

Our Principal Risks and Uncertainties

Understanding those risks that impact our strategy and determining how much risk we would like to take

Decentralisation of energy systems, shifting power to the consumer and increasing digitisation, presents both opportunities and risks. Identifying and appropriately managing these risks is critical to the successful delivery of our strategy. Within our System of Risk Management and Internal Control we assess risk in relation to the delivery of Group Priorities and determine the level of risk we are prepared to take:

- safety, compliance and conduct: Our appetite for taking risk in this area is as low as reasonably practicable in relation to: ensuring the safety of our people, customers and communities; conducting our business operations in compliance with laws and regulations; protecting personal and business data about our customers and employees; and managing our financial reporting risks;
- customer satisfaction and operational excellence: We have a moderate risk appetite to allow us to pursue innovative opportunities. We are driven to satisfy the changing needs of our customers;
- cash flow growth and strategic momentum: We have a moderate to high risk appetite for seeking opportunities to deliver cash flow growth and our target return on capital;
- cost efficiency and simplification: We have a low to moderate risk appetite for failing to implement and manage improvements sustainably and in a rigorous and systematic way; and
- people and building capability: We accept a moderate level of risk in finding ways to attract, develop and reward people with the diverse capabilities needed to deliver our ambitions.

“We can’t predict the future but we can empower better business performance by having the credibility, courage and confidence to raise the issues that really matter.”

Carolyn Clarke
Group Head of Internal Audit, Risk and Control

Strengthening our System of Risk Management and Internal Control

Each business unit and Group function is responsible for identifying and assessing its significant risks. We consider both the potential impact to the Group and the likelihood of occurrence on an inherent and residual basis and aggregate these risks within defined Principal Risk categories. The Executive Committee then considers these perspectives alongside broader external and internal factors to create a Group-wide set of prioritised risks.

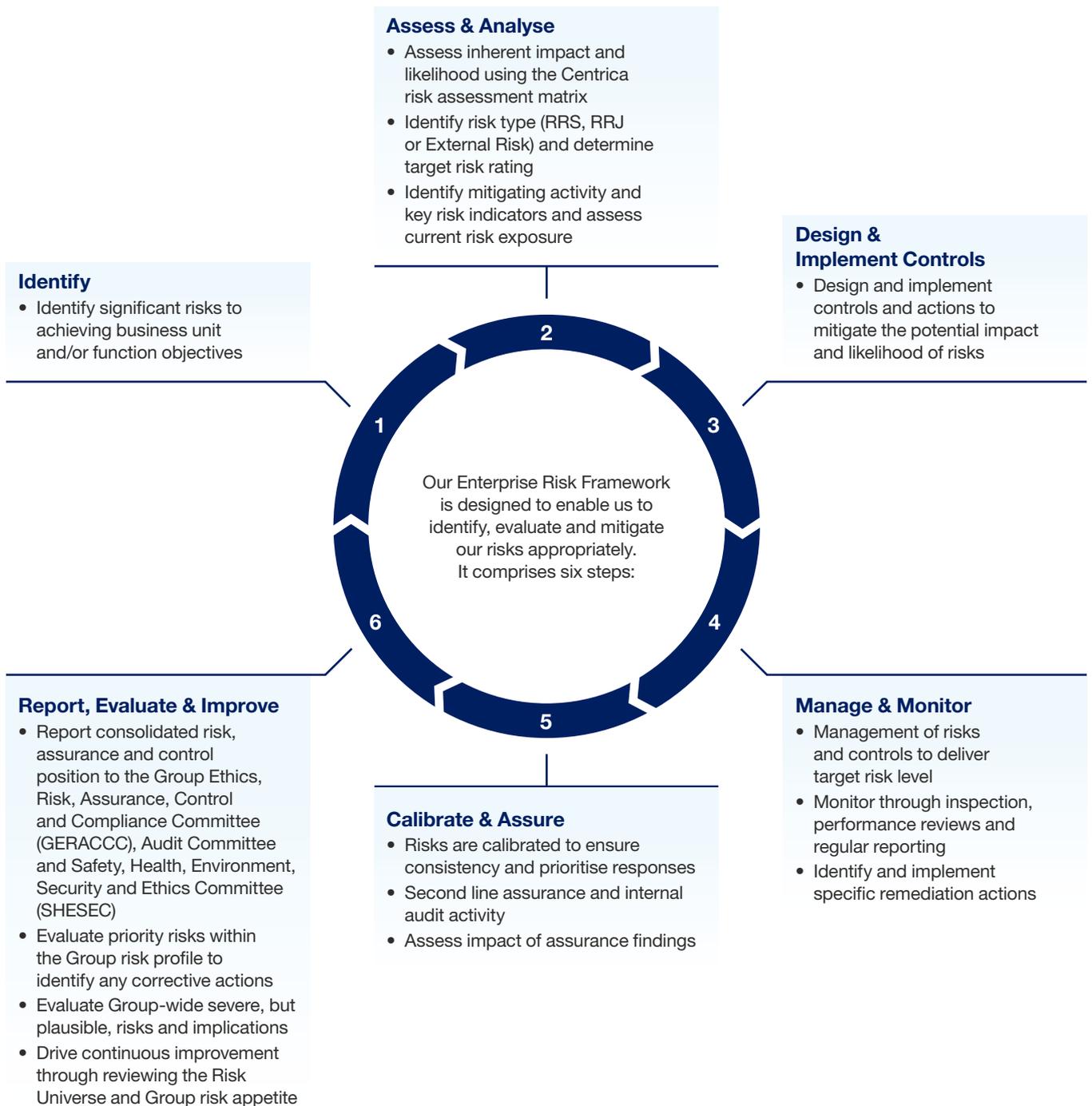
We categorise our risks as:

