

CENTRICA



Corporate Responsibility Report 2009

**Assurance statement and
commentary**

May 2010

Corporate Responsibility Report 2009: assurance statement and commentary

Assurance statement

Centrica has commissioned Corporate Citizenship to provide external assurance and a commentary on its Corporate Responsibility Report 2009, contained within this 'responsibility' section of its website. Pages within the scope of the assurance process are dated 04 May 2010 at the foot of the page (readers should note that where material is updated after this publication date, the fact will be noted on the page by an amended date, this may affect the assurance conclusions stated here).

The scope of our assurance

Our assurance provides the reader with an independent, external assessment of the report and, in particular, with how it corresponds with the AA1000 standard. It is intended both for the general reader and for more specialist audiences who have a professional interest in Centrica's corporate responsibility performance.

Centrica has chosen to use the new iteration of the AA1000 standard, AA1000AS (2008). Our assurance is a Type 2 assurance as defined by the standard, in that it evaluates the nature and extent of adherence to the AA1000AS principles of inclusivity, materiality and responsiveness and assures the behaviour of the organisation as reported here. Our assurance used disclosed information as its starting point and then investigated the underlying systems, processes and sustainability performance information to arrive at its conclusions.

We have also assured the performance information in the report. The level of assurance offered is moderate as defined by AA1000AS (2008). That is to say, our work obtained sufficient evidence to support the statement that the risk of our conclusion being in error is reduced. The criteria used are the GRI G3 Principles for Defining Report Quality.

Centrica is entirely and solely responsible for the contents of the report, Corporate Citizenship for its assurance. A detailed note on our assurance methodology appears at the end of this statement.

Opinion and conclusions

In our opinion the *Centrica Corporate Responsibility Report 2009* reflects the principles of AA1000 (2008), namely inclusivity, materiality and responsiveness. The specified sustainability performance information meets the assessment criteria.

In our commentary we review the report against each of these principles separately. We also provide feedback that can help the company and its stakeholders identify where its reporting can be strengthened in future.

Commentary

For the current report Centrica has retained its focus on the seven key impact areas previously identified as material issues. The report includes a key development in the provision of a data centre. This provides a central location for all the performance data featured in the report and its introduction is to be commended as an innovation that provides greater flexibility to users in viewing and comparing performance information.

In 2009 Centrica entered a period of transition for both its commercial and its corporate responsibility strategies. The report references a new corporate strategy to transform the business from an energy supplier to an energy and energy services provider. It also refers to an associated review of Centrica's corporate responsibility approach and strategy. These are key developments that will impact how the company engages with and impacts upon different stakeholder groups. Our comments below in relation to the three principles of the AA1000 standard are informed by these future objectives, and their implications, as well as by the performance information presented for the reporting period.

Inclusivity: *Does the organisation accept a responsibility to those on whom it has an impact? Does it involve stakeholders in developing a strategic approach to corporate responsibility and sustainability?*

The 2009 report continues to demonstrate Centrica's acknowledgement of the responsibility it has to a defined set of stakeholder groups on whom it impacts and the steps it takes to engage with them. Employee engagement surveys and the customer panel, for example, are channels that enable Centrica to understand the opinion of particular groups. They can also directly inform, or make recommendations about, how the company tackles key issues. Stakeholder interests are also prominent in the discussions of key decision making functions such as the Corporate Responsibility Committee. Centrica also explores new and

innovative ways to engage with stakeholders such as through its online social media portal, 'Centrica Views'. These activities show Centrica to be acting in line with the AA1000 principle of Inclusivity.

There are ways in which the reporting and management of the company's engagement with stakeholder groups could be strengthened in future. The report covers a number of individual activities undertaken to engage with stakeholders on specific issues or impact areas. Centrica would benefit from integrating such activity into a formal stakeholder management process that builds strong relationships with key stakeholders and uses their knowledge and experience to inform its strategy and identify ways to improve its performance. This will help to ensure its operations proactively engage with stakeholders on the most important issues, particularly where they hold critical or challenging views.

Materiality: *What are the issues that really matter to the organisation's sustainability performance ("material issues")? How does the organisation identify these issues?*

The 2009 report is structured around the seven impact areas that Centrica has identified and reported on in previous years. Within each of these, Centrica focuses on a small number of priority issues and a, usually, larger number of secondary issues. Centrica uses a range of sources (including corporate risk, regulatory requirements, stakeholder feedback and so on) to identify its most important issues. However, information on how this process works and the criteria for determining the high priority issues is limited.

Centrica acknowledges this gap and we look forward to seeing more comprehensive coverage of the decision making process in future reports. In particular it will be essential to understand the degree to which the new commercial and corporate responsibility strategies inform, and possibly change, the company's core focus areas.

We believe that Centrica is acting in line with the AA1000 principle of Materiality. However the following issues, if addressed, would help the reader obtain a fuller understanding of Centrica's challenges and successes in addressing its most material issues.

The UK and North American markets are different and operations in each location face distinct challenges around some key issues (e.g. climate change). Similarly, the upstream, downstream and storage businesses have different impacts in some areas. While examples of specific differences are mentioned throughout the current report, Centrica's new corporate responsibility strategy addresses the differences at a broader level and future reports will reflect this new integrated approach.

Also, this reporting period covers Centrica's initial investment into nuclear energy through its minority stake in British Energy. While it does not have management control of the operation it is an area that provokes interest and concern among stakeholders and this is likely to grow. For a complete picture, we believe readers should also look at the information that Centrica provides on the issue elsewhere on the website.

