

# Introduction and approach

## Contents

<b>2 Chief Executive's introduction</b>	<b>11 Governance</b>
<b>3 Approach and governance</b>	Centrica Executive Committee
An Integrated business and CR strategy	Corporate Responsibility Committee
<b>4 Our CR strategy</b>	Performance 2010
Energy for a low carbon world	<b>12 Looking ahead</b>
<b>8 Risk management</b>	<b>13 Assurance and reporting</b>
<b>9 Materiality</b>	<b>14 Scope of report</b>
<b>10 Stakeholder engagement</b>	
Key stakeholder groups	
Prioritising stakeholders	

# Chief Executive's introduction

**In last year's corporate responsibility (CR) report I discussed the changing shape of our business and how we responded by developing a new CR strategy. In 2010 we have focused on implementing that strategy and pursuing opportunities that lead the drive to a low carbon world. I am delighted to present our 2010 CR Report, which sets out our progress during the year and addresses some of the challenges that we face.**

Our new CR strategy has given us a better framework for our activities, with an emphasis on identifying ways in which Centrica can reduce carbon emissions. This is a role we are uniquely placed to fulfil through our customer relationships, the skills of our service engineers and our expertise in sourcing energy and generating power. There are significant new market opportunities in helping to deliver a low carbon society; building trust in this area will enable us to grow our business, while delivering environmental and social benefits to society.

Our flagship programme focuses on delivering 'energy for a low carbon world', through decarbonising power generation, helping our customers cut their carbon emissions and reducing our own internal footprint. To achieve this, we need to build trust among all our stakeholders and this is the role of our four supporting focus areas – prioritising safety, supplying energy needs, building and maintaining customer trust and developing our people. These are in turn underpinned by responsible business practices and behaviours. We track progress against all of these through key performance indicators and via stakeholder dialogue and feedback.

We have made good progress against our CR strategy in 2010, reducing our UK carbon intensity by 26%, moving forward with our wind farm developments and receiving our first nuclear power from our investment in British Energy. We are also helping customers cut their carbon footprint through energy efficiency and new technologies such as microgeneration and smart meters.

However, we must also ensure that we secure sufficient gas and electricity for our residential and business customers and ensure energy is affordable; meeting all of these challenges together is not easy.

We are already securing UK supplies through new LNG deals and by continuing to invest in wind, nuclear and CCGT generation assets. However, the consensus is that £200bn needs to be invested in UK energy infrastructure by 2020, a huge sum. We also face challenges in keeping energy affordable in an environment of rising international commodity costs. Our focus is on helping customers to reduce bills

through energy efficiency and behaviour change, and on providing additional support to our most vulnerable customers.

What is apparent is that we cannot achieve our low carbon goals in isolation. In September 2010, I set out what I believe is needed from the industry, government and consumers to achieve a low carbon economy.

The investment in lower carbon generation does however come at a price. Unless we are able to offset this increase with increased consumption savings, higher household bills are inevitable. We need to be honest about this as an industry and as a nation and continue to take steps to protect the most vulnerable in our society.

Centrica's business model is now better balanced and well placed to thrive with the majority of our energy being sourced from our own low carbon sources. The opportunity for us is to help our customers through our growing services businesses to reduce both their fuel bills for today and their emissions for tomorrow.

The changes we are making in the business are dramatic and I would like to thank all our employees for the flexibility and continued commitment they have shown throughout the year. Their vigilance has also been instrumental in achieving continued improvement in our safety record in 2010, with a further 16% reduction in the lost time injury rate.

These are just a few of the highlights from Centrica's CR programme in 2010. I am proud of the progress we have made this year and I invite you to explore this online report to find out more and leave your feedback.



**Sam Laidlaw**  
Chief Executive

# Approach and governance

**Centrica's corporate responsibility (CR) ambition is to be the most trusted energy company, leading the move to a low carbon future.**

CR is also about the values which underpin our business. Our experience is that a principled approach to doing business wins the trust of our customers, regulators, investors and other stakeholders. It also helps us to attract and retain talented and committed employees.

We must understand the impact our activities have on society and the environment. We do this through engaging with our stakeholders and exploring how we can address their concerns. We also use these discussions to help us prioritise our most material issues, ensuring we focus our resources in the most important areas. To find out more about our approach, see stakeholder engagement and materiality.

We can also benefit society and the environment, contributing to the long-term health and sustainability of both. We strive to do this in a way that creates opportunities and advantages for our business and shareholders.

## An Integrated business and CR strategy

The Centrica Group's strategic vision is to be the leading integrated energy company in our chosen markets. In February 2010, the Centrica Executive and CR Committees approved a new corporate responsibility strategy and programme which directly support this vision.

The main emphasis of our CR strategy is to identify ways in which Centrica can contribute to reducing the levels of carbon emitted into the environment; a role we are uniquely placed to fulfil through our customer relationships, the skills of our service engineers and our expertise in sourcing energy and generating power.

We see significant new market opportunities in helping to deliver a low carbon society and want to ensure that British Gas and Direct Energy are the energy services providers of

choice. Building trust in this area will enable us to grow our business while delivering environmental and social benefits to society. See our CR strategy to find out more.

The Corporate Responsibility Committee provides oversight and challenge on the CR strategy and its delivery. The Centrica Executive Committee and our business units are responsible for its implementation. See CR governance to find out more.

Our approach to CR is straightforward and integral to our strategic decision-making and business performance:

- We communicate our position on key issues and, through our business principles, are clear about the standards we expect of ourselves and those we work with
- We consult our employees, customers, investors and wider stakeholder groups to understand the main social and environmental matters affecting our business
- We identify and prioritise the risks we face and opportunities we have and develop distinctive strategies, commitments and targets
- We manage CR with an impact areas-based approach to ensure our resources and engagements are focused on the most relevant issues and where we have the greatest impact
- We communicate our performance with openness and transparency, so that our stakeholders understand the progress we're making

A strong reputation for CR can help us win business advantage and contribute to shareholder value. Conversely perceived weakness in CR may damage our reputation and cause financial risks. See risk management for more about our approach.

# Our CR strategy

Centrica's strategic vision is to be the leading integrated energy company in our chosen markets. Our corporate responsibility (CR) strategy and programme directly supports this vision.

Our corporate responsibility ambition is to be the most trusted energy company, leading the move to a low carbon future .

## Energy for a low carbon world

We developed our 'energy for a low carbon world' programme to drive our ongoing response to climate change, helping us to mitigate the key risks and take advantage of the opportunities.

### Customer carbon

As we lay the groundwork for a low carbon future, we must preserve our ability to meet our customers' immediate energy demands. Decarbonising energy supply is a long-term goal since building the necessary energy infrastructure takes

Our approach reflects the three areas where we believe we can make a difference:

- Enabling customers to cut their carbon footprint
- Investing in lower carbon power
- Leading by example by cutting the carbon emissions of our property, company vehicles and travel

The amount of emissions from power generation is mostly driven by the demand for power from consumers. Until power supply is decarbonised, the biggest environmental benefits can be achieved by reducing consumer demand through energy efficiency, smart metering and microgeneration technologies. We aim to lead the consumer market for low carbon products and services and to build on our legal obligations by viewing them as opportunities.

planning, investment and agreement among interested stakeholders. Until that time, we are pursuing a diverse energy portfolio where we use gas fired power stations, wind farms and nuclear energy to deliver the power our customers demand.

What we are doing	Key performance indicators	2010	2009
Improving customer understanding of the energy they use	Number of smart meters installed (domestic and business)	195,228	62,897
Supporting customers in making their homes energy efficient	Lifetime carbon savings under CERT obligation	15.6m* tonnes of CO <sub>2</sub>	17.53m tonnes of CO <sub>2</sub>
	Tonnage of carbon delivered under CESP (cumulative)	0.45m tonnes of CO <sub>2</sub>	n/a

\* This figure differs from the assured key performance indicator of 15.1m tonnes CO<sub>2</sub>, which is the number submitted to Ofgem. This is because the number is estimated at the time it is sent to Ofgem. The figure reported here has gone through further validation and is a more accurate reflection of our 2010 performance.

### Lower carbon power

What we are doing	Key performance indicators	2010	2009
Reducing the carbon intensity of our power generation	UK power generation carbon intensity	277g CO <sub>2</sub> /kWh	371g CO <sub>2</sub> /kWh
Investing in lower carbon energy sources	Group carbon intensity	277g CO <sub>2</sub> /kWh	348g CO <sub>2</sub> /kWh
Monitoring and managing Group carbon emissions	Absolute carbon emissions (scope 1 + scope 2)	10.7m tonnes of CO <sub>2</sub>	11.8m tonnes of CO <sub>2</sub>

## Property, vehicles and travel

Our business has a substantial impact on the climate through the energy we produce. While we can help customers reduce their carbon emissions and decarbonise electricity generation, it is vital that we also seek to reduce the overall environmental impact of

our own operations. Our approach to managing the impact of our operations also enables us to innovate and trial new technologies, helping us to lead the consumer market and to engage our own employees in understanding environmental issues.

What we are doing	Key performance indicators	2010	2009
Reducing the overall environmental impact of our own operations	Reduction in the global carbon footprint of our existing offices, company vehicles and travel (baseline year: 2007).	11.3%	7%

## Customer trust

Earning customer trust is essential to enable us to grow our business and bring innovative new products to market. To build customer trust, we must offer excellent customer service, set our

pricing transparently and competitively and provide our more vulnerable customers with the support they need. Our commitment to listen and respond to customers underpins this ambition.

What we are doing	Key performance indicators	2010	2009
Improving customer service	NPS (British Gas)	+5	-2
	NPS (Direct Energy)	+21	+9.5
Supporting vulnerable customers	Number of vulnerable households impacted by British Gas initiatives	1.6m	2.2m
	Money spent on vulnerable customer initiatives	£84m	£80m

## Energy security

Energy security is about ensuring sufficient gas and electricity supplies for our customers. Achieving energy security must be balanced with the need to provide affordable energy and

decarbonise energy generation. We seek to do this by pursuing diverse energy sources and continuing to expand our energy infrastructure.

What we are doing	Key performance indicator	2010	2009
Investing in sourcing, producing and generating energy	Annual investment in energy security	£1.7bn	£4.0bn

## Safety

Our operations supplying gas and electricity are inherently hazardous and we fully recognise our responsibility to protect the health and safety of employees, contractors, customers and the wider public. This is the top priority for

Centrica. We believe that all work-related injuries can be prevented and want to build a leading interdependent health and safety culture to put safety, health and wellbeing at the heart of all that we do.

What we are doing	Key performance indicators	2010	2009
Keeping our employees safe	Lost time injury rate (per 100,000 hours worked)*	0.41	0.49
	Fatalities*	0	0
	Road safety incident rate - high severity (per one million km driven)*	0.03	n/a
	Road safety incident rate - low severity (per one million km driven)	11.1	n/a
	Total recordable incident rate (per 100,000 hours worked)*	2.13	n/a

\*Scope includes contractors who work on our premises or under our management systems, where we have management control of activities

## People

A committed workforce with the right technical skills and understanding of our customers is essential to deliver energy security and support our strategic move into energy services.

We remain committed to developing the potential of our existing employees as well as bringing new skills into the company through acquisitions and recruitment.

What we are doing	Key performance indicators	2010	2009
Promoting diversity and equal opportunities	Gender ratio (male/female)	71%m / 29%f	70%m / 30%f
	Ethnic minority percentage	16%	15.5%
Making Centrica a great place to work	Retention rate	89.9%	92%
	Absence rate (days per full time equivalent)	6.8	7.7
Providing regular opportunities for engagement and dialogue	Employee engagement	64%	66%

## Responsible business practices – tracking our progress

Our flagship ‘energy for a low carbon world’ programme and four additional focus areas are supported by responsible business practices, which are essential to gaining the trust of our stakeholders:

- Marketplace
- Workplace

- Employee health
- Environmental practices (including water, waste and biodiversity)
- Supply chain
- Human rights
- Community engagement
- Community investment

What we are doing	Key performance indicators	2010	2009
Setting minimum business standards for suppliers by including corporate responsibility (CR) clauses into contracts	Number of suppliers with CR clauses	171	101
Investing in local communities and relevant charitable organisations	Total community contributions	£105.3m	£76.9m
Supporting our employees in their volunteering efforts	Total employee volunteering hours	52,599	37,062

## Values, principles and behaviours – tracking our progress

Our strategy is underpinned by values, business principles and behaviours, which are key to maintaining the trust and respect of our stakeholders. Our business principles set clear guidelines for consistent ethical and exemplary conduct for all

employees worldwide. Combined with the values developed by our individual businesses and reinforced by our five leadership behaviours, the business principles guide all our decision-making processes.

What we are doing	Key performance indicators	2010	2009
Ensuring awareness of Group business principles	Percentage of management level employees who sign the business principles declaration showing awareness and compliance	99%	n/a

# Risk management

**Managing the risks to our business is essential to achieve our strategic objectives and maintain the sustainability of our business.**

## **Our risk management process**

Risk is measured against the strategy, objectives and performance targets set by the Board, supported by the Centrica Executive Committee (CEC).

Across the Group, each business has a Risk Management Committee that oversees the management of risks to the business and considers the adequacy of controls and the actions planned to mitigate those risks. Where significant risks have been identified, a control infrastructure is present to ensure day-to-day monitoring and management of risks. The committees track risks on registers, which are reported to the Group Risk Management Committee.

The CEC reviews the risks identified by the Group Risk Management Committee at its monthly meetings to assure itself that the significant risks facing the Group are being managed appropriately.

At each of its quarterly meetings, the Audit Committee receives a Group Risk Report that provides an assessment of the material risks facing the company including the adequacy of the associated controls. The Audit Committee also receives the results of internal audit reviews to enable them to track issues, monitor performance and ensure actions are taken to remedy weaknesses or failings identified in the report.

## **Identifying CR risks**

As part of the implementation of the new Corporate Responsibility (CR) strategy in 2010, we began a project to review how well embedded CR risks are in our existing risk processes and procedures. The project recognised CR risks are identified and listed on risk registers; however, the project noted there was room to improve the effectiveness with which CR risks are identified and tracked. Work is continuing through 2011 to further embed CR risk management.

Examples of CR risks on our risk registers in 2010 include carbon-related risks, customer service, sales and marketing, supply chain and vulnerable customers. Our annual report describes in detail the Principal Risks and Uncertainties for the business, covering the impact and mitigation for these risks.

## **Internal audit**

There is a strong link between our risk management and internal audit processes. Our internal audit programme assesses the effectiveness of management controls in relation to CR risks. Conclusions from the audit process feed back into the risk assessments. In addition, the Audit Committee receives quarterly updates on the material findings and actions from the internal audits.