- **Risk Requiring Standards (RRS):** Risk with negative impacts that we control through Standards and Management Systems, for example process safety or data security.
- **Risk Requiring Judgement (RRJ):** Risk that we choose to take to execute our business strategy, for example new products or business improvement opportunities.
- **External Risk:** Risk that requires a focus on scenario and contingency planning with little or no ability to reduce likelihood, for example extreme weather or geopolitical turbulence.

We identify all ‘severe, but plausible’ consequences of our risks, where the realisation is more than remote in likelihood. These consequences are considered in our assessment of viability as described on page 51.

On an annual basis, we evaluate our System of Risk Management and Internal Control, learning from any control incidents that have arisen, to ensure we are mitigating risks in line with our risk appetite. We are evolving our System of Risk Management and Internal Control to ensure it remains appropriate, particularly as we expand into new jurisdictions and develop our business priorities.

Evaluating risks through our Enterprise Risk Framework



Our System of Risk Management and Internal Control: How Centrica Works



Mitigating Risk through our System of Risk Management and Internal Control

Our System of Risk Management and Internal Control is central to our governance processes and comprises the following elements:

- **What we stand for:**
 - **Our Purpose:** We are an energy and services company. Everything we do is focused on satisfying the changing needs of our customers.
 - **Our Values:** Our Values of Care, Collaboration, Courage, Delivery and Agility underpin our strategy and Priorities.
 - **Our Code:** This was launched in early 2018 to replace our Business Principles and provides the foundation for how we operate.
- **Our strategic framework:**
 - **Strategy:** This is aligned throughout the organisation by the five Group Priorities.
 - **Financial Framework:** Sets out parameters and targets within which we operate to guide our strategic planning and financial decision-making.
 - **Enterprise Risk Framework:** Incorporates the Principal Risks within the Group Risk Universe.
- **Our governance:**
 - **Board and Committees:** Structured to effectively execute required duties and through which our Principal Risks are monitored.
 - **Legal entities:** Subsidiary company legal entities with boards of directors required to meet legal and regulatory obligations.
 - **Delegations of authority:** Accountability is delegated through the organisation to individuals in accordance with risk appetite.
 - **Executive and Committees:** Oversight to ensure appropriate planning and performance management.

- **How we are organised and managed:**
 - **Management Systems:** The detailed policies, standards and processes establishing the mandatory requirements and which are required for the systematic management of related risks.
- **How we provide assurance:**
 - **Second line assurance:** Ensuring policies and standards are complied with through monitoring and testing activities performed by individuals who are not directly responsible for the operation of the controls relating particularly to Finance, HSES, and Digital Technology Services.
 - **Internal Audit:** Providing confidence to the Board, via the Audit Committee, that Centrica has appropriate risk management procedures and effective controls in place.

“With advances in technology and the increased decentralisation and disintermediation in our industry it is increasingly important to understand the breadth of our risks and how they are being managed.”

Alison Hill
Group Head of Enterprise Risk

Changes in risk climate and emerging risks

We monitor closely the evolving risk climate in relation to each of our Principal Risks. We consider that our overall risk climate has broadly remained unchanged over the past year. However, within specific Principal Risks there have been movements. Notably the risks related to regulatory intervention declined with the clarity provided on the SVT Price Cap, but the broader political uncertainty counteracts this. We monitor those risks that could impact on the Group in the future, including risks relating to our competitiveness, global energy and services trends, political developments and climate change.

Emerging risks relating to competitiveness result from the need to be agile in delivering growth in gross margin in an environment where there are many new entrants and our competitive landscape is evolving. We focus on serving our customers and have worked in 2018 to strengthen our leadership teams. Quarterly performance reviews are held with all parts of the business to monitor progress against targets and embed continuous improvement.

