnings expected to be weighted towards H2, providing momentum into 2020.
- Continue to expect to meet 2019 full year Group financial targets, including adjusted operating cash flow in the range £1.8bn-£2.0bn and net debt in the range £3.0bn-£3.5bn.

## STRATEGY AND PORTFOLIO

- Centrica will complete its shift towards the customer by exiting oil & gas production which, combined with our intended exit from Nuclear generation, will create a leading international Energy Services and Solutions provider.
- Focus on our distinctive strengths in energy supply and its optimisation, and on services and solutions centred around energy, with a major emphasis on helping our customers transition to a lower carbon future.
- Specific actions taken to improve positioning of UK Home, Connected Home and North America Business:
    - UK Home to be fundamentally rebased, driving structural changes in customer journeys and further reductions in the cost base.
    - Connected Home refocused on the UK and Ireland with propositions centred around Home Energy Management, and renamed Centrica Home Solutions.
    - North America Business - actions taken to improve average returns to at least 10-12% and reduce volatility.
- Further efficiency and accelerated delivery unlocked through the refocused portfolio.
    - Targeting £1bn of annualised efficiencies over the period 2019-22, up £250m compared to the previous target. Total cash restructuring expenditure of around £1.25bn expected to be required to deliver savings.
    - Will move Centrica towards becoming the most competitive provider in all its markets, enabling stabilisation and subsequent growth of customer numbers and margin.

## DIVIDEND AND BALANCE SHEET

- 2019 full year expected dividend rebased to 5.0p per share reflecting changed circumstances, including the UK default tariff price cap, and additional pension deficit contributions and restructuring charges.
- E&P and Nuclear divestment proceeds used to fund restructuring costs and underpin balance sheet to ensure strong investment grade credit ratings.

# Group Metrics

| Six months ended 30 June | 2019 | 2018 | Change |
|---|---|---|---|
| Total recordable injury frequency rate (per 200,000 hours worked) [1] | **0.97** | 1.13 | (14%) |
| Brand Net Promoter Score (NPS) | | | |
| Consumer | | | |
| UK Home | **5** | (2) | 7pt |
| North America Home | **32** | 32 | 0pt |
| Business | | | |
| UK Business | **(3)** | (13) | 10pt |
| North America Business | **38** | 32 | 6pt |
| Customer account holdings (period end) | | | |
| Consumer | | | |
| Energy supply and services ('000s) [2] | **23,562** | 23,971 | (2%) |
| Connected Home cumulative customers ('000s) | **1,544** | 1,035 | 49% |
| Business | | | |
| Energy supply ('000s) | **1,201** | 1,223 | (2%) |
| DE&P active customer sites | **5,821** | 5,120 | 14% |
| Total customer energy consumption | | | |
| Gas (mmth) | **7,226** | 6,940 | 4% |
| Electricity (GWh) | **62,193** | 64,922 | (4%) |
| Energy use per Home energy customer (kWh) | | | |
| UK | **4,571** | 5,037 | (9%) |
| North America | **14,068** | 14,773 | (5%) |
| Annualised cost per Home customer (£) [3] | | | |
| UK | **103** | 101 | 2% |
| North America | **196** | 183 | 7% |
| Growth revenue (Connected Home, DE&P) (£m) [4] | **154** | 105 | 47% |
| E&P total production volumes (mmboe) | **29.7** | 32.0 | (7%) |
| Controllable operating costs (£m) [5] | **1,244** | 1,273 | (2%) |
| Controllable operating costs as a % of underlying adjusted gross margin [5] | **66%** | 56% | 10ppt |
| Direct Group headcount (period end) [6] | **29,378** | 31,939 | (8%) |
| Adjusted operating cash flow (£m) | **744** | 1,101 | (32%) |
| Underlying adjusted operating cash flow growth [5] | **(12%)** | (15%) | nm |
| Group net investment (£m) [4] | | | |
| Capital expenditure (including acquisitions) | **355** | 493 | (28%) |
| Net disposals | **(216)** | (30) | (620%) |
| Total Group net investment (£m) | **139** | 463 | (70%) |
| ROACE (post-tax) [5] | **nm** | nm | nm |
| Adjusted gross margin (£m) | | | |
| Centrica Consumer | **1,190** | 1,399 | (15%) |
| Centrica Business | **436** | 507 | (14%) |
| E&P | **301** | 350 | (14%) |
| Total adjusted gross margin (£m) | **1,927** | 2,256 | (15%) |
| Adjusted operating profit (£m) | **399** | 782 | (49%) |
| Adjusted earnings (£m) | **134** | 358 | (63%) |
| Adjusted earnings per share (pence) | **2.4p** | 6.4p | (63%) |

1. Group and business unit total recordable injury frequency rate (per 200,000 hours worked) is on a 12 month rolling basis.
2. North America services account holdings have been redefined to exclude minor contract add-ons on home warranty contracts. 2018 has been restated accordingly.
3. 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 and Ireland 2018 restated for foreign exchange movements.
4. Growth revenue is gross revenue for both Connected Home and Distributed Energy & Power.
5. See pages 58 to 61 for an explanation of the use of adjusted performance measures. ROACE is only measured annually.
6. Direct Group headcount excludes contractors, agency and outsourced staff.

## Enquiries


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An interview with Iain Conn (Group Chief Executive) is available on centrica.com.

# Group Overview

## OVERVIEW

The environment has been extremely challenging for Centrica's portfolio in H1 2019, with the business impacted by a number of external and regulatory issues. These include the implementation of the UK default tariff price cap, low UK natural gas prices, extensions to outages at the non-operated Hunterston B and Dungeness B nuclear power stations, and warmer than normal weather in both the UK and North America. Reflecting this, adjusted earnings and adjusted operating cash flow were both down significantly compared to H1 2018.

However, the Group expects second half adjusted earnings to be stronger than the first half, with cost efficiency delivery expected to accelerate, Hunterston B and Dungeness B expected to come back on line, and an improved forward order book in North America Business largely reflecting the timing of capacity charges. These factors will also benefit 2020, along with growth momentum we are seeing in a number of our customer-facing businesses. The Group also continues to expect to meet its 2019 Group targets, including adjusted operating cash flow in the lower half of the £1.8-£2.0bn range, including £0.2bn of structural reductions in working capital, and Group net debt in the £3.0-£3.5bn range.

Centrica is today also providing a strategic update. Since 2015, we have been repositioning Centrica towards the customer and we will now complete this shift by exiting oil & gas production, in addition to Nuclear power generation. Centrica will become a leading international Energy Services and Solutions provider, which will focus on its distinctive strengths, centred around energy, with a major emphasis on helping our customers transition to a lower carbon future.

The simplified portfolio will also enable further rebasing and focusing of Centrica, unlocking material further efficiency to allow us to become the lowest cost provider in all our markets, consistent with chosen brand positioning and propositions. This will enable us to stabilise and grow customer numbers and gross margin.

However, changed circumstances, including the implementation of the default tariff cap in the UK, additional pension deficit contributions, and exceptional payments mean we will re-set the 2019 full year expected dividend to 5.0p per share. Beyond this, our policy will be to deliver a progressive dividend over time, linked to earnings and operating cash flow growth, and with a targeted range of cover from earnings of 1.5-2.0 times over the medium term.

In a rapidly changing world, Centrica has strong positions and capabilities. Combined with a continued focus on efficiency and capital discipline, the Company is well placed to deliver growth over the long term, through continuing to satisfy the changing needs of our customers and enabling the transition to a lower carbon future.

## 2019 FIRST HALF FINANCIAL PERFORMANCE

In an extremely challenging environment, financial performance in H1 2019 was weak compared to H1 2018:

- Adjusted gross margin fell by 15% to £1,927m and adjusted operating profit fell by 49% to £399m.
    - Centrica Consumer adjusted operating profit was down 44% to £240m, largely reflecting the impact of the UK residential energy supply default tariff cap (including a one-off £70m impact in the first quarter due to Ofgem's revision to the methodology calculating supplier wholesale costs during the transitional period).
    - Centrica Business adjusted operating profit was down 89% to £11m, largely reflecting reduced opportunities for gas optimisation in North America Business due to warm weather and reduced commodity volatility, and extensions to outages at the Dungeness B and Hunterston B nuclear power stations.
    - Exploration & Production adjusted operating profit was down 42% to £148m, largely due to lower achieved gas sales prices reflecting the falling UK NBP price, lower volumes from Rough reflecting the field's natural decline and dry hole costs in Spirit Energy relating to unsuccessful drilling at the first well at the Greater Warwick Area.
- The adjusted net finance charge decreased by 18% to £123m, reflecting lower gross debt resulting from a bond repurchase programme completed in March 2018 and the maturity of a bond in September 2018.
- The Group adjusted effective tax rate increased from 39% to 47%, predominantly due to the more highly taxed E&P business contributing a higher proportion of adjusted operating profit.
- Adjusted earnings attributable to shareholders and adjusted EPS fell by 63% to £134m and 2.4p respectively.
- A net pre-tax exceptional charge of £346m was recognised in H1 2019. After tax, the net charge was £260m, compared to a charge of £169m in H1 2018. The pre-tax exceptional charge includes:
    - £257m of restructuring costs related to the continuation of the second phase of the Group's cost efficiency programme.

## **Group Overview** (continued)

  - £64m of one-off pension costs due to the renegotiation of a reduction in UK defined benefit pension scheme benefits.
  - A £49m impairment of E&P assets due to the fall in near-term gas prices.
  - A £39m impairment of Connected Home assets.
  - A £63m net gain on disposal of the Clockwork home services activities in North America.
- Total statutory gross profit was down 37% to £1,428m and the Group statutory operating loss was £446m in H1 2019 compared to a statutory profit of £704m in H1 2018. The statutory loss attributable to shareholders for the period was £550m compared to a profit of £238m in H1 2018, largely reflecting the lower level of adjusted earnings and increases in certain re-measurements due to falling gas prices. The statutory basic EPS loss per share was 9.6p compared to statutory earnings per share of 4.3p in H1 2018.
- EBITDA fell by 19% to £1,075m and adjusted operating cash flow reduced by 32% to £744m, which includes an increase in cash tax to more normal levels. Increased working capital requirements relating to warm weather and changing commodity prices were offset by the benefit of structural working capital improvements.
- Reported group net debt was £3,376m at the end of H1 2019 compared to £2,886m at the end of H1 2018. This includes the impact of Centrica adopting IFRS 16 from 1 January 2019, which has resulted in the Company recognising assets and lease obligations predominantly in respect of operating lease which did not previously meet the requirement for recognition on the balance sheet. H1 2018 has not been restated. The impact of this accounting change was to increase the Group's 2019 opening net debt by approximately £394m.
- The IAS19 net pension liability increased by £35m to £114m over the first half of the year. The triennial pensions review has now been finalised, with the company committing to make additional cash contributions. Contributions will total £223m in 2019, and £175m per annum thereafter until the deficit is cleared.

### 2019 FIRST HALF PERFORMANCE AND PROGRESS

#### Centrica Consumer performance and progress

- Centrica Consumer accounts grew by 314,000 in H1 2019, after adjusting for the impact of the disposal of the Clockwork North America home services business in April, which had 182,000 customer accounts at the end of 2018. Growth in UK Home services, Ireland, North America Home energy and services and Connected Home more than offset a reduction in UK Home energy supply accounts.
  - UK Home energy supply customer accounts fell by 178,000. This includes the impact of a spike in customer churn in March and April during a period of record high industry switching following the announcement of a significant increase in the level of the default tariff cap. UK energy supply account holdings increased in May and June.
  - UK Home services customer accounts increased by 140,000 reflecting continued improvement in customer service levels and sales of services products bundled with energy. The number of boiler installs also increased compared to H1 2018, by 2% to 52,000.
  - North America Home energy accounts increased by 143,000 as we won some profitable aggregation auctions in the US North East and delivered an increase in sales to higher value customers on fixed price contracts.
  - The number of Connected Home customers increased by 200,000 over the first half of the year, with 162,000 of the increase in the UK. The number of subscriptions has increased by 54% over the past 12 months, including growth from our remote boiler diagnostics proposition, BoilerIQ, and Cloud storage offer.
- We continue to focus on delivering an improved customer experience.
  - Complaints per 100,000 customers reduced in in North America Home, Ireland and UK Home services compared to H1 2018. UK Home energy complaints per 100,000 customers decreased by 5% compared to H2 2018, but we reported a 38% increase vs H1 2018, as we now record a complaint where any dissatisfaction is raised even if a formal complaint is not raised.
  - Brand net promoter scores (NPS) improved in UK Home, as we fulfilled 99% of home services appointments on the scheduled day. NPS also improved in Ireland following investments in digital journeys and a website redesign. NPS in North America Home and Connected Home remained at high levels.
- We are becoming increasingly digital and more innovative.
  - We have been transforming our customers' digital experience, with increasing number of transactions now completed online. We now have more 'online only' customers than 'offline only' customers within UK Home energy.

## **Group Overview** (continued)

- We have seen a 21% increase in digital visits in UK Home in H1 2019 compared to H1 2018 and our new digital app has had over 1m downloads, helping enable a 20% reduction in call volumes compared to H1 2018.
- We have launched over 100 propositions so far this year in UK Home, including bundled energy and services offers, with 77% of customers taking a bundled offer being new to services.
- In North America Home, energy digital marketing and web sales are up 27% compared to H1 2018 and made up 38% of total energy sales.
- We continue to broaden the Hive Connected Home ecosystem, launching a number of new products and services focused on Home Energy Management in H1 2019, including Hive thermostatic radiator valves which allow customers to digitally manage the temperature in individual rooms in their houses.

### Centrica Business performance and progress

- Centrica Business energy customer accounts were broadly stable over H1 2019, and gas and power volumes were up compared to H1 2018.
  - UK Business delivered growth in customer accounts, including from the online only British Gas Lite tariff.
  - North America Business customer accounts were slightly down, with our focus on higher value, higher consuming customers. Gas volumes were up 17%, reflecting the full period impact of small bolt-on acquisitions completed during 2018.
- We continue to deliver improvements in the customer experience across Centrica Business.
  - UK Business complaints were down 14% and we saw a 10pt increase in Brand NPS compared to 12 months ago reflecting further operational improvements and enhancements to our digital platform.
  - North America Business Brand NPS improved by 6pts to +38 as we continued to launch new customer propositions, including those offering optionality on hedging profiles giving the customer more control.
  - Distributed Energy & Power (DE&P) Brand NPS increased by 9pts to +29.
- We continue to build our capabilities, products and propositions and delivered further growth in DE&P.
  - DE&P order intake increased by 111% compared to H1 2018 while the secured order book has increased by 70% over the past twelve months. DE&P revenue in H1 2019 was up 43% to £120m.
  - On 1st July, we acquired the energy services and solutions company SmartWatt for a total consideration of $37m, adding further capabilities in energy efficiency, lighting retrofits, HVAC, building automation, water conservation and performance assurance in North America.
  - We completed a number of deals to provide our own software as a service, including an agreement with Japanese utility TEPCO to use our FlexPond Demand Side Response platform to provide flexibility services for the reserve market in the Kyushu region of Japan.
- We continued to expand our Energy Marketing & Trading optimisation activity and route-to-market offering.
  - We signed a landmark LNG sales and purchase arrangement in February under which Tokyo Gas and Centrica will jointly purchase 2.6 million tonnes per annum, delivered ex-ship, from the Mozambique LNG Project from the start-up of production until the early 2040s.
  - Global total route-to-market capacity under management is now 23.7GW, 4% higher than six months ago.

### Nuclear performance and progress

- Nuclear generation volumes were down 19% to 4.9TWh in H1 2019 compared to H1 2018, reflecting the extensions to outages at the Dungeness B and Hunterston B power stations.

### Exploration and Production performance and progress

- E&P production volumes were down in H1 2019, but slightly ahead of expectations.
  - Spirit Energy production was down 2% to 24.5mmboe with a slight increase in gas production volumes offset by lower liquids production. Improved operational performance from Spirit Energy-operated fields, including Morecambe and Greater Markham Area. Full year Spirit Energy production is still expected to be broadly in line with last year.
  - Rough production was down 25%, in line with expected decline profile of the reservoir. Full year production is expected to be within the previously guided range of 6-8mmboe, despite the decision to shut the field down during the summer months due to low UK gas prices.
- Spirit Energy delivered further progress on its developments and exploration activity.

# **Group Overview** (continued)

- In March 2019, the Oda field, Spirit Energy's first development as the operator on the Norwegian Continental Shelf, came on line 5 months earlier than originally planned and under budget.
- Drilling of the first well in the Greater Warwick Area, Warwick Deep, proved unsuccessful as while oil was discovered, it was not at commercial rates. Drilling is ongoing on Lincoln Crestal, the second well in the three well programme.

## Cost efficiency progress

- We delivered £97m of efficiency savings in H1 2019 with the Group incurring an exceptional pre-tax charge of £257m relating to associated restructuring costs.
  - The majority of the savings have been delivered in customer and field operations in the UK and North America, enabled by further digitalisation of customer journeys, including focus on self-serve and automation, and simplification of core business processes to allow us to serve the customer in a more joined up way.
  - In April, we announced the closure of two UK customer operations sites and in June announced a reduction of 700 management and back office roles.
  - We also delivered savings through continued functional transformation and further procurement and supply chain efficiencies.
- The Company also agreed pension reforms with its employees which came into effect in June and will reduce the amount of regular company contributions going forward.
- We remain on track to deliver £250m of efficiency savings for the full year.

## Portfolio simplification

- In February 2019, we announced we were targeting £500m of non-core divestments in 2019.
  - We completed the $300m (£231m) sale of the Clockwork home services portfolio and operations in April 2019.
  - We plan to deliver the remainder of the divestment programme through the disposal of non-core assets over the balance of the year, including possible capital recycling in DE&P and E&P.
- 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 by the end of 2020. Having commenced the first round of the sales process in H2 2018, the process is ongoing.