# Materiality

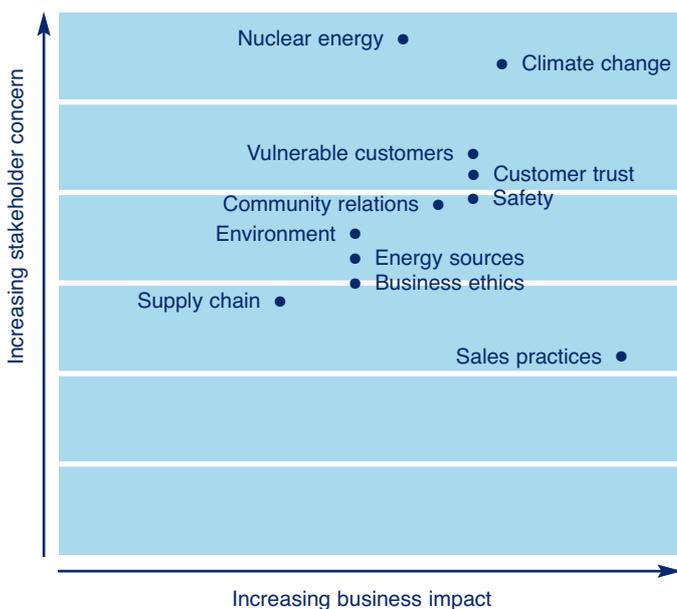
**Understanding our material issues is important for us to manage our impacts and stakeholder relationships effectively. It also helps to focus our resources, engagement and reporting activities by addressing those issues most material to our business.**

In 2010, we underwent a review of our materiality framework in order to formalise the process through which we identify and prioritise our corporate responsibility and sustainability issues. The result of that work saw the creation of criteria to prioritise our issues as priority, significant and emerging and a procedure that collates information from stakeholders, business impacts and strategy.

Our most material issues are prioritised by meeting at least two of the following criteria:

- A) Stakeholders have a very high level of concern on the issue
- B) We are currently experiencing significant challenges in this area
- C) Changes (eg legislation, commercial drivers) concerning the issue may present problems or challenges to us
- D) We currently do not have effective programmes in place to manage the issue

Based on these criteria we prioritised 11 issues areas, which include individual issues. The graph below outlines these issues areas measured against increasing stakeholder concern on the y-axis and increasing business impact on the x-axis.



We identify emerging issues by reviewing where changes or growth in our operations could lead to a new impact on stakeholders. Emerging issues can also arise when stakeholder concern on an issue increases.

Material issues can differ across our operating regions. This is often due to differences in the impacts our business has, the expectations of stakeholders or the nature of those countries or markets. For example, energy security is a more material issue in the UK as North Sea gas reserves are decreasing. Similarly, energy efficiency and microgeneration technologies are less available commercially due to the absence of governmental support and legislative frameworks encouraging investment.

In 2011, we aim to further integrate our stakeholder engagement framework and materiality process into business operations.

# Stakeholder engagement

**To be the most trusted energy company, we need to understand society's expectations of us as a business. Stakeholder engagement is a key way of listening and responding to those expectations on environmental, social and ethical issues.**

We actively seek the engagement of key stakeholders who are or may be impacted by or have concerns about our activities to ensure that we are accountable.

We commit to being accessible, open, honest and responsive, operating on a basis of mutual respect.

We seek to understand the needs of our stakeholders and to take these into account in our decision-making.

Our approach to stakeholder engagement aims to:

- Understand stakeholder views
- Address current issues
- Source new ideas
- Identify opportunities
- Involve stakeholders in our activities
- Manage risks and impacts
- Provide early warning of future issues
- Demonstrate accountability

We manage our engagement with CR stakeholders primarily by issue. Relevant outputs are fed back to business unit management teams and incorporated into the risk management process. Issues and emerging issues are also discussed at Board and Executive Committee level, with the views of stakeholders included in the information reviewed. In 2011, we are working towards a more integrated approach to stakeholder engagement to improve the flow of information across the Group.

## Key stakeholder groups

### Customers

Customers are the people the business has been set up to serve. We must build and maintain their trust to grow and innovate.

### Investors

Our investors provide the capital we need to grow, invest and develop. We depend upon their confidence in our long-term strategic approach, in particular the commercial rationale for our low carbon agenda.

### Employees

Our employees are fundamental to our success as a business. We rely on them to deliver against our strategic objectives and must provide an environment in which everyone can flourish.

### Government and regulators

Our business is heavily impacted by regulation and wider energy policy. We need to share our expertise and experience with political and regulatory stakeholders to increase their understanding of our business and to shape the policy environment in which we operate.

### NGOs and opinion formers

Our range of operations touches on many issues of interest or concern to NGOs, charities, consumer organisations and other opinion formers. We need their expertise, as well as their goodwill and support to underpin our engagements with other stakeholders.

### Trade Unions

A significant proportion of our employees are members of trade unions. We need excellent working relationships with trade unions in order to manage change successfully.

### Suppliers

Our reputation is built upon the reputation of our suppliers, with whom there are mutual opportunities to share best practice. We want to ensure they manage their operations in line with our business principles and provide us with transparency on our supply chain.

### Business partners

Our reputation is closely linked to the reputations of our business partners and we want to ensure that our standards of practice are aligned.

### Media

Many of our other stakeholders are strongly influenced by media coverage of us as a business. We need to engage with the media to ensure that the public perception of us is as closely aligned to reality as possible.

### Local communities

Maintaining strong community relations enables us to build trust, enhance our reputation as a good neighbour and protect our licence to operate. We must actively consult with local communities to understand and manage the social, economic and environmental impact of our operations.

## Prioritising stakeholders

Of the stakeholder groups listed above, customers, investors, employees and government already have teams and departments managing day-to-day relationships with them. This ensures that their views feed into business decisions. Other stakeholders do not have dedicated teams but are managed on an issues basis. Within each of these stakeholder groupings, there are sub-divisions right down to single organisations or individuals.

There are occasions when the views of one stakeholder will conflict with those of another. We will always seek to resolve such issues through dialogue and compromise where possible. You can download a summary of our engagement with stakeholders in 2010 showing their concerns and how we responded to them on our website.

**Good governance through clearly defined roles and responsibilities and a framework for discussion and action is essential to deliver stability and growth for shareholders, customers, employees and wider stakeholders.**

Our Board is ultimately responsible for CR governance. The Corporate Responsibility Committee and the Centrica Executive Committee (CEC) support the Board in overseeing and managing the implementation of the CR strategy. We have dedicated CR teams in the UK and North America responsible for implementing CR strategy and working with the businesses to address social and environmental impacts.

## Centrica Executive Committee

The Centrica Executive Committee (CEC) is accountable for CR at Centrica. The CEC provides leadership by approving strategy and policy for CR across the group. Targets and key performance indicators are agreed by the CEC, which then monitors performance through monthly dashboards of performance metrics.

We have also established management focus groups covering areas such stakeholder engagement, business ethics, risk management and audit to coordinate the implementation of our CR strategy.

## Corporate Responsibility Committee

Our Corporate Responsibility (CR) Committee oversees the implementation of our CR strategy and activities on behalf of the Board. It is chaired by our Senior Independent Director, Mary Francis CBE and meets quarterly. The Chair reports progress and performance to the Centrica Board quarterly.

The Committee's main role is to ensure that our business operations respond to the opportunities and avoid the risks posed by CR issues.

The Committee challenges management to assess and control risks while encouraging the development of programmes to capitalise on opportunities. The CR Committee uses key performance indicators (KPIs) and targets to monitor the business' performance in achieving these tasks.

## Performance 2010

### Governance and management

The membership of the CR Committee remained the same in 2010 and met four times during the year.

The Corporate Governance Report in the 2010 Annual Report and Accounts includes further details.

### Committee activities

In 2010 we focused on agreeing and rolling out the new CR strategy. In particular we:

- Monitored the progress made in implementing the new CR strategy and vision to ensure the company stays focused on delivering energy for a low carbon world
- Focused on building stronger CR governance, accountabilities and processes with the Group and established a stakeholder advisory group for 2011
- Continued to support global efforts to combat climate change, including updating our environmental policy, delivering on our emissions targets and ensuring the effectiveness of our 'green' consumer initiatives like energy efficiency and microgeneration
- Assessed current CR issues related to the energy market, prices, vulnerable customers and the impact of such external events as the Deepwater Horizon explosion and the UK General Election
- Reviewed the impact of the UK Bribery Act 2010 on the company and supported the annual business principles awareness campaign
- Reviewed legislative developments that directly affected our CR programmes, including the introduction of a mandated social prices support scheme and the Green Deal, and supported the Group's efforts to shape the public policy agenda
- Ensured that the customer fairness agenda within British Gas had identified all relevant issues concerning energy supply and vulnerable customers

## Topics discussed

The Committee's main role is to ensure that Centrica's business operations respond to the opportunities and minimise the risks posed by CR issues. The Committee reviewed a number of issues across the CR priority areas during the year, to ensure that these objectives were being met:

- Energy for a low carbon world
- Health and safety
- Customer fairness and customer service
- Vulnerable customers and fuel poverty
- Biodiversity
- Employee engagement
- Business principles
- Bribery
- Speak Up' helpline (whistleblower line)
- CR communications including the CR Report

## Key performance indicators

The CR Committee reviewed and aligned the key performance indicators (KPIs) with the CR strategy. This helped to identify key areas for improvement and led to the development of additional safety and customer carbon metrics.

## Stakeholder engagement

The CR Committee focused on understanding stakeholder views on a range of issues. These included views from employees, customers, investors, media, NGOs, local communities and opinion formers. For example, the CR Committee reviewed the employee engagement survey results, as well as feedback on Sam Laidlaw's public speech on 'Transforming the energy sector'. In addition, they requested and received a presentation from Ann Robinson of uSwitch.com, chair of British Gas' We're Listening campaign and Customer Panel. This was an opportunity to receive direct feedback from a customer representative on British Gas operations and to question Ann Robinson on the improvements required.

In late 2010, the Committee set up a CR advisory panel with members drawn from key stakeholder groups to provide regular dialogue on key CR issues, strategy and performance.

## Looking ahead

In 2011, the CR Committee will focus on future-looking and strategic issues to provide overview and assurance of the CR programme. The Centrica Executive Committee (CEC) will be responsible for ongoing CR work and for leading and proposing which longer-term issues appear on future CR Committee agendas. The priorities for 2011 will remain focused on building trust and on the low carbon agenda.



**Mary Francis CBE**

Senior Independent Director and Chairman  
Corporate Responsibility Committee

# Assurance and reporting

**External assurance is an important part of our reporting process. We want stakeholders to be confident that we have addressed our key impacts, are managing corporate responsibility effectively and transparently and accurately reporting our performance.**

We seek to enhance the trust stakeholders have with us, and we believe putting our systems and processes through third party review helps us achieve that.

Deloitte LLP conducted the external assurance of our 2010 Corporate Responsibility Report. Deloitte used the AA1000 (2008) Assurance Standard, Type 1 moderate level to review our adherence to the three principles of inclusivity, materiality and responsiveness. Deloitte also used International Standard on Assurance Engagements (ISAE) 3000 to provide limited assurance on 15 non-financial key performance indicators.

Deloitte's [assurance statement](#) and the [15 assured KPIs](#) are available on our website.

We apply the AA1000 assurance standard principles in the following way:

## Inclusivity

We strive to understand the impact our activities have on our stakeholders. To do so, we invite them to share their concerns and expectations with us. Our engagement with stakeholders is primarily on an issues-by-issues basis, reflecting our impact areas-based approach to managing corporate responsibility. We select key stakeholders based on those who are or may be impacted by or have concerns about our activities.

Information on our dialogue with stakeholders is available in different forms:

- Updates on stakeholder discussions in 2010 are available in the following sections of the report: energy for a low carbon world, energy security, people, safety and customer trust.
- Our approach to stakeholder engagement
- Our stakeholder engagement summary in 2010

## Materiality

Understanding our material issues is important for us to manage our impacts and stakeholder relationships effectively. We gather a variety of issues from stakeholder discussions, research, news monitoring, risk management and strategy. In early 2010, we reassessed our material

issues as part of the development of our new CR strategy. Internal and external stakeholders were consulted on the issues they believed an energy company must manage. We considered their feedback alongside the strategic direction of the company to develop a CR strategy focused on our most material issues. The output of this work can be reviewed in our CR strategy section.

Since most of our impacts as an energy company remain the same as previously reported, our key issues such as customer service, safety, energy security and climate change are unchanged. However, our investment at the end of 2009 in nuclear energy introduced a new material issue. The strategy also re-categorised our issues from the seven impact areas on which we used to report, into the sections of our strategy pyramid, as seen in the CR strategy section.

Following the launch of our new strategy we worked to formalise our materiality process. Going forward, we will use a set of criteria to prioritise identified issues as priority, significant and emerging.

View our new approach to materiality and our prioritised 11 issues areas, and our 'Understanding our business' interactive map, on our website.

## Responsiveness

We want stakeholders to understand how we have managed our material issues and responded to their feedback. We do this through direct feedback following engagements as well as sharing updates on our progress through reporting and communications. We are increasingly using digital channels, particularly social media, to respond to stakeholders on an ongoing basis.

Examples of our responsiveness can be found across our report:

- View our stakeholder engagement summary in 2010
- Explore Centrica Views: [www.centrica.com/views](http://www.centrica.com/views)
- Read stakeholder voices in the following sections of the report: energy for a low carbon world, energy security, people, safety and customer trust.

## Scope of report

This report primarily covers the corporate responsibility (CR) performance of Centrica plc from 1 January 2010 to 31 December 2010. Some data points, however, have slightly different timeframes, which are outlined in the Basis of Reporting.

Each of the 15 assured key performance indicators has a Basis of Reporting, which outlines the scope of the metric. The Basis of Reporting is available on our website.

Our main operations are in the UK, the US and Canada. We also have operations with a controlling share in Norway, The Netherlands, Germany, Trinidad and Tobago and India. We have interests but not full-time presence or ongoing operations in Qatar, Egypt, Nigeria and South Africa.

The report focuses on activities in our main areas of operations but includes data from all global operations in which we have a controlling share. We describe our approach to significant joint venture partnerships in relevant sections of the report and include data where appropriate and available.

This is a group report that includes examples of the activities of our individual business units where appropriate. If you would like additional details of initiatives in each business please contact us at [responsibility@centrica.com](mailto:responsibility@centrica.com).

## Significant changes to our business

The 2010 Report includes data from the 2009 acquisition of Venture Production. Data from this business was not included in the 2009 report because the acquisition was not completed until the end of 2009. Our power generation and absolute carbon emissions data also includes the offtake of nuclear power through our 20% stake in British Energy.

In 2010, we acquired Clockwork Home Services in the US and Canada. Our people, safety and environment data incorporates information from this acquisition.

The scope of some of the assured key performance data may vary slightly, which is outlined in the Basis of Reporting.

## International reporting guidelines

We use external guidelines and frameworks to inform our reporting although we do not explicitly base our report on any individual guidance.

We provide an annual update on our adherence to the UNGC against the Corporate Responsibility report. On our website, we provide a PDF summary of the key areas of the report where you can read about our progress in 2010. We also outline our report's adherence to the G3 GRI Guidelines.

More information is available on our website at [www.centrica.com/responsibility](http://www.centrica.com/responsibility)

# Energy for a low carbon world

## Contents

- 2 Overview**
- 5 Customer carbon**
  - Energy efficiency
- 6 New technologies – renewable energy**
- 7 Smart energy**
- 8 Cutting customer carbon in North America**
- 9 Lower carbon power**
- 10 Carbon intensity**
  - Gas fired power stations
  - Nuclear
- 11 Renewables**
- 12 Reducing the footprint of our property, fleet and travel**
  - Internal carbon footprint
- 14 Property**
- 15 Fleet and travel**
- 18 Our carbon emissions**
- 20 The future of energy**
  - Our vision of the future
  - How we get there
- 21 The situation in North America**
  - The transition to a low carbon future
- 22 Stakeholder dialogue**
  - Government and regulators
  - Investors
- 23 Customers**
  - Employees
- 24 Opinion formers**

# Energy for a low carbon world

## Overview

**Climate change is one of the single biggest global challenges. Energy generation and energy use are significant contributors to greenhouse gas (GHG) emissions, a driver of climate change. As an integrated energy company, we play a pivotal role in helping to tackle climate change by changing how energy is generated and how consumers use energy.**

There are both risks and opportunities for us associated with climate change but it is not an option for us to avoid taking action due to the scale of carbon emissions attributable to energy. In 2010, our absolute emissions were 10.7m tonnes CO<sub>2e</sub>, from activities we own or control. Yet, as our carbon emissions map shows, mitigating our wider impact requires more than just action by energy companies - governments and consumers also have vital roles to play. Governments must provide the right regulatory frameworks to help make investments economically viable, while consumers need to be willing to change the way they purchase and use energy.