We are adapting our company to be agile and to embrace the future as a 21st century energy and services company. The shifting of power to the consumer means today's customers are accustomed to using the Internet of Things (IoT). To stay at the forefront of technology, we are increasing our investment in Connected Homes with innovations to give customers control over their home energy management. Similarly, our Distributed Energy & Power business helps customers gain competitive advantage from energy and allows us to offer end-to-end solutions. Ongoing digitisation will continue to provide opportunities to improve productivity and accessibility of energy systems, and therefore customer satisfaction, and may also improve safety and sustainability. However, digitisation also brings new security and privacy risks. Security operations monitoring teams are developing new ways to detect physical, cyber and insider attacks. We also have a Proactive Cyber Assurance team in place to identify system vulnerabilities before they are exploited.

Risks relating to the global political and economic environment, global disease outbreaks, interstate conflict, trade wars, terrorist attacks and climate change are monitored with a focus on the countries in which we operate. As our Group footprint grows, we need to be increasingly attentive to risks specific to new jurisdictions in which we operate. We manage relationships with multiple stakeholders to understand how global events can impact on our operations and monitor macro-environmental factors to assess the impact on commodity prices.

Climate change presents particular concerns and we are focused on ensuring we can respond to increased weather volatility, with its potential to harm our customer service levels, if we are unable to adapt appropriately to events like the extreme cold weather in the UK during the first few months of 2018. Lessons learnt from such events have helped us to put new measures in place for similar issues in the future.

Brexit risks

Given the UK's intention to leave the European Union on 29 March 2019, we established a dedicated Brexit project group following the 2016 referendum. During 2018 and into 2019, that group worked intensively with colleagues across Centrica to anticipate and mitigate, as far as possible, any adverse impacts on the Group and our customers. These efforts were strongly focused on the 'no deal' risk of leaving the EU without an agreement, addressing both the potential financial consequences and the need to maintain operational business continuity. Particular attention was paid to our pan-European energy trading activities, our Bord Gáis business operating within the Integrated Single Electricity Market (ISEM) on the island of Ireland, the impact of a 'no deal' Brexit on cross-border trade in goods (procurement and supply chains) and the need to facilitate continued cross-border transfers of protected personal data. We have completed our business impact assessment and this has been independently assessed through our Internal Audit function and advisors. We have individual working groups with clear accountabilities established for the necessary contingency plans and 'no deal' risk mitigation for both the direct and indirect consequences.

Specific and material 'no deal' risks considered in February 2019 include the following:

- our energy trading entities may face additional obligations under EU financial services legislation (particularly, the European Market Infrastructure Regulation) because that legislation will no longer recognise UK energy derivative trades as it does within the EU;
- we do not yet know whether we have a UK obligation to present EU ETS carbon permits in 2019, making it more difficult to manage our carbon position;
- the future of the ISEM on the island of Ireland may be at risk;
- efficient day-ahead access to the electricity interconnectors between GB and the Republic of Ireland/Northern Ireland may not be available for some time after Brexit, making it more complex for Bord Gáis to manage its electricity pricing risks;
- we and/or our customers will face the risks of a weaker pound, WTO import duties and logistical delays at UK ports of entry – putting up the costs of EU-sourced equipment and potentially making it more difficult to manage unplanned outages of energy producing facilities;
- since the UK will lose blanket EU approval for cross-border transfers of personal data, we are taking steps to include EU-approved 'model clauses' within all the relevant contracts; and
- a weaker pound, lower UK interest rates and higher UK inflation in the wake of a 'no deal' Brexit could push up the level of UK corporate pensions deficits, including our own.

Principal Risks

The Group Risk Universe is made up of a holistic framework of Principal Risks, laid out below in the Group's order of prioritisation. The Board makes a robust assessment of these Principal Risks, considering future performance and our ability to deliver the strategy, including solvency and liquidity risks. For each Principal Risk, we discuss the nature of the risk and the impact on our Group Priorities. Each Principal Risk is overseen directly by the Board or one of its committees, with the Board retaining overall responsibility for risk across the Group.

Our assessment of risks extends to risks associated with our investments in joint ventures and associates, including our nuclear business. The impact and likelihood of these risks are evaluated and reported using a consistent approach.