## 2019 FULL YEAR FINANCIAL OUTLOOK

Since the 2018 Preliminary Results in February 2019, the impact of factors such as warmer than normal weather, extensions to nuclear outages and falling UK gas prices have impacted the full year outlook for adjusted operating cash flow and adjusted earnings. However, 2019 adjusted earnings are expected to be weighted towards H2 due to a number of factors, with cost efficiency delivery expected to accelerate, Hunterston B and Dungeness B expected to come back on line, and an improved forward order book in North America Business.

In addition, actions we have taken to improve structural working capital mean we remain on track to achieve full year adjusted operating cash flow within our 2019 targeted range of £1.8-£2.0bn, albeit in the bottom half of the range. We continue to expect to meet all our 2019 Group targets provided at the 2018 Preliminary Results, as detailed below:

- Adjusted operating cash flow is still expected to be in the £1.8bn-£2.0bn range, albeit in the lower half of the range, including around £200m of structural reduction in working capital.
- Efficiency savings of £250m.
- A like-for-like employee reduction of 1,500-2,000.
- Group capital investment will be limited to £0.9bn, below the original £1bn target.
- Non-core divestments of £500m.
- Net debt expected to be in a £3.0bn-£3.5bn range in 2019, including the impact of IFRS 16 adoption.

Financial performance for the balance of year remains subject to the usual variables of weather patterns, commodity prices, operational performance and regulatory change.

# **Group Overview** (continued)

## COMPLETING THE SHIFT TOWARDS THE CUSTOMER BY EXITING E&P

### A leading international Energy Services and Solutions company

The energy landscape is changing rapidly, and since 2015 we have been repositioning Centrica towards the customer. The fundamental trends we identified as part of our strategic review in 2015 continue to play out, specifically: decentralisation of the energy system; choice, power and influence moving to the customer; and digitalisation which is accelerating proposition development, increasing choice and driving efficiency.

The progress we have made since 2015 means Centrica is now equipped to help our customers transition to a lower carbon future, with capabilities and technologies to allow them to reduce their emissions. Therefore, we are announcing today that we intend to complete the shift towards the customer by exiting hydrocarbon production and creating a leading international Energy Services and Solutions provider.

The Company will focus on its strengths of energy supply and optimisation, and on services and solutions centred around energy, with an emphasis on helping our customers transition to a lower carbon future.

### Exit from Spirit Energy and Nuclear

We expect to exit our interest in Spirit Energy by the end of 2020, in addition to our already announced intention to dispose of our interest in Nuclear power generation. We expect to exit Spirit Energy via a trade sale.

Spirit Energy is a robust, self-financing entity in a range of price environments. However, E&P is not strategically core for Centrica and our intended exit from Spirit Energy is aligned with the global transition to a lower carbon energy mix.

We continue to own and operate CSL's Rough field and the onshore Easington gas processing terminal with the focus on maximising the value of both of these assets.

### Unlocking significant further efficiency potential

Centrica has already delivered over £1bn of efficiency savings since 2015, significantly reducing its cost base. The establishment of a wholly customer-facing company will enable material simplification and greater focus, unlocking significant further efficiency potential.

Having reached competitive cost levels on average in most of its businesses, Centrica will now target becoming the lowest cost provider in all its markets, consistent with chosen brand positioning and propositions.

We plan to deliver a further £1bn of annualised efficiencies over the period 2019-2022, an increase of £250m relative to the target announced in February 2019, with the simplified portfolio enabling the acceleration of delivery. Efficiency delivery is expected to be weighted towards the early years, with 85% of savings planned to be delivered by 2021.

We already have a number of projects in place which started in 2018, specifically the transformation of our customer and field operations in the UK and the transformation of UK Business. These projects are expected to deliver £450m of annualised savings by 2022.

Additional projects have been activated and accelerated during H1 2019, focused on activities with Group functions, third party spend, the efficiency of core processes and change programmes, the transformation of North America Home and overheads reduction in UK Home. These projects are expected to deliver £350m of annualised savings by 2022.

In addition, we have identified further opportunities including the fundamental rebasing of UK Home in a price cap environment, the right-sizing of management structure across the Group, a review of all remaining business unit overheads and review and consolidation of our property footprint. These projects will enable acceleration and delivery of the additional £250m of annualised savings by 2022.

Delivering this level of competitiveness and the resultant cost base will require material restructuring charges, with the total cost of restructuring expected to be around £1.25bn over the period 2019-22.

### Customer-facing focus

Centrica will continue to serve Consumers and Business customers, with a geographic focus on the UK, Ireland, North America and Continental Europe.

### Centrica Consumer strategic pillars and capabilities

Since 2015, the Centrica Consumer division has become much more digital, has broadened its capabilities to enable the launch of innovative new propositions including combined energy and services bundles and has

# **Group Overview** (continued)

improved data analytics and customer segmentation. Customer satisfaction levels have also improved significantly, while we maintain strong market positions.

In the UK, we are the largest energy supplier, the largest provider of contract energy services, the largest installer of boilers and the largest installer of smart thermostats with leading brand awareness. In North America, we are in the top three for competitive energy supply in each of our chosen geographies of Texas, the US North East and Canada, while we have a significant services position in a fragmented market. In Ireland, we are the largest gas supplier and the second largest energy supplier overall.

The division will be focused in future on three areas: Energy Supply, In-Home Servicing and Home Solutions.

### Fundamentally rebasing UK Home energy supply

In Energy Supply, our focus will be on continuing to improve the customer experience while becoming the most competitive supplier by 2022.

In the UK, we have already made significant progress in removing process duplication and management layers, and improving digital functionality to increase the number of self-serve transactions and therefore reduce call volumes. Plans we have in place are expected to drive a further increase in the number of digital transactions from 50% to 70%. We are up-skilling our contact centre teams and improving the customer experience through the elimination of call transfers. We will also reduce costs in our back-office operations through further automation of processes and a reduction in the number of non-customer facing roles. These initiatives should deliver around £20 of savings per dual fuel customer in real terms, taking us to around the level of the projected top quartile cost position in the UK in 2022, and helping enable stabilisation of our customer base when combined with our strong brand. We will also pursue similar initiatives in North America and Ireland.

In addition, in the UK we are now developing plans to fundamentally rebase the business and take us towards the cost base of the projected lowest cost supplier in the market. These will entail process re-organisation around the customer end-to-end journeys, transforming our IT stack to be more flexible and lower-cost, and driving further automation through embedding machine learning into our core processes. Achieving these savings will deliver cost leadership in the industry, enabling sustainable customer and margin growth.

### Improving in-home servicing competitiveness and cost

Our focus for in-home servicing will also be on improving our levels of competitiveness. In the UK, although our brand and customer offer justify some degree of premium pricing, there are further efficiency opportunities to reduce our cost per customer visit to maximise the growth potential of the business.

We have already made good progress since 2015. We have upgraded our field technology and diagnostics which has improved first time fix rates, the introduction of online appointment booking has reduced incoming calls, our engineer tracking tool has improved the customer experience while helping to reduce the number of missed appointments, and our teams are now organised around the customer which has reduced the number of internal hand-offs.

We have plans in place to improve competitiveness further and enable future growth. We are developing a new engineer fulfilment platform, which will enable consolidation and reduction of back office costs. We are also upgrading our field and supply chain technology, which will improve same day parts availability and help us improve first-time fix rates towards our target of 90%, from around 80% today.

We will also continue to focus on improving the effectiveness of our service engineers, leveraging their skills to capitalise on new market opportunities, such as electric vehicle charge-point installation and servicing, while also increasing our flexibility to meet our customers' requirements.

### Refocusing Home Solutions

Our Connected Home business has been successful in delivering material growth in the UK, due to the scale of our customer base, sales channel synergies with energy and services, and the use of our in-home servicing capabilities to fulfil installation of products. As a result, we have developed a strong position in the UK, with leading brand awareness, a high NPS, a reliable and scalable IT platform and a wide range of products that are synergistic with our energy and services offers. We have also experienced a positive impact on the retention rates for energy and services customers.

However, we have not achieved expectations for growth in other geographies due to the absence of a number of these factors.

## **Group Overview** (continued)

Having reviewed the key success factors for growth, Connected Home will now be focused on the UK and Ireland, with the business unit renamed Centrica Home Solutions. We will continue to leverage our distinctive field force for new propositions, which will be focused around Home Energy Management and Home Remote Diagnostics and Monitoring, enabling customers to lower their carbon footprint.

With lower costs and reduced investment requirements, Centrica Home Solutions is targeting breakeven at an EBITDA level in 2021 and revenue of around £150m-£200m by 2022. We will also continue to evaluate joint ventures and partnerships in Home Solutions, if they unlock further value from the platform and capabilities we have created to date.

### Centrica Business strategic pillars and capabilities

Since 2015, the Centrica Business division has built enhanced capabilities in distributed energy technologies, route-to-market services, and energy optimisation including demand response. We maintain strong market positions and have also delivered cost efficiencies to position ourselves competitively, while customer satisfaction levels have improved.

We are the largest energy supplier to SME customers in the UK and retain a significant presence in the I&C market, with our focus in this segment on customers who have a propensity to take business services and solutions in addition to energy. In North America, we are the second largest supplier of gas and power to business customers and have significant wholesale and optimisation positions. We also have significant route-to-market and demand response optimisation positions globally. We manage 2.5GW of optimisation capacity and have nearly 24GW of route-to-market capacity under management across the UK, North America and Continental Europe.

The division will be focused in future on three areas: Energy Supply, Energy Optimisation and Business Services & Solutions.

### Improving returns in North America Business

In energy supply, we will continue to focus on reducing costs to become the most competitive supplier in both the UK and North America while continuing to enhance the range of products and propositions for our customers.

In North America specifically, following a review of our business energy supply and optimisation activity in the region, we are making structural interventions to improve average returns. The priority is to improve returns and lower the volatility of those returns, before looking to enable further growth.

We have already taken actions to improve underlying gross margin delivery, reduce costs and reduce capital employed, and these are expected to result in an improvement in returns to above the Group’s cost of capital in 2019. Further actions being delivered are expected to result in post-tax average economic returns of 10-12%, and no worse than 8% at the bottom of the cycle. Future investment for growth will only be considered once stable returns in excess of the Group’s cost of capital have been consistently demonstrated.

### Growing Business Solutions

Our energy supply activities in both the UK and North America remain an important channel for growth in our business solutions activity. We are focused on delivering energy optimisation and solutions propositions for customers and now have a wide range of technologies and software to underpin our propositions.

Our Distributed Energy & Power business unit will be renamed Centrica Business Solutions and we will continue to invest internationally, with a focus on the UK, Ireland, North America and Continental Europe.

Our growing installed base provides a platform for recurring revenues from operations and maintenance, optimisation activity and financed solutions. We will target delivering further growth through leveraging existing customer relationships and the expansion of our technology range. We continue to target revenue of £1bn by 2022 in this business, and with average gross margin expectations of around 20% are targeting EBITDA break-even by 2021.

### Home Energy Management and Mobility Solutions

A focus for Centrica going forward will be on the future of Home Energy Management and Mobility Solutions, including the integration of Electric Vehicles into propositions for both homes and businesses. Consumers and Businesses are approaching us to help them with solutions around electric vehicles and we are developing propositions and technologies for both consumers and business customers, integrated into their energy systems.

In Electric Vehicle solutions, the focus has been on energy system requirements for electric vehicle integration, electric vehicle energy tariffs, electric vehicle optimisation software and after-market services. In July 2019, we announced that under a planned partnership, Ford will work exclusively with Centrica to deliver a dedicated home

# **Group Overview** (continued)

charging installation service and electric vehicle tariffs from British Gas and Bord Gáis Energy. Centrica will also make its installation service available to support hundreds of Ford dealerships across the UK and Ireland.

Centrica is also continuing to work with other car manufacturers to support their customers and dealership networks on EV readiness, providing a one stop shop for charging solutions including charger infrastructure, energy management, financing, and optimisation. Integration of electric vehicles into the home and control of all energy management requirements of the home will be an important growth area for Centrica, and we are also working on a potential platform, using our ownership interests in individual technology platforms, to enable this.

### Updated financial Framework

We have updated our financial framework to reflect the current environment and our future strategic direction.

We continue to target growth in adjusted operating cash flow over the medium term. The dividend will be progressive, linked to long-term growth in adjusted earnings and adjusted operating cash flow, and we will target dividend cover from earnings in the range 1.5-2.0.

Dividend progression will be off the 2019 expected level of 5.0p per share, which has been rebased to reflect the current environment including the impact of the UK default tariff cap, and additional pension deficit contributions following the conclusion of the triennial valuation. The 2019 interim dividend will be 1.5p per share, 30% of the expected 2019 full year dividend. The company also plans to cancel the scrip dividend alternative, effective from the 2019 interim dividend.

As a wholly customer-facing company, the Group is likely to have lower debt capacity to meet the likely higher credit thresholds required by the rating agencies to retain the same credit ratings. The company will continue to target strong investment grade credit ratings. As a result, proceeds from the Spirit Energy and Nuclear divestments are expected to be retained to reduce net debt.

Post divestment of its interests in Spirit Energy and Nuclear power generation, annual capital investment is expected to be around £500m. The Group will continue to target a return on average capital employed of at least 10-12%, with all capital investment expected to achieve returns of at least this level.

### SUMMARY

The environment was extremely challenging for Centrica's portfolio in H1 2019 and financial performance was weak. We also had to make the decision to rebase the dividend, due to our changed circumstances including the UK energy price cap and increased demands on our cash flows. However, the outlook for the second half of 2019 is more positive, with momentum into 2020.

Centrica is today announcing its intention to exit oil and gas production. Alongside the intended disposal of its Nuclear investment, this will complete its shift towards the customer and allow the Company to focus on its strengths, with an emphasis on helping our customers transition to a lower carbon future.

The simplified portfolio will unlock material further efficiency, enabling us to become the lowest cost provider in all our markets, consistent with chosen brand positioning and propositions. This will enable us to stabilise and grow customer numbers, revenues and gross margin.

The world of energy is changing rapidly, and the market positions and capabilities that Centrica has developed means we are well placed, as we focus on being a leading Energy Services and Solutions provider.

# Group Financial Review

## Adjusted revenue

Adjusted revenue decreased by £0.2bn, or 2%, to £13.8bn (2018: £14.0bn).

- Centrica Consumer revenue fell by £0.1bn with the impact of lower energy customer accounts and the introduction of the energy supply default tariff cap on UK Home offset by increases within North America Home reflecting customer account growth.
- Centrica Business revenue fell by £0.1bn, largely due to a reduction in North America Business reflecting reduced gas optimisation opportunities.
- Exploration and Production was broadly unchanged compared to H1 2018.

## Group operating profit

The statutory operating loss was £446m (2018: operating profit of £704m). Adjusted operating profit was £399m (2018: £782m). A table summary reconciling the different profit measures is shown below:

| Six months ended 30 June | 2019 Business performance £m | 2019 Exceptional items and certain re-measurements £m | 2019 Statutory result £m | 2018 Business performance £m | 2018 Exceptional items and certain re-measurements £m | 2018 Statutory result £m |
|---|---|---|---|---|---|---|
| **Adjusted operating profit / (loss)** | | | | | | |
| UK Home | **181** | | | 393 | | |
| Ireland | **31** | | | 15 | | |
| North America Home | **77** | | | 66 | | |
| Connected Home | **(49)** | | | (44) | | |
| Centrica Consumer | **240** | | | 430 | | |
| UK Business | **19** | | | 23 | | |
| North America Business | **(14)** | | | 50 | | |
| Distributed Energy & Power (DE&P) | **(27)** | | | (37) | | |
| Energy Marketing & Trading (EM&T) | **32** | | | 48 | | |
| Central Power Generation (CPG) | **1** | | | 12 | | |
| Centrica Business | **11** | | | 96 | | |
| Exploration & Production (E&P) | **148** | | | 256 | | |
| Total adjusted operating profit | **399** | | | 782 | | |
| Interest and taxation on joint ventures and associates | **-** | | | (6) | | |
| Group operating profit / (loss) | **399** | **(845)** | **(446)** | 776 | (72) | 704 |
| Net finance cost | **(123)** | **-** | **(123)** | (150) | (139) | (289) |
| Taxation | **(133)** | **181** | **48** | (245) | 68 | (177) |
| Profit / (loss) for the period | **143** | **(664)** | **(521)** | 381 | (143) | 238 |
| Less (profit) / loss attributable to non-controlling interests | **(9)** | **(20)** | **(29)** | (23) | 23 | - |
| Adjusted earnings | **134** | **(684)** | **(550)** | 358 | (120) | 238 |

## Centrica Consumer operating profit

- In Centrica Consumer, adjusted operating profit was down 44% to £240m, largely driven by the impact of the implementation of the default tariff price cap in UK Home.
  - Overall UK Home adjusted operating profit was down 54% reflecting the impact of the default tariff cap (including a one-off £70m impact in the first quarter due to Ofgem's revision to the methodology calculating supplier wholesale costs during the transitional period), lower average energy customer account holdings and lower energy consumption due to warmer weather. These factors outweighed the impact of no repeat of additional costs incurred in services during extreme cold weather in 2018 and benefits from cost efficiency delivery.

## **Group Financial Review** (continued)

- Ireland adjusted operating profit increased 107% to £31m, and in local currency by 112% to €36m, reflecting good business performance and the 2018 comparison having been impacted by an extended maintenance outage at the Whitegate gas-fired power station.
- North America Home adjusted operating profit was up 17% to £77m compared to H1 2018, or by 10% to $100m in local currency, largely due to cost efficiency delivery.
- Connected Home adjusted operating loss increased to £49m in H1 2019 from £44m in H1 2018, as an increase in bad debt, higher depreciation and a revaluation of North American stock more than offset growth in gross margin.