Extensive engagement with these and other stakeholders is necessary to develop the momentum for change. In September 2010 our Chief Executive, Sam Laidlaw, called for a fundamental shift in mindset around energy and urged the industry, Government and consumers to work together and show leadership in delivering a low carbon future. The Future of energy section further outlines the transformation we believe is necessary to achieve this. You can read about stakeholders' views of our approach to a low carbon future in our Stakeholder dialogue section.

### Delivering the low carbon future

We developed our 'energy for a low carbon world' programme to drive our ongoing response to climate change, helping us to mitigate the key risks and take advantage of the opportunities. We view the changes in power generation and use as opportunities and are pursuing these vigorously. We are investing in innovative microgeneration technologies, to enable consumers to generate their own low carbon energy, and energy efficiency so they can reduce the amount of energy they need. We are developing employees' skills to help us become the supplier of choice for installing and servicing these new technologies. And we are investing in a range of renewable energy technologies as well as the next generation of nuclear power stations to secure low carbon power.

Our approach reflects the three areas where we believe we can make a difference:

- Enabling customers to cut their carbon footprint
- Investing in lower carbon power
- Leading by example by cutting the carbon emissions of our property, company vehicles and travel

### Regional responses

Actions to address climate change vary across the markets in which we operate: the UK market is most progressive as the Government has introduced ambitious targets to address climate change. These include targets to generate 15% of all energy from renewable sources by 2020 and to cut emissions by 80% by 2050 from the 1990 level. To support the targets, the Government operates schemes such as the Renewables Obligation, the Carbon Emissions Reduction Target (CERT) and the recently announced flagship energy efficiency programme, the 'Green Deal'. The UK Government has also embarked on an Electricity Market Reform programme which will continue in 2011. As part of this review, the government is considering a floor on carbon price to provide greater certainty for investors. Uncertainties remain over the exact form that regulation will take and the extent to which it will support our low carbon strategy.

In our other operating regions such as the United States and Canada, change is occurring at a slower pace. Advocates for action on climate change exist across stakeholder groups but support is not yet sufficient to implement wide-scale emission reduction plans. The prospects for any federal climate legislation have largely disappeared with the changed make-up of Congress following the mid-term elections and climate change momentum has slowed at the state and provincial level. Direct Energy, our North American business, is well positioned to take advantage of opportunities when market frameworks and societal expectations support an environment for change but the degree to which regulators will positively encourage energy efficiency is uncertain.

## Enabling customers to cut their carbon footprint

The amount of emissions from power generation is mostly driven by the demand for power from consumers. The scale of emissions attributable to consumers is significant as seen in our carbon emissions map. As an energy generator, we can help to address this by providing lower carbon power. However, switching to lower carbon generation is a long-term solution because new power stations take time to build and require significant investment and planning. Until power supply is decarbonised, the biggest environmental benefits can be achieved by reducing consumer demand.

Underlying average gas consumption amongst our UK customers has reduced by 22% over the past five years. This has been driven by improved energy efficiency and changing customer behaviour as a result of greater environmental awareness, reaction to price changes and the general economic downturn. This is a risk to our energy retailing business as continuing reduction in consumption of gas and electricity by customers could have a significant impact on the Group's revenues and profits over the next decade. However, the growth in demand for energy efficiency is in turn creating demand for such products as microgeneration, insulation and smart metering. We are well placed to grow in these markets over the next few years and are aiming to achieve annual profits of £100m from our low carbon businesses by 2015. Consequently, we are taking a number of steps to capitalise on these new opportunities.

We have already changed the business model of British Gas to shift its focus from supplying more units of electricity and gas, to helping customers manage their energy use. Our goal is to lead the consumer market for low carbon energy products and services, and guide the way to the 'home of the future'. In 2010, this has included launching a new insulation business and growing our smart metering and microgeneration capabilities. We have now installed over 258,000 smart meters and aim to increase this to 2m by the end of 2012. We also continued to provide energy efficiency products and services throughout 2010, which equated to lifetime carbon savings of 15.6m\* tonnes under our CERT obligation.

British Gas' team of almost 10,000 engineers are playing a critical role in providing these services and we will recruit 3,700 additional people to support the low carbon business by the end of 2012.

A strong position in energy services enabled us to announce our intention to 'go early' on the UK Government's proposed Green Deal. This programme aims to transform Britain's housing stock, enabling customers to install microgeneration and energy efficiency measures with no upfront cost, instead

paying through savings in their energy bills over time. Our proactive approach is enabling us to understand better how the programme will work and helping us to shape future regulation. Our transformation is well underway in the UK, where consumer awareness is rising and climate change is high on the political agenda but we are also building our energy services capabilities in North America. In 2010, Direct Energy acquired Clockwork Home Services, becoming the largest provider of heating and cooling, plumbing and electrical services in North America. Our company now operates in almost every US state and Canadian province, providing repair and maintenance services to customers' heating and cooling systems, as well as energy efficiency related services and advice to both homes and businesses. Clear legislation will provide us with the certainty that enables us to pursue our climate change agenda in North American markets.

While not currently leading the consumer market, Direct Energy is building partnerships with technology providers to provide services that promote energy efficiency in North America. In the US, Direct Energy is working with technology and appliance retailer Best Buy, on a home energy management system that allows homeowners to measure, monitor and track their energy usage and carbon emissions. The product, DE Homeconnect, is designed to support the customer's lifestyle by marrying energy management and convenience in a simple, easy to use in-home touch screen device.

Changes to how our customers use and manage their energy can deliver significant reductions in carbon emissions. As an energy producer, we can support this reduction through our power generation.

## Investing in lower carbon power

Power generation is a significant source of carbon emissions because the majority of electricity is generated through burning fossil fuels. To calculate our carbon intensity, we measure the carbon emissions from all our own generation facilities and from where we have site-specific power purchase agreements. This means that where our Annual Report and Accounts reports power capacity and generation output based on our equity share of an asset, within this section of the report we refer to the emissions and power based on our offtake.

The main source of carbon dioxide is from our gas fired power stations. Taken together with generation from renewables and nuclear, our total generation equates to a Group carbon intensity per kilowatt hour of power generated of 277g CO<sub>2</sub>/kWh. We aim to reduce the amount of carbon emitted in our power production by ensuring our gas fired power stations operate efficiently and by investing in low carbon nuclear power and renewable forms of power generation such as wind.

\* This figure differs from the assured key performance indicator of 15.1m tonnes CO<sub>2</sub>, which is the number submitted to Ofgem. This is because the number is estimated at the time it is sent to Ofgem. The figure reported here has gone through further validation and is a more accurate reflection of our 2010 performance.

During the year, we reduced our UK power generation carbon intensity (emissions per unit of power) by 25% to 277g CO<sub>2</sub>/kWh, making significant progress towards our target to achieve 270g CO<sub>2</sub>/kWh by 2012 and 260g CO<sub>2</sub>/kWh by 2020. The reduction was primarily due to the introduction of nuclear power into our portfolio, which also increased our UK power output by 27% to 31.3TWh. The increased amount of low carbon electricity available to our UK customers helped avoid the emissions of 2.7m tonnes of CO<sub>2</sub>e had the electricity been generated by third parties from whom we source power. In North America, we reduced our carbon intensity to 255g CO<sub>2</sub>/kWh from 321g CO<sub>2</sub>/kWh in 2009, mainly due to lower generation output. As a result of our progress, we now aim to reduce the carbon intensity of our global power generation in line with our UK target of 270g CO<sub>2</sub>/kWh by 2012.

Investing in low carbon power generation facilities requires both capital and planning support. Governments play a critical role in creating a regulatory and market framework that supports low carbon investments. To mitigate the risk that future regulatory frameworks might not be sufficient to support investment in low carbon power generation, we work closely with policy-makers and legislators. We welcomed the UK Government's announcement on electricity market reform in 2010, which seeks to create a carbon price floor and deliver capacity payments rather than a pay-on-purchase financing model. The outcome of this programme is likely to impact on all our power generation investment decisions. You can review our positions on the UK energy market in our 2010 consultation responses and the Future of energy section.

## **Cutting carbon emissions from our property, fleet and travel**

Our business has a substantial impact on the climate through the energy we produce. While we can help customers reduce their carbon emissions and decarbonise electricity generation, it is vital that we also seek to reduce the overall environmental impact of our own operations. Without this, we risk damaging our reputation as an energy supplier committed to providing energy for a low carbon world. Our approach to managing the impact of our operations also enables us to innovate and trial new technologies, helping us to lead the consumer market and to engage our own employees in understanding environmental issues.

We track these emissions through our internal carbon footprint, which encompasses our office energy usage, our company vehicles and business travel. In 2010, we made good progress against our global target to reduce the Group carbon footprint of our existing offices, company vehicles and business travel

by 20% from 2007 levels by 2015. Our carbon footprint in 2010 was 103,168 tonnes CO<sub>2</sub>, representing a 5.2% reduction on 2009 levels and an 11.3% reduction on our 2007 baseline year.

We are working hard to cut these emissions by raising awareness among employees, making our offices more energy efficient, investing in lower carbon vehicles and providing alternatives to business travel.

## **Adapting our business to the effects of climate change**

We also take into account the physical risks of climate change to understand what steps may be required to adapt our business to the possible effects on our assets, people and customers. We currently monitor and manage the risk of severe weather events to our facilities through our meteorology teams, crisis management and business continuity arrangements. In response to direction from the UK Department for Environment, Food and Rural Affairs (DEFRA) to report on adaptation to climate change from 2011, we are looking more closely at the physical issues related to climate change in our UK business.

# Customer carbon

Performance indicator	Unit	2010	2009	2008
Lifetime carbon savings of UK household energy efficiency products provided	million tonnes	15.6*	17.53	17.87
Tonnage of carbon delivered under CESP (cumulative)	tonnes	0.45	n/a	n/a
Number of smart meters installed by British Gas	No.	195,22	62,896	n/a

\* This figure differs from the assured key performance indicator of 15.1m tonnes CO<sub>2</sub>, which is the number submitted to Ofgem. This is because the number is estimated at the time it is sent to Ofgem. The figure reported here has gone through further validation and is a more accurate reflection of our 2010 performance.

## Previous commitments

Provide energy efficiency products in 2010 with total lifetime carbon savings of 14.6m tonnes of CO<sub>2</sub> to meet our CERT obligation (this figure is agreed with Ofgem and subject to change depending on our market share) ●

Launch 16 CESP programmes ●

Install 12,000 Energy Display meters in English schools on behalf of the Department for Children, Schools and Families ○

Introduce more energy saving rewards into the Generation Green programme ●

### Progress key:

Achieved ● Partially achieved ○ Not achieved ●

The most significant impact that we have in terms of carbon emissions is from the gas and electricity we supply to our customers. To achieve energy for a low carbon world, we must help customers to manage their demand and switch to renewable sources.

The opportunities are currently greatest in the UK where the market for energy efficiency and low carbon products and services is more developed than in Canada and the US, and there is robust Government support. Consequently we are growing the energy services component of our British Gas business with the stated aim of leading the transition to low carbon homes and businesses. While we have not yet taken similar steps in North America, we are ensuring that our Direct Energy business is positioned to make the most of opportunities that arise in regional markets.

Our approach to reducing customer carbon in the UK focuses on three main areas:

- Energy efficiency – this is the cheapest and most effective way for residential and business customers to cut energy use and related carbon emissions, as well as reducing their energy bills.
- New technologies – by building our capacity to deliver small-scale microgeneration technologies, as well as looking at other renewable energy sources such as biogas, we can provide a range of options to our customers and help them choose the most suitable for their requirements.
- Smart energy – improving customers' understanding of the energy they use is an important step in achieving behavioural change

To deliver on our energy efficiency and microgeneration programme, we need a team of people with the right skills and expert knowledge. We are creating 3,700 'green collar' jobs in insulation, in-home advice, renewable generation and smart metering by the end of 2012.

## Energy efficiency

In the UK, the Government sees both domestic and commercial energy efficiency as key to meeting its carbon reduction target of 80% on 1990 levels by 2050 and has regulated accordingly. We have used the obligations placed on us as a platform for building a business in energy efficiency and going beyond the minimum required under the regulations. British Gas is particularly well positioned to take advantage of these opportunities because of our network of 10,000 engineers and six engineering academies across the UK which is helping us to deliver the skills and capacity needed to roll out energy efficiency on a significant scale.

The main existing domestic energy saving schemes are the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme (CESP). CERT

requires suppliers like British Gas to deliver carbon reductions by providing and supporting the delivery of energy efficiency measures to households. Such measures include insulation, energy efficient light bulbs, home appliances and energy saving devices. During the year, CERT was extended from 2011 through to the end of 2012. We set ourselves annual targets under the scheme and have consistently exceeded these, providing household energy efficiency products with equivalent lifetime carbon savings of 15.6m\* tonnes in 2010, exceeding our target of 14.6m tonnes.

CESP is an obligation on power generators which will see a total of £350m worth of energy efficiency measures installed in areas of severe social deprivation over the three years from 2009-2012. The scheme requires a 'community-by-community' and 'whole house' approach, installing sets of energy saving measures in conjunction with local authorities and residential social landlords. Our own obligations make up around 19% of CESP in the UK but we have also taken on the implementation of CESP obligations for two other major power generators. Combined, this means Centrica is implementing a third of all CESP programmes. In 2010, we launched 26 CESP programmes in 98 low income areas, delivering 0.45m tonnes of equivalent carbon savings. Once completed, the programmes are 'banked' with Ofgem which records the carbon savings of whole communities rather than measure by measure.

We have gone beyond the minimum required under CESP by installing smart meters, not just energy efficiency measures, and by choosing to work in more rural 'hard to heat, hard to treat' communities such as our CESP scheme in Dumfries and Galloway, Scotland. The remote off-grid location and solid wall stone construction of housing developments in this community make them more challenging to upgrade. However, meeting this challenge presents a valuable opportunity to expand our knowledge and capabilities.

During the year, the Government announced plans for a new Green Deal and Energy Company Obligation that will replace CERT and CESP from 2013. The Green Deal will enable homeowners to install energy efficiency measures at no upfront cost. British Gas has decided to 'go early' on this programme by installing £30m of energy efficiency measures in customers' homes. Repayments from customers will be made via savings in their energy bill over two to 10 years (depending on the measures installed), enabling them to benefit immediately from warmer homes and energy savings. This initiative builds on the 'Pay As You Save' programme we trialled with the Energy Saving Trust in 2009. By launching an early version of the Green Deal, we will help to identify both challenges and opportunities for the full-scale implementation and we are committed to sharing our findings with the Government.

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The extension of CERT and the Government announcement on the Green Deal helped to provide the certainty we required to establish a new insulation business in 2010, enabling us to offer installation of the majority of loft and cavity wall insulation by our own British Gas engineers. We continued to build our insulation capability. In April we acquired Hillserve Ltd, an insulation business operating in the North West of England and Wales, while in December we acquired ECL Contracts Ltd, a specialist provider of solid wall insulation solutions and external cladding for both commercial and residential buildings. We now operate nationally from 12 regional areas, employ over 750 people and in total we provided insulation for 237,000 homes during the year. The new insulation business is part of our wider aim to build the capacity of our business to deliver comprehensive services for the 'home of the future'. The Green Deal also aims to encourage consumers to install microgeneration technologies.