Responsiveness: *Does the organisation respond to stakeholder issues that affect performance through its actions and communications?*

The report covers a number of positive developments that Centrica has made in response to stakeholder interests and feedback during the period under review. Highlights include addressing customer concerns over service and pricing, a new health and safety strategy and engaging with suppliers in responsible procurement. Each of these has returned improvements in the company's corporate responsibility performance. This shows that Centrica acts in-line with the AA1000 principle of responsiveness.

While it is important to celebrate successful outcomes, more challenging issues should also be addressed. The report covers some issues, e.g. gender diversity, where performance is below the level Centrica would like and the steps it is taking to address the issue. We look forward to learning the impact of these activities on the company's performance in future reports. On some other issues (e.g. number of suppliers signed up to corporate responsibility clauses), Centrica's assessment of the extent to which its own targets or expectations are being met is not always clear. Future reports should address this.

The report also suggests a possible contradiction in British Gas between feedback from employees through internal and external channels, which is largely positive, and a recent call for industrial action. While this is an isolated incident it brings into question whether the current channels for gauging staff reaction to changes in management approach or practice should be reviewed to ensure that they provide sufficient intelligence. Embarking on a new business model and a new corporate responsibility strategy are significant steps and will require the buy-in and commitment of key stakeholders, both within and outside the company. Centrica needs to ensure that it takes the necessary steps to support these groups on this journey and responds to their concerns.

Reliability of performance information

There is evidence of more robust processes for compiling some of the performance information included in the report, particularly concerning the core indicators that are

reported through to the Centrica Executive Committee and the Corporate Responsibility Committee. There have been developments in the amount of information managed through online databases for greater efficiency and accuracy, such as People Metrics. However, techniques and processes for some areas, such as environment data for North America, are not so well established.

There has been a significant development in the way that the process for collecting some performance data is documented. The *Group procedure for environmental reporting* details the procedure for collecting environmental data to ensure consistency across the group. We recommend that Centrica applies this example of best practice to document the protocols and validation procedures for all key datasets across its operations.

Conclusion

A corporate responsibility report is an opportunity for a company to demonstrate how it manages its impact on society and how it responds to different stakeholder interests through its management of core issues. It should also be open about any shortcomings and show how the company is listening, learning and improving. In future, Centrica should continue to strengthen the degree to which its reporting reflects these characteristics. This will be particularly important during a time of intense change.

Last year we highlighted four areas where we believed reporting could be strengthened. Progress is evident in the reporting of some of these, notably around responsible procurement and coverage of core customer service issues. However, we also highlighted that corporate responsibility reporting systems in North America were less well embedded than elsewhere. While progress has been made, such as quarterly performance reporting on all impact areas and distinct plans to move forward in areas such as environment, progress in areas such as target and goal setting is still limited.

Going forward, Centrica will need to demonstrate how its management of individual impact areas and engagement with different stakeholders combines to help it progress towards the overall objective of being the most trusted energy company leading the move to a low carbon future. The new corporate responsibility strategy has been developed around this goal and we look forward, in future reports, to learning about its successes and challenges along the way.

Corporate Citizenship

London, 4th May 2010

www.corporate-citizenship.com

Methodological notes

A team of three, led by a senior consultant undertook the assurance and commentary process. An associate director acted as adviser to the group. The team has extensive relevant professional and technical competencies and experience. For a fuller description please refer to our website www.corporate-citizenship.com.

The work was commissioned in December 2009 and was completed on 4th May 2010. Detailed records were kept of meetings, assurance visits and correspondence relating to the inclusivity, materiality and responsiveness of the report, as well as to technical matters relating to the reliability of data.

Our external assurance and commentary process for Centrica's Corporate Responsibility Report 2009 has involved, but not been limited to, the following elements:

- Examination of the report at set stages in its development and testing of the assertions throughout on a section-by-section basis drawing from evidence and supporting documentation.
- Interviews with executives in charge of corporate responsibility.
- Meetings and discussions with a cross section of Centrica's managers about its approach to corporate responsibility, its policies and performance, its future challenges and its relations with stakeholders.
- Analysis of the agendas of, minutes of and papers presented to the Centrica Corporate Responsibility Committee and a correlation of these with Centrica's reporting.
- Review of key media coverage of Centrica corporate responsibility and related items.
- Reviews of internal consumer research documents underpinning the customer section of report; of reports on employee engagement underpinning the employee section.
- Checks on a sample basis of elements of the report's contents to underlying records, particularly of the numerical performance data within the report.

- Assessment of report coverage against contribution made by business to revenue and profit.

Our work did not extend to a complete audit of the report's contents. We have not been responsible for the preparation of the 2009 report nor in devising the internal management and reporting systems that yielded the data contained therein.

The opinions expressed in this external assurance statement and commentary are intended to extend understanding of Centrica's non-financial performance and should not be used or relied upon to form any judgments, or take any decisions, of a financial nature.

Corporate Citizenship is a leading assesor of corporate responsibility reports. The company is a member of AccountAbility.

We have worked with Centrica on corporate responsibility reporting since 2000 and have provided assurance for the last six years. During the 2009 reporting period (except as noted below) our work with Centrica focused exclusively on assurance.

Centrica is a member of the LBG (London Benchmarking Group www.lbg-online.net), an evaluation framework for corporate community involvement which we manage on behalf of its members and adherents.