### Centrica Business operating profit

- In Centrica Business, adjusted operating profit decreased 89% to £11m with the biggest drivers of the decline being lower profit in North America Business resulting from reduced gas optimisation opportunities due to the warm weather, and lower profit in Central Power Generation reflecting the impact of extensions to regulatory outages at the Dungeness B and Hunterston B nuclear power stations.
  - UK Business adjusted operating profit of £19m was £4m lower than H1 2018, with the impact of lower energy consumption due to warmer weather more than offsetting cost efficiency.
  - North America Business generated an adjusted operating loss of £14m ($19m) in H1 2019 compared to a profit of £50m ($69m) in H1 2018. The change in year-on-year profit is predominantly due to warmer weather limiting wholesale price volatility in the Eastern U.S., resulting in significantly reduced gas optimisation opportunities. This compares to strong performance in H1 2018 during spells of extreme cold weather.
  - DE&P adjusted operating loss decreased to £27m in H1 2019 from £37m H1 2018, reflecting growth in revenue and gross margin due to higher sales.
  - EM&T adjusted operating profit decreased 33% to £32m, with lower losses from the one remaining legacy gas contract more than offset by the impact of H1 2018 including the benefit of strong trading and optimisation performance during extreme cold weather in the first quarter of 2018.
  - Central Power Generation adjusted operating profit declined to £1m from £12m in H1 2018. This reflects lower Nuclear volumes following the extensions to outages on the Dungeness B and Hunterston B nuclear power stations, partly offset by lower losses from the Spalding tolling arrangement.

### Exploration and Production operating profit

- E&P adjusted operating profit fell 42% to £148m. The reduction in operating profit includes the impact of lower achieved gas prices reflecting the falling UK gas price, a write down following unsuccessful drilling at the first well of the Greater Warwick Area and lower volumes from Rough reflecting the field's natural decline.

### Group finance charge and tax

- Net finance costs decreased to £123m (2018: £150m), largely reflecting the reduction in interest costs on bonds, bank loans and overdrafts following a £1.1bn repurchase of gross net debt which was completed in H1 2018 and the maturity of a bond in September 2018.
- Statutory taxation on loss was a credit of £48m (2018: £177m charge) predominantly due to credits from costs associated with exceptional items and certain re-measurements. Business performance taxation on profit decreased to £133m (2018: £245m). After taking account of tax on joint ventures and associates, the adjusted tax charge was £128m (2018: £246m). The resultant adjusted tax rate for the Group was 47% (2018: 39%). The increase in adjusted tax rate reflects the more highly taxed E&P business contributing 37% of adjusted operating profit, compared to 33% in H1 2018. The non-E&P adjusted tax rate increased due to a number of one-off items relating to prior years which are not expected to recur. An adjusted effective tax rate calculation is shown below:

# Group Financial Review (continued)

| Six months ended 30 June 2019 | Non-E&P UK £m | Non-E&P Non-UK £m | E&P UK £m | E&P Non-UK £m | E&P Total £m | Group Total £m |
|---|---|---|---|---|---|---|
| Adjusted operating profit | **205** | **46** | 44 | 104 | **148** | **399** |
| Share of JV/associate interest | **(5)** | **-** | - | - | **-** | **(5)** |
| Net finance cost | **(135)** | **(29)** | 51 | (10) | **41** | **(123)** |
| Adjusted profit before taxation | **65** | **17** | 95 | 94 | **189** | **271** |
| Taxation on profit (excluding PRT) | **33** | **7** | 24 | 73 | **97** | **137** |
| Petroleum Revenue Tax (PRT) | **-** | **-** | (4) | - | **(4)** | **(4)** |
| Share of JV/associate taxation | **(5)** | **-** | - | - | **-** | **(5)** |
| Adjusted tax charge | **28** | **7** | 20 | 73 | **93** | **128** |
| Adjusted effective tax rate | **43%** | **41%** | 21% | 78% | **49%** | **47%** |

| Six months ended 30 June 2018 | Non-E&P UK £m | Non-E&P Non-UK £m | E&P UK £m | E&P Non-UK £m | E&P Total £m | Group Total £m |
|---|---|---|---|---|---|---|
| Adjusted operating profit | 398 | 128 | 60 | 196 | 256 | 782 |
| Share of JV/associate interest | (5) | - | - | - | - | (5) |
| Net finance cost | (110) | (32) | (4) | (4) | (8) | (150) |
| Adjusted profit before taxation | 283 | 96 | 56 | 192 | 248 | 627 |
| Taxation on profit (excluding PRT) | 49 | 20 | 34 | 155 | 189 | 258 |
| Petroleum Revenue Tax (PRT) | - | - | (13) | - | (13) | (13) |
| Share of JV/associate taxation | 1 | - | - | - | - | 1 |
| Adjusted tax charge | 50 | 20 | 21 | 155 | 176 | 246 |
| Adjusted effective tax rate | 18% | 20% | 37% | 81% | 71% | 39% |

## Group adjusted earnings

- Profit for the year from business performance decreased to £143m (2018: £381m) and after adjusting for non-controlling interests, adjusted earnings fell by 63% to £134m (2018: £358m). This reflects the overall decline in operating profit and change in the operating profit mix to be more heavily weighted to the higher tax Exploration and Production business, all as described above.
- Adjusted basic EPS was down 63% to 2.4p (2018: 6.4p).

## Exceptional items

- A net exceptional pre-tax charge of £346m was recognised in H1 2019 (2018: £209m) including:
  - A £257m charge relating to restructuring charges.
  - A £64m charge relating to pension changes.
  - A £49m charge relating to the impairment of E&P assets following a fall in near-term liquid prices.
  - A £39m charge relating to the strategic decision to refocus Connected Home activity to the UK, including inventory write down, asset impairment and an onerous contract provision.
  - A £63m gain on the disposal of Clockwork.
- These charges in total generated a taxation credit of £86m (2018: £40m). As a result, total net exceptional charges after taxation were £260m (2018: £169m).
- Further details can be found in note 6 to the condensed interim Financial Statements.

## 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.

# **Group Financial Review** (continued)

- The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued.
- The operating loss in the statutory results includes a net pre-tax loss of £499m (2018: loss of £2m) relating to these re-measurements, with the decline in gas prices over the period being reflected in the fair valuing of historic and current energy procurement to meet the needs of our customers, or a loss of £404m after tax (2018: gain of £26m). See note 6 for further details.
- The Group recognises the realised gains and losses on these contracts when the underlying transaction occurs. The business performance 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 loss attributable to shareholders for the period was £550m (2018: profit of £238m). 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 movement to a statutory loss, compared to a statutory profit in H1 2018, is due to a reduction in operating profit and an increase in the exceptional charges and loss from certain re-measurements, all as described above. The Group reported a statutory basic EPS loss of 9.6p (2018: profit of 4.3p).

## Dividend

- An interim dividend of 1.5p per share will be paid on 21 November 2019 to shareholders on the register on 11 October 2019.

## Group operating cash flow

- Net cash flow from operating activities decreased to £177m (2018: £876m), with the reduction in earnings, an increase in payments relating to exceptional charges and an increase in taxes paid compared to a net tax refund in H1 2018, more than offsetting a benefit from increased margin cash and collateral outflows.
- Adjusted operating cash flow, which is reconciled to net cash flow from operating activities in the table below, fell by 32% to £744m.

| Six months ended 30 June | **2019 £m** | 2018 £m |
|---|---|---|
| **Net cash flow from operating activities** | **177** | 876 |
| Add back/(deduct): | | |
| Net margin and cash collateral outflow [1] | **241** | 10 |
| Payments relating to exceptional charges | **175** | 117 |
| Dividends received from joint ventures and associates | **-** | 22 |
| Defined benefit deficit pension payment | **151** | 76 |
| **Adjusted operating cash flow** | **744** | 1,101 |

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

## Centrica Consumer adjusted operating cash flow

- Centrica Consumer adjusted operating cash flow increased 29% to £250m.
  - UK Home adjusted operating cash flow increased by 65% to £150m, with the impact of the price cap offset by warmer weather, the suspension of the UK capacity market and broader structural working capital improvements.
  - Adjusted operating cash flow in Ireland increased by £20m to £49m, broadly in line with the increase in adjusted operating profit.
  - Total North America Home adjusted operating cash flow decreased 29% to £83m, 34% in local currency, largely reflecting the timing of working capital flows due to warmer than normal weather at the end of 2018 reducing 2019 cash inflows.
  - Connected Home adjusted operating cash outflow reduced by £11m to £32m, reflecting growth in gross margin and working capital improvements.

# Group Financial Review (continued)

### Centrica Business adjusted operating cash flow

- Centrica Business adjusted operating cash flow decreased 77% to £61m.
  - Adjusted operating cash flow increased 91% to £111m in H1 2019 in UK Business reflecting the suspension of the UK capacity market costs and broader structural working capital improvements.
  - North America Business adjusted operating cash outflow was £30m in H1 2019, compared to a cash inflow of £172m in H1 2018, due to a decline in adjusted operating profit as described above and in year working capital phasing, most of which is expected to unwind over the second half of the year.
  - DE&P saw a £7m increase in adjusted operating cash outflow to £39m, with a lower adjusted operating loss offset by slightly higher working capital reflecting DE&P growth.
  - EM&T adjusted operating cash outflow was £23m in H1 2019 compared to an inflow of £22m in H1 2018, reflecting the timing of cash flows associated with both the flexible legacy gas contract and core EM&T trading activities.
  - CPG adjusted operating cash flow was unchanged at £42m.

### Exploration and Production adjusted operating cash flow

- Adjusted operating cash flow declined 35% to £433m reflecting the reduction in adjusted operating profit, higher tax payments, increased abandonment expenditure and timing of working capital in Spirit Energy.

### Group net cash flow, net debt and balance sheet

- Net cash outflow from investing activities decreased to £100m (2018: £491m) primarily due to cash received from the sale of Clockwork, reduced capital expenditure and acquisition spend and a net sale of securities compared to a net purchase in H1 2018.
- Net cash outflow from financing activities fell to £570m (2018: £1,838m) reflecting the impact of the debt repurchase in H1 2018 and a slight reduction in cash equity dividends reflecting a higher scrip uptake for the 2018 final dividend, paid in June 2019.
- Reflecting all of this, and the Company adopting IFRS16 which increased opening 2019 net debt by £394m, the Group's net debt increased by £720m to £3,376m over the first six months of the year (31 December 2018 £2,656m; 30 June 2018: £2,886m), including cash collateral posted or received in support of wholesale energy procurement.
- Net assets decreased to £2,845m (31 December 2018: £3,948m; 30 June 2018 £4,023m), with the reduction since year end largely driven by the loss in the first half of 2019 and dividend payments.

### 2019 acquisitions and disposals

On 30 April 2019, the Group disposed of Clockwork Home Services for a gross consideration of $300m which, after deal-specific adjustments related to working capital, resulted in a net consideration of $279m (£215m). Further details on acquisitions, assets purchased and disposals are included in notes 4(e) and 11.

### Events after balance sheet date

Details of events after the balance sheet date are described in note 16.

### Risks and capital management

The nature of the Group's principal risks and uncertainties are largely unchanged from those set out in its 2018 Annual Report, although there continues to be a high degree of uncertainty surrounding the process for and consequences of 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 18. Details on the Group's capital management processes are provided under sources of finance in note 12(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. Changes include the presentation of the income statement for energy derivative contracts following an IFRIC agenda decision on the recognition of fair value movements on derivatives and the impact of adopting IFRS 16.

# Business Unit KPIs

## Centrica Consumer

### UK Home

| Six months ended 30 June | 2019 | 2018 | Change |
|---|---|---|---|
| Total recordable injury frequency rate (per 200,000 hours worked) [1] | **1.36** | 1.52 | (11%) |
| Brand NPS | **5** | (2) | 7pt |
| Complaints (per 100,000 customers) [2] | | | |
| Energy supply | **2,866** | 2,082 | 38% |
| Services | **1,119** | 1,494 | (25%) |
| Customer account holdings ('000s) | | | |
| Energy supply | | | |
| Standard variable tariff (SVT) | **4,078** | 5,550 | (27%) |
| Temporary | **1,347** | 446 | 202% |
| Safeguard | **487** | 428 | 14% |
| Prepayment | **2,140** | 2,222 | (4%) |
| Fixed term | **3,902** | 3,887 | 0% |
| Total Energy supply | **11,954** | 12,533 | (5%) |
| Services | **7,652** | 7,482 | 2% |
| Total customer account holdings ('000s) | **19,606** | 20,015 | (2%) |
| Installs and on demand jobs ('000s) | **175** | 191 | (8%) |
| Energy use per residential energy customer account | | | |
| Gas (therms) | **238** | 263 | (10%) |
| Electricity (kWh) | **1,588** | 1,700 | (7%) |
| Total energy use per residential energy customer account (kWh) | **4,571** | 5,037 | (9%) |
| Adjusted gross revenue (£m) | | | |
| Energy supply | **3,619** | 3,812 | (5%) |
| Services | **716** | 714 | 0% |
| Total adjusted gross revenue (£m) | **4,335** | 4,526 | (4%) |
| Total adjusted gross margin (£m) | **797** | 1,021 | (22%) |
| Annualised cost per Home customer (£) [3] | **103** | 101 | 2% |
| Controllable operating costs as a % of underlying adjusted gross margin [4] | **66%** | 53% | 13ppt |
| Adjusted operating profit (£m) | | | |
| Energy supply | **86** | 321 | (73%) |
| Services | **95** | 72 | 32% |
| Total adjusted operating profit (£m) | **181** | 393 | (54%) |
| Adjusted operating cash flow (£m) | **150** | 91 | 65% |

1. Total recordable injury frequency rate (per 200,000 hours worked) is on a 12 month rolling basis.
2. Complaints per 100,000 customers as reported to Ofgem for UK energy supply and the FCA for UK Home services. In line with changes to Ofgem regulations in H2 2018, a complaint is now recorded if a customer indicates any dissatisfaction even if a formal complaint is not raised.
3. Annualised cost per Home customer is controllable operating costs and controllable costs 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 holdings, installs and on demand jobs.
4. See pages 58 to 61 for an explanation of the use of adjusted performance measures.

# Business Unit KPIs (continued)

## Ireland

| Six months ended 30 June | 2019 | 2018 | Change |
|---|---|---|---|
| Total recordable injury frequency rate (per 200,000 hours worked) [1] | **1.13** | 1.27 | (11%) |
| Brand NPS | **36** | 27 | 9pt |
| Complaints (per 100,000 customers) [2] | **2** | 3 | (33%) |
| Customer account holdings ('000s) | **699** | 678 | 3% |
| Energy use per residential energy customer account (kWh) | | | |
| Gas (therms) | **225** | 246 | (9%) |
| Electricity (kWh) | **2,331** | 2,412 | (3%) |
| Total energy use per residential energy customer account (kWh) | **4,327** | 4,747 | (9%) |
| Adjusted gross revenue (£m) | **464** | 470 | (1%) |
| Adjusted gross margin (£m) | **78** | 65 | 20% |
| Annualised cost per Home customer (£) [3] | **105** | 123 | (15%) |
| Controllable operating costs as a % of underlying adjusted gross margin [4] | **50%** | 67% | (17ppt) |
| Adjusted operating profit (£m) | **31** | 15 | 107% |
| Adjusted operating profit (€m) | **36** | 17 | 112% |
| Adjusted operating cash flow (£m) | **49** | 29 | 69% |
| Adjusted operating cash flow (€m) | **56** | 33 | 70% |

1. Total recordable injury frequency rate (per 200,000 hours worked) is on a 12 month rolling basis.
2. Complaints per 100,000 customers as reported to the Commission for Regulation of Utilities (CRU).
3. Annualised cost per Home customer is controllable operating costs and controllable costs 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 holdings, installs and on demand jobs. 2018 restated for foreign exchange movements.
4. See pages 58 to 61 for an explanation of the use of adjusted performance measures.

# **Business Unit KPIs** (continued)

## North America Home

| Six months ended 30 June | 2019 | 2018 | Change |
|---|---|---|---|
| Total recordable injury frequency rate (per 200,000 hours worked) [1] | **0.58** | 0.85 | (32%) |
| Brand NPS | **32** | 32 | 0pt |
| Energy supply complaints (per 100,000 customers) [2] | **35** | 51 | (31%) |
| Customer account holdings ('000s) | | | |
| Energy supply | | | |
| Texas | **643** | 640 | 0% |
| US North East | **1,143** | 975 | 17% |
| Canada | **902** | 922 | (2%) |
| Total energy supply | **2,688** | 2,537 | 6% |
| Services [3] | **622** | 787 | (21%) |
| Total customer account holdings ('000s) [3] | **3,310** | 3,324 | (0%) |
| Installs and on demand jobs ('000s) | **205** | 359 | (43%) |
| Energy use per residential energy customer account | | | |
| Gas (therms) | **849** | 875 | (3%) |
| Electricity (kWh) | **5,058** | 5,298 | (5%) |
| Total energy use per residential energy customer account (kWh) | **14,068** | 14,773 | (5%) |
| Adjusted gross revenue (£m) | | | |
| Energy supply | **1,134** | 1,042 | 9% |
| Services | **232** | 211 | 10% |
| Total adjusted gross revenue (£m) | **1,366** | 1,253 | 9% |
| Adjusted gross margin (£m) | **307** | 308 | (0%) |
| Adjusted gross margin ($m) | **398** | 423 | (6%) |
| Annualised cost per Home customer (£) [3 4] | **196** | 183 | 7% |
| Controllable operating costs as a % of underlying adjusted gross margin [4 5] | **65%** | 67% | (2ppt) |
| Adjusted operating profit (£m) | | | |
| Energy supply | **80** | 72 | 11% |
| Services | **(3)** | (6) | 50% |
| Total adjusted operating profit (£m) | **77** | 66 | 17% |
| Adjusted operating profit ($m) | | | |
| Energy supply | **103** | 100 | 3% |
| Services | **(3)** | (9) | 67% |
| Total adjusted operating profit ($m) | **100** | 91 | 10% |
| Adjusted operating cash flow (£m) | **83** | 117 | (29%) |
| Adjusted operating cash flow ($m) | **106** | 160 | (34%) |

1. Total recordable injury frequency rate (per 200,000 hours worked) is on a 12 month rolling basis.
2. Complaints per 100,000 customers as reported by various regulatory bodies.
3. North America services account holdings have been redefined to exclude minor contract add-ons on home warranty contracts. 2018 has been restated accordingly.
4. Annualised cost per Home customer is controllable operating costs and controllable costs 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 holdings, installs and on demand jobs. 2018 restated for foreign exchange movements.
5. See pages 58 to 61 for an explanation of the use of adjusted performance measures.