To assess the impact of energy efficiency measures on British homes, we commissioned an independent analysis by the Centre for Economics and Business Research (Cebr) of 40m British Gas meter readings. Cebr found that our customers' gas consumption declined by 22% over a five year period. Customers who adopted measures such as insulation and energy efficient boilers saved an average of £322 each year and saw a 44% fall in their gas use between 2006 and 2010.

## New technologies – renewable energy

Although the return on investment is longer, microgeneration offers another way for customers to cut emissions from their home energy use by installing equipment such as photovoltaic (solar) panels to generate their own renewable energy. These technologies are more expensive to install than energy efficiency measures such as insulation and their payback time can be long so additional challenges exist in encouraging customers to invest.

In the UK, the Government has been introducing incentives to encourage the uptake of microgeneration. In April 2010, the 'feed-in tariff' was introduced, a payment to those who have invested in small-scale renewable technologies to generate their own electricity and an opportunity to sell additional energy back to the grid. This is being followed by the 'renewable heat incentive' from summer 2011 which will provide long-term financial support to encourage the uptake of renewable heat technologies such as heat pumps and biomass boilers. We are optimistic that this will help to drive the market for renewable heat technologies.

We continue to build our capabilities in response to increases in anticipated demand. For example, in November 2010 we announced the acquisition of Cool Planet Technologies, a company that designs, sells and installs ground and air source heat pumps. These technologies are expected to be a key part of the UK's renewable heating sector by 2020.

We are involved in bringing to market a range of new technologies, including biomass heating through our 19% stake in Econergy and low-carbon fuel cells for domestic boilers through our 10% stake in Ceres Power. These fuel cells, which generate electricity and heat from gas, will be tested in homes in 2011. In August 2010, we started selling Baxi's Ecogen boiler, which generates both heat and electricity from gas.

We recognise that not all barriers to installing microgeneration are financial but that customers may have other a range of other concerns. To help customers understand the process, outcomes and impacts on their property, British Gas launched the mySolar Energy programme, an end-to-end solar installation service, in August 2010. We chose solar as it is a popular technology for customers and we estimated that up to 12m homes would be suitable for solar panel installations. The programme involves carrying out a thorough energy assessment of the home, installing the panels, providing all customers with a CEPP (Certificate of Expected Panel Performance) to demonstrate the expected value of the panel if customers were to sell the property, and helping customers apply for the feed-in tariff. We also offered to rent customers' roofs and install solar panels for free.

Solar also has considerable potential for larger community buildings. For example, we conducted research that showed Britain's religious buildings could generate over £29m a year from feed-in tariffs and make carbon savings of up to 42,000 tonnes each year. In June 2010, British Gas announced plans to invest £15m in donating and installing solar panels (worth between £20,000 and £40,000 per school) in up to 750 schools, enabling them to generate their own free, renewable electricity. Over the next 25 years, the energy produced by the panels could raise around £1.3m per year, which will be reinvested to install solar panels at more schools. The schools receiving solar panels will receive a British Gas smart meter, offering real time information so students can see the difference their solar panels are making. This will be linked to Generation Green lesson plans to engage students on renewable energy.

We are also working with local authorities to deliver microgeneration to whole communities. For example, in Wales we are delivering a Heads of the Valleys scheme and have now installed our 1,000th microgeneration technology in the area.

As well as renewable electricity, we have been exploring the potential for renewable gas and biomethane in particular. Our first of five planned projects, a joint venture between British Gas, Thames Water and Scotia Gas Networks, injected renewable gas into the grid for the first time in October 2010. The biomethane gas from Didcot sewage works will produce enough renewable gas to supply up to 200 homes. In the same month, our partnership with Adnams Bio Energy delivered the first renewable gas made from brewery and local food waste to National Grid from a groundbreaking anaerobic digestion (AD) plant. According to a study by National Grid, biomethane could account for at least 15% of the domestic gas market by 2020.

## Smart energy

We have demonstrated, through projects such as Green Streets, where 14 communities are competing to become Britain's most innovative green community, that installing new technologies can help to significantly reduce emissions from energy use. But to achieve the transition to a low carbon world, consumers and businesses must also change the way they use energy. Improving consumers' understanding of their energy use is an important first step.

Changing consumer relationships with energy will be underpinned by the nationwide roll-out of smart meters, with the UK Government having set a target that aims to have 47m installed by 2020. Smart meters give households and businesses greater control of the energy they use, helping them to consume less, reduce carbon emissions and save money. The meters provide real-time information to both the customer and the energy supplier. British Gas has the largest smart meter deployment in the country with more than 258,000 already installed in homes and business and we aim to have installed 2m by the end of 2012.

We have made particular progress with our business customers, who are under significant pressure to reduce costs, comply with climate legislation and achieve environmental targets. Central to our approach are smart meters and Automatic Monitoring and Targeting (aM&T) technology, which give customers access to their energy data in timely and usable form. This helps them understand, reduce and control the energy they use.

In October 2010, British Gas expanded its position in smart technology and took another important step towards facilitating the 'home of the future' by acquiring a 15.96% stake in AlertMe, a company that provides home energy management services. The investment includes a commercial agreement to deploy AlertMe products and services to our customers, including the Home Area Network (HAN) platform, which allows users to manage and control a wide range of home activities and appliances over the internet or smart phone.

## Cutting customer carbon in North America

The roll-out of smart meters will take some time but in the interim, British Gas has introduced a tariff called 'Energy Smart' which includes a free energy monitor for each customer. The monitor provides real-time information to help them understand how much energy they are using and how much it is costing them. In 2010, we also began to install energy display meters in schools in England as part of a Government initiative to reduce emissions in schools and help local authorities comply with the Carbon Reduction Commitment Energy Efficiency Scheme. Following cuts in Government expenditure, the size of this programme has been reduced but we are on track to complete the installations in 2011.

Smart meters will also form the cornerstone of potential future developments such as a smart grid, helping to even out energy use nationwide. British Gas is participating in the UK's biggest smart-grid project, announced in October 2010, together with project partners CE Electric UK, British Gas, Durham University and EA Technology. Around 14,000 homes and businesses in the North East and Yorkshire will be involved in the £54m project to test the impact on the electricity grid of new low carbon technologies such as smart meters, electric cars and renewable microgeneration.

Smart meters and other devices give people the information they need to understand their energy use, but a step-change in mindset is required to ensure they use this information to change the way they use energy. We are targeting young people to raise awareness of climate change and energy efficiency among the next generation of energy users through our Generation Green programme for schools.

Launched in 2008, Generation Green promotes energy efficiency and understanding among children in the UK. Through the programme schools complete a range of green activities to earn 'leaves', which can be exchanged for rewards such as bikes, solar panels and safety equipment. We relaunched the programme in 2010 to include more rewards and make it easier for schools to exchange their leaves. Around 11,000 schools are now participating. As a result of this programme, we were approached by Edexcel to assist them in shaping a new BTEC for GCSE students focused on sustainability. Alongside the Woodland Trust and Water Aid, we have been approached to represent the energy sector and we will begin testing ideas for projects in the first half of 2011. The qualification is estimated to be taken by 30,000 young people in the next 5 years.

Although energy and climate change has not been a priority for Government or consumers in many North American markets to date, we are continuing to trial products and services that promote smarter energy use. These include home energy management systems for domestic consumers and products that help businesses measure, monitor and verify their carbon footprint and implement energy efficiency and carbon reduction strategies more effectively. The acquisition of Clockwork Home Services in 2010 has increased our capability to offer such energy efficiency advice and services in more geographies.

We offer a range of products to help customers improve the energy efficiency of their homes and buildings, reducing their energy bills and cutting carbon emissions. Our approach is to identify those households which represent the greatest opportunity for energy conservation and to research consumer behaviour and household type to inform our marketing and sales strategies.

In addition, we are working in partnership with the Alliance to Save Energy to improve education on energy and the environment in 16 schools in the state of Pennsylvania. The 'Green Schools' programme helps schools use energy efficiently through changes in operational and maintenance routines. Green Schools encourages students and faculty to change behaviours, implement energy retrofits, install efficient technology, and bring the energy efficiency message home and into the community.

### Future commitments

- Provide energy efficiency products in 2011 with total lifetime carbon savings of 16.3m tonnes of CO<sub>2</sub>e to meet our CERT obligation (this figure is agreed with Ofgem and subject to change depending on our market share)
- Deliver 3.5m tonnes of carbon savings under the CESP scheme
- Install 2m smart meters in UK homes and businesses by the end of 2012

# Lower carbon power

Performance indicator	Unit	2010	2009	2008	2007
Carbon intensity of power generation - Group average	g CO <sub>2</sub> /kWh	277	303	351	n/a
Carbon intensity of power generation - UK	g CO <sub>2</sub> /kWh	277	371	379	390
Carbon intensity of power generation - North America	g CO <sub>2</sub> /kWh	255	321	264	305
Carbon intensity of power generation - Europe	g CO <sub>2</sub> /kWh	358	245	290	282
Total power generated (equity share)	GWh	32,880	26,225	24,296	21,367
Total power generated (offtake)	GWh	40,054	36,428	32,948	20,424
Power generation CO <sub>2e</sub> emissions (equity share)	TCO <sub>2e</sub>	8,949,881	10,447,037	9,531,133	8,499,748
Power generation CO <sub>2e</sub> emissions (offtake)	TCO <sub>2e</sub>	11,103,221	12,688,203	11,579,378	n/a
Carbon footprint of electricity purchased for resale	TCO <sub>2e</sub>	18,928,491	32,447,491	23,279,386	28,292,469
Gas and oil production and storage energy use	GWh	6,714	4,465	3,591	3,403
Gas and oil production and storage CO <sub>2e</sub> emissions	TCO <sub>2e</sub>	1,207,220	715,416	892,161	768,838
Carbon intensity of our gas and oil production and storage	g CO <sub>2</sub> /kWh	6.95	5.58	6.17	n/a

Equity share figures are based on our ownership not on actual amount of power received or generated, as used to calculate our revenue reported in the Annual Report and Accounts.

Offtake figures are based on output from our own generation and from site-specific offtake contracts, as used to calculate our carbon intensity.

To explore this data further, visit our data centre at [www.centrica.com/responsibility](http://www.centrica.com/responsibility)

## Previous commitments

Reduce our UK power generation carbon intensity to 270g CO<sub>2</sub>/kWh by 2012 and 260g CO<sub>2</sub>/kWh by 2020

Invest £1.5bn in renewable energy assets in the period 2008-2013

As we lay the groundwork for a low carbon future, we must preserve our ability to meet our customers' immediate energy demands. Decarbonising energy supply is a long-term goal since building the necessary energy infrastructure takes planning, investment and agreement among interested stakeholders. Until that time, we are pursuing a diverse energy

portfolio where we use gas fired power stations, wind farms and nuclear energy to deliver the power our customers demand.

We emit carbon dioxide when we generate electricity because we use gas fired power stations. We seek to minimise emissions by increasing the efficiency of our power stations and by investing in renewable generation such as wind and low carbon such as nuclear power.

In 2010, the carbon dioxide emissions from our power generation (including from site-specific power purchase agreements) totalled 11.1m tonnes, a decrease of 12.5% from 2009. In the UK, the carbon emissions from our power stations totalled 9.0m tonnes. In North America, our power stations were responsible for emitting 1.6m tonnes of carbon dioxide. Explore our carbon emissions data in full on our website.

The emissions from our power stations are driven primarily by customer demand and the relative price dynamics between coal and gas in the wholesale markets. Overall levels of fossil fuel production will be greater when the demand for electricity is high and if gas prices are low relative to coal, we would expect to see more power produced from gas fired stations like our own. Conversely when generation is lower in gas fired stations, this is likely to be matched with an increased level of production from more carbon intensive coal stations. We aim to reduce the emissions from power generation by investing in lower carbon power supply and enabling customers to consume less energy.

In the UK, we began receiving 20% of the power generated by EDF Energy's nuclear power stations in April 2010. During 2010, we received 6.7TWh of nuclear power through our joint venture, which helped avoid 2.7m tonnes of carbon emissions in the electricity that we delivered to our customers that would otherwise have been generated by third parties from whom we source power. As a result of the nuclear power we received, we did not need to purchase as much from the open market, helping to reduce the emissions from power purchased from third party suppliers by 42%.

## Carbon intensity

We measure progress towards our ambition to decarbonise energy by monitoring the carbon intensity of the power we generate. Carbon intensity is a measure of the efficiency of our power generation and that of our site-specific power purchase agreements. In 2010, our average carbon intensity across the Group was 277g CO<sub>2</sub> per kWh.

In the UK we reduced our carbon intensity from 371g CO<sub>2</sub> per kWh in 2009 to 277g CO<sub>2</sub> per kWh generated in 2010, making significant progress towards our 2012 target of 270g CO<sub>2</sub> per kWh. The reduction was primarily due to the introduction of nuclear power into our portfolio, which also increased our power output by 27% to 31.3TWh. This is a powerful statement, showing the role nuclear power can play in the low carbon future. Our carbon intensity remains one of the lowest of the major UK energy suppliers, as we have a predominantly lower carbon portfolio with nuclear, renewables and gas fired power stations but without any coal fired generation in our portfolio. We are aiming to bring our global carbon intensity down to the same level by 2012.

We also source power for our customers from third parties but we have little influence over reducing these emissions as other energy companies own and operate these power stations. In the UK, the fuel mix that we report annually (April-March) to Ofgem includes both the power we generate ourselves and the power we buy on the market, which is known as the residual

fuel mix. We are working to reduce our reliance on such third party generation as the average carbon intensity of the UK fuel mix (at 410g CO<sub>2</sub>/kWh in 2010) is considerably higher than that of our own generation. Our 2009 joint venture with EDF Energy in their nuclear fleet has significantly increased the amount of low carbon power secured for our customers from our own assets.

In North America, the carbon intensity of our power generation was 255g CO<sub>2</sub>/kWh generated during 2010, down from 321g CO<sub>2</sub>/kWh in 2009. This reduction was mainly due to lower output from our gas fired power stations compared to energy from our renewable power purchase agreements. However, as there is much less political support for low carbon energy generation, this makes it challenging to develop our approach to lower carbon power in North America. Until we can achieve more regulatory certainty, we are not able to set carbon intensity targets in the same way that we can in the UK.

## Gas fired power stations

Gas will remain an important part of the energy mix as a bridging fuel to a low carbon future, underpinning the development of new nuclear and renewables. Gas is the least carbon intensive of the fossil fuels - switching all existing coal fired power stations in the UK to gas would cut emissions from the power sector by a third. Gas also provides the flexibility needed to back up renewable energy such as wind, which provides an intermittent supply. As effective carbon capture and storage technologies emerge, these could be extended to gas power stations, providing a greater role for gas in the energy mix.

Gas fired power stations make up 71% of our Group power generation portfolio (based on offtake, not equity share). In 2010, our newly commissioned Langage generation facility in the UK completed a successful first year of power generation. With a thermal efficiency of 53% compared to an average for gas fired power stations of 45%, Langage is one of the most efficient gas fired power stations in the world.

## Nuclear

The very low carbon intensity of nuclear power generation will be critical in helping the UK meet its climate change targets. Realistically, we cannot provide secure, low carbon energy from wind power alone. We need low carbon baseload power to deliver electricity consistently, when more intermittent sources are unable to guarantee supply.

