

Our Group Tax Strategy

A - Our approach to risk management and governance arrangements

Responsibility for tax governance and strategy lies with the Chief Financial Officer, with oversight of the Board and the Audit Committee.

Centrica's Tax Strategy is applied consistently to all companies within the worldwide Centrica Group and, is widely understood within the Group. It is regularly reviewed, and updated where necessary to reflect changes in the Group's business and our approach to taxation generally.

The Group Tax Strategy is informed and underpinned by [Our Code](#) and [our values](#) and specifically:

- We conduct our business with integrity

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

- We work responsibly with communities and governments

This includes our commitment to pay the right amount of tax at the right time and seek to comply with all tax laws and obligations in the countries in which the Group operates.

The Tax Strategy is supported by internal control frameworks which govern the commercial operations of the Group and are subject to regular reviews by the Group's internal audit department.

Day to day responsibility for the application of the Group Tax Strategy and the management of the Group's tax affairs is delegated to the Group Head of Tax, who is required to report annually to the Board on compliance with the Tax Strategy.

The Group Head of Tax also provides regular updates on material matters to the Chief Financial Officer.

The Group Head of Tax is supported by a team of appropriately qualified in-house tax professionals based principally in the UK, and the United States. The Group's tax teams identify, manage and, where possible, eliminate tax risk across all taxes.

Tax risk in this context deals with:

- Compliance risk - the risk that Centrica fails to meet its obligations to file returns and other tax related reports or correctly calculate, collect and pay tax to tax authorities at the appropriate time;

- Interpretation and transactional risks – the risk that Centrica's interpretation of the law is not correct or that transactions are implemented without full consideration of all the tax consequences.

Reliance is placed upon external tax advisers where there is a need for specialist guidance and support, for example on acquisitions and disposals, or in new areas of the law. We also rely on external tax advisers in those locations where the activities of the Group are insufficient to warrant a full-time tax resource for more routine compliance matters. However, responsibility for tax and decisions around tax remain with the Group Head of Tax and the in-house teams.

B – Our approach to tax planning and tax risk

Tax risk is one of the commercial risks that the Group is exposed to because of its worldwide activities. Management of tax risk aims to ensure that the Group pays and collects the correct amount of tax and meets local reporting and disclosure requirements whilst meeting its business objectives.

Our tax teams seek to deliver clear, timely and relevant business advice around tax. The business understands that tax needs to be involved at an early stage in order to deliver the most value from the tax advice provided.

We carefully manage the tax risks and costs inherent in every commercial transaction, in the same way as any other cost. Therefore, tax will follow the commercial outcomes, taking account of the need for tax efficiency and our understanding of the currently applicable laws and practice.

Where there is uncertainty surrounding the interpretation of tax law, we will seek second opinions from external tax advisers, having established our own understanding of the position, and/or seek to resolve the uncertainty by dialogue with tax authorities.

We do not enter into artificial arrangements in order to avoid taxation or to defeat the stated purpose of the legislation.

As a general principle, we ensure that we have people and resources in every country where we do business commensurate with the activities carried on there. Throughout the Group tax is paid in the country in which the value arising from our presence is earned.

Accordingly, we do not utilise companies incorporated in "tax havens" - which we define as jurisdictions which do not levy any corporate income tax on companies or low tax jurisdictions - as a means of reducing the Group's tax liabilities.

As at 31 December 2017, we had six companies which are incorporated in low tax jurisdictions. Of these, three are dormant¹, two are UK resident for tax purposes and therefore are subject to full UK tax and one is our captive insurance company. Whilst the captive is not UK resident for tax purposes the Group pays UK tax on its profits.

¹ Steps are being taken to liquidate these companies; the liquidations should be completed by 31 December 2018.

C – How much tax risk is the Group prepared to accept?

We take a responsible approach to managing our tax affairs; as a Group we will always comply with applicable tax laws and regulations in the countries in which we operate.

Our approach to tax risk follows the same principles that apply to all other business risks. We consider reputation and corporate social responsibility as well as purely financial impacts. We are particularly aware of our reputation with a wider population of stakeholders in matters related to tax, including the tax authorities.

When making decisions on tax we consider the materiality of any item, as well as the costs of effective risk mitigation actions. Specifically, there are not pre-defined limits of the amount of acceptable tax risk; it is judged on an issue by issue basis.

Part of the assessment of the risk of any transaction is the particular tax authority's view of the tax outcomes and any potential impact on our ongoing relationship with that tax authority.

D –Our approach to dealings with HMRC

HMRC's risk assessment of the Group reflects its complexity and size and the significant amount of tax it pays (principally corporation tax and climate levies) and collects on HMRC's behalf (principally VAT, insurance premium tax, and employment taxes, including national insurance contributions).

We maintain a transparent and constructive relationship with HMRC in the UK (and with other tax authorities wherever we operate). This includes, where appropriate, regular, open dialogue on significant tax issues and developments in the Group's business.

We see value in working with tax authorities to agree tax positions and therefore we seek to work with HMRC on a real-time basis, where possible. This involves us disclosing and seeking clearance on material/significant matters to gain agreement on the tax implications.

The complexity of tax law means that sometimes we disagree with tax authorities' interpretation of areas of the tax law. We always seek to resolve these disagreements through discussions and representations.

As a Group, we regularly input into consultations that impact on our business, meet with Governments and other bodies to give our views on matters of importance, and where necessary, engage directly with them to shape the future.

Centrica regards publication of this tax strategy as complying with the duty under Schedule 19 Finance Act 2016 to publish the Group Tax Strategy for the financial year ended 31 December 2018.