# Business Unit KPIs (continued)

## Connected Home

| Six months ended 30 June | 2019 | 2018 | Change |
|---|---|---|---|
| Total recordable injury frequency rate (per 200,000 hours worked) [1] | **0.19** | 0.34 | (44%) |
| Brand NPS | **42** | 42 | 0pt |
| Cumulative customers (‘000s) | **1,544** | 1,035 | 49% |
| New customers in period ('000s) | **200** | 135 | 48% |
| Products sold in period ('000s) | **559** | 352 | 59% |
| Cumulative subscriptions (‘000s) | **228** | 148 | 54% |
| Adjusted gross revenue (£m) | **34** | 21 | 62% |
| Adjusted gross margin (£m) | **8** | 5 | 60% |
| Controllable operating costs as a % of underlying adjusted gross margin [2] | **608%** | 738% | (130ppt) |
| Adjusted operating (loss) (£m) | **(49)** | (44) | (11%) |
| Adjusted operating cash flow (£m) | **(32)** | (43) | 26% |

1. Total recordable injury frequency rate (per 200,000 hours worked) is on a 12 month rolling basis.
2. See pages 58 to 61 for an explanation of the use of adjusted performance measures.

# Business Unit KPIs (continued)

## Centrica Business

### UK Business

| Six months ended 30 June | 2019 | 2018 | Change |
|---|---|---|---|
| Total recordable injury frequency rate (per 200,000 hours worked) [1] | **0.38** | 0.39 | (3%) |
| Brand NPS | **(3)** | (13) | 10pt |
| Complaints (per 100,000 customers) [2] | **2,055** | 2,378 | (14%) |
| Customer account holdings (‘000s) | | | |
| Small and medium enterprises (SME) | **553** | 534 | 4% |
| Industrial and commercial (I&C) | **101** | 105 | (4%) |
| Total customer account holdings (‘000s) | **654** | 639 | 2% |
| Total customer energy consumption | | | |
| Gas (mmth) | **258** | 244 | 6% |
| Electricity (GWh) | **5,225** | 5,428 | (4%) |
| Adjusted gross revenue (£m) | **1,023** | 956 | 7% |
| Adjusted gross margin (£m) | **106** | 129 | (18%) |
| Controllable operating costs as a % of underlying adjusted gross margin [3] | **75%** | 76% | (1ppt) |
| Adjusted operating profit (£m) | **19** | 23 | (17%) |
| Adjusted operating cash flow (£m) | **111** | 58 | 91% |

1. Total recordable injury frequency rate (per 200,000 hours worked) is on a 12 month rolling basis.
2. Complaints per 100,000 customers as reported to Ofgem.
3. See pages 58 to 61 for an explanation of the use of adjusted performance measures.

# **Business Unit KPIs** (continued)

## North America Business

| Six months ended 30 June | 2019 | 2018 | Change |
|---|---|---|---|
| Total recordable injury frequency rate (per 200,000 hours worked) [1] | **0.10** | 0.00 | nm |
| Brand NPS | **38** | 32 | 6pt |
| Complaints (per 100,000 customers) [2] | **14** | 15 | (7%) |
| Customer account holdings ('000s) | **495** | 538 | (8%) |
| Total customer energy consumption | | | |
| Gas (mmth) | **4,215** | 3,613 | 17% |
| Electricity (GWh) | **39,681** | 41,235 | (4%) |
| Adjusted gross revenue (£m) | **4,225** | 4,390 | (4%) |
| Adjusted gross margin (£m) | | | |
| Gas retail and wholesale | **109** | 166 | (34%) |
| Power retail and wholesale | **46** | 49 | (6%) |
| Total adjusted gross margin (£m) | **155** | 215 | (28%) |
| Adjusted gross margin ($m) | | | |
| Gas retail and wholesale | **142** | 231 | (39%) |
| Power retail and wholesale | **58** | 66 | (12%) |
| Total adjusted gross margin ($m) | **200** | 296 | (32%) |
| Controllable operating costs as a % of underlying adjusted gross margin [3 4] | **96%** | 64% | 32ppt |
| Adjusted operating profit (£m) | **(14)** | 50 | nm |
| Adjusted operating profit ($m) | **(19)** | 69 | nm |
| Adjusted operating cash flow (£m) | **(30)** | 172 | nm |
| Adjusted operating cash flow ($m) | **(41)** | 240 | nm |

1. Total recordable injury frequency rate (per 200,000 hours worked) is on a 12 month rolling basis.
2. Complaints per 100,000 customers as reported by various regulatory bodies.
3. 2018 restated for foreign exchange movements
4. See pages 58 to 61 for an explanation of the use of adjusted performance measures

# **Business Unit KPIs** (continued)

## Distributed Energy & Power

| Six months ended 30 June | 2019 | 2018 | Change |
|---|---|---|---|
| Total recordable injury frequency rate (per 200,000 hours worked) [1] | **1.14** | 1.52 | (25%) |
| 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) | **2,161** | 2,094 | 3% |
| Active customer sites | **5,821** | 5,120 | 14% |
| Secured revenue (order book) (£m) | **695** | 408 | 70% |
| Adjusted gross revenue (£m) | **120** | 84 | 43% |
| Adjusted gross margin (£m) | **32** | 23 | 39% |
| Adjusted operating costs as a % of underlying adjusted gross margin | **159%** | 229% | (70ppt) |
| Adjusted operating (loss) (£m) | **(27)** | (37) | 27% |
| Adjusted operating cash flow (£m) | **(39)** | (32) | (22%) |

1. Total recordable injury frequency rate and process safety incident rate (per 200,000 hours worked) is on a 12 month rolling basis.

## Energy Marketing & Trading

| Six months ended 30 June | 2019 | 2018 | Change |
|---|---|---|---|
| Total recordable injury frequency rate (per 200,000 hours worked) [1] | **0.00** | 0.00 | nm |
| Adjusted operating profit (£m) | **32** | 48 | (33%) |
| Adjusted operating cash flow (£m) | **(23)** | 22 | nm |

1. Total recordable injury frequency rate (per 200,000 hours worked) is on a 12 month rolling basis.

## Central Power Generation

| Six months ended 30 June | 2019 | 2018 | Change |
|---|---|---|---|
| Nuclear power generated (GWh) | **4,900** | 6,045 | (19%) |
| Achieved power price – nuclear (£/MWh) | **47.5** | 43.1 | 10% |
| Adjusted operating profit (£m) | **1** | 12 | (92%) |
| Adjusted operating cash flow (£m) | **42** | 42 | 0% |

As all assets are non-operated, total recordable injury frequency rate and process safety incident rate is not reported.

# **Business Unit KPIs** (continued)

## Exploration & Production

| Six months ended 30 June | 2019 | 2018 | Change |
|---|---|---|---|
| Total recordable injury frequency rate (per 200,000 hours worked) [1] | **0.20** | 0.27 | (26%) |
| Process safety incident rate – tier 1 & 2 (per 200,000 hours worked) [1] | **0.09** | 0.08 | 13% |
| Gas production volumes (mmth) | | | |
| Spirit Energy | **1,053** | 1,038 | 1% |
| CSL | **323** | 423 | (24%) |
| Total gas production volumes (mmth) | **1,376** | 1,461 | (6%) |
| Liquids production volumes (mmboe) | | | |
| Spirit Energy | **7.3** | 8.4 | (13%) |
| CSL | **0.1** | - | nm |
| Total liquids production volumes (mmboe) | **7.4** | 8.4 | (12%) |
| Total production volumes (mmboe) | | | |
| Spirit Energy | **24.5** | 25.1 | (2%) |
| CSL | **5.2** | 6.9 | (25%) |
| Total production volumes (mmboe) | **29.7** | 32.0 | (7%) |
| Average achieved gas sales prices (p/therm) | | | |
| Spirit Energy | **43.8** | 45.0 | (3%) |
| CSL | **43.0** | 50.1 | (14%) |
| Average achieved liquid sales prices (£/boe) | | | |
| Spirit Energy | **44.2** | 41.9 | 5% |
| CSL | **39.6** | - | nm |
| Lifting and other cash production costs (£/boe) [2] | | | |
| Spirit Energy | **14.4** | 15.7 | (8%) |
| CSL | **7.1** | 5.0 | 42% |
| Gas and liquids realisations (£m)[3] | **972** | 1,101 | (12%) |
| Adjusted operating profit (£m) | | | |
| Spirit Energy | **90** | 155 | (42%) |
| CSL | **58** | 101 | (43%) |
| Adjusted operating profit (£m) | **148** | 256 | (42%) |
| Adjusted operating profit after tax (£m) | **58** | 74 | (22%) |
| Adjusted operating cash flow (£m) | **433** | 667 | (35%) |
| Net investment (£m) [4] | | | |
| Capital expenditure (including small acquisitions) | **183** | 231 | (21%) |
| Net disposals | **(6)** | (6) | 0% |
| Net investment (£m) | **177** | 225 | (21%) |
| Free cash flow (£m) [4] | **256** | 442 | (42%) |

1. Total recordable injury frequency rate and process safety incident rate (per 200,000 hours worked) is on a 12 month rolling basis.
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 58 to 61 for an explanation of the use of adjusted performance measures.

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Interim Results for the six-month period ended 30 June 2019 in accordance with applicable law, regulations and accounting standards. In preparing the condensed interim Financial Statements, the Directors are responsible for ensuring that they give a true and fair view of the state of affairs of the Group at the end of the period and the profit or loss of the Group for that period.

The Directors confirm that the condensed interim Financial Statements have been prepared in accordance with IAS 34: 'Interim Financial Reporting', as adopted by the European Union and that the Interim Results includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of the important events that have occurred during the first six months and their impact on the condensed interim Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months of the year and any material changes in the related party transactions described in the last annual report.

The Directors of Centrica plc are listed in the Group's 2018 Annual Report and Accounts. A list of current Directors is maintained on the Centrica plc website which can be found at www.centrica.com.

On behalf of the Board on 29 July 2019

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

# Independent Review Report to Centrica plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Cash Flow Statement and related notes 1 to 19. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

### Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

### Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
29 July 2019

# Group Income Statement

| Six months ended 30 June | Notes | 2019 Business performance £m | 2019 Exceptional items and certain re-measurements £m | 2019 Results for the period £m | 2018 (restated) (i) Business performance £m | 2018 (restated) (i) Exceptional items and certain re-measurements £m | 2018 (restated) (i) Results for the period £m |
|---|---|---|---|---|---|---|---|
| **Group revenue** (i) | 4(b), 6 | **13,808** | **(2,240)** | **11,568** | 14,020 | (1,921) | 12,099 |
| Cost of sales (i) | 6 | **(11,881)** | **4,222** | **(7,659)** | (11,764) | 3,751 | (8,013) |
| Re-measurement and settlement of derivative energy contracts (i) | 6 | **–** | **(2,481)** | **(2,481)** | – | (1,830) | (1,830) |
| **Gross profit/(loss)** | 6 | **1,927** | **(499)** | **1,428** | 2,256 | – | 2,256 |
| Operating costs before exceptional items and credit losses on financial assets | | **(1,400)** | **–** | **(1,400)** | (1,384) | – | (1,384) |
| Credit losses on financial assets | | **(104)** | **–** | **(104)** | (98) | – | (98) |
| Exceptional items – restructuring | 6 | **–** | **(257)** | **(257)** | – | (70) | (70) |
| Exceptional items – pension costs | 6 | **–** | **(64)** | **(64)** | – | – | – |
| Exceptional items – impairment | 6 | **–** | **(88)** | **(88)** | – | – | – |
| Exceptional items – gain on disposal | 6 | **–** | **63** | **63** | – | – | – |
| Operating costs | | **(1,504)** | **(346)** | **(1,850)** | (1,482) | (70) | (1,552) |
| Share of (losses)/profits of joint ventures and associates, net of interest and taxation | 5 | **(24)** | **–** | **(24)** | 2 | (2) | – |
| **Group operating profit/(loss)** | 4(c) | **399** | **(845)** | **(446)** | 776 | (72) | 704 |
| Financing costs | 7 | **(137)** | **–** | **(137)** | (164) | (139) | (303) |
| Investment income | 7 | **14** | **–** | **14** | 14 | – | 14 |
| Net finance cost | | **(123)** | **–** | **(123)** | (150) | (139) | (289) |
| **Profit/(loss) before taxation** | | **276** | **(845)** | **(569)** | 626 | (211) | 415 |
| Taxation on profit/(loss) | 8 | **(133)** | **181** | **48** | (245) | 68 | (177) |
| **Profit/(loss) for the period** | | **143** | **(664)** | **(521)** | 381 | (143) | 238 |
| Attributable to: | | | | | | | |
| Owners of the parent | | **134** | **(684)** | **(550)** | 358 | (120) | 238 |
| Non-controlling interests | | **9** | **20** | **29** | 23 | (23) | – |

| **Earnings per ordinary share** | Notes | 2019 Pence | 2018 Pence |
|---|---|---|---|
| Basic | 9 | **(9.6)** | 4.3 |
| Diluted | 9 | **(9.6)** | 4.2 |

(i) The Group has amended the presentation of energy derivative contracts following an IFRIC agenda decision in March 2019 and re-presented prior period results accordingly. See note 3(c) for further details.

The notes on pages 31 to 57 form part of these condensed interim Financial Statements.

# Group Statement of Comprehensive Income

| Six months ended 30 June | 2019 £m | 2018 £m |
|---|---|---|
| **(Loss)/profit for the period** | **(521)** | 238 |
| **Other comprehensive income/(loss):** | | |
| **Items that will be or have been reclassified to the Group Income Statement:** | | |
| Net gains/(losses) on cash flow hedges | **6** | (1) |
| Transferred to income and expense on cash flow hedges | **1** | 5 |
| Taxation on cash flow hedges | **(1)** | (1) |
| | **6** | 3 |
| Exchange differences on translation of foreign operations (i) | **53** | 53 |
| Exchange (losses)/gains on translation of actuarial reserve | **(1)** | 1 |
| Exchange gains recycled to Group Income Statement on disposal (note 11) | **(18)** | – |
| | **40** | 57 |
| **Items that will not be reclassified to the Group Income Statement:** | | |
| Gains on revaluation of equity instruments measured at fair value through other comprehensive income, net of taxation | **1** | 1 |
| Net actuarial (losses)/gains on defined benefit pension schemes | **(190)** | 800 |
| Taxation on net actuarial (losses)/gains on defined benefit pension schemes | **32** | (136) |
| | **(157)** | 665 |
| Share of other comprehensive income of joint ventures and associates, net of taxation | **13** | 47 |
| **Other comprehensive (loss)/income, net of taxation** | **(104)** | 769 |
| **Total comprehensive (loss)/income for the period** | **(625)** | 1,007 |
| Attributable to: | | |
| Owners of the parent | **(659)** | 1,001 |
| Non-controlling interests | **34** | 6 |

(i) Includes £5 million gain (2018: £6 million) in respect of exchange differences on translation of foreign operations attributable to non-controlling interests.

The notes on pages 31 to 57 form part of these condensed interim 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 2019 | 354 | 2,240 | 725 | (174) | **3,145** | 803 | **3,948** |
| (Loss)/profit for the period | – | – | (550) | – | **(550)** | 29 | **(521)** |
| Other comprehensive (loss)/income | – | – | – | (109) | **(109)** | 5 | **(104)** |
| Employee share schemes and other share transactions | – | – | (16) | 40 | **24** | – | **24** |
| Scrip dividend (note 10) | 6 | 90 | – | – | **96** | – | **96** |
| Dividends paid to equity holders (note 10) | – | – | (474) | – | **(474)** | – | **(474)** |
| Distributions to non-controlling interests | – | – | – | – | **–** | (124) | **(124)** |
| **30 June 2019** | **360** | **2,330** | **(315)** | **(243)** | **2,132** | **713** | **2,845** |

| | Share capital £m | Share premium £m | Retained earnings £m | Other equity £m | Total £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| 1 January 2018 | 348 | 2,121 | 1,184 | (950) | 2,703 | 729 | 3,432 |
| Adjustment on adoption of IFRS 9 | – | – | 28 | (28) | – | – | – |
| Profit for the period | – | – | 238 | – | 238 | – | 238 |
| Other comprehensive income | – | – | – | 763 | 763 | 6 | 769 |
| Transfers to assets and liabilities from cash flow hedging reserve | – | – | – | (1) | (1) | – | (1) |
| Employee share schemes | – | – | (1) | 9 | 8 | – | 8 |
| Scrip dividend (note 10) | 2 | 45 | – | – | 47 | – | 47 |
| Dividends paid to equity holders (note 10) | – | – | (470) | – | (470) | – | (470) |
| 30 June 2018 | 350 | 2,166 | 979 | (207) | 3,288 | 735 | 4,023 |

The notes on pages 31 to 57 form part of these condensed interim Financial Statements.