<p>Description</p>	<p>Political and Regulatory Intervention Risk of political or regulatory intervention and changes, including those resulting from Brexit, or a failure to influence such changes.</p> <p>External Risk</p> <p>Governance Oversight: Board</p> <p>Priority: Cash flow growth and strategic momentum</p>	<p>Financial Market Risk of financial loss due to our exposure to market movements, including commodity prices, inflation, interest rates and currency fluctuations.</p> <p>External Risk with elements that are Risk Requiring Judgement</p> <p>Governance oversight: Board and Audit Committee</p> <p>Priority: Cash flow growth and strategic momentum</p>	<p>Health, Safety, Environment and Security (HSES) Risk of failure to protect the health, safety and security of customers, employees and third parties or to take appropriate measures to protect our environment and in response to climate change.</p> <p>Risk Requiring Standards</p> <p>Governance Oversight: Board and Safety, Health, Environment, Security and Ethics Committee</p> <p>Priority: Safety, compliance and conduct</p>
<p>Potential impacts</p>	<p>As described on page 44, Brexit presents risks that are being closely managed in relation to changing policies in the energy market and with regards to carbon emissions. While the results of the Ofgem investigation into Standard Variable Tariffs is now known, there is continued regulatory pressure in the Consumer Energy Supply markets in the UK and North America that could result in the erosion of our profit margins. There is a risk of partial/total regulation of a small number of retail and/or natural gas markets in the US. Operating costs could also increase in the case of further smart meter and/or energy efficiency obligations.</p>	<p>Due to our large upstream and downstream business positions, our exposure to adverse price movements in commodity markets could impact profitability and cash flow generation across the business. While increased volatility in commodity prices could provide more opportunities, it could also give rise to higher collateral costs and/or additional credit risk for both Energy Marketing & Trading (EM&T) and North America Business. Further, it would create volatility in asset and contract valuations. An unseasonably warm autumn/winter in the UK and a cooler summer in the US could reduce customer demand significantly.</p>	<p>Our operations have the potential to result in personal or environmental harm. Significant HSES events could have regulatory, financial and reputational repercussions that would adversely affect some, or all, of our brands and businesses. We recognise and report on incidents that do occur, as described on page 19.</p>
<p>Mitigation</p>	<ul style="list-style-type: none"> • We are committed to an open, transparent and competitive UK energy market which provides choice for consumers. • Executive Directors and senior management actively engage in discussions with political parties, regulatory authorities and other stakeholders. • We have dedicated Corporate Affairs and Regulatory teams which examine upcoming political and regulatory changes and their impact. • We have a dedicated Brexit project group which aims to identify and assess the many Brexit-related issues which might impact the Group and our customers. 	<ul style="list-style-type: none"> • Financial risk is reviewed regularly by the Financial Risk, Assurance and Control Committee, and the Group Ethics, Risk, Assurance, Control and Compliance Committee to assess financial exposures and compliance with risk limits. Regular review is also undertaken by the Audit Committee. • Stress testing analysis is presented weekly to the EM&T Risk Committee. • As we move into new trading arrangements, we are focused on ensuring that our financial risk policies remain appropriate to the risks we face. • We have appropriate hedging strategies in place that are regularly updated to mitigate exposure to commodity and financial market volatility. • We are investing in our systems to further automate and strengthen our control environment. 	<ul style="list-style-type: none"> • We are restructuring our business to make it less carbon intensive and we engage with climate change bodies and NGOs to offer our perspective, understand the direction of future actions and assess our readiness to respond to change. • We engage with regulatory agencies such as the Environment Agency, Oil and Gas Authority and UK HSE to ensure we comply with legislative/regulatory requirements. • HSES Management Systems are established to include the policies, standards and procedures, focusing on areas of concern like process safety, driving and working at heights. • We undertake regular reviews and have assurance processes in place with reporting to the HSES Committee on a quarterly basis. • Security intelligence operating procedures, crisis management plans and business continuity plans are regularly evaluated and tested. • We drive an Incident Free Workplace (IFW) culture across our business. • We continue to invest in training to ensure we maintain safe operating practices and require all employees to complete the relevant online HSES courses for their role.