Following our purchase of a 20% stake in nuclear power generator EDF Energy, we added nuclear power to our

generation mix and starting receiving power in April 2010. We also have the option to invest in the construction, operation and decommissioning of new nuclear power stations (European Pressurised Reactors).

UK market arrangements will have a big impact on our ability to commit to building new nuclear power stations. Currently, nuclear power does not benefit in the way that renewable energy sources do from government support. Instead, nuclear power must compete directly with the more conventional – and more carbon intensive – forms of energy such as coal and gas. New nuclear power stations require significant capital investment upfront but have lower ongoing operational costs. Coal and gas are the opposite, where the plants require less initial capital but the ongoing running costs are significant due to the commodity prices of coal and gas. We are engaging with the UK government and other stakeholders to promote reforms in the energy market such as a carbon price floor and capacity payments to make nuclear power more economically viable. Such changes are essential to create the incentives to attract the investment necessary to create low carbon generation infrastructure. More information is available on energy market reform in the Future of energy section.

## Renewables

Developing renewable sources of energy generation is a key part of our approach to delivering a lower carbon power generation portfolio. Our main focus is on wind development and in the UK we have rapidly become a leading offshore wind farm operator. In North America, we do not operate any renewable assets but we have power purchase agreements with specific wind farms in Texas. These have a combined capacity of 813MW and generated 2.25TWh for our Direct Energy customers in 2010, representing approximately 37% of our overall generation<sup>1</sup> in North America.

In the UK we have committed to investing £1.5bn in renewable energy assets from 2008-2013. We have equity interests in five operational wind farms: Glens of Foudland, Barrow, Braes of Doune, Lynn and Inner Dowsing wind farms, with another under construction (Lincs) and a further two awaiting planning consent (Race Bank and Docking Shoal). We are responsible for the operation and maintenance of three of these wind farms, Glens of Foudland, Lynn and Inner Dowsing. Together with our power purchase agreements, our UK renewables contributed 2.6TWh to customers in 2010 – 8% of our overall UK power generation<sup>1</sup>. We expect this amount to rise significantly once our 270MW Lincs wind farm starts operating in 2012.

In January 2010, we took another major step forward in our long-term plans for wind power development. We were successful in The Crown Estate's Round Three offshore wind auctioning process, and secured exclusive rights to develop the Irish Sea zone, which is located between Ireland, the Isle of Man, and the coastlines of England and Wales and covers 2,100km<sup>2</sup>. At its closest point to shore, the perimeter of the zone is located 15km off the coast of Anglesey, Wales. This provides us with the potential to develop up to an additional 4.2GW of renewable energy, enough power for up to 3m UK homes, and would increase the geographic diversity of our offshore wind development prospects.

Building wind farms offshore is an expensive process subject to extensive planning requirements. We are working with the UK government to develop the regulatory framework so that it continues to incentivise investments in renewables.

### Future commitment

- Reduce our UK power generation carbon intensity to 270g CO<sub>2</sub>/kWh by 2012 and 260g CO<sub>2</sub>/kWh by 2020

<sup>1</sup>Power generation figures are based on output from our own generation and from site-specific offtake contracts, as used to calculate our carbon intensity

# Reducing the footprint of our property, fleet and travel

## Internal carbon footprint

Performance indicator	Unit	2010	2009	2008	2007
Internal carbon footprint	TCO <sub>2e</sub>	103,168	108,782	115,021	116,296
Proportion which is office energy consumption	%	30	32	32	35
Proportion which is fleet	%	62	59	59	59
Proportion which is air and rail travel	%	8	9	8	6

To explore this data further, visit our data centre at [www.centrica.com/responsibility](http://www.centrica.com/responsibility)

### Previous commitments

Reduce Group internal carbon footprint (property, company vehicles, travel) of existing global businesses by 20% by 2015 (baseline: 2007) •

Reduce UK internal carbon footprint of existing business by 25% by 2015 (baseline: 2007) •

Reduce the internal carbon footprint of our Direct Energy business by 8.5% by 2013 (baseline: 2007) •

Although the biggest environmental benefits we can have as an energy company are in helping customers to reduce their carbon emissions and decarbonising electricity generation, it is vital that we also seek to reduce the overall environmental impact of our own operations. The carbon emissions of our property, company vehicles and business travel are relatively immaterial, representing around 1% of our overall footprint of 10.7m tonnes. However, our approach to managing the impacts in these areas enables us to innovate and trial new technologies, helping us to lead the consumer market and to engage our own employees in understanding environmental issues.

In 2010, we made good progress against our global target to reduce the Group carbon footprint of our existing offices, company vehicles and business travel by 20% from 2007 levels by 2015. The target does not cover emissions from power generation or oil and gas production, the reporting and management of which we treat separately. Our internal

targets concentrate instead on those areas where the majority of our employees have the ability to influence results. This is important for engagement purposes and enables us to benchmark our operational performance against the majority of other businesses.

Our internal carbon footprint (based on our 2007 scope) in 2010 was 103,168 tonnes, which equates to an 11.3% reduction compared to the 2007 baseline and 5.2% compared to 2009. As part of an integrated health, safety and environment strategy, we are using both technological solutions and a cultural approach to drive change in the business.

- For our performance on health see Employee health
- For our performance on safety see Safety
- For our performance on waste, water, biodiversity and environmental management, see Environmental practices

To support our businesses in achieving these challenging goals and to ensure that their specific circumstances are taken into account, we have set separate targets for the UK and North America.

In the UK, we have a target to reduce the internal carbon footprint of our existing business by 25% by 2015 compared with 2007. Last year we launched a 10 point plan to help us achieve this and we are making good progress, having reduced emissions by 8.4% so far. As a result, we gained recertification for our UK buildings and fleet vehicles to the Carbon Trust Standard, making us one of the first three companies to achieve the standard twice. The award reflects our continual improvement in measuring, managing and reducing carbon emissions.

In North America, we greatly improved our understanding and measuring of our internal carbon footprint as part of our commitment to achieve an 8.5% reduction by 2013. We now intend to review and restate this target in line with our global target for 2015 (against a 2007 baseline). This currently excludes recent acquisitions such as Clockwork Home Services, as our approach is to ring fence the existing businesses and then to tackle each new acquisition separately. This enables us to review their particular carbon footprint challenges and opportunities before setting appropriate targets. By the end of 2010, we had reduced emissions by 18% in North America compared to the baseline year and 8% compared to 2009.

The case for reducing carbon emissions through energy efficiency became more compelling in the UK with the introduction of the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) in 2010. We believe we are well placed to meet the goals of the scheme despite already reducing the energy consumption within our property portfolio by over 40% during the previous 5 years. This means that although additional savings are getting harder and harder to achieve for us, we have plans to reduce emissions even further, applying our in-house expertise to building energy management and renewable energy technology to our own portfolio, in the same way that we do for our business customers obligated under the scheme.

## Employee engagement

Across the group, behavioural change is a key factor in reducing our internal carbon footprint as many of the reductions depend on the activities of employees. We have trained drivers in efficient driving techniques, used fiscal incentives to encourage employees to choose less polluting vehicles, provided video-conferencing technology and run awareness campaigns to promote greener behaviours in all our buildings.

Our network of Green Teams coordinate activities at local sites and through them we hosted events at over 20 sites group-wide to celebrate World Environment Day 2010, using the opportunity to highlight key environmental messages to employees. In 2011, we will be rolling out culture surveys across the businesses to understand attitudes and perceptions to carbon and environmental practices, as well as health and safety.

### Future commitments

- Reduce Group internal carbon footprint (property, company vehicles, travel) of existing global businesses by 20% by 2015 (baseline: 2007)
- Reduce UK internal carbon footprint of existing business by 25% by 2015 (baseline: 2007)
- Roll out culture surveys across the businesses to understand attitudes and perceptions to carbon and environmental practices

# Property

Performance indicator	Unit	2010	2009	2008	2007
Office and building energy consumption (power and fuel)	MWh	97,598	87,308	89,813	98,885
CO <sub>2</sub> e from office energy consumption	TCO <sub>2</sub> e	38,677	36,151	37,472	42,453

## Previous commitments

- Reduce UK office energy consumption by 10% in 2010 compared to 2009 ●
- Reduce our UK office carbon footprint by 10% in 2010 compared to 2009 ●
- Install renewable generation technologies at selected offices ●

Around 30% of Centrica's internal carbon footprint is from energy use at our properties and we have a large number of initiatives in progress to help meet our overall global internal carbon footprint target. Carbon dioxide emissions from the energy required to run the electrical and heating systems in our main offices decreased by 3,600 tonnes in 2010. This was achieved primarily through enhanced building management techniques using our Building Environmental Management Systems. Our building controls enable us to identify abnormally high usage more quickly and take action to reduce it. As part of our 10 point plan, we also installed software which automatically shuts down PCs that are left on in the evening and then turns them back on before staff arrive at work the next morning.

We missed our UK target to cut property carbon emissions by 10% in 2010, achieving a reduction of 7% compared with 2009 (using the scope of our 2007 baseline). We reduced UK office energy consumption by 4%, missing our 10% target. However, savings of this amount have been particularly positive in a year that saw extreme cold spells at both beginning and end with heating demand rising by over 30% compared to 2009, pushing up gas consumption across our offices. Despite these challenging conditions, we managed to reduce carbon emissions, helped by our successful 10-week Carbon 10 campaign to encourage employees to reduce the carbon footprint of the business through simple daily behaviours. Our 2009 carbon reduction campaign achieved a Green Apple Award, having been deemed industry leading. This was our third such award from the Green Organisation and followed a highly commended at the Environment & Energy Awards for the same campaign. We also received a second Green Hero Shield, acknowledging our contribution to the sharing of environmental best practice.

In 2010, Centrica became one of only three organisations that achieved re-certification to the Carbon Trust Standard,

awarded for how we measure, manage and reduce our carbon emissions as an organisation. This certification covers Centrica and British Gas' UK buildings and fleet vehicles, which have shown an 18% reduction in carbon footprint during the last 3 years.

In line with our 10 point plan, we have begun work to install microgeneration in our offices to provide renewable energy and to enable employees to see the technologies first hand. In 2010 we completed surveys, feasibility studies and planning applications to install hydro, solar thermal, solar photovoltaic, wind and biomass renewable technologies at six sites across the UK. To date we have installed solar thermal to heat water at three sites, the latest of which was at our Windsor head office in December 2010.

In North America, we have been conducting a formal review of opportunities to reduce our carbon footprint. In 2010, strategic consolidation of office facilities resulted in a building footprint reduction of 140,000 square feet (or 10% of the real estate portfolio) which has a direct impact on the size of the company's carbon footprint. This rationalisation will increase the density of employees in each building and reduce the energy demand per head. In addition, in 2010 we decided to relocate our office into an energy efficient building in Calgary which is certified under LEED (Leadership in Energy and Environmental Design).

Sites that have been redesigned use furniture that contains recycled fabric, lower panel height in workstations means less material used, and old carpets are deconstructed and recycled before being replaced with 'green' carpet. In addition, energy efficient upgrades like motion sensors for lighting in meeting rooms, kitchens and bathrooms are included. Vendors hired to clean Direct Energy's facilities use environmentally friendly cleaning products, and we participate in recycling programmes in our offices. However, it is not just the environment that benefits from these choices; the proceeds from selling furniture we cannot reuse are donated to local charities of choice via direct in the community.

## Future commitments

- Reduce our UK office carbon footprint by 12% in 2011 compared to 2010
- Complete seven microgeneration installations at five locations across our UK properties

# Fleet and travel

Performance indicator	Unit	2010	2009	2008	2007
Distance travelled by air	000 miles	33,548	27,379	19,682	19,186
Distance travelled by rail	000 miles	3,184	2,143	1,407	1,065
Distance travelled by road	000 miles	176,734	162,922	176,301	171,576
CO <sub>2</sub> e produced by air travel	tonnes	8,702	7,042	6,944	6,832
CO <sub>2</sub> e produced by rail travel	tonnes	290	195	136	105
CO <sub>2</sub> e produced by road travel	tonnes	68,465	68,016	71,777	69,976

## Previous commitments

Reduce UK commercial and company car fleet CO<sub>2</sub> emissions by 5% in 2010 compared to 2009



Reduce payloads and downsize the vehicles in our UK commercial fleet



Implement new technology to support our targets including top speed limiters, telematics, semi auto transmission and stop/start technologies



Implement further driver training, cleaner vehicles and fuel efficiency training



The carbon emissions from our fleet of commercial vehicles and company cars represent around 62% of our internal carbon footprint and reducing these are a priority for us. This is a particular challenge for us as we grow our business and, with it, our mileage. We are also targeting a reduction in plane journeys and an increase in rail journeys as an alternative to reduce the impact of wider business travel. As well as being tracked within our internal carbon footprint, the carbon emissions from air and rail travel are counted as part of our Scope 3 carbon emissions.

Commuting is an emerging area for us. We already have a number of initiatives in place but we are now focusing more on understanding employees' requirements and habits in order to increase the uptake of low carbon options.

## Vehicle fleet

As our British Gas and Direct Energy services businesses grow, we need more vehicles to travel further to ensure we continue to meet our customers' needs. We are using a combination of technology and behaviour change to reduce the carbon footprint of our vehicle fleet. This also provides other

business benefits by helping to reduce fuel costs.

In the UK, we aim to reduce the carbon emissions from our existing fleet by more than 14% by 2015 (baseline year: 2007). This equates to 6,300 tonnes of CO<sub>2</sub> by 2015, equivalent to taking over 1,600 average private cars off the road. In 2010 we managed to reduce carbon emissions from the existing fleet by 6% exceeding our year end target of 5%. This included a 6% reduction in our van fleet. This was helped by a 3% decrease in our mileage to a total of 127m miles by our UK fleet of around 10,500 service vehicles and 2,000 company cars.

## Commercial vehicle fleet

Our commercial vehicles include the vans used by our engineers. In the UK we reduced carbon emissions from our existing van fleet by 6% in 2010. We are achieving this by gradually replacing our commercial vehicles with more efficient models. In 2010, we replaced 3,000 vans and we are planning to replace an additional 2,400 in 2011. Our new vans have the lowest emissions output for the class of vehicle they feature in and we continue to downsize the engine capacity of our fleet. We are now achieving more than 40mpg for most of our small vans, even when working in urban areas, demonstrating our commitment to invest in the latest technology that improves fuel efficiency.

To replace the vans of our front line management we have sourced 512 Leon Ecomotives, which achieve a fuel consumption rating of 3.8l/100km (61.9mpg), emitting 99g of CO<sub>2</sub> per km. The car employs an auto start/stop function and an energy recovery system to cut emissions and improve fuel economy further. We are the first major operator of these ultra low emission cars, which were specially built for us.

We are currently testing an electric van prototype with a view to introducing approximately 1,300 electric vehicles to our UK fleet by 2015. We are hoping to conduct further trials in 2011

but any move to convert our fleet to electric vehicles depends on the availability of reliable, affordable models on the market and the standardisation of electric or electric hybrids by manufacturers.

Following the introduction of speed limiters in our UK commercial vehicles, we have continued to roll out GPS to the fleet and now over 80% are equipped with this technology. GPS helps to calculate the most efficient routes, reducing mileage and fuel used. We anticipate this will reduce carbon emissions by a further 5%.

While low carbon technology plays an important role in reducing overall fleet emissions, we are also addressing driver behaviour. We developed a Safe and Fuel Efficient Driving (SAFED) online training module aimed at educating our 13,000 commercial and company car drivers in how to drive in a more environmentally friendly manner. We use a points-based system to profile our commercial vehicle drivers to identify those with low fuel efficiency and provide further training. In 2010, we delivered 1,117 two-hour sessions for these drivers, as well as 200 SAFED e-learning modules, and 168 new induction courses for over 1,000 new drivers.