# Group Balance Sheet

| | Notes | 30 June 2019 £m | 31 December 2018 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **4,171** | 4,124 |
| Interests in joint ventures and associates | | **1,650** | 1,661 |
| Other intangible assets | | **1,856** | 1,720 |
| Goodwill | | **2,703** | 2,736 |
| Deferred tax assets | | **505** | 532 |
| Trade and other receivables, and contract-related assets | | **136** | 119 |
| Derivative financial instruments | 14 | **506** | 537 |
| Retirement benefit assets | 13 | **196** | 223 |
| Securities | 12(b),14 | **249** | 239 |
| | | **11,972** | 11,891 |
| **Current assets** | | | |
| Trade and other receivables, and contract-related assets | | **4,684** | 5,543 |
| Inventories | | **334** | 459 |
| Derivative financial instruments | 14 | **1,060** | 1,141 |
| Current tax assets | | **209** | 187 |
| Securities | 12(b) | **22** | 68 |
| Cash and cash equivalents | 12(b) | **715** | 1,268 |
| | | **7,024** | 8,666 |
| **Total assets** | | **18,996** | 20,557 |
| **Current liabilities** | | | |
| Derivative financial instruments | 14 | **(1,213)** | (1,136) |
| Trade and other payables, and contract-related liabilities | | **(5,208)** | (6,207) |
| Current tax liabilities | | **(474)** | (360) |
| Provisions for other liabilities and charges | | **(438)** | (305) |
| Bank overdrafts, loans and other borrowings | 12(c) | **(501)** | (374) |
| | | **(7,834)** | (8,382) |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **(107)** | (384) |
| Derivative financial instruments | 14 | **(350)** | (430) |
| Trade and other payables, and contract-related liabilities | | **(330)** | (191) |
| Provisions for other liabilities and charges | | **(2,551)** | (2,540) |
| Retirement benefit obligations | 13 | **(310)** | (302) |
| Bank loans and other borrowings | 12(c) | **(4,669)** | (4,380) |
| | | **(8,317)** | (8,227) |
| **Total liabilities** | | **(16,151)** | (16,609) |
| **Net assets** | | **2,845** | 3,948 |
| Share capital | | **360** | 354 |
| Share premium | | **2,330** | 2,240 |
| Retained earnings | | **(315)** | 725 |
| Other equity | | **(243)** | (174) |
| **Total shareholders' equity** | | **2,132** | 3,145 |
| Non-controlling interests | | **713** | 803 |
| **Total shareholders' equity and non-controlling interests** | | **2,845** | 3,948 |

The notes on pages 31 to 57, form part of these condensed interim Financial Statements.

# Group Cash Flow Statement

| Six months ended 30 June | Notes | 2019 £m | 2018 £m |
|---|---|---|---|
| Group operating (loss)/profit including share of results of joint ventures and associates | | **(446)** | 704 |
| Add back share of losses of joint ventures and associates, net of interest and taxation | | **24** | – |
| Group operating (loss)/profit before share of results of joint ventures and associates | | **(422)** | 704 |
| Add back/(deduct): | | | |
| Depreciation, amortisation, write-downs, impairments and write-backs | | **775** | 550 |
| Profit on disposals | | **(134)** | (2) |
| Increase in provisions | | **152** | 14 |
| Cash contributions to defined benefit schemes in excess of service cost income statement charge | | **(153)** | (64) |
| Employee share scheme costs | | **21** | 19 |
| Unrealised losses/(gains) arising from re-measurement of energy contracts | | **142** | (3) |
| Operating cash flows before movements in working capital | | **381** | 1,218 |
| Decrease in inventories | | **118** | 62 |
| Decrease in trade and other receivables, and contract-related assets | | **807** | 154 |
| Decrease in trade and other payables, and contract liabilities | | **(875)** | (447) |
| Operating cash flows before payments relating to taxes and exceptional charges | | **431** | 987 |
| Taxes (paid)/refunded | | **(79)** | 6 |
| Payments relating to exceptional charges in operating costs | | **(175)** | (117) |
| **Net cash flow from operating activities** | | **177** | 876 |
| Purchase of businesses, net of cash acquired | | **(3)** | (58) |
| Sale of businesses | | **208** | 7 |
| Purchase of property, plant and equipment and intangible assets | 4(e) | **(352)** | (435) |
| Sale of property, plant and equipment and intangible assets | | **8** | 23 |
| Dividends received from joint ventures and associates | | **–** | 22 |
| Interest received | | **5** | 7 |
| Net sale/(purchase) of securities | 12(b) | **34** | (57) |
| **Net cash flow from investing activities** | | **(100)** | (491) |
| Net cash inflow from short-term borrowings | 12(b) | **180** | – |
| Proceeds from sale of forfeited share capital | | **2** | – |
| Payments for own shares | | **–** | (11) |
| Distribution to non-controlling interests | | **(124)** | – |
| Financing interest paid | 12(b) | **(84)** | (160) |
| Repayment of borrowings and leases | 12(b) | **(161)** | (1,240) |
| Equity dividends paid | | **(383)** | (427) |
| **Net cash flow from financing activities** | | **(570)** | (1,838) |
| **Net decrease in cash and cash equivalents** | | **(493)** | (1,453) |
| Cash and cash equivalents including overdrafts at 1 January | | **1,128** | 2,737 |
| Effect of foreign exchange rate changes | | **4** | 19 |
| **Cash and cash equivalents including overdrafts at 30 June** | | **639** | 1,303 |
| Included in the following line of the Group Balance Sheet: | | | |
| Cash and cash equivalents | | **715** | 1,538 |
| Overdrafts included within current bank overdrafts, loans and other borrowings | | **(76)** | (235) |

The notes on pages 31 to 57 form part of these condensed interim Financial Statements.

# Notes to the condensed interim Financial Statements

**Notes to the condensed interim Financial Statements provide additional information required by statute, accounting standards or Listing Rules to explain a particular feature of the condensed interim Financial Statements. These condensed interim Financial Statements should be read in conjunction with the information that was released in the Group's consolidated Financial Statements for the year ended 31 December 2018**

## 1. General information

Centrica plc is a company domiciled and incorporated in the UK. The address of the registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD. The Company has its listing on the London Stock Exchange.

The condensed interim Financial Statements for the six months ended 30 June 2019 included in this announcement were authorised for issue in accordance with a resolution of the Board of Directors on 29 July 2019.

These condensed interim Financial Statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2018 were approved by the Board of Directors on 20 February 2019 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006. The financial information contained in these condensed interim Financial Statements is unaudited. The Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Changes in Equity, Group Cash Flow Statement for the interim period to 30 June 2019, the Group Balance Sheet as at 30 June 2019, and the related notes have been reviewed by the auditors and their report to the Company is set out on page 25.

## 2. Basis of preparation

**These condensed interim Financial Statements for the six months ended 30 June 2019 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34: 'Interim financial reporting', as adopted by the European Union.**

These condensed interim Financial Statements should be read in conjunction with the Group's consolidated Financial Statements for the year ended 31 December 2018, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and applied by the Group at the time.

Preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. Actual amounts may differ from these estimates. In preparing these condensed interim Financial Statements, the significant judgements, estimates and assumptions made by management in applying the Group's accounting policies were consistent with those applied in the Group's consolidated Financial Statements for the year ended 31 December 2018, unless amended by the application of new accounting standards or interpretations, as described in note 3.

Taxes on income in the interim period are accrued using tax rates that would be applicable to expected total annual earnings for each relevant source of income.

Having reassessed the principal risks, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the condensed interim Financial Statements. Further details of the reassessment of the principal risks, the Group's liquidity position and going concern review are provided in note 18 of these condensed interim Financial Statements.

## 3. Accounting policies

**This section details new accounting standards, amendments and interpretations, whether these are effective in 2019 or later years, and if and how these are expected to impact the financial position and performance of the Group. In addition, this section sets out the Group's specific accounting measures applied in the preparation of the condensed interim Financial Statements. These measures enable the users of the accounts to understand the Group's underlying and statutory business performance separately.**

The accounting policies applied in these condensed interim Financial Statements are consistent with those of the Group's consolidated Financial Statements for the year ended 31 December 2018, as described in those annual Financial Statements, with the exception of standards, amendments and interpretations effective as of 1 January 2019 and other changes detailed below.

The Group has not early adopted other standards, amendments to standards or interpretations that have been issued but are not yet effective.

### (a) Standards, amendments and interpretations effective or adopted in 2019

#### IFRS 16

The Group adopted IFRS 16: 'Leases' from 1 January 2019. Adoption represents a significant change in accounting for lease arrangements in which the Group is a lessee as the standard mandates the on-balance sheet recognition of all lease liabilities and a corresponding right-of-use asset.

In accordance with the transition provisions of IFRS 16, for contracts entered into before 1 January 2019, the requirements of the standard have been applied only to contracts previously identified as leases in accordance with IAS 17: 'Leases' or IFRIC 4: 'Determining Whether an Arrangement Contains a Lease'. For contracts entered into or changed after that date the definition of a lease in IFRS 16 has been applied.

On application of IFRS 16 comparative information has not been restated.

# Notes to the condensed interim Financial Statements (continued)

## 3. Accounting policies

The Group utilised the recognition exemptions for both short-term leases applicable to machinery, property and exploration and production assets that have a lease term of 12 months or less and for leases of low value assets, including IT equipment. The lease payments associated with those leases are recognised as an expense on a straight-line basis over the lease term. The Group has also applied wherever applicable the following transition allowances:

- C10(a) application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- C10(b) reliance on previous assessment of whether leases are onerous in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Asset's immediately before the date of initial application as an alternative to performing an impairment review;
- C10(c) election not to apply the measurement requirements of the standard to leases where the term ends within 12 months of the date of initial application;
- C10(d) exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.

On transition, the Group measured lease liabilities for leases previously assessed as operating at the present value of the remaining lease payments and elected to measure the associated right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. For arrangements previously assessed as finance leases, the asset and liability balances at 31 December 2018 were carried forward as the opening IFRS 16 balances and subsequently measured in accordance with the new standard.

Application resulted in the recognition of total lease liabilities and right-of-use assets on 1 January 2019 of £620 million and £463 million, respectively. £402 million of the lease liability is incremental to the IAS 17 position.

Right-of-use assets are presented in Property, plant and equipment on the Group Balance Sheet. Lease liabilities are included in Current and Non-current Borrowings.

The difference between the value of the lease liability and the right-of-use asset predominantly relates to the Spalding tolling contract. The legacy finance lease position reflected a lease liability of £99 million and a fully impaired asset. An incremental £65 million lease liability was recognised post transition on re-measurement of the contract to reflect lease payments as defined under IFRS 16 and the associated asset impaired to its recoverable amount of £31 million. The current year impairment charge is offset by the release of the onerous contract provision previously recognised in respect of this arrangement.

A reconciliation of the operating lease commitment at 31 December 2018 to the opening IFRS 16 lease liability is shown below, along with a summary of the key judgments applied by the Group in determining these opening positions:

| | £m |
|---|---|
| Operating lease commitment at 31 December 2018 | 343 |
| Finance lease liabilities at 31 December 2018 | 218 |
| Net extension and termination options reasonably certain to be exercised | (2) |
| Recognition of lease arrangements within joint operations | 24 |
| Re-measurement of Spalding tolling contract | 65 |
| | **648** |
| Effect of discounting | (28) |
| **IFRS 16 lease liability at 1 January 2019** | **620** |

The weighted average incremental borrowing rate used by the Group for IFRS 16 is 2%.

***Extension and termination options***

The existence and assessment of whether a renewal or termination option is 'reasonably certain' to be exercised is particularly relevant to the Group's significant property portfolio. The Group considers, amongst other factors, the type of property and its purpose, the location of the property, the strategic direction of the business the property is used by and how far into the future the option arises when determining whether exercise is reasonably certain, along with consideration of whether economic incentive to exercise the option exists.

Where exercise of an option is considered to be reasonably certain, the termination period or renewal period is excluded or included in the lease term, respectively, when calculating the lease liability.

***Identifying the customer for arrangements involving assets used in joint operations***

The Group holds interests in a number of joint operations within its Exploration & Production business. The Group has applied judgment in identifying the customer where a lease arrangement is to be used by a jointly controlled operation.

If the leased asset is dedicated to a specific joint operation and its usage is dictated by the joint operating agreement, the joint operation is deemed the customer. In such instances:

- When the Group signs a lease agreement on behalf of a joint operation and has primary responsibility for payments to the lessor, the Group recognises 100% of the lease liability and a right-of-use asset on its balance sheet. When the partner is obliged to reimburse the Group for its share of lease payments, a sub-lease receivable is recognised and an equal adjustment to the right-of-use asset is made.
- When the partner has the primary responsibility for payments to the lessor and the Group is obliged to reimburse its share of the lease payments, a lease liability due to the partner and equal right-of-use asset are recognised.

If the leased asset is not dedicated to a specific joint operation or its usage is not dictated by the joint operating agreement of a joint operation to which it is dedicated, the signatory to the lease agreement is deemed the customer. If this is the Group, the lease liability and right-of-use asset are recognised in full. If it is the partner, no lease liability or right-of-use asset is recognised.

## 3. Accounting policies

The comparative information continues to be reported in accordance with IAS 17 and IFRIC 4 and the accounting policies applicable for this period are included in the Group Consolidated financial statements for the year ended 31 December 2018.

### Significant Changes in the Groups Accounting Policy applicable from 1 January 2019

***Definition of a lease***

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset;
- the Group has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset.

***As a lessee***

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounting using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Leases payments included in the measurement of the lease liability comprise: fixed payments (including in-substance fixed payments), variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date), amounts expected to be payable under a residual value guarantee, and the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early. Variable lease payments that do not depend on an index or rate are recognised in profit or loss in the period in which the event or condition that triggers those payments occurs.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, lease-term extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use of asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group recognises the lease payments associated with short-term leases (leases expiring within twelve months from commencement) and leases of low value assets (underlying asset value less than £5,000) on a straight-line basis over the lease term.

### (b) Standards, amendments and interpretations that are issued but not yet applied by the Group

The Group has not yet applied IFRS 17: ‘Insurance contracts’, which is effective from 1 January 2021 and is still assessing the impact the standard will have on the consolidated Financial Statements.

Other issued amendments or interpretations that have not yet been applied by the Group are not expected to have a material impact on the Group’s accounting policies.

### (c) Other restatements

In March 2019, the International Financial Reporting Interpretations Committee (‘IFRIC’) issued an agenda decision on the Physical Settlement of Contracts to Buy or Sell a non-Financial Item. The committee concluded that, for physical commodity trades within the scope of IFRS 9: ‘Financial instruments’, entities should not transfer previously recognised, unrealised marked-to-market movements to different income statement line items upon realisation. As the Group previously recognised fair value movements on the re-measurement of certain energy contracts net within cost of sales up to the point of realisation (when the underlying contract would be recognised, either in revenue or cost of sales), presentation of the Group’s revenue and cost of sales in the results for the period column has been amended to comply with the requirements of the IFRIC agenda decision. Comparative period results have been represented with no impact on gross profit.

The Group will continue to present the impact of realised positions (and any unrealised fair value movements on proprietary trades) in the scope of IFRS 9 in the business performance column as either revenue or cost of sales, as this better reflects the underlying economic performance of the Group’s trading, however the effect of these positions will then be removed from revenue or cost of sales through a separate column (the exceptional items and certain re-measurements column) and reflected instead in a new ‘Re-measurement and settlement of derivative energy contracts’ line item.

In addition to the above, the new line item in the exceptional items and certain re-measurements column of the Income Statement will include fair value movements on those unrealised commodity derivative trades that are prohibited from being treated as ‘own use’ (primarily due to net settlement terms) but are economically related to our upstream assets, capacity/off-take contracts or downstream demand, in line with the policy detailed at note 3(d).

# Notes to the condensed interim Financial Statements (continued)

## 3. Accounting policies

The effect of this re-presentation for the six-month period ended 30 June 2018 is a reduction in revenue and cost of sales of £1.9 billion and £3.8 billion respectively. The impact for the full year is a reduction in revenue and cost of sales of £4.1 billion and £6.8 billion respectively. There is no impact on gross profit.

The exercise to determine the above restatement required the Group to perform a detailed review of revenue and cost of sales across its wider business. During this review, the Group specifically considered the presentation of certain European commodity trades in the business performance column. These trades (both purchases and sales) have historically been presented gross as revenue or cost of sales, however, as the primary purpose of the book is speculative, and to ensure consistency with other similar activities undertaken by the Group, net presentation is deemed more appropriate and accordingly, trades are now presented net within revenue in the business performance column. The prior-period comparative has been restated and whilst there is no impact on gross profit, business performance revenue and business performance cost of sales have been reduced by £1.3 billion for the six months to 30 June 2018. The full-year impact for the year ended 31 December 2018 is a reduction of £2.3 billion in business performance revenue and business performance cost of sales.

The restatement arising from the IFRIC determination has been applied to the business performance revenue and business performance cost of sales results as adjusted for the presentation of European commodity trades noted above.

### (d) Centrica specific accounting measures and critical accounting judgements

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 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. 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 4(c) 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.

Adjusted gross margin is defined as gross profit before certain re-measurements and is used to measure gross profit arising from underlying business performance, without the distorting effects of certain re-measurements described below.

Note 4(c) also contains an analysis of adjusted operating profit after taxation by segment and a reconciliation to the statutory results for the period. Adjusted operating profit after taxation is defined as adjusted operating profit, net of associated taxation, and before unallocated taxation, mainly related to interest.

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 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 9.

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

## 3. Accounting policies

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.

**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 contracts (and similar capacity or off-take arrangements), 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.

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 effects of these certain re-measurements are presented within either revenue or cost of sales when recognised in business performance depending on the nature of the contract. They are 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.

The Group's result for the period presents both realised and unrealised fair value movements on all derivative energy contracts within the 'Re-measurement and settlement of derivative energy contracts' line item.

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, debt repurchase costs, certain pension past service credits/costs, the tax effects of these items and the effect of changes in UK upstream tax rates.

Key areas of critical accounting judgement and estimation uncertainty that have the most significant effect on the consolidated Group Financial Statements are further disclosed in note 3(a) and 3(b) of the Annual Report and Accounts for the year ended 31 December 2018.