<p>Description</p>	<p>Strategy Delivery Risk that our strategy is not appropriate to respond to external issues and/or the risk that the strategy is not deliverable due to insufficient capability.</p> <p>Risk Requiring Judgement</p> <p>Governance oversight: Board</p> <p>Priority: Cash flow growth and strategic momentum</p>	<p>External Market Environment Risk that events in the external market or environment could hinder the delivery of our strategy.</p> <p>External Risk</p> <p>Governance oversight: Board</p> <p>Priority: Cash flow growth and strategic momentum</p>	<p>Brand, Trust and Reputation Risk that our competitive position is compromised by poor standards of fairness and transparency, and by failing to protect our brands.</p> <p>Risk Requiring Judgement</p> <p>Governance oversight: Board</p> <p>Priority: Customer satisfaction and operational excellence</p>
<p>Potential impacts</p>	<p>Successful delivery of our strategy requires serving customers in a way that satisfies their changing needs in a competitive marketplace. Failure to identify changing trends in customers' needs, stay ahead of technological and digital advancements, develop appropriate responses to changing markets and competitive environments, and build the necessary capabilities to compete, have the potential to adversely impact our cash flow growth and value goals.</p>	<p>We operate in highly competitive markets, where customer behaviour, needs and demands are evolving due to digitisation, energy efficiency, climate change, government initiatives and the general economic outlook. Failure to react appropriately and rapidly to changes in customer behaviour could result in the erosion of our customer base, leading to reduced revenues and associated margins. In addition, we are subject to global market volatility in our upstream businesses in commodity markets.</p>	<p>Failure to appropriately manage brand perception, media attention and lobbying from pressure groups could impact customer sentiment and could ultimately result in a reduction in overall customer numbers. Failure to be fair and transparent could lead to reputational damage, falling share prices and, in the case of very poor standards, legal action.</p>
<p>Mitigation</p>	<ul style="list-style-type: none"> • The Board sets and reviews the Group's strategy, determining the strategic direction and confirming the strategic choices made by the business. Regular reviews are conducted considering changes in market trends and the competitive environment, and the business response. • The Board and Executive Committee regularly review the capabilities required to deliver on the strategy and address issues as they appear. • We have a clear financial framework to ensure capital is allocated in accordance with our strategy and that balance sheet strength and return on capital boundary conditions are met. • We have dedicated teams to ensure we continue to develop and innovate in new technologies. • Our Digital Technology Services function works in partnership with Change functions to assure and deliver programmes of change. 	<ul style="list-style-type: none"> • We focus on understanding consumer segments and their needs, through products and services that are attractive and competitive. • We undertake regular analysis of commodity price fundamentals and their potential impact on our business plans and forecasts. • Our Market and Competitive Intelligence team monitors movements in markets and provides information to enable appropriate decision-making. • We are increasing our investment in areas like Connected Home and Distributed Energy & Power, that help to satisfy the emerging customer needs of having more control over and awareness of their energy usage. • We have developed Centrica Innovations and our Technology & Engineering function to keep abreast of technological advances. 	<ul style="list-style-type: none"> • We aim to deliver a fair, simplified and transparent offering to all our customers. • We engage with NGOs, consumer and customer groups, political parties, regulators, charities and other stakeholders to identify solutions to help reduce bills and improve trust in the industry. • We review and monitor changes in our customer brand position through Net Promoter Score (NPS). • We are transforming our complaints process to lower backlogs and resolution times, and to address root causes. • We closely monitor key metrics including broken promises/ appointments, grade of service and complaint numbers.

<p>Change Management Risk of failure in the identification, alignment and execution of change programmes and business restructuring.</p> <p>Risk Requiring Judgement with elements that are Risks Requiring Standards.</p> <p>Governance oversight: Board</p> <p>Priority: Cost efficiency and simplification</p>	<p>Legal, Regulatory and Ethical Standards Compliance Risk of failure to comply with laws and regulations, and to behave ethically in line with Our Code, resulting in adverse reputational and/or financial impact.</p> <p>Risk Requiring Standards</p> <p>Governance oversight: Board and Safety, Health, Environment, Security and Ethics Committee.</p> <p>Priority: Safety, compliance and conduct</p>	<p>Information Systems and Security Risk of reduced effectiveness, availability, integrity and security of IT systems and data essential for our operations.</p> <p>Risk Requiring Standards with elements that are Risks Requiring Judgement</p> <p>Governance oversight: Board, Audit Committee and Safety, Health, Environment, Security and Ethics Committee</p> <p>Priority: Safety, compliance and conduct</p>
<p>If transformation projects are not aligned to our strategic objectives, or not implemented appropriately, the expected benefits may not be realised and resources for other critical projects may be depleted. There are many transformation initiatives that could be disruptive and/or result in compromise to the control environment if not governed appropriately.</p>	<p>Any real or perceived failure to follow Our Code or comply with legal or regulatory obligations would undermine trust in our business. Non-compliance could lead to financial penalties, reputational damage, customer churn and/or legal action.</p>	<p>Our substantial customer base and strategic requirement to be at the forefront of technological development, means that it is critical that our technology is robust, our systems are secure, and our data is protected. Sensitive data faces the threat of misappropriation, for example from hackers and viruses, leading to potential financial loss and/or reputational damage.</p> <p>Failure to deliver IT solutions in support of the prioritised objectives and change programmes in the business would have consequences both for our organisational transformation and in some cases, our compliance obligations.</p>
<ul style="list-style-type: none"> • We have a standardised requirement articulated as Our Approach to Managing Change Impacts. • Transformation programmes are approved by the Board via the Group Strategic Planning and capital allocation process. • Investment appraisal criteria are defined in Group Investment Committee Guidance. • Progress on specific projects is consistently monitored through Steering Groups and reported through to the Board. • We have dedicated change capability at Group and business unit level to monitor the realisation of benefits, the prioritisation of efforts and to share best practice. • We have post-merger integration procedures in place to integrate acquired businesses. 	<ul style="list-style-type: none"> • Regulatory compliance monitoring activities are performed by a single function to drive Group-wide consistency and quality. • Control frameworks are in place to deliver customer experience in line with requirements over sales compliance, billing, retentions, customer correspondence and complaints handling. These are regularly reviewed by relevant leadership teams through KPIs. • Our GDPR Steering Group has had oversight of our cross-functional initiatives to drive compliance and to determine how we govern our data appropriately. • Our Financial Crime team monitors threats throughout the business. • The global 'Speak Up' helpline has been relaunched to provide a consistent Group-wide approach and reinforce the importance of this channel as a means to flag unethical behaviour. 	<ul style="list-style-type: none"> • Our HSES Physical Security and Resilience and Digital Technology Services Information Security Functions have been combined to form a Global Security Function. • Our information security strategy seeks to integrate information systems, personnel and physical aspects to prevent, detect and investigate threats and incidents. • We have established governance bodies to oversee compliance with new security requirements. • We have a Digital Technology Services Strategy Committee in place to track progress of the strategic priorities for technology, data and digital activities. • We regularly evaluate the adequacy of our infrastructure and IT security controls, test our contingency and recovery processes, and undertake employee awareness and training. • Controls testing and security patching around our core systems is performed regularly, and our controls are further tested by outside experts.