Our North American commercial vehicle fleet operates approximately 2,500 vehicles, which includes those acquired with Clockwork Home Services, a franchised business that has added around 550 vehicles in 2010. There are different regulatory, cultural and practical challenges to introducing more efficient vehicles compared to the UK but we hope to start with a roll out of GPS in 2011. In the meantime we will continue to explore and evaluate the most cost-effective technology available in the market to assist in managing the footprint from our vehicles.

## Company car fleet

We continue to make significant progress in reducing the impact of our company car fleet. In 2009, we re-engineered our company car policy to encourage our employees to choose cleaner vehicles through raising awareness and using financial incentives. The changes have impacted our employees' car selection and on average, they are now choosing cars which emit 22g CO<sub>2</sub>/km less than our current fleet average.

In addition, since 2007 we have restricted the choice of company cars to those that emit a maximum of 200g CO<sub>2</sub>/km. Together these initiatives have led to a reduction in the average tail-pipe emissions from our company car fleet to 135g CO<sub>2</sub>/km from 164g CO<sub>2</sub>/km in 2007. This is well ahead of the UK average for new cars of 144.2g CO<sub>2</sub>/km reported in the trade press and of current European Commission targets for car manufacturers.

We continue to make fuel efficiency training available for all our company car drivers, particularly those considered high risk due to the distances they drive or relative inexperience. We rolled out SAFED online training for company car drivers throughout British Gas Business in 2010, helping to reduce carbon emissions by around 3%. We are continuing to roll out fuel efficiency training to other parts of our business throughout 2011.

As with the commercial fleet, we have also been exploring opportunities for introducing electric vehicles. This has not been as fast a process as we had hoped but we have now agreed with Nissan to take the first UK delivery of two Leaf electric vehicles in 2011. We will use these cars to raise awareness and promote the uptake of electric and hybrid vehicles among employees who will be able to use them to shuttle between our Staines and Windsor offices, where solar canopies will be installed to charge the vehicles. We hope to see the first electric vehicles in use in our company car fleet by 2012.

## Business travel

Business travel by air and rail accounted for 8.5% of our internal carbon footprint in 2010. We aim to reduce plane and car journeys and to encourage more employees to travel by rail as an alternative to flying or driving. According to the UK Government's calculator Act on CO<sub>2</sub>, the average rail journey equates to 9.3kg of carbon dioxide per traveller, compared to 27.5kg for plane journeys. Overall distances our employees travelled for business were 33,548 miles by air and 3,184 miles by rail. These have both increased compared with 2009.

To help reduce unnecessary business travel we are introducing virtual meeting technology at major sites across the Group, underpinned by a new Group standard on driving and a new Group travel policy.

In North America Direct Energy has invested CAD\$2m in telepresence technology for its four main regional offices in Calgary, Houston, Pittsburgh and Toronto. We expect this to play an important role in reducing travel emissions in North America, where business flights are used more frequently due to the larger distances involved.

In the UK, we already have video-conferencing equipment at all our main offices. In late 2010 we upgraded the equipment and rooms at four sites selected for the high level of travel between them. The new technology will be trialled in early 2011 and rolled out further if successful. Additionally, we have improved the delivery and support of our web-conferencing solution and will be relaunching this technology with a new awareness and training campaign in early 2011.

## Commuting

With over 30,000 employees travelling to work, we are looking at ways to reduce the impact of their commute. We provide travel plan advisers to help employees work out the best ways to reach work and how to reduce the impact of their commute. We have also developed a number of schemes to support low carbon commuting and provide alternatives to driving. In both the UK and North America, we enable many employees to work from home. For some this is their main place of work, for others we provide the technology to enable flexibility. In total, approximately 40% of employees in the UK and 50% of employees in North America have the technology to work remotely or from home.

In 2010, we conducted a commuting survey to understand travel patterns around our main UK sites. We found that just over half of employees (51%) travelled in a car on their own, with 11% choosing to walk or cycle. Around 60% selected 'convenience' as one of the reasons for choosing their mode of travel, with 32% choosing 'no alternative'. Based on the results, we are developing green travel plans for each site to increase public transport use and car sharing.

In the UK, we operate a minibus shuttle service that connects offices and provides transport links to local train stations. We have calculated that our minibus service saved around 1,329 tonnes CO<sub>2</sub>e in 2010 and in 2009 the service was awarded the 'Planet Positive' environmental mark in recognition of its contribution to reducing employee car usage.

We are continuing our partnership with Cyclescheme to support the UK government-backed Bike4Work initiative which provides bicycles at a reduced cost. We have also teamed up with liftshare.com, the largest implementer of car-sharing in the UK, to facilitate and promote car sharing. However, there have been challenges in promoting this as many employees work flexibly or in shifts.

### Future commitments

- Ensure a zero increase in CO<sub>2</sub> emissions from our UK fleet in 2011
- Develop green travel plans for each main UK site to increase public transport use and car sharing

# Our carbon emissions

Below is a technical description of our carbon emissions, using the Greenhouse Gas Protocol and the established categories of Scope 1, Scope 2 and Scope 3. Our approach to managing our carbon emissions focuses on the levels of influence that we have over our carbon footprint, which vary considerably within each category.

## Previous commitment

Maintain our leading position in the Carbon Disclosure Leadership Index ●

Our influence is greatest over our internal carbon footprint, from energy use in our own offices, such as electricity (Scope 2) and gas (Scope 1), and from our fleet (Scope 1). We have more limited influence over the carbon emissions from our power generation (majority of Scope 1), which arise from the combustion of gas to produce electricity. Although we can improve efficiency and invest in more renewable sources, we cannot simply stop generating power to reduce emissions as we have a responsibility to meet customer demand.

The largest part of our carbon footprint comes from the electricity we purchase for customer use but do not generate ourselves and from when our customers consume the gas that we supply to them (both Scope 3). Both of these areas are much harder to influence. However, we anticipate that the size of this footprint will gradually decrease as we increase our ability to meet customer demand through our own lower carbon energy generation and help customers to reduce their energy use.

We report on our carbon risks, opportunities and performance through the Carbon Disclosure Project. In 2010, Centrica was included in the Carbon Disclosure Leadership Index for the fourth consecutive year. Our score of 92% was the highest in the utilities sector globally and places us 13th best company overall. This represents a marked improvement from our score of 84% in 2009.

Total emissions from activities we own or control decreased by 8.9% in 2010 to 10.7m tonnes of carbon dioxide equivalent (CO<sub>2</sub>e). The decrease was mainly due to the improvements in the efficiency of our gas fired power stations, reduced output in North America and the sale of our Belgian power business SPE. We also continued to reduce the carbon intensity (emissions per unit) of that power by approximately 8.6% during 2010.

## Scope 1 emissions

Scope 1 includes the direct emissions from sources Centrica operates or owns (fully or in part). This includes direct

emissions from power generation, gas production and storage, our commercial vehicle fleet (including long-term contractors), cars (business mileage), refrigerant losses and fuel (gas and diesel) consumed at Centrica buildings.

As an energy intensive industry, our Group-wide scope 1 emissions are significant at 10.6m tonnes in 2010, although this represents a 9% decrease from 11.6m tonnes 2009.

We are addressing the impact of the direct emissions from our vehicle fleet and property with clear carbon reduction targets but the biggest impact is from our power generation. This is much harder to set absolute reduction targets for as we must continue to meet consumer demand for energy and ensure security of supply. We cannot simply reduce supply in order to cut our carbon emissions.

Both our business and our markets' energy demands are projected to grow, which is likely to increase our emissions further in the future. Improving the efficiency of our power generation and investing in low carbon energy sources is therefore critical to mitigating this increase by reducing the carbon intensity of the energy we supply. In doing this, Centrica is playing a key role in meeting the challenge to decarbonise UK electricity generation as a whole.

## Scope 2 emissions

Scope 2 includes indirect emissions from purchased electricity consumed by the company, including at our offices, and electricity imported and consumed at our power stations, gas storage and processing facilities. Electricity use at our power stations makes up 75% of our overall Scope 2. In 2010, our Scope 2 emissions decreased by 4.7% from the previous year to 155,877 tonnes, mainly as a result of the sale of our Belgian business SPE and a reduction in the amount of electricity used at Direct Energy power stations.

Although our Scope 2 emissions are small compared to the footprint of Scope 1 and Scope 3, it is essential that we focus our attention on this area as well. Setting reduction targets and managing our own office energy use gives us the credibility to advise our customers on reducing theirs. It also helps to engage our own employees in our low carbon agenda. Our Green Teams of employee volunteers play an important role in raising awareness and helping to bring down our Scope 2 emissions.

## Scope 3 emissions

Scope 3 covers emissions that occur as a consequence of Centrica's activities but released from sources not owned or controlled by Centrica. These include air travel, rail travel, helicopter and shipping, as well as offshored and outsourced services such as data centres and call centres.

In 2010, our reported Scope 3 emissions have decreased by 40.2% from the previous year. This is predominantly due to a significant reduction in the amount of power purchased from third party suppliers in North America. The vast majority of our reported Scope 3 emissions (96%) are still due to this power purchased for supply to end users. This is the power that we buy on the wholesale market for our customers but do not generate ourselves, and for which we use the average carbon intensity of the UK fuel mix (at 410g CO<sub>2</sub>/kWh in 2010). As we continue to generate more electricity from our own sources which are less carbon

intensive than the market average, we will be able to reduce this aspect of our Scope 3 footprint.

We are also working to help consumers manage their demand and the advent of smart meters brings significant future capability in helping to reduce peak energy demand requirement.

We do not yet report externally on the Scope 3 emissions from the gas that we supply to our customers due to commercial sensitivities, although we do collect this data for our own internal use. However, we are exploring lower carbon alternatives, including participating in five biomethane projects in the UK. In October 2010, we became the first energy company to inject renewable biogas generated from human waste into the grid, in collaboration with project partners Thames Water and Scotia Gas Networks.

## Summary of GHG emissions for the year ended 31 December 2010

Carbon emissions (tCO <sub>2</sub> e)	2010	2009	2008	% year-on-year change
Scope 1	10,559,082	11,598,816	10,958,720	(12.6%)
Scope 2	155,877	163,555	200,403	(4.7%)
<b>Our absolute carbon emissions (total scopes 1 and 2)</b>	<b>10,714,959</b>	<b>11,762,379</b>	<b>11,159,123</b>	<b>(11.6%)</b>
Scope 3	19,659,587	32,883,309	23,180,398	(40.2%)
<b>Total scopes 1,2 and 3</b>	<b>30,374,546</b>	<b>44,645,688</b>	<b>34,339,521</b>	<b>(32.7%)</b>

### Notes on data:

We calculate our greenhouse gas emissions in accordance with the World Resources Institute Greenhouse Gas (GHG) Protocol using the equity approach, as it ensures our environmental reporting reflects our strategic investment decisions. Therefore we report from all Reporting Entities where we have equity share. We also report an extended suite of indicators where we also have operational control. This extended suite reflects our additional influence on environmental performance at these Reporting Entities.

We convert emissions to tonnes carbon dioxide equivalent (tCO<sub>2</sub>e) using recognised and published conversion factors.

At the beginning of 2010, we introduced new global environment data software to improve our ability to capture and track data. We have provided training to employees responsible for inputting the information and expect this to enhance further the quality of the data we report.

To explore this data further, visit our data centre at [www.centrica.com/responsibility](http://www.centrica.com/responsibility)

# The future of energy

**We believe that a fundamental transformation is needed in the way energy is generated and used to create the low carbon world of the future that is essential to tackle climate change. At the same time, we must maintain a secure supply of affordable energy.**

A change in approach must be global to effect deep and lasting change but the speed of transition will differ between countries. In our main markets, support for measures to tackle climate change is significantly greater in the UK than it is in North America. The focus of our work to achieve a low carbon future energy is therefore in the UK, through our customer-facing business British Gas and our exploration, generation and production business Centrica Energy. However, we aim to share experience and best practice with our North American business Direct Energy and to position it to take advantage of low carbon opportunities in the US and Canada as they arise.

## Our vision of the future

In September 2010, Centrica chief executive Sam Laidlaw stated that “the old utility is dead”. In other words, the traditional model of selling as much gas and electricity to customers as possible is no longer a viable long-term option.

In the UK, consumption per household has been gradually decreasing over the last five years and the margins for sales of gas and electricity have been low. By contrast, the market for energy services, such as installing and maintaining boilers and insulation, has significant potential.

As a result, we set a new strategic priority for British Gas in 2010 to grow through leading the transition to the low carbon homes and businesses of the future. We see a point at which the energy services part of the British Gas business is at least as large as the energy retailing part. We believe that changes in consumer attitudes, advances in technology and support from government are leading to fundamental shifts in household energy use – pointing towards a ‘home of the future’.

This home generates much of its own renewable electricity through microgeneration - a typical solar photovoltaic installation could generate around half a home’s electricity needs, and an air source heat pump could provide 100% of a home’s space and water heating. The home of the future maximises energy efficiency through measures such as insulation - our research has shown that installing loft and cavity wall insulation and replacing the 3.7m inefficient boilers G-rated in the UK could cut the carbon footprint of the average British home by around 20%. We welcomed the UK government’s announcement in 2010 that feed-in tariffs will continue and that the Renewable Heat Incentive will come into force in summer 2011.

The home of the future also includes an electric vehicle charging point and a smart meter to enable it to help balance demand on the national grid. By 2020, all UK homes will have smart meters that give consumers instant accessible information about how much energy they are using, which appliances are on and when to get the cheapest rate. The government aims to install 47m smart meters across the country by 2020 and Centrica is planning to install 2m of these by 2012.

Smart meters can also underpin the development of ‘smart grids’, where the entire grid is intelligently swapping real-time information about its operations to optimise performance and reduce demand. This works by controlling the amount of electricity going into a home or business by, for example, restricting non-essential consumption at peak times (but still allowing some consumption).

We believe that a need will remain for large-scale generation and that to guarantee security of supply, the UK needs a balanced technology mix. This includes wind power and other renewables, as well as nuclear to provide reliable baseload generation. Gas also has a role to play both as a bridging fuel during the transfer to new nuclear and renewables, and to provide essential back up for intermittent wind power. Compared with other fossil fuels, gas is lower carbon – about half the emissions of coal – and gas fired power plants are currently the cheapest to build. Maintaining security of supply of gas is a pressing issue in the UK as the country is now a net importer. If the technology can be proven, carbon capture and storage could make a valuable contribution as well, helping to reduce the carbon intensity of power. In addition, we believe that renewable gas has a role to play and our trials of biomethane in 2010 demonstrate potential to meet up to 15% of the gas demand of UK homes.

## How we get there

Three key players need to work together to achieve this transformation: the energy industry, government and consumers. Each has a vital role to play.

The energy industry must dramatically reduce the carbon intensity of energy it supplies to consumers. Governments must establish a regulatory framework that facilitates the significant investment in low carbon energy generation needed to do this. And consumers need to change their behaviour to use energy more efficiently, with both industry and

governments helping them understand how to do so. This is an enormous challenge, but together we believe that it is possible to decarbonise the energy market. To be successful, we need to build greater trust between consumers, energy companies and regulators.

The UK government has set a target to cut emissions by 80% by 2050 and supportive policies and regulations are already in place and in development to support this commitment. The energy sector is critical to meeting this target and must be largely decarbonised within the next 20-30 years to achieve it. Decarbonised electricity not only reduces emissions from households and businesses but also paves the way for significant reductions in other sectors, such as transport (by facilitating low carbon electric vehicles) and heat (such as heat pumps).