# Notes to the condensed interim Financial Statements (continued)

## 4. 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 Group Overview.**

### (a) Segmental structure

The types of products and services from which each reportable segment derived its revenues during the period 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 Ireland; (ii) power generation in Ireland; and (iii) the repair and maintenance of domestic central heating in 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. |

# 4. 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 included in business performance reflects only the sale of products and services to third parties. Sales between reportable segments are conducted on an arm's length basis.**

| Six months ended 30 June | Gross segment revenue £m (2019) | Less inter-segment revenue £m (2019) | Group revenue £m (2019) | Gross segment revenue (restated) (i) £m (2018) | Less inter-segment revenue £m (2018) | Group revenue (restated) (i) £m (2018) |
|---|---|---|---|---|---|---|
| **Centrica Consumer** | | | | | | |
| UK Home | **4,335** | **(3)** | **4,332** | 4,526 | (2) | 4,524 |
| Ireland | **464** | **–** | **464** | 470 | – | 470 |
| North America Home | **1,366** | **–** | **1,366** | 1,253 | – | 1,253 |
| Connected Home | **34** | **(11)** | **23** | 21 | (6) | 15 |
| | **6,199** | **(14)** | **6,185** | 6,270 | (8) | 6,262 |
| **Centrica Business** | | | | | | |
| UK Business | **1,023** | **–** | **1,023** | 956 | – | 956 |
| North America Business | **4,225** | **–** | **4,225** | 4,390 | – | 4,390 |
| Distributed Energy & Power | **120** | **(4)** | **116** | 84 | (2) | 82 |
| Energy Marketing & Trading (i) | **1,655** | **(184)** | **1,471** | 1,713 | (141) | 1,572 |
| Central Power Generation | **358** | **(67)** | **291** | 371 | (137) | 234 |
| | **7,381** | **(255)** | **7,126** | 7,514 | (280) | 7,234 |
| **Exploration & Production** | **1,058** | **(561)** | **497** | 1,215 | (691) | 524 |
| Group revenue included in business performance | **14,638** | **(830)** | **13,808** | 14,999 | (979) | 14,020 |
| Less: revenue arising on contracts in scope of IFRS 9 included in business performance | | | **(2,240)** | | | (1,921) |
| Group revenue | | | **11,568** | | | 12,099 |

(i) Segmental revenue has been restated to include the net result of certain European commodity purchase and sales trades which are deemed to be speculative in nature. See note 3(c) for further details.

# Notes to the condensed interim Financial Statements (continued)

## 4. Segmental analysis

The table below shows the Group revenue arising from contracts with customers, and therefore in the scope of IFRS 15: 'Revenue from contracts with customers', and revenue arising from contracts in the scope of other standards, such as IFRS 4: 'Insurance contracts' and IFRS 9.

**2019**

| Six months ended 30 June | Revenue from contracts with customers in scope of IFRS 15 £m | Revenue from fixed-fee service and insurance contracts in scope of IFRS 4, and leasing contracts in scope of IFRS 16 £m | **Group Revenue £m** | Revenue in business performance arising on contracts in scope of IFRS 9 £m | **Group Revenue included in business performance £m** |
|---|---|---|---|---|---|
| **Centrica Consumer** | | | | | |
| UK Home | 3,840 | 492 | **4,332** | – | **4,332** |
| Ireland | 372 | – | **372** | 92 | **464** |
| North America Home | 1,308 | 58 | **1,366** | – | **1,366** |
| Connected Home | 23 | – | **23** | – | **23** |
| | **5,543** | **550** | **6,093** | **92** | **6,185** |
| **Centrica Business** | | | | | |
| UK Business | 799 | 4 | **803** | 220 | **1,023** |
| North America Business | 3,541 | – | **3,541** | 684 | **4,225** |
| Distributed Energy & Power | 115 | 1 | **116** | – | **116** |
| Energy Marketing & Trading | 557 | – | **557** | 914 | **1,471** |
| Central Power Generation | – | – | **–** | 291 | **291** |
| | **5,012** | **5** | **5,017** | **2,109** | **7,126** |
| **Exploration & Production** | 458 | – | **458** | 39 | **497** |
| | **11,013** | **555** | **11,568** | **2,240** | **13,808** |

2018

| Six months ended 30 June | Revenue from contracts with customers in scope of IFRS 15 (restated) (i) £m | Revenue from fixed-fee service and insurance contracts in scope of IFRS 4, and leasing contracts in scope of IAS17 £m | Group Revenue (restated) (i) £m | Revenue in business performance arising on contracts in scope of IFRS 9 £m | Group Revenue included in business performance (restated) (i) £m |
|---|---|---|---|---|---|
| **Centrica Consumer** | | | | | |
| UK Home | 4,023 | 501 | 4,524 | – | 4,524 |
| Ireland | 357 | – | 357 | 113 | 470 |
| North America Home | 1,195 | 58 | 1,253 | – | 1,253 |
| Connected Home | 15 | – | 15 | – | 15 |
| | 5,590 | 559 | 6,149 | 113 | 6,262 |
| **Centrica Business** | | | | | |
| UK Business | 746 | 4 | 750 | 206 | 956 |
| North America Business | 3,649 | – | 3,649 | 741 | 4,390 |
| Distributed Energy & Power | 82 | – | 82 | – | 82 |
| Energy Marketing & Trading (i) | 943 | – | 943 | 629 | 1,572 |
| Central Power Generation | 5 | – | 5 | 229 | 234 |
| | 5,425 | 4 | 5,429 | 1,805 | 7,234 |
| **Exploration & Production** | 521 | – | 521 | 3 | 524 |
| | 11,536 | 563 | 12,099 | 1,921 | 14,020 |

(i) Segmental revenue has been restated to include the net result of certain European commodity purchase and sales trades which are deemed to be speculative in nature. See note 3(c) for further details.

## 4. Segmental analysis

### Disaggregation of revenue

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.

| | | | **2019** | | | 2018 |
|---|---|---|---|---|---|---|
| Six months ended 30 June | **Energy supply (i) £m** | **Energy services (ii) £m** | **Total £m** | Energy supply (i) £m | Energy services (ii) £m | Total £m |
| UK Home | **3,516** | **324** | **3,840** | 3,736 | 287 | 4,023 |
| North America Home | **1,134** | **174** | **1,308** | 1,041 | 154 | 1,195 |

(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.

# Notes to the condensed interim Financial Statements (continued)

## 4. 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.**

| Six months ended 30 June | Adjusted operating profit/(loss) 2019 £m | Adjusted operating profit/(loss) 2018 £m | Adjusted operating profit/(loss) after taxation 2019 £m | Adjusted operating profit/(loss) after taxation 2018 £m |
|---|---|---|---|---|
| **Centrica Consumer** | | | | |
| UK Home | **181** | 393 | **150** | 318 |
| Ireland | **31** | 15 | **27** | 13 |
| North America Home | **77** | 66 | **56** | 50 |
| Connected Home | **(49)** | (44) | **(39)** | (35) |
| | **240** | 430 | **194** | 346 |
| **Centrica Business** | | | | |
| UK Business | **19** | 23 | **15** | 19 |
| North America Business | **(14)** | 50 | **(10)** | 37 |
| Distributed Energy & Power | **(27)** | (37) | **(22)** | (28) |
| Energy Marketing & Trading | **32** | 48 | **27** | 38 |
| Central Power Generation | **1** | 12 | **1** | 11 |
| | **11** | 96 | **11** | 77 |
| **Exploration & Production** | **148** | 256 | **58** | 74 |
| **Adjusted operating profit** | **399** | 782 | **263** | 497 |
| Share of joint ventures'/associates' interest and taxation (note 5) | **–** | (6) | | |
| **Operating profit before exceptional items and certain re-measurements** | **399** | 776 | | |
| Exceptional items (note 6) | **(346)** | (70) | | |
| Certain re-measurements included within gross profit (note 6) | **(499)** | – | | |
| Re-measurement of certain associates' contracts (net of taxation) (note 6) | **–** | (2) | | |
| Total exceptional items and certain re-measurements included in operating (loss)/profit | **(845)** | (72) | | |
| **Operating (loss)/profit after exceptional items and certain re-measurements** | **(446)** | 704 | | |

| Six months ended 30 June | 2019 £m | 2018 £m |
|---|---|---|
| **Adjusted operating profit after taxation** (i) | **263** | 497 |
| Corporate and other taxation, and interest (net of taxation) (ii) | **(120)** | (116) |
| **Business performance profit for the period** | **143** | 381 |
| Exceptional items and certain re-measurements (net of taxation) (note 6) | **(664)** | (143) |
| **Statutory (loss)/profit for the period** | **(521)** | 238 |

(i) Segment adjusted operating profit after taxation includes profit of £9 million (2018: £23 million) attributable to non-controlling interests.
(ii) Includes joint ventures'/associates' interest, net of associated taxation.

## 4. 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 | |
|---|---|---|---|---|---|---|
| Six months ended 30 June | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| **Centrica Consumer** | | | | | | |
| UK Home | **–** | – | **(25)** | (22) | **(47)** | (52) |
| Ireland | **–** | – | **(4)** | (2) | **(5)** | (5) |
| North America Home | **–** | – | **(5)** | (6) | **(14)** | (20) |
| Connected Home | **–** | – | **(2)** | (1) | **(9)** | (8) |
| | **–** | – | **(36)** | (31) | **(75)** | (85) |
| **Centrica Business** | | | | | | |
| UK Business | **–** | – | **(1)** | (1) | **(7)** | (6) |
| North America Business | **–** | – | **(4)** | (4) | **(17)** | (25) |
| Distributed Energy & Power | **–** | – | **(5)** | (4) | **(6)** | (5) |
| Energy Marketing & Trading | **–** | – | **(1)** | (1) | **(5)** | (5) |
| Central Power Generation | **(24)** | 8 | **(38)** | – | **–** | – |
| | **(24)** | 8 | **(49)** | (10) | **(35)** | (41) |
| **Exploration & Production** | **–** | – | **(376)** | (355) | **(43)** | (14) |
| **Other** (i) | **–** | – | **(25)** | (3) | **(13)** | (11) |
| | **(24)** | 8 | **(486)** | (399) | **(166)** | (151) |

(i) The Other segment includes corporate functions, subsequently recharged.

#### Impairments of property, plant and equipment

During the six months ended 30 June 2019, impairments of property, plant and equipment of £34 million and £13 million were recognised in Central Power Generation and Exploration & Production respectively, within business performance (2018: nil).

#### Write-downs and impairments of intangible assets

During the six months ended 30 June 2019, a write-down of £41 million (2018: £12 million) was recognised in the Exploration & Production segment within business performance, relating to exploration and evaluation assets.

# Notes to the condensed interim Financial Statements (continued)

## 4 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.**

| | Capital expenditure on property, plant and equipment | | Capital expenditure on intangible assets other than goodwill | |
|---|---|---|---|---|
| Six months ended 30 June | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| **Centrica Consumer** | | | | |
| UK Home | **7** | 7 | **194** | 165 |
| Ireland | **1** | 20 | **7** | 5 |
| North America Home | **3** | 2 | **4** | 6 |
| Connected Home | **1** | 3 | **16** | 17 |
| | **12** | 32 | **221** | 193 |
| **Centrica Business** | | | | |
| UK Business | **1** | – | **90** | 77 |
| North America Business | **2** | 3 | **146** | 110 |
| Distributed Energy & Power | **22** | 66 | **5** | 5 |
| Energy Marketing & Trading | **3** | 2 | **24** | 25 |
| Central Power Generation | **–** | – | **–** | – |
| | **28** | 71 | **265** | 217 |
| **Exploration & Production** | **157** | 161 | **74** | 64 |
| **Other** (i) | **17** | 33 | **11** | 46 |
| **Capital expenditure** | **214** | 297 | **571** | 520 |
| Capitalised borrowing costs | **(7)** | (3) | **–** | – |
| Inception of new leases (2018: finance leases) and movements in payables and prepayments related to capital expenditure | **(49)** | (25) | **13** | (31) |
| Purchases of emissions allowances, Renewable Obligation Certificates and Renewable Energy Certificates | **–** | – | **(390)** | (323) |
| **Net cash outflow** | **158** | 269 | **194** | 166 |

(i) The Other segment includes corporate functions, subsequently recharged.

## 4. 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.**

| Six months ended 30 June | 2019 £m | 2018 £m |
|---|---|---|
| **Centrica Consumer** | | |
| UK Home | 150 | 91 |
| Ireland | 49 | 29 |
| North America Home | 83 | 117 |
| Connected Home | (32) | (43) |
| | 250 | 194 |
| **Centrica Business** | | |
| UK Business | 111 | 58 |
| North America Business | (30) | 172 |
| Distributed Energy & Power | (39) | (32) |
| Energy Marketing & Trading | (23) | 22 |
| Central Power Generation | 42 | 42 |
| | 61 | 262 |
| **Exploration & Production** | 433 | 667 |
| **Other** (i) | – | (22) |
| **Adjusted operating cash flow** | 744 | 1,101 |
| Dividends received from joint ventures and associates | – | (22) |
| UK pension deficit payments | (151) | (76) |
| Payments relating to exceptional charges | (175) | (117) |
| Movements in margin and cash collateral included in net debt (note 12(b)) | (241) | (10) |
| **Net cash flow from operating activities** | 177 | 876 |

(i) The Other segment includes corporate functions.

## 5. 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 six months ended 30 June 2019 principally arises from its interest in Nuclear - Lake Acquisitions Limited, an associate, reported in the Central Power Generation segment.

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| Six months ended 30 June | Share of business performance £m | Share of exceptional items and certain re-measurements £m | Share of results for the period £m | Share of business performance £m | Share of exceptional items and certain re-measurements £m | Share of results for the period £m |
| Income | 203 | – | 203 | 249 | – | 249 |
| Expenses before exceptional items and certain re-measurements | (227) | – | (227) | (241) | – | (241) |
| Re-measurement of certain contracts | – | – | – | – | (2) | (2) |
| **Operating (loss)/profit** | (24) | – | (24) | 8 | (2) | 6 |
| Financing costs | (5) | – | (5) | (5) | – | (5) |
| Taxation on (loss)/profit | 5 | – | 5 | (1) | – | (1) |
| **Share of post-taxation results of joint ventures and associates** | (24) | – | (24) | 2 | (2) | – |

# Notes to the condensed interim Financial Statements (continued)

## 5. Joint ventures and associates

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

| Six months ended 30 June | 2019 £m | 2018 £m |
|---|---|---|
| Share of post-taxation results of joint ventures and associates | (24) | – |
| Certain re-measurements and exceptional items (net of taxation) | – | 2 |
| Financing costs | 5 | 5 |
| Taxation (excluding taxation on certain re-measurements and exceptionals) | (5) | 1 |
| **Share of adjusted results of joint ventures and associates** | **(24)** | 8 |

## 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 that may be considered exceptional in nature include disposals of businesses or significant assets, business restructurings, significant onerous contract charges and releases, pension change costs or credits, significant debt repurchase costs and asset write-downs/impairments and write-backs.**

### (a) Total exceptional items and certain re-measurements

| Six months ended 30 June | 2019 £m | 2018 £m |
|---|---|---|
| Exceptional items (Note 6 (b)) | (346) | (209) |
| Certain re-measurement losses (Note 6 (c)) (i) | (499) | (2) |
| **Exceptional items and certain re-measurements before taxation** | **(845)** | (211) |

(i) Certain re-measurements include losses of £nil (2018: £2 million) arising from the Group's equity accounted interests in joint ventures and associates.

### (b) Exceptional items

| Six months ended 30 June | 2019 £m | 2018 £m |
|---|---|---|
| Restructuring costs (i) | (257) | (70) |
| Pension change costs (ii) | (64) | – |
| Impairment of Exploration & Production assets (iii) | (49) | – |
| Impairment of Connected Home (iv) | (39) | – |
| Gain on disposal of Clockwork (v) | 63 | – |
| **Exceptional items included within Group operating profit/(loss)** | **(346)** | (70) |
| Debt repurchase costs included within financing costs | – | (139) |
| **Exceptional items included within profit/(loss) before taxation** | **(346)** | (209) |
| Net taxation on exceptional items (note 8) | 86 | 40 |
| **Net exceptional items after taxation** | **(260)** | (169) |

(i) The continuation of phase 2 of the Group's cost efficiency programme has seen the Group recognise restructuring costs principally related to redundancy, pension strains, change resource and other transformational activity. The post-tax impact was £205 million. Pension strains of £103 million are reflected on the Group Balance Sheet as a provision whilst they remain an estimate and will ultimately be transferred to the retirement benefit asset or obligation line item when redundant individuals are known and amounts finalised.
(ii) As part of the renegotiation of the UK defined benefit pension scheme arrangements, the Group has incurred one-off net costs, predominately related to member compensation payments. The post-tax impact was £52 million.
(iii) In the Exploration & Production segment, an impairment has been recognised in relation to a UK gas field due to the impact of a fall in near-term market prices. The post-tax impact was £29 million.
(iv) Following the strategic decision to refocus Connected Home activity to the UK and Ireland, the Group has reflected a charge of £39 million including inventory write-downs of £24 million and asset impairment and onerous contract provisions of £15 million, predominantly associated with the North American market. The post-tax impact was £30 million.
(v) See note 11 for further details.