<p>Description</p>	<p>People Risk that we are unable to attract and retain employees to ensure that the business has the appropriate capabilities to meet our strategic objectives. There is also a potential risk of industrial action as a large proportion of our field and office-based employees are represented by trade unions and works councils.</p> <p>Risk Requiring Judgement with elements that are Risks Requiring Standards</p> <p>Governance oversight: Board and Safety, Health, Environment, Security and Ethics Committee</p> <p>Priority: People and building capability</p>	<p>Asset Development, Availability and Performance Risk that failures in the development or integrity of our investments in operated and non-operated assets could compromise performance delivery.</p> <p>Risk Requiring Judgement</p> <p>Governance oversight: Board</p> <p>Priority: Customer satisfaction and operational excellence</p>	<p>Financial Processing and Reporting Risk of errors or losses arising from the processing and reporting of financial transactions for both internal and external purposes.</p> <p>Risk Requiring Standards</p> <p>Governance oversight: Board and Audit Committee</p> <p>Priority: Safety, compliance and conduct</p>
<p>Potential impacts</p>	<p>Failure to attract and retain key capabilities across the business could have a detrimental impact on our ability to meet our strategic objectives.</p> <p>The risk of industrial action in our businesses may have a potential impact on customer service levels and retention.</p> <p>We require the right behaviours from our leaders and employees to deliver our business strategy in line with Our Values and Our Code.</p>	<p>Failure to invest in the maintenance and development of our assets could result in significant safety issues or asset underperformance through unplanned outages. Operational integrity is vital to our ability to deliver projects in line with the strategic objectives. During 2018 we experienced asset outages in Spirit Energy, as reported on page 27.</p>	<p>The accounting landscape is evolving with the adoption of IFRS 9 and 15 in 2018. We have also evaluated the impact of IFRS 16.</p> <p>During the current transformation of our Finance function the potential for failures in core controls is increased.</p> <p>There is a risk that we fail to comply with relevant tax and regulatory requirements.</p>
<p>Mitigation</p>	<ul style="list-style-type: none"> • Our Code and Our Values set the behavioural expectations for all employees. • We continue to evolve a clearly defined people strategy based on culture and engagement, equality and wellbeing, talent development, training and reward and recognition. • The Executive Committee has clear oversight through regular discussions of the people-related challenges inherent in our transformation programme. • We have been developing a more strategic relationship with our trade union colleagues and engage with them on restructuring and issues that could impact terms and conditions, with clear and open processes to cultivate an environment of trust and honesty. • We conduct annual Employee Engagement surveys and results are reviewed and actioned by senior leaders. • We have implemented a Career Development Office designed to promote and harness internal talent. 	<ul style="list-style-type: none"> • Capital allocation and investment decisions are governed through the Investment Committee. • Group-wide minimum standards are applied to all assets, whether operated or non-operated. • Maintenance activity and improvement programmes are conducted across the asset base to optimise effectiveness and maximise production levels. 	<ul style="list-style-type: none"> • The Audit Committee reviews our compliance with both our internal policies and external requirements. • During 2018 the Audit Committee has regularly reviewed progress in the finance transformation programme, including objectives around strengthening the control environment. • Our financial control framework incorporates our financial controls and management self-assessment compliance. • We undertake detailed testing and evaluation of the effectiveness of our controls in response to critical financial risks, reporting to the Finance, Risk, Assurance and Control Committee quarterly. • Following the reported issues in North America reporting at the end of 2017, we have executed a specific action plan. • The Group Tax function has a control framework, to ensure compliance with all requirements, which has been globalised to drive consistency and simplification.

