

# Chairman's Statement



**26,276**

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

**30,520**

Direct Group headcount

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Rick Haythornthwaite**  
Chairman

20 February 2019



Read more about our  
workforce engagement on  
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## Introducing our new Chairman

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

**Charles Berry**

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

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

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

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

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

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



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

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

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

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

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

 [Read more about Corporate Governance on Pages 66 to 112](#)