## 6. Exceptional items and certain re-measurements

### (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.**

| Six months ended 30 June | 2019 £m | 2018 £m |
|---|---|---|
| Certain re-measurements recognised in relation to energy contracts: | | |
| Net gains/(losses) arising on delivery of contracts | 102 | (178) |
| Net (losses)/gains arising on market price movements and new contracts | (601) | 178 |
| **Net re-measurements included within gross profit** | (499) | – |
| Net losses arising on re-measurement of certain associates' contracts (net of taxation) | – | (2) |
| **Net re-measurements included within Group operating (loss)/profit** | (499) | (2) |
| Taxation on certain re-measurements (note 8) | 95 | 28 |
| **Net re-measurements after taxation** | (404) | 26 |

| Six months ended 30 June | 2019 £m | 2018 £m |
|---|---|---|
| Total re-measurement and settlement of derivative energy contracts | (2,481) | (1,830) |
| Less: IFRS 9 Business Performance Revenue | (2,240) | (1,921) |
| Less: IFRS 9 Business Performance Cost of Sales | 4,222 | 3,751 |
| **Unrealised certain re-measurements recognised in relation to energy contracts included in gross profit** | (499) | – |

## 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.**

| | | | 2019 | | | 2018 |
|---|---|---|---|---|---|---|
| Six months ended 30 June | Financing costs £m | Investment income £m | Total £m | Financing costs £m | Investment income £m | Total £m |
| Cost of servicing net debt: | | | | | | |
| Interest income | – | 10 | 10 | – | 10 | 10 |
| Interest cost on bonds, bank loans and overdrafts | (121) | – | (121) | (132) | – | (132) |
| Interest cost on lease liabilities (2018: finance leases) | (7) | – | (7) | (6) | – | (6) |
| | (128) | 10 | (118) | (138) | 10 | (128) |
| Net gains on revaluation | – | 3 | 3 | – | 3 | 3 |
| Notional interest arising from discounting | (16) | 1 | (15) | (29) | 1 | (28) |
| | (144) | 14 | (130) | (167) | 14 | (153) |
| Capitalised borrowing costs (i) | 7 | – | 7 | 3 | – | 3 |
| **Financing (cost)/income before exceptional items** | (137) | 14 | (123) | (164) | 14 | (150) |
| Exceptional items (ii) | – | – | – | (139) | – | (139) |
| **Financing (cost)/income** | (137) | 14 | (123) | (303) | 14 | (289) |

(i) Borrowing costs have been capitalised using an average rate of 4.78% (2018: 4.73%). Capitalised interest has attracted tax deductions totalling £1 million (2018: £1 million), with deferred tax liabilities being set up for the same amounts.

(ii) In the six months ending 30 June 2018, an exceptional interest charge of £139 million was incurred in relation to the Group's debt reduction programme, there were no exceptional finance costs in the six months ending 30 June 2019.

# Notes to the condensed interim Financial Statements (continued)

## 8. Taxation

**The taxation note details the different tax charges arising in the Group. This tax charge excludes the Group's share of taxation on the results of joint ventures and associates.**

### Analysis of tax charge

| Six months ended 30 June | Business performance £m 2019 | Exceptional items and certain re-measurements £m 2019 | Results for the period £m 2019 | Business performance £m 2018 | Exceptional items and certain re-measurements £m 2018 | Results for the period £m 2018 |
|---|---|---|---|---|---|---|
| **The taxation (charge)/credit comprises** | | | | | | |
| UK corporation tax | **(57)** | **49** | **(8)** | (83) | 78 | (5) |
| UK petroleum revenue tax | **4** | **–** | **4** | 13 | – | 13 |
| Non-UK tax | **(80)** | **132** | **52** | (175) | (10) | (185) |
| **Total tax on profit/(loss)** (i) | **(133)** | **181** | **48** | (245) | 68 | (177) |

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

The Group's adjusted effective tax rate for the six months ended 30 June 2019 was 47% (2018: 39%) and is reconciled to this note in the Group Financial Review on page 11.

## 9. 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 period divided by the weighted average number of shares in issue during the period. Diluted EPS includes the impact of outstanding share options.**

Basic earnings per ordinary share has been calculated by dividing the loss attributable to equity holders of the Company for the period of £550 million (2018: profit £238 million) by the weighted average number of ordinary shares in issue during the period of 5,702 million (2018: 5,600 million). The number of shares excludes 28 million ordinary shares (2018: 43 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 3(d).

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

| Six months ended 30 June | **2019 Million shares** | 2018 Million shares |
|---|---|---|
| Weighted average number of shares – basic | **5,702** | 5,600 |
| Dilutive impact of share-based payment schemes (i) | **44** | 29 |
| **Weighted average number of shares – diluted** | **5,746** | 5,629 |

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

## 9. Earnings per ordinary share

### Basic to adjusted basic earnings per share reconciliation

| Six months ended 30 June | 2019 £m | 2019 Pence per ordinary share | 2018 £m | 2018 Pence per ordinary share |
|---|---|---|---|---|
| (Loss)/earnings – basic | **(550)** | **(9.6)** | 238 | 4.3 |
| Net exceptional items after taxation (notes 3 and 6) | **260** | **4.6** | 169 | 3.0 |
| Certain re-measurement losses/(gains) after taxation (notes 3 and 6) [(i)] | **424** | **7.4** | (49) | (0.9) |
| Earnings – adjusted basic | **134** | **2.4** | 358 | 6.4 |
| | | | | |
| (Loss)/earnings – diluted | **(550)** | **(9.6)** | 238 | 4.2 |
| | | | | |
| Earnings – adjusted diluted | **134** | **2.3** | 358 | 6.4 |

(i) Certain re-measurement losses after taxation of £404 million (2018: gains after taxation of £26 million) are increased by £20 million (2018: £23 million) to reflect the share of net re-measurements attributable to non-controlling interests.

## 10. 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.**

| | 2019 £m | 2019 Pence per share | 2019 Date of payment | 2018 £m | 2018 Pence per share | 2018 Date of payment |
|---|---|---|---|---|---|---|
| Prior year final dividend [(i)] | **474** | **8.4** | **27 Jun 2019** | 470 | 8.4 | 28 Jun 2018 |

(i) Included within the prior year final dividend are forfeited dividends of £5 million (2018: £1 million) older than 12 years that were written back in accordance with Group policy.

The Company has previously offered a scrip dividend alternative to its shareholders. £96 million of the £474 million prior year final dividend was in the form of ordinary shares to shareholders opting in to the scrip dividend alternative. The scrip reference share price was 94.44 pence per share resulting in the issue of 102 million new shares and £90 million of share premium.

Similarly, £47 million of the £470 million 2017 final dividend paid on 28 June 2018 was taken as a scrip dividend. The scrip reference share price was £1.46 resulting in the issue of 32 million new shares and £45 million of share premium.

An interim dividend of 1.50 pence (2018: 3.60 pence) per ordinary share, totalling £87 million (2018: £203 million) will be paid on 21 November 2019 to shareholders on the register on 11 October 2019. There will be no scrip dividend alternative for this interim dividend.

# Notes to the condensed interim Financial Statements (continued)

## 11. Acquisitions and disposals

**This section details business combinations, asset acquisitions and disposals made by the Group.**

### (a) 2019 business combinations

There have been no material acquisitions during the period.

### (b) 2018 business combinations – measurement period adjustments

During the period, there have been no material updates to the fair value of assets and liabilities recognised for businesses acquired in 2018.

### (c) Disposals

On 30 April 2019 the Group disposed of Clockwork Home Services in North America, a series of franchises, company-owned stores and brands including One Hour Heating & Air Conditioning, Benjamin Franklin Plumbing and Mister Sparky, to Apax Partners. Gross consideration of $300 million (£231 million) has predominantly been reduced by working capital and transaction costs, to generate net consideration of $279 million (£215 million). The cash inflow from the disposal is presented net of tax paid in the Group Cash Flow Statement.

| | |
|---|---|
| **Date of disposal:** | 30 April 2019 |
| **Business/assets disposed of by the Group:** | Clockwork Home Services |
| **Reporting segment:** | North America Home |
| **Sold to:** | Apax Partners<br>£m |
| Property, plant and equipment | 7 |
| Brand intangible asset | 12 |
| Other net assets | 9 |
| Attributable goodwill | 76 |
| **Net assets disposed of** | **104** |
| Consideration received | 215 |
| | **111** |
| Recycling of foreign currency translation reserves on disposal | 18 |
| Impairment of intangible asset | (59) |
| Other directly-attributable costs of disposal | (7) |
| **Profit on disposal before taxation** | **63** |
| Taxation | (7) |
| **Profit on disposal after taxation** | **56** |

All other disposals undertaken by the Group were immaterial, both individually and in aggregate.

None of the disposals are shown as discontinued operations on the face of the Group Income Statement as they do not represent a separate major line of business or geographical area of operation that is material to the Group's results.

## 12. 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:

| | **30 June 2019 £m** | 31 December 2018 £m |
|---|---|---|
| Net debt | **3,376** | 2,656 |
| Shareholders' equity | **2,132** | 3,145 |
| **Capital** | **5,508** | 5,801 |

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 and drawdown of short-term bank facilities.

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.

## 12. Sources of finance

British Gas Insurance Limited (BGIL) is required under PRA regulations to hold a minimum capital amount and has complied with this requirement in 2019 (and 2018). 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.

### (b) Net debt summary

**Net debt predominantly includes capital market borrowings offset by cash, cash and other assets 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, lease obligations 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 | Assets posted/ (received) as collateral (iii) £m | Current and non-current securities (iv) £m | Current and non-current borrowings, lease obligations and interest accruals, net of finance sub-lease receivables (v) £m | Derivatives £m | Net debt £m |
|---|---|---|---|---|---|---|
| 1 January 2019 | 1,128 | 290 | 307 | (4,614) | 233 | **(2,656)** |
| Incremental lease liability recognised on transition to IFRS 16 (v) | – | – | – | (402) | – | **(402)** |
| Recognition of sub-lease asset on transition to IFRS 16 (v) | – | – | – | 8 | – | **8** |
| 1 January 2019 post-adoption of IFRS 16 | 1,128 | 290 | 307 | (5,008) | 233 | **(3,050)** |
| Net cash inflow from sale and purchase of securities | 34 | – | (34) | – | – | **–** |
| Net cash inflow from short-term borrowings | 180 | – | – | (180) | – | **–** |
| Cash outflow from repayment of borrowings | (86) | – | – | 86 | – | **–** |
| Cash outflow from payment of capital element of leases | (75) | – | – | 75 | – | **–** |
| Remaining cash outflow and movement in cash posted/received under margin and collateral agreements (vi) | (462) | 241 | – | – | – | **(221)** |
| Revaluation | – | – | 3 | (57) | 62 | **8** |
| Financing interest paid | (84) | – | – | 99 | (25) | **(10)** |
| Increase in interest payable and amortisation of borrowings | – | – | – | (109) | – | **(109)** |
| Business disposals and asset purchases | – | – | (6) | 3 | – | **(3)** |
| New lease agreements and revisions | – | – | – | 4 | – | **4** |
| Exchange adjustments | 4 | 1 | 1 | (1) | – | **5** |
| **30 June 2019** | **639** | **532** | **271** | **(5,088)** | **270** | **(3,376)** |

| | Cash and cash equivalents, net of bank overdrafts (i) (ii) £m | Assets 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 2018 | 2,737 | 336 | 236 | (6,171) | 266 | (2,596) |
| Net cash outflow from purchase of securities | (57) | – | 57 | – | – | – |
| Cash outflow from payment of capital element of finance leases | (23) | – | – | 23 | – | – |
| Cash outflow from repayment of borrowings | (1,217) | – | – | 1,116 | (38) | (139) |
| Remaining cash inflow and movement in cash posted/received under margin and collateral agreements (vi) | 4 | 10 | – | – | – | 14 |
| Revaluation | – | – | (2) | 48 | (26) | 20 |
| Financing interest paid | (160) | – | – | 135 | (11) | (36) |
| Increase in interest payable and amortisation of borrowings | – | – | – | (138) | – | (138) |
| New finance lease agreements | – | – | – | (34) | – | (34) |
| Exchange adjustments | 19 | 4 | 1 | (1) | – | 23 |
| 30 June 2018 | 1,303 | 350 | 292 | (5,022) | 191 | (2,886) |

(i) Cash and cash equivalents includes £185 million (2018: £181 million) of restricted cash. This includes cash totalling £52 million (2018: £90 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 £76 million bank overdrafts (2018: £235 million). This is offset by a corresponding gross up in current borrowings.

# Notes to the condensed interim Financial Statements (continued)

## 12. Sources of finance

(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 collateral posted as at 30 June 2019, £227 million (2018: £33 million) is included within trade and other payables, £337 million (2018: £259 million) within trade and other receivables, £2 million (2018: nil) within inventories, and £420 million (2018: £124 million) has been settled against net derivative financial liabilities. The items to which the assets posted or received as collateral under margin and collateral agreements relate are not included within net debt.

(iv) Securities balances include £125 million (2018: £126 million) of index-linked gilts which the Group uses for short-term liquidity management purposes. Securities balances also include £73 million (2018: £68 million) debt instruments and £51 million (2018: £37 million) equity instruments, all measured at fair value, as described in note 14. In addition to the above, securities include £22 million (2018: £61 million) of deposits with maturities greater than three months, which are measured at amortised cost. The Group has posted £26 million (2018: £26 million) of non-current securities as collateral against an index-linked swap maturing on 16 April 2020.

(v) Following the adoption of IFRS 16 from 1 January 2019, the Group has recognised incremental lease liabilities and sub-lease assets within the Group's net debt. See note 3(a) for further details.

(vi) 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).

### (c) Borrowings, finance leases and interest accruals summary

| | Coupon rate % | Principal m | **30 June 2019** Current £m | Non-current £m | Total £m | 31 December 2018 Current £m | Non-current £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| Bank overdrafts | | | **(76)** | **–** | **(76)** | (140) | – | (140) |
| Bank loans | | | **(180)** | **(151)** | **(331)** | – | (149) | (149) |
| Bonds (by maturity date): | | | | | | | | |
| 1 February 2019 | 3.213 | €100 | **–** | **–** | **–** | (90) | – | (90) |
| 25 September 2020 | Floating | US$80 | **–** | **(63)** | **(63)** | – | (63) | (63) |
| 22 February 2022 | 3.680 | HK$450 | **–** | **(45)** | **(45)** | – | (45) | (45) |
| 10 March 2022 (i) | 6.375 | £246 | **–** | **(256)** | **(256)** | – | (255) | (255) |
| 16 October 2023 (i) | 4.000 | US$302 | **–** | **(245)** | **(245)** | – | (237) | (237) |
| 4 September 2026 (i) | 6.400 | £52 | **–** | **(58)** | **(58)** | – | (56) | (56) |
| 16 April 2027 | 5.900 | US$70 | **–** | **(55)** | **(55)** | – | (55) | (55) |
| 13 March 2029 (i) | 4.375 | £552 | **–** | **(573)** | **(573)** | – | (553) | (553) |
| 5 January 2032 (ii) | Zero | €50 | **–** | **(61)** | **(61)** | – | (60) | (60) |
| 19 September 2033 (i) | 7.000 | £770 | **–** | **(788)** | **(788)** | – | (769) | (769) |
| 16 October 2043 | 5.375 | US$367 | **–** | **(284)** | **(284)** | – | (283) | (283) |
| 12 September 2044 | 4.250 | £550 | **–** | **(537)** | **(537)** | – | (537) | (537) |
| 25 September 2045 | 5.250 | US$50 | **–** | **(39)** | **(39)** | – | (38) | (38) |
| 10 April 2075 (i) (iii) | 5.250 | £450 | **–** | **(460)** | **(460)** | – | (449) | (449) |
| 10 April 2076 (iv) | 3.000 | €750 | **–** | **(671)** | **(671)** | – | (672) | (672) |
| | | | **–** | **(4,135)** | **(4,135)** | (90) | (4,072) | (4,162) |
| Obligations under leases | | | **(153)** | **(383)** | **(536)** | (59) | (159) | (218) |
| Interest accruals | | | **(92)** | **–** | **(92)** | (85) | – | (85) |
| | | | **(501)** | **(4,669)** | **(5,170)** | (374) | (4,380) | (4,754) |

(i) Bonds or portions of bonds maturing in 2022, 2023, 2026, 2029, 2033 and 2075 have been designated in fair value hedging relationships.
(ii) €50 million of zero coupon notes have an accrual yield of 4.200%, which will result in a €114 million repayment on maturity.
(iii) The Group has the right to repay at par on 10 April 2025 and every interest payment date thereafter.
(iv) The Group has the right to repay at par on 10 April 2021 and every interest payment date thereafter.

## 13. 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 |
|---|---|---|---|
| Centrica Engineers Pension Scheme | Defined benefit final salary pension | Closed to new members in 2006 | UK |
| | Defined benefit career average pension | Open to service engineers only | UK |
| Centrica Pension Plan | Defined benefit final salary pension | Closed to new members in 2003 | UK |
| Centrica Pension Scheme | Defined benefit final salary pension | Closed to new members in 2003 | UK |
| | Defined benefit career average pension | Closed to new members in 2008 | UK |
| | Defined contribution pension | Open to new members | UK |
| Bord Gáis Energy Company Defined Benefit Pension Scheme | Defined benefit final salary pension | Closed to new members in 2014 | Republic of Ireland |
| Bord Gáis Energy Company Defined Contribution Pension Plan | Defined contribution pension | Open to new members | Republic of Ireland |
| Direct Energy Marketing Limited Pension Plan | Defined benefit final salary pension | Closed to new members in 2004 | Canada |
| Direct Energy Marketing Limited | Post-retirement benefits | Closed to new members in 2012 | Canada |

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.

For the Registered Pension Schemes the latest actuarial valuation as at 31 March 2018 has been finalised with the Pension Trustees. The technical provisions deficit was £1,402 million. The Group has committed to additional annual cash contributions to fund this pension deficit. The overall deficit contributions, including the previously disclosed asset-backed contribution arrangements, will total £223 million in 2019, £175 million per annum from 2020 to 2025, with a balancing payment of £93 million in 2026. It should be noted that the market rates from which the discount rate is derived have changed in the period subsequent to the 31 March 2018 actuarial valuation date, which would have resulted in a higher deficit. The Group monitors its pension liabilities on an ongoing basis, including assessing various scenarios that may arise and their potential implications for the business. The latest full actuarial valuations for the other schemes were carried out at the following dates: 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 30 June 2019 for the purpose of meeting the requirements of IAS 19. Investments held in all schemes have been valued for this purpose at market value.