<p>Customer Service Risk of failure to consistently provide good quality customer service through the customer lifecycle, with potential consequences being increased consumer churn and declining gross margin.</p> <p>Risk Requiring Judgement</p> <p>Governance oversight: Board</p> <p>Priority: Customer satisfaction and operational excellence</p>	<p>Business Planning, Forecasting and Performance Management Risk that plans and forecasts may not be deliverable or may fail to drive efficient and effective performance, and the risk of failures in performance reporting.</p> <p>Risk Requiring Judgement with elements that are Risks Requiring Standards</p> <p>Governance oversight: Board and Audit Committee</p> <p>Priority: Cash flow growth and strategic momentum</p>	<p>Balance Sheet Strength and Credit Position Risk that our balance sheet may not be resilient, with implications for our ability to withstand difficult market or trading conditions or financial stresses to the business.</p> <p>Risk Requiring Judgement</p> <p>Governance oversight: Board and Audit Committee</p> <p>Priority: Cash flow growth and strategic momentum</p>
<p>The delivery of high quality customer service is central to our business strategy. With the entry of new competitors to the market, customers are increasingly likely to switch if they are unimpressed with their customer experience.</p> <p>Remaining at the forefront of digital developments and innovation is critical as it leads to increased choice and control for our customers.</p> <p>We also face risks regarding our ability to develop and price propositions competitively and profitably, which has increased recently as our business moves into new markets.</p>	<p>We prioritise how we allocate resources according to our business plans and forecasts. Failure to accurately plan and forecast, accounting for the evolving business environment, could result in sub-optimal decisions and failure to realise anticipated benefits.</p>	<p>Failure to operate within the Group's financial framework could result in risk to maintaining our target credit rating, which would impact our access to cost-effective capital and trading arrangements.</p> <p>Long-term financial obligations may increase in value due to factors both inside and outside of our control, such as pension schemes, resulting in additional funding required to meet our obligations.</p>
<ul style="list-style-type: none"> • Leadership teams in our front-line businesses establish accountability for specific aspects of the customer journey and assess performance daily and weekly. • We operate an environment of continuous improvement, incorporating an accredited programme (STAR), and use root cause analysis of complaint and NPS insight to continuously improve our service delivery. • Customer and Field Operations teams monitor customer service levels, ensuring enquiries are answered in a timescale and manner acceptable to the customer, complaint levels are minimised, and that customer satisfaction is reviewed at all stages of the customer journey. • Customer service agents are quality assessed for consistency with a rigorous training and performance management programme. • Performance parameters are monitored weekly for all third-party service providers involved in the customer service process. 	<ul style="list-style-type: none"> • Annual planning processes are subject to scrutiny from the Executive Committee and the Board with respect to underlying market trends, competitive threats, organisational capability and delivery. Central contingencies are considered in response to the aggregated risk position. • Group functions have adopted standardised planning processes in support of business unit priorities, driving improved integration of plans. • The performance of each business unit is reviewed against their plan throughout the year so that any indications of plans not being delivered can be understood and any required actions can be undertaken. • Quarterly performance review meetings involving the Executive Committee enable the review of plans and forecasts, with revisions identified as necessary. • Post Investment Reviews are conducted to assess investment performance, whether benefits were fully realised and lessons that can be applied for future investment. 	<ul style="list-style-type: none"> • We assess available resources on a regular basis. Significant committed facilities are maintained with sufficient cash held on deposit to meet fluctuations as they arise. • We model the severe, but plausible scenarios and consequences of our risks and their potential to impact our net debt position. • The current credit rating position is reported and discussed regularly by the Centrica Board. • We consider accounting assumptions impacting on our balance sheet carefully, including decommissioning and impairment. • Long-term obligation estimates are updated annually. • Counterparty exposures are restricted by setting credit limits for each counterparty, where possible with reference to published credit ratings. • Wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with Group policy.

<p>Description</p>	<p>Procurement and Supplier Management Risk of failure to source effectively and to co-ordinate and collaborate with the supply chain to ensure value delivery and continuity.</p> <p>Risk Requiring Judgement with elements that are Risks Requiring Standards</p> <p>Governance oversight: Board and Safety, Health, Environment, Security and Ethics Committee</p> <p>Priority: Customer satisfaction and operational excellence</p>
<p>Potential impacts</p>	<p>Our business operations rely on products and services provided through third parties, including outsourced activities, infrastructure and operating responsibility for some assets. We rely on these parties to comply with contractual terms in addition to legal, regulatory and ethical business requirements.</p> <p>Failure to comply with Centrica’s policy and standards when procuring goods and services or to manage key suppliers and contracts effectively could inhibit the ability of the business to maintain competitive products and services, or expose the Group to a range of regulatory or legal risks.</p>
<p>Mitigation</p>	<ul style="list-style-type: none"> • We have established an end-to-end category management process to maximise value capture throughout the procurement lifecycle, from market analysis through to ongoing contract management and monitoring. • All suppliers are required to sign up to our ‘Ethical Procurement’ policies and procedures. • We review the ethical conduct of our suppliers, including a programme of supplier visits to provide additional assurance over practices employed. • Financial health, risk and anti-bribery and corruption due diligence and monitoring is implemented in supplier selection and contract renewal processes. • Audits are conducted in relation to third-party operation of jointly operated Exploration & Production assets.