Investment in low carbon energy generation can make this possible. For example, two new nuclear power stations, a fivefold increase in wind power and a trial carbon capture plant could cut UK power sector emissions by over 20% within a decade. In the UK, the delivery of the government's ambitious climate change targets, coupled with the impending closure of a significant part of the UK's ageing fleet of power stations within the next five years, represents a unique opportunity to channel investment into low carbon generation. Energy regulator Ofgem estimates that up to £200 billion of new investment is needed in the UK's energy infrastructure to achieve climate change targets while maintaining security of supply.

A clear, stable regulatory framework is vital to enable energy companies to raise finance and invest with confidence. Indeed, uncertainties in the direction of energy policy were cited as the number one risk for the energy sector in the 2010 Business Risk Report from Ernst & Young. Stability can only be achieved with the right market reforms that provide strong incentives for investment in low carbon power generation such as wind power and nuclear.

Investment in new low carbon power generation must happen quickly to meet the urgent need to prevent the most damaging effects of climate change. We believe this requires:

- Market reform that provides strong incentives for all forms of low carbon generation
- A firm price of carbon to deliver a strong signal for low carbon investments
- Planning procedures that prevent unnecessary delays

Transforming existing housing stock is also essential to meet carbon reduction targets. UK homes are responsible for over a quarter of the country's carbon emissions and around half of heat lost in a typical home is through poorly insulated lofts and walls (Source: Energy Saving Trust).

Consumers need to understand the costs and benefits of energy efficiency measures low carbon technologies and they need a way to pay for them. The Green Deal proposed by the government will help by removing upfront costs and enabling consumers to pay for improvements over time through savings in their energy bills. This represents a step-change in the ambition for delivering energy efficiency measures in the UK. While the details of this legislation are developed over the next two years, we have committed to 'go early' on the Green Deal to help British Gas customers make their homes energy efficient now by shouldering the upfront costs ourselves.

We will share our experiences to help ensure the government scheme works effectively. Our new British Gas community energy business is already broadening our capabilities to work with and meet the needs of local authorities in bringing old housing stock up to date. We believe that reductions in the carbon intensity of energy combined with widespread consumer uptake of home energy efficiency measures could cut the carbon footprint of the average UK household by over a third.

## The situation in North America

In North America, clear, consistent climate change mitigation policies are not yet a feature of energy markets, making it difficult to pursue low carbon energy generation until there is more certainty. Limited federal action means that progress has mostly taken place at the state or provincial level through a patchwork of continually evolving regulations. However, innovative home energy management systems being trialled by Direct Energy are demonstrating the potential for technology to enable people to control their energy use remotely and make smarter use of energy with appliances that automatically choose to operate when energy demand is low.

## The transition to a low carbon future

We believe the transformation we have outlined here will not only help us achieve the vital transition to a decarbonised energy market and a low carbon future, but will bring other benefits too. It will bring new jobs and new opportunities for economic growth as 'green' industries develop.

Centrica has already begun to transform its business and develop a new business model to play a vital role in the transition to a low carbon world. With strong and clear direction from government and a step-change in consumer behaviour, together we can achieve the deep cuts in emissions we need to tackle climate change.

# Stakeholder dialogue

**Climate change is a major concern for a wide range of our stakeholders. It is a complex and multi-faceted issue affecting all elements of our business but in a range of different ways. Consequently it is essential that we engage with all our stakeholder groups on this issue and make sure that we understand their views of our response to it to ensure that we stay abreast of the latest science and perspectives and that we are meeting their expectations of our responsibilities.**

During the year, we have been developing our response to climate change under the concept of 'energy for a low carbon world' and working with all our stakeholder groups to do this. In September 2010, our Chief Executive Sam Laidlaw set out our vision of the transformation required by the energy industry to achieve a low carbon economy and the role that government and consumers will need to play. Lord Adair Turner, Chair of the Committee on Climate Change, responded to this vision – read extracts from his response. This keynote speech provided an opportunity for direct engagement on our low carbon agenda and we followed up the event with further opportunities for stakeholders to review, comment and input to our approach.

In addition, our media relations across both key markets are designed to build knowledge and trust in the business among wider stakeholder audiences.

## Government and regulators

As an industry subject to significant regulation, engagement with government and relevant regulatory bodies is essential. Internally, an executive level Policy Group meets monthly to discuss and agree Group-wide positions on each key issue. However, many issues are managed at a regional level.

In the UK our approach to working with government is to engage at all levels using a wide variety of methods. We believe that continuing dialogue is the best means for all sides to understand different perspectives.

We meet regularly with MPs from all parties and at varying levels of seniority. We also provide educational visits for civil servants to understand energy issues. In 2010, we hosted a series of teach-ins for civil servants during the pre-election Purdah that included visits to power stations and to our offshore gas storage business.

On customer carbon, we are working with the UK government to identify the best means of rolling out energy efficiency measures and technology such as smart meters on a wide

scale. The Green Deal is a flagship policy for the coalition government and British Gas has decided to 'go early' on the scheme to develop best practice approaches that can then be shared with the government and the rest of the industry. In early 2011, we gave our support to legislation on mandatory carbon reporting by signing a letter alongside 190 other organisations sent to three Government departments, including the Department for Energy and Climate Change. We believe that this is a vital step to help enable the UK to decarbonise its economy and meet its targets under the Climate Change Act. As the letter states, "Requiring companies to report their carbon emissions in a way that is consistent with international reporting standards would reward those companies taking a lead in the green economy and help businesses to manage and reduce their emissions." This view was also supported by MPs who tabled an Early Day Motion on the subject.

In North America our focus is more on energy market reform and opening the market to competition than on low carbon issues. We had supported the introduction of cap and trade legislation for carbon emissions but this now seems very unlikely to be introduced in the near future. We continue to engage with regulators, legislators and senior officials in the US and Canada through targeted contact programmes.

## Investors

We set out new strategic priorities, underpinned by 'energy for a low carbon world', at our 2009 preliminary results in February 2010. We then hosted a Capital Markets Day in March 2010, which gave institutional investors the opportunity to learn more about the strategic priorities and our prospects for growth. The event comprised a formal presentation with questions and answers, which was broadcast online. This was followed by a series of interactive breakout sessions which enabled investors to meet divisional management and gain a deeper understanding of our strategy and prospects. Of particular interest to investors was the increasingly important role of energy services for our retail activities, together with the development of the upstream business and the role sustainable energy will play.

Our submission to the Carbon Disclosure Project is another key way that we communicate our performance on climate change to investors. Our transparent approach was highlighted in a note published by Société Générale – read extracts from the note. As well as completing our submission to investors in 2010, we also participated in the consultation process around changes to the questionnaire in future which has helped to shape our understanding of the information on climate change that investors are looking for. As a result we have increased the content on low carbon in our 2010 Annual Report and Accounts, our main investor communication.

## Customers

Understanding customer views is very important to help us ensure we provide the services and support they need to play their part in tackling climate change through home energy efficiency measures and behavioural change.

In the UK, we conduct regular research to understand consumer views on the environment and their expectations of our response as an energy company. The 2010 Concerned Consumer Index (CCI) energy sector survey – a survey of over 1,000 consumers about their ethical and environmental concerns – shows a clear shift in opinion over the last two years about whether energy companies are doing enough to address environmental issues. Of those surveyed, 40% said the energy sector is doing enough, a 23 percentage point rise since 2008. Over the same period, British Gas has increased its average score from 2.7 to 3.4 out of five on how well the company is addressing environmental issues. While all these scores are lower than where we would like to be, they represent a significant shift in views since the last survey was conducted in 2008.

The same index has shown that consumers are increasingly recognising the role that they as individuals have to play in addressing climate change. Nearly 1 in 3 people think individuals should take the most responsibility for addressing climate change, compared to companies or the government. More consumers are investing in higher value energy efficiency measures such as loft insulation, new boilers and double glazing although only 1 in 10 plan to do so in the next 12 months.

As well as our programme of research, we also used the opportunity provided by our British Gas customer panel in 2010 to discuss climate change with the 40 panellists involved. After extensive access to every aspect of our business, the panel developed five key recommendations, one of which was that British Gas has a responsibility to stand out from the other energy companies by making sustainable energy the core of what it does. We hope to achieve this through the strategic priority for

British Gas which aims to grow the business, leading the transition to the low carbon homes and businesses of the future. In 2010, we commissioned two focus groups to gain a better understanding of consumer awareness of our low carbon energy initiatives and their views on our move to an energy services company. The research showed we face three barriers to conveying our low carbon message to consumers: low understanding of the issue, confusion about our brand and cynicism about our motivation. We are using these learnings to develop our sustainability communications and improve the quality of information available to customers.

## Employees

Without our employees understanding and acting on our low carbon commitments, we will be unable to achieve our vision. In particular, employees play a critical role in helping us meet our target to reduce environmental impacts from our property, fleet and travel.

We communicate regularly with employees on climate change and low carbon via a range of internal channels including the intranet, presentations and workshops. All of these channels include opportunities for feedback and dialogue. Our network of Green Teams helps us to engage employees by acting as a local point of contact on environmental issues. They aim to develop a culture of environmental responsibility and ensure that every employee is fully aware of the impact that simple individual action can have. The Carbon Trust carried out interviews with green team employees as part of our recertification to the Carbon Trust Standard and commended our Green Teams.

In the UK we use an online newsletter 'The Green Grapevine' to communicate with our green teams who lead our campaigns to achieve targets on energy, waste, water and paper use. Our annual Green Team Forum, which took place in November 2010, is an opportunity for all the green teams to get together, share challenges and best practice and celebrate events and successes. For example our Southampton Green Team analyses their monthly environmental performance and feeds it into site management. They also work closely with target specialists to interrogate their performance and identify new strategies to improve their figures. Ongoing initiatives include PIN-coded printing on the colour printer and efficiency improvements to the building.

In 2010, we conducted telephone interviews and focus groups among our employees to understand more about our internal communications programme, with a particular focus on the messaging and understanding around 'energy for a low carbon world'. We found that awareness was higher among

management than among other employees, although many showed interest in the concept of 'energy for a low carbon world'. Among senior managers, the perceived importance of low carbon messages was much higher in the UK than in North America.

In addition, there was some confusion around what this would mean for the future of the business and for individuals – with some seeing the concept as a risk to jobs and others as an opportunity for personal development. However, overall the research found that our employees view us as a responsible company and would like to see this leveraged more externally. Suggestions for engaging colleagues in low carbon messages included profiling potential job opportunities, demonstrating the technologies and doing more to make offices low carbon. In response we are continuing our programme to install microgeneration technologies at selected sites and we have initiated a project to develop and deliver a more consistent internal communications programme on low carbon throughout the Group.

In 2010, we used our Carbon 10 campaign as a key way to engage all employees on green issues. Throughout the campaign, we actively encouraged feedback and ideas and we circulated progress towards the campaign's targets on a weekly basis to the building users and management teams with an explanation of how the leading sites were achieving their results. During the year, we also conducted travel surveys at all our UK sites and we are now using this information to develop appropriate and site-specific targets.

In our 2010 annual employee engagement survey, 83% of employees told us they agree that Centrica takes its environmental and social responsibilities seriously. We previously asked this question in 2008 when 66% of employees agreed with the statement.

## Opinion formers

We depend on the views of opinion formers to benchmark and critique our approach as we strive to achieve leadership in tackling climate change. We ran two focus groups in 2010 to obtain feedback from opinion formers in the UK on the Centrica's corporate responsibility strategy, including the company's low carbon agenda. Eighteen selected experts and opinion formers took part, representing consumer groups, investors, media, NGOs and sustainability organisations.

One of the key points the participants raised was the need for a clear outline of Centrica's new business model, the steps it is taking to become an energy services company and how this fits in with the low carbon agenda. We have discussed this fully in Customer carbon and aim to encourage further comments through the web feedback tool. The opinion formers also called for clarity about the distinction between the company's legal obligations and where it is going beyond these on climate commitments.

Additional in-depth interviews with opinion formers revealed high expectations of Centrica but varying views about how well the company is responding to the low carbon challenge. The interviews reinforced the message that the company needs to be clear about where it is going beyond regulatory requirements. We aim to have addressed these points within this report and will continue to seek feedback to assess how well we have responded to these criticisms.

Complementing our research in the UK, we interviewed eight opinion formers in Canada and the US, representing academics, NGOs and sustainability organisations, to gain insight into views in our North American markets. See comments from these opinion formers. Those interviewed recognised that regulated markets present a challenge to our efforts to promote energy efficiency because customers are more sheltered from high energy costs. However, they would like to see us taking a more proactive approach to promoting low-carbon energy solutions and exploiting the opportunities from feed-in tariffs and decentralised energy generation in markets such as Ontario. They think Centrica is well placed to transfer successful initiatives from the UK and would like to see the company playing a greater role in the wider public and policy debate about the future of energy in North America.

# Customer trust

## Contents

<b>2</b>	<b>Overview</b>	<b>7</b>	Vulnerable customers
	Customer service	<b>9</b>	<b>Stakeholder dialogue 2010</b>
	Transparent and competitive pricing		Customer insights – British Gas
<b>3</b>	Vulnerable customers	<b>10</b>	We're Listening campaign – British Gas
<b>4</b>	Listening and responding to customers		Customer insights – Direct Energy
<b>5</b>	<b>Performance in 2010</b>		Engaging with government and regulators on consumer issues
	Customer service		

# Customer trust

## Overview

**Earning customer trust is essential to enable us to grow our business and bring innovative new products to market.**

Already the largest energy retailer in the UK, serving more than 10m customers, British Gas aims to become the company most trusted to deliver low carbon products and services. This is increasingly important as British Gas pursues a strategy that shifts us from being an energy supplier to being an energy and energy services provider. Our business in North America, Direct Energy, has 6m customer relationships and is North America's largest home services company, covering 46 US states, the District of Columbia and all Canadian provinces.

To build customer trust, we must offer excellent customer service, set our pricing transparently and competitively and provide our more vulnerable customers with the support they need. Our commitment to listen and respond to customers underpins this ambition.

For information about how we build trust in relation to customer privacy, marketing and sales practices, see Marketplace.

## Customer service

Our customer-facing businesses evolved significantly in 2010, with the acquisition of Clockwork Home Services in North America, and the development of new insulation and smart energy businesses within British Gas in the UK. To ensure our standards remain high, we have focused on raising the quality and consistency of customer interaction by improving training for our customer-facing employees.

One of British Gas' core values is to 'wear the customer's shoes' and Direct Energy employees are committed to conducting business according to the 'Simple. Friendly. Direct' principles. These business unit values ensure that we build a culture where we strive to offer our customers the best possible service. We use insights from customer research to improve our understanding of their needs and this has led to changes in our service offerings during 2010. For example, British Gas engineers now call ahead before visiting customers and Direct Energy proactively informs customers in Texas and Alberta of market changes as they occur via our billing system.

Our focus on customer service has led to improvements in our net promoter scores (NPS), which measure customers' willingness to recommend us. In the UK, British Gas achieved a score of +5, up from -2 in 2009 and beating our target of +3.

While there is still room for improvement, our performance represents a significant shift in opinion from four years ago, when problems with our billing system led to high levels of dissatisfaction. Our data collection enables us to benchmark our performance against the other six biggest UK energy companies and at the end of the year we were joint leaders for NPS.

Direct Energy has also improved its overall NPS to +21, up from +9.5 in 2009. This is a result of a sharper focus on customer satisfaction and improved training of employees to recognise and understand customer needs. In Texas, for example, Direct Energy launched a programme to follow up directly with dissatisfied customers. This provides us with an opportunity to resolve their frustrations quickly and learn how to improve service levels in future.

While the definitions of NPS used in our different markets are the same, it is not possible to make a direct comparison between them because different nationalities are more or less likely to recommend. NPS is used to compare our performance to direct competitors in each market and to indicate trend over time. For example, a key difference between our markets is that scores and customers' willingness to recommend in the UK are heavily influenced by price changes and the associated media coverage.

## Transparent and competitive pricing

Because energy is an essential commodity, its pricing is often contentious, especially in a tough economic environment. A perceived lack of transparency around how prices are set can undermine customer trust. We are committed to setting prices fairly and openly, but the factors that influence energy pricing remain complex and challenging to explain in simple terms. Because a high bill is a combination of both price and volume of energy consumed, we also help our customers to save money by providing services such as energy efficiency measures. Installing these measures can positively support our commitment to a lower carbon agenda.

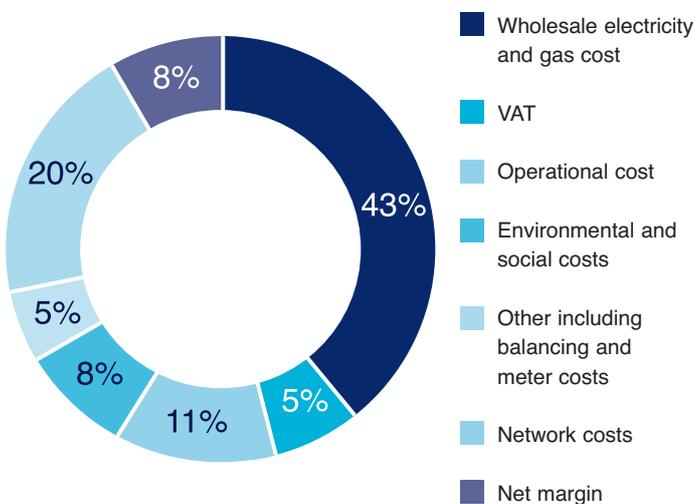
We serve gas and electricity customers in several distinct markets: the UK, 14 US states, the District of Columbia and

five Canadian provinces. Prices across our businesses are set according to local regulations and market conditions. However, the issue is most contentious in the UK and we are working to ensure that our customers understand the components of energy prices. Dispelling common myths is an important element of this approach, and the updated British Gas 'Simple Guide' to energy prices gives customers a straightforward explanation of the factors that affected prices in 2010. British Gas distributed this pamphlet with customers' bills and published it online.

Our 7% reduction in gas prices in February 2010 made British Gas the cheapest energy supplier in the UK at the time. However, in December 2010, rising wholesale prices meant that we needed to raise prices for both gas and electricity by 7%. This led to increased public focus on our pricing strategy and we published a series of materials to help our customers understand why our prices had gone up. We recognised that these increases came at a difficult time for some of our customers, so we froze prices for our Essentials customers over the winter, delaying their increase until April 2011.

UK stakeholders, including customers and industry regulator Ofgem, continue to express concerns over the perceived disconnect between wholesale and retail energy prices. While retail prices are frequently compared to the 'day ahead' wholesale cost of energy, suppliers like Centrica buy energy much further ahead, sometimes up to two years in advance, and these prices are very different. The link remains complex, since today's retail energy prices reflect the prices we must currently pay for future gas contracts, not just today's requirements. In addition, commodity costs represent only about half the customer's bill, with the rest relating to less volatile costs such as transport, distribution, government environmental contributions and customer service. These non commodity costs are rising above the rate of inflation.

## A typical dual fuel customer bill



Source: Ofgem Report, November 2010

In addition, there is always a lag between changes in wholesale and retail prices, largely as a result of the fact that we buy a significant proportion of the gas and electricity we provide to customers in advance – often called 'hedging'. The industry has been the subject of detailed reviews by the energy regulator Ofgem, which has confirmed that this time lag is not greater when prices are falling than when they are rising.

In December 2010, Ofgem announced a review of energy sector profits. We fully support a competitive market and welcomed this review, because increasing the transparency of the market will benefit everyone and help to build trust among our key stakeholders. We have engaged with Ofgem throughout this review, clarifying our position that pricing strategy centres on anticipated wholesale prices and market predictions. By comparison, our profit announcements are based on historical information, measuring past performance.

Different market arrangements in North America mean that changes in prices do not result in the same public scrutiny as in the UK. Other than in Texas and Alberta, billing and customer relationships are managed by regulated utilities, but we still need to support customers in managing their energy use.

In deregulated markets where consumers have the option of switching energy suppliers, we face the challenge of educating consumers about what competition means for their energy costs. In Alberta, Canada, for example, Direct Energy is working with legislators, regulators and industry participants to improve 'energy literacy'.

## Vulnerable customers

Providing support to our more vulnerable customers is central to our commitment to treat customers fairly. We define vulnerable customers as those who are unable to safeguard their personal welfare or the personal welfare of other members of the household, for reasons of age, health, disability or severe financial insecurity.

In 2010, the UK political landscape relating to vulnerable customers changed significantly. The current recession, rising unemployment, upward trends in energy prices and poorly insulated homes have all led to an increasing number of customers experiencing severe temporary or long term financial hardship. In 2010, there were estimated to be 6m households in Great Britain in fuel poverty, defined by the Government as occurring when a household needs to spend more than 10% of its income on fuel to maintain a satisfactory heating regime – usually 21°C in the main living room and 18°C for other occupied rooms.

We provided additional support to 1.6m households during 2010, investing more than £80m in total, of which £49m represents our voluntary fuel poverty social spend commitment agreed with the Government and the rest is additional voluntary spend. The total includes a one-off additional investment of £37m. This provided a £50 payment for around

340,000 of the company's Essentials discounted tariff customers to help with their winter fuel bills and included a £20m investment in the British Gas Energy Trust, an independent charity which helps people who are struggling with energy and household debt.

The 2010 UK Energy Act introduced a Mandatory Social Price Support Scheme (the Warm Home Discount scheme), which will replace the voluntary energy supplier agreement that has operated since 2008. The scheme comes into force in April 2011 and is primarily focused on financial assistance with energy bills. British Gas will increase its commitment to approximately £105m by 2014/15, enabling more than double the number of vulnerable customers currently on our Essentials discounted tariff to receive financial assistance through a rebate on their electricity bill.

The introduction of this scheme will fundamentally change how we manage fuel poverty in the UK, requiring us to work more closely with the Government and other suppliers to help address fuel poverty collectively. The scheme focuses on customers in receipt of pension credit, as they are deemed by the Government to be most at risk of fuel poverty and most likely to suffer from cold housing. The new scheme will match customers to data held by the Department for Work and Pensions (DWP) in order to identify those eligible for the support. The scheme will also benefit other households who are fuel poor or at risk of fuel poverty, but these households will be identified as eligible for a rebate by suppliers using guidance set by the scheme. This rebate will be of the same value as for those in receipt of pension credit. British Gas supports the Government's approach to targeting the support to customers who most need help through data sharing; we were involved in a pilot project in 2010 with DWP that successfully identified 57,000 customers in receipt of pension credit and enabled us to give them an £80 credit on their energy bill.

While we support increased assistance to vulnerable households, we believe it is important not only to respond to their immediate needs, but also to address the long-term root causes of vulnerability and fuel poverty. We continue to do this in the UK through programmes such as Essentials, debt restructuring, energy efficiency products, benefits advice and signposting to our charity partners. In 2010, we launched a programme aimed at improving consistency in the energy efficiency advice that we provide to our vulnerable customers and throughout 2011 we will be rolling out training to customer-facing employees.

British Gas is a leading participant in the Community Energy Saving Programme (CESP), a government scheme that provides energy efficiency measures to some of the most deprived communities in the UK. With a well-established and growing energy services business, British Gas is uniquely well positioned to deliver on CESP obligations and has undertaken additional work on behalf of other energy suppliers.

We are also going beyond the minimum regulatory requirements by installing smart meters, referring customers to our charity partners and working with 'hard to heat, hard to treat' communities such as Dumfries and Galloway in Scotland. The remote location and stone construction of housing developments in this region make them more challenging to upgrade, but also present a valuable opportunity to expand our knowledge and capabilities as an energy services provider.

In North America, Direct Energy tailors its approach to varying regulations and customer needs across different markets. In most North American markets, we do not have a direct relationship with the end user of our energy as the utility company bills on behalf of energy suppliers such as Direct Energy or we work with brokers, consultants or re-sellers who manage the end-user relationship. This makes it difficult to support vulnerable customers through special tariffs and services. However, Direct Energy continues to guide vulnerable customers to regional support programmes such as our Neighbor-to-Neighbor programme in Texas where, in 2010, we helped almost 2,000 customers access US\$588,778 in bill payment assistance.

## Listening and responding to customers

We continually monitor and test our approach through customer research. In 2010, we conducted a major campaign called 'We're Listening', which included convening a British Gas customer panel to provide honest and informed feedback based on a thorough introduction to our business. Read an extract from their final report. During the year, the group visited the breadth of British Gas operations and presented five key priorities for the company based on their experiences:

- Revolutionise customer service focusing on recurring customer complaints once and for all. Make this a business priority
- Simplify bills so customers can easily understand them
- Make prices more comprehensible. Customers struggle to make sense of different tariffs
- Be open and proud – let customers see the real British Gas
- Lead Britain to a low carbon future. British Gas has a responsibility to stand out from the other energy companies by making sustainable energy the core of what it does

For more on the customer panel, see stakeholder dialogue.

In North America, Direct Energy has increased its work on customer insight, improving the way knowledge is shared with all employees. For example, as part of projects to improve customer experience, teams in US North and Ontario have run Customer Proximity Days that gave them direct exposure to typical customer experiences, which they use to generate ideas for improving service.

# Performance in 2010

## Customer service

Performance indicator	Unit	2010	2009	2008	2007
Direct Energy net promoter score	No.	+21	+9.5	+6.9	+5.12
British Gas brand net promoter score	No.	+5	-2	n/a	n/a
British Gas residential customer complaints to energy Ombudsman as percentage of industry totals	%	16.8	15.6	n/a	n/a
British Gas business customer complaints to energy Ombudsman as percentage of industry totals	%	50.0	36.3	n/a	n/a
Estimated market share (British Gas residential)	%	33	33	n/a	n/a

### Previous commitments

- Achieve a net promoter score of +3 for British Gas in 2010 ●
- Improve Direct Energy's net promoter score using the current methodology and roll out an improved net promoter score methodology for Direct Energy in 2010 ●
- Use recommendations from the Customer Panel to improve British Gas customer service ●

### Progress key:

Achieved ● Partially achieved ● Not achieved ●

We continued to make significant improvements to our customer service in 2010, as demonstrated by rises in our net promoter scores. The energy sector as a whole continues to suffer from negative external perceptions, but our customer service performance remains high among our peers.

In 2010, we achieved a number of customer service milestones. For example, our British Gas call centre in Cardiff won the European Call Centre of the Year Award for the second year running and our Southampton team won the customer service complaints team of the year at the National Customer Service Awards 2010.

In the UK, the exceptionally cold weather at the beginning and end of 2010 led to record volumes of callouts and challenging operating conditions in the exceptionally cold weather. Our engineers made heroic efforts to reach as many households as possible, prioritising the most vulnerable. At the peak, we were reaching up to 35,000 customers per day, with breakdowns 25% higher in December 2010 than in December 2009.

Inevitably, some customers did not receive the level of service that they expected, but we are proud of the way our employees performed under exceptional pressure.

### Net promoter scores

Net promoter scores (NPS) measure a customer's willingness to recommend us as an energy supplier. We track this key performance indicator separately for our UK and North American markets. While the definitions of NPS used in our different markets are the same, it is not possible to make a direct comparison between them because different calculation methodologies are used and because different nationalities are more or less likely to recommend. NPS can be used to compare our performance to direct competitors in each market and to indicate trend over time. More details are available in our NPS download.

In the UK, British Gas achieved a substantial NPS improvement in 2010, from a score of +1 in January to a high of +13 in September. Customers who receive both gas and electricity from British Gas are more likely to be promoters than those who just receive one of these. Surveys show that pricing is one of the most important factors affecting scores, accounting for more than a quarter of the score customers give us. British Gas' NPS was therefore impacted significantly by the price rise announcement in November when our score dropped to 0, leading to a full-year average score of +5, up from -2 in 2009. This exceeded our target of +3 and we led the industry alongside one other energy supplier.

Our UK customer service performance has also been independently identified as sector leading in Morgan Stanley's annual Energy Supply Survey. The 2010 survey also showed that British Gas has the most loyal customers of UK energy suppliers. We anticipate that our participation in the Nectar loyalty programme and our launch of Sainsbury's Energy from

2011 will further enhance customer loyalty and have a positive impact on our NPS. However, due to rising wholesale prices and because our net promoter score is closely linked to perceptions of price, we are anticipating lower overall scores in 2011 when compared to the 2010 full-year average. However we have set a target of +10 to be achieved by the end of 2012.

Direct Energy serves multiple – and different – markets in North America so the aggregate NPS score represents a variety of services and customer relationships. In 2010, overall scores dramatically increased to 21, up from 9.5 in 2009. This comes largely as a result of increased employee awareness of NPS and understanding of its importance to the business. Direct Energy has also made progress towards aligning NPS measurements with British Gas' methodology, improving the rigour for collecting and analysing the data during the year.

At the end of 2010, we began tracking the NPS of Direct Energy customers who interact with us online, and we have introduced a process whereby we contact detractors to gather further insight about their experiences and to gain ideas for customer service improvements. We expect to roll this programme out fully in 2011.

## Complaints

We track the volume of complaints across all our businesses and are working hard to reduce them. With millions of customers and individual interactions, we recognise that some complaints are inevitable, but we are proud of the improvements that we have made in this area.

In the UK, complaints that we cannot resolve internally are escalated to the energy Ombudsman, which acts as an independent arbitrator. In 2010, 16.8% of residential complaints recorded by the Ombudsman were about British Gas, compared with our market share of 33%. In line with Ofgem's requirements, we have improved the visibility of complaints procedures on our website and in our literature. We also produce an annual complaints report and have improved training for our customer-facing employees to enable them to resolve a greater range of problems first time. However, complaints from our business customers remain higher than we believe is acceptable and we are working hard to manage issues for these customers.

In North America, there is no centralised Ombudsman. Direct Energy employs ongoing complaints review processes to monitor volumes and trends within each region and across Direct Energy's residential business. These reviews capture complaints made to local regulators, Better Business Bureaus, media outlets and through other external channels, as well as complaints self-reported by our customers. In 2010, the residential business recorded 61,321 complaints, representing a 23% decrease from 2009. The average monthly complaints

per customer ratio decreased correspondingly, from 0.30% in 2009 to 0.25% in 2010. Much of this improvement has been due to a training programme that was implemented for agents dealing with the most severe complaints.

## Improvements to customer service

Across all our markets, we are developing innovative ways to improve customer service. For example, British Gas has been using Twitter to respond to customers who have 'tweeted' about boiler breakdowns. We have also provided 'how to' videos on topics such as thawing a frozen boiler pipe and flushing a radiator. In May 2010, a study by eDigital Research rated the British Gas website as top among utility and broadband suppliers in terms of usability and customer experience. We also used feedback from the Customer Panel to improve customer service within British Gas. This is discussed more fully in Stakeholder dialogue.

In business services, we significantly enlarged the scale of our activities with the acquisition of the assets of Connaught's gas and