#### 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.

# Notes to the condensed interim Financial Statements (continued)

## 13. Post-retirement benefits

### (b) Accounting assumptions

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

| Major assumptions used for the actuarial valuation | 30 June 2019 % | 31 December 2018 % |
|---|---|---|
| Rate of increase in employee earnings: | | |
| Subject to 2% cap | **1.6** | 1.7 |
| Other not subject to cap | **2.2** | 2.2 |
| 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 | **2.5** | 3.0 |

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.

### (c) Amounts included in the Group Balance Sheet

| | 30 June 2019 £m | 31 December 2018 £m |
|---|---|---|
| Fair value of plan assets | **9,182** | 8,487 |
| Present value of defined benefit obligation | **(9,296)** | (8,566) |
| Net liability recognised in the Group Balance Sheet | **(114)** | (79) |
| Pension liability presented in the Group Balance Sheet as: | | |
| Retirement benefit assets | **196** | 223 |
| Retirement benefit liabilities | **(310)** | (302) |

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.

Included in the Group Balance Sheet within securities are £100 million (31 December 2018: £91 million) of investments, held in trust on behalf of the Group as security in respect of the Centrica Unfunded Pension Scheme. Of the pension liabilities above, £66 million (31 December 2018: £63 million) relates to this scheme.

## 14. Financial instruments

**The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group has documented internal policies including methodologies used to establish valuation adjustments required for credit risk.**

### (a) Fair value hierarchy

Financial assets and financial liabilities measured and held at fair value are classified into one of three categories, known as hierarchy levels, which are defined according to the inputs used to measure fair value as follows:

- Level 1: fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities;
- Level 2: fair value is determined using significant inputs that may be directly observable inputs or unobservable inputs that are corroborated by market data; and
- Level 3: fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value.

| | | | | **30 June 2019** | | | | 31 December 2018 |
|---|---|---|---|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | **Total £m** | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| Financial assets | | | | | | | | |
| Derivative financial instruments: | | | | | | | | |
| Energy derivatives | 6 | 1,102 | 155 | **1,263** | 6 | 1,248 | 150 | 1,404 |
| Interest rate derivatives | – | 101 | – | **101** | – | 59 | – | 59 |
| Foreign exchange derivatives | – | 202 | – | **202** | – | 215 | – | 215 |
| Treasury gilts designated FVTPL | 125 | – | – | **125** | 126 | – | – | 126 |
| Debt instruments | 73 | – | – | **73** | 68 | – | – | 68 |
| Equity instruments | 26 | – | 25 | **51** | 20 | – | 25 | 45 |
| Cash and cash equivalents | – | 374 | – | **374** | – | 781 | – | 781 |
| Total financial assets at fair value | 230 | 1,779 | 180 | **2,189** | 220 | 2,303 | 175 | 2,698 |
| Financial liabilities | | | | | | | | |
| Derivative financial instruments: | | | | | | | | |
| Energy derivatives | (83) | (1,295) | (116) | **(1,494)** | (42) | (1,390) | (59) | (1,491) |
| Interest rate derivatives | – | (27) | – | **(27)** | – | (36) | – | (36) |
| Foreign exchange derivatives | – | (42) | – | **(42)** | – | (39) | – | (39) |
| Total financial liabilities at fair value | (83) | (1,364) | (116) | **(1,563)** | (42) | (1,465) | (59) | (1,566) |

### (b) Valuation techniques used to derive Level 2 and Level 3 fair values and Group valuation process

Level 2 interest rate derivatives and foreign exchange derivatives comprise interest rate swaps and forward foreign exchange contracts. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Forward foreign exchange contracts are fair valued using forward exchange rates that are quoted in an active market, with the resulting market value discounted back to present value using observable yield curves.

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during the period was 1% (Europe) and 2% (North America) per annum (31 December 2018 average discount rate of 1% (Europe) and 3% (North America) per annum).

For Level 3 energy derivatives, the main input used by the Group pertains to deriving expected future commodity prices in markets that are not active as far into the future as some of our contractual terms. This applies to certain contracts within Europe and North America. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices using an average discount rate of 1% (Europe) and 2% (North America) per annum (31 December 2018 average discount rate of 2% (Europe) and 3% (North America) per annum).

| Active period of markets | **Gas** | **Power** | **Coal** | **Emissions** | **Oil** |
|---|---|---|---|---|---|
| UK (years) | **3** | **3** | **3** | **3** | **3** |
| North America (years) | **5** | **Up to 5** | **N/A** | **Up to 5** | **3** |

# Notes to the condensed interim Financial Statements (continued)

## 14. Financial instruments

Because the Level 3 energy derivative valuations involve the prediction of future commodity market prices, sometimes a long way into the future, reasonably possible alternative assumptions for gas, power, coal, emissions or oil prices may result in a higher or lower fair value for Level 3 financial instruments. Given the relative size of the volumetric exposures and these fair values, it is unlikely that the impact of these reasonably possible changes would be significant when judged in relation to the Group's profit and loss or total asset value.

It should be noted that the fair values disclosed in the tables above only concern those contracts entered into that are within the scope of IFRS 9. The Group has numerous other commodity contracts that are outside of the scope of IFRS 9 and are not fair valued. The Group's actual exposure to market rates is constantly changing as the Group's portfolio of energy contracts changes.

The Group's valuation process includes specific teams of individuals that perform valuations of the Group's derivatives for financial reporting purposes, including Level 3 valuations. The Group has an independent team that derives future commodity price curves based on available external data and these prices feed in to the energy derivative valuations, subject to adjustments to ensure they are compliant with IFRS 13: 'Fair value measurement'. The price curves are subject to review and approval by the Group's Executive Committee and valuations of all derivatives, together with other contracts that are not within the scope of IFRS 9, are also reviewed regularly as part of the overall risk management process.

Where the fair value at initial recognition for contracts which extend beyond the active period differs from the transaction price, a day-one gain or loss will arise. Such gains and losses are deferred and amortised to the Group Income Statement based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available. The amount that has yet to be recognised in the Group Income Statement relating to the differences between the transaction prices and the amounts that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is immaterial.

### (c) Fair value of financial assets and liabilities held at amortised cost

The carrying values of the Group's financial assets and liabilities measured at amortised cost are approximately equal to their fair value except as listed below:

| | | | | | **30 June 2019** | | | 31 December 2018 |
|---|---|---|---|---|---|---|---|---|
| | | Notes | **Carrying value £m** | **Fair value £m** | **Fair value hierarchy** | Carrying value £m | Fair value £m | Fair value hierarchy |
| Bank loans | | 12(c) | **(331)** | **(361)** | **Level 2** | (149) | (165) | Level 2 |
| Bonds | Level 1 | 12(c) | **(4,029)** | **(4,603)** | **Level 1** | (4,057) | (4,432) | Level 1 |
| | Level 2 | 12(c) | **(106)** | **(134)** | **Level 2** | (105) | (128) | Level 2 |

## 15. 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's commitments primarily relate to the acquisition of property, plant and equipment, intangible assets, commodity purchase contracts, LNG capacity and transportation capacity.

Commodity purchase contract commitments have increased by £5.5 billion since 31 December 2018 to £53.6 billion.

Following the adoption of IFRS 16, commitments under leases previously assessed as operating are now included in lease liabilities and are no longer included in this note.

There have been no other significant changes to commitments during the period.

### (b) Contingent liabilities

There are no contingent liabilities that are significant to the Group.

## 16. 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 30 June 2019 and the date of this report.**

On 1 July 2019 the Group acquired Smartwatt Energy Inc., a leading energy services and solutions company in North America, for headline consideration of $37 million (£29 million). The acquisition is expected to broaden the Group's footprint and enhance existing capabilities in this area.

## 17. Related party transactions

**The Group's principal related party is its investment in Lake Acquisitions Limited, which owns the existing EDF UK nuclear fleet. The disclosures below, including comparatives, only refer to related parties that were related in the current reporting period.**

During the period, the Group entered into the following arm's length transactions with related parties who are not members of the Group, and had the following associated balances:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Purchase of goods and services (i) £m** | **Amounts owed to (ii) £m** | Purchase of goods and services (i) £m | Amounts owed to (iii) £m |
| Associates: | | | | |
| Nuclear | **(201)** | **(24)** | (242) | (42) |
| Joint Ventures | **(8)** | **(1)** | – | (2) |
| | **(209)** | **(25)** | (242) | (44) |

(i) Six months ended 30 June.
(ii) As at 30 June.
(iii) As at 31 December.

During the period there were no material changes to commitments in relation to joint ventures and associates. No provision for bad or doubtful debts relating to amounts owed from related parties was required in any of the periods disclosed above.

At the balance sheet date, the Group had committed facilities to the Lake Acquisitions Group totalling £120 million (31 December 2018: £120 million), although nothing has been drawn down at 30 June 2019 (31 December 2018: £nil).

# Notes to the condensed interim Financial Statements (continued)

## 18. Financial Risk Management

**The Group's normal operating, investing and financing activities expose it to a variety of financial risks: market risk (including commodity price risk, currency risk, and interest rate risk), credit risk and liquidity risk. These condensed interim Financial Statements do not include all financial risk management information and disclosures included in note S3 of the Group's consolidated Financial Statements for the year ended 31 December 2018.**

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. Our system of risk management and internal control is set out in the 2018 Annual Report and Accounts.

Our financial performance and price competitiveness is dependent upon our ability to manage exposure to wholesale commodity prices for gas, oil, carbon and power, interest rates for our 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 Risk Assurance and Control Committee (GRACC) 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 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.

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 30 June 2019, while the Group had net current liabilities, it had undrawn committed credit facilities of £3,117 million (31 December 2018: £3,879 million) and £454 million (31 December 2018: £939 million) of unrestricted cash and cash equivalents, net of outstanding overdrafts. 130% (31 December 2018: 166%) of the Group's net debt has been raised as bank loans and bonds in the long-term debt market, and the average term to maturity of the long-term debt portfolio was 11.4 years (31 December 2018: 11.1 years).

The Group's liquidity is impacted by the cash posted or received under margin and collateral agreements. The terms and conditions of these 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 12(b) for movement in cash posted or received as collateral.

## 19. 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 30 June 2019 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.

# Additional Information – Explanatory Notes

## Definitions and reconciliation of adjusted performance measures

Centrica's 2019 Interim 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 3, 4 and 9 to the condensed interim 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, 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.

| Six months ended 30 June | | 2019 £m | 2018 (restated) (i) (ii) £m |
|---|---|---|---|
| **Gross profit** | I/S | **1,428** | 2,256 |
| Certain re-measurements included within gross profit | 6(c) | **499** | – |
| **Adjusted gross margin** | | **1,927** | 2,256 |
| Foreign exchange movements (i) | | **–** | 32 |
| Acquisitions/disposals (ii) | | **(30)** | (33) |
| **Underlying adjusted gross margin** | | **1,897** | 2,255 |

(i) The foreign exchange movement has been calculated by applying the average 2019 rate to the 2018 adjusted gross margin of entities with functional currencies other than GBP.
(ii) Removes the impact of Clockwork following its disposal in 2019.

| Six months ended 30 June | | 2019 £m | 2018 (restated) (i) (ii) £m |
|---|---|---|---|
| **Operating costs** | I/S | **1,850** | 1,552 |
| Exceptional items included in operating costs | | **(346)** | (70) |
| **Adjusted operating costs** | | **1,504** | 1,482 |
| Foreign exchange movements (i) | | **–** | 9 |
| Acquisitions/(disposals) (ii) | | **(32)** | (22) |
| Non-controllable costs | | **(228)** | (196) |
| **Controllable operating costs** | | **1,244** | 1,273 |
| **Underlying adjusted gross margin** | above | **1,897** | 2,255 |
| **Controllable operating costs as a % of underlying adjusted gross margin** | | **66%** | 56% |

(i) The foreign exchange movement has been calculated by applying the average 2019 rate to the 2018 adjusted operating costs of entities with functional currencies other than GBP.
(ii) Removes the impact of Clockwork following its disposal in 2019.

### 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.

| Six months ended 30 June | | 2019 £m | 2018 £m | Change |
|---|---|---|---|---|
| **Group operating (loss)/profit** | I/S | **(446)** | 704 | |
| Exceptional items included within Group operating (loss)/profit and certain re-measurements before taxation | I/S | **845** | 72 | |
| Share of losses/(profits) of joint ventures and associates, net of interest and taxation | I/S | **24** | (2) | |
| Depreciation and impairments of property, plant and equipment included in business performance | 4(d) | **486** | 399 | |
| Amortisation, write-downs and impairments of intangibles included in business performance | 4(d) | **166** | 151 | |
| **EBITDA** | | **1,075** | 1,324 | (19%) |

The table below shows how EBITDA reconciles to AOCF.

| Six months ended 30 June | | 2019 £m | 2018 £m |
|---|---|---|---|
| EBITDA | | **1,075** | 1,324 |
| Profit on disposals (i) | | **(5)** | (1) |
| Decrease in provisions (i) | | **(51)** | (31) |
| Cash contributions to defined benefit pension schemes, net of service cost income statement charge (i) | | **(145)** | (64) |
| UK pension deficit payments | 4(f) | **151** | 76 |
| Employee share scheme costs | C/F | **21** | 19 |
| Re-measurement of energy contracts (i) | | **(357)** | (4) |
| Net movement in working capital (i) | | **(107)** | (256) |
| Taxes (paid)/refunded | C/F | **(79)** | 6 |
| Dividends received from joint ventures and associates | C/F | **–** | 22 |
| Margin cash movements | 4(f), 12(b) | **241** | 10 |
| **Adjusted operating cash flow** | | **744** | 1,101 |

(i) These line items relate to business performance only and therefore differ from amounts quoted in the IFRS Group Cash Flow Statement.

## Underlying adjusted operating cash flow

Adjusted operating cash flow is the key metric used to assess the cash generating performance of the Group and is defined in note 3 and reconciled to operating cash flow in note 4(f). 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.

| Six months ended 30 June | | 2019 £m | 2018 £m | Change | 2017 £m | Change |
|---|---|---|---|---|---|---|
| **Adjusted operating cash flow** | 4(f) | **744** | 1,101 | | 1,242 | |
| Commodity price – E&P and Nuclear (i) | | **(68)** | (93) | | (90) | |
| Foreign exchange movements (ii) | | **3** | (24) | | 6 | |
| UK price caps impact (iii) | | **183** | – | | – | |
| **Underlying adjusted operating cash flow** | | **862** | 984 | (12%) | 1,158 | (15%) |

(i) The commodity price adjustment has been calculated by applying the average commodity price in 2015 to production and generation volumes in Spirit Energy and nuclear assets for 2019, 2018 and 2017 net of taxation.

(ii) The foreign exchange movement has been calculated by applying the average 2015 rate to the 2019, 2018 and 2017 adjusted operating cash flow net of taxation of entities with functional currencies other than GBP.

(iii) The impacts of the default tariff price cap and prepayment cap have been removed for the purposes of calculating underlying adjusted operating cash flow, employing the assumption that the cash flow impact is equivalent to the Income Statement impact.

# Additional Information – Explanatory Notes

## 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.

| Six months ended 30 June | | 2019 £m | 2018 £m | Change |
|---|---|---|---|---|
| Capital expenditure (including small acquisitions) (i) | | 355 | 493 | |
| Material acquisitions (>£100 million) (ii) | | – | – | |
| Net disposals (iii) | | (216) | (30) | |
| **Group net investment** | | **139** | 463 | (70%) |
| Dividends received from joint ventures and associates | C/F | – | (22) | |
| Interest received | C/F | (5) | (7) | |
| Net (sale)/purchase of securities | C/F | (34) | 57 | |
| **Net cash flow from investing activities** | C/F | **100** | 491 | (80%) |

(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) 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)

| Six months ended 30 June | | 2019 £m | 2018 £m | Change |
|---|---|---|---|---|
| Purchase of property, plant and equipment and intangible assets | C/F | 352 | 435 | |
| Purchase of businesses, net of cash acquired | C/F | 3 | 58 | |
| Less: material acquisitions (>£100 million) | | – | – | |
| **Capital expenditure (including small acquisitions)** | | **355** | 493 | (28%) |

### (b) Material acquisitions (>£100 million)

| Six months ended 30 June | | 2019 £m | 2018 £m | Change |
|---|---|---|---|---|
| Purchase of businesses, net of cash acquired | C/F | 3 | 58 | |
| Less: non-material acquisitions (<£100 million) | | (3) | (58) | |
| **Material acquisitions (>£100 million)** | | **–** | – | nm |

### (c) Net disposals

| Six months ended 30 June | | 2019 £m | 2018 £m | Change |
|---|---|---|---|---|
| Sale of businesses | C/F | (208) | (7) | |
| Sale of property, plant and equipment and intangible assets | C/F | (8) | (23) | |
| **Net disposals** | | **(216)** | (30) | 620% |

## 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.

| Six months ended 30 June | | 2019 £m | 2018 £m | Change |
|---|---|---|---|---|
| **E&P adjusted operating cash flow** | 4(f) | **433** | 667 | |
| Capital expenditure (including small acquisitions) | | **(183)** | (231) | |
| Net disposals | | **6** | 6 | |
| **E&P free cash flow** | | **256** | 442 | (42%) |

E&P free cash flow is E&P's adjusted operating cash flow, as defined in note 3 and reconciled in note 4(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'.

# 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 2019 Interim Results presentation for analysts and institutional investors at 9.00am (UK) on Tuesday 30 July 2019. There will be a live webcast of the presentation and slides at www.centrica.com

You may also listen via conference call. To register for this call and to receive a unique caller reference number, visit:

https://webcasts.centrica.com/centrica101/vip_connect

An archived webcast and full transcript of the presentation and the question and answer session will be available on the Centrica website on 1 August 2019.

## Enquiries

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## Financial calendar

| | |
|---|---|
| Ex-dividend date for 2019 interim dividend | 10 October 2019 |
| Record date for 2019 interim dividend | 11 October 2019 |
| 2019 interim dividend payment date | 21 November 2019 |
| Trading Update | 21 November 2019 |

## Registered office

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