Viability Statement

Requirement

The UK Corporate Governance Code 2016 requires the Directors to assess the prospects for the Group, taking into account the current position and significant risks, over a longer period than the 12 months required for the going concern assessment. Centrica's Directors maintain a focus on assessing the Group's long-term prospects and viability over an appropriate time period.

Assessment of prospects

Following the strategic review in 2015 we have focused on reshaping the Group and driving efficiencies to be fit for the future, including a future where our largest customer base is impacted by price caps on certain tariffs. We are confident that the measures we have taken and the efficiencies we have realised, as described on page 15 leave the Group in a strong relative competitive position.

In assessing our prospects, we consider the success in delivery of our strategy and our current business performance. The Directors have evaluated and approved the Group Annual Plan for 2019 and the strategic plan for the years beyond this. In doing so we considered carefully the risks to the delivery of the strategy and plans within the categories of Principal Risk outlined on pages 45 to 50.

The risks we consider to be of greatest significance include:

- the risk of further political or regulatory turbulence or intervention;
- external risks associated with commodity and other index movements;
- risks associated with the effectiveness of our internal control environment in relation to cyber, data protection and customer conduct; and
- risks related to our competitive positioning in a world of rapid digital innovation and increased customer choice.

We focus on the critical actions to mitigate risk so that we increase the likelihood of successfully delivering our strategy. In addition to the oversight provided by our Board and Executive Committee, our assurance teams, including Internal Audit, monitor the effectiveness of these activities to enable timely corrective action.

Our risk climate has not receded during the year, but we have embedded improved controls and assurance activities in areas including finance and performance management, information security, data protection, cyber, asset integrity, personal safety and regulatory compliance, which we can demonstrate has increased our resilience in the face of both internal and external risks. We are comfortable in the prospects of the Group in the context of our strategy combined with our focus on strong internal controls.

Assessment of viability

The Board continues to believe that three years is the appropriate timeframe to assess viability reflecting the planning horizon for the Group. Our increasing focus on the energy supply and services businesses means our most significant risks are shorter term in nature, such as the potential for regulatory change and competitive pressures creating disruption in our customer-facing markets. Similarly, the commodity markets in which we operate generally only have transparent and executable pricing available for a three-year period.

We evaluate each of our Principal Risks and aggregate the specific 'severe, but plausible' outcomes within the following scenarios:

- incidents and events, such as further regulatory intervention with the potential to create significant churn that materially reduces our customer numbers, a rapid decline in gross margin through failing to deliver our plan and/or have the potential for material fines, such as those associated with data loss under GDPR;
- significant disruption to our asset-based businesses, including a process safety or asset integrity incident and interruptions through outages of up to two years in our production schedules in Spirit Energy;
- external events beyond our control including movements in commodity prices ranging from 25% to 75%; and
- one-off events including a significant business disruption following a cyber incident or major weather event.

In the current year we have considered also the range of potential consequences resulting from Brexit as described on page 44. The impact of the combined scenarios is compared to our net debt headroom, which is forecast to be in the region of £3 billion to £3.5 billion throughout the period modelled without the need for additional debt. For those risks where the outcome is not binary we perform sensitivity analysis. The most significant of these risks relate to customer churn and commodity price movements. Finally, we model the indirect consequences of each of these issues in relation to the potential for downgrades in our credit rating.

None of the individual scenarios result in the requirement for further mitigation. However, should an extreme combination of these severe but plausible events arise we are able to identify mitigating actions including a significant reduction in operating costs, potential business disposals, reducing technology-related expenditure, reducing capital expenditure in Spirit Energy, reductions in dividend payments, delaying a planned share buyback or the redemption of the hybrid bond and further portfolio adjustments.

Key assumptions embedded in these assessments include:

- the use of known consequences, historical evidence and the evaluation of similar events observed in the market to calculate the potential impact;
- target customer numbers, commodity price curves, efficiency programme targets and the shape of the future portfolio;
- ongoing access to our existing sources of funding, including undrawn credit facilities of £3.9 billion as described in note 24(b) to the consolidated Financial Statements, which currently expire between April 2021 and October 2021, with renewal of £4.2 billion of revolving credit facilities expected to occur by the end of February; and
- no further changes in our capital structures such as any new debt funding.

Conclusion

The Directors have considered all the above factors in their assessment of viability over the next three years. We have performed sensitivity analysis which enables the Directors to confirm that they have a reasonable expectation that no individual scenario, or combination of these scenarios, could result in the inability of the Group to continue to operate and meet its liabilities, as they fall due, over a period of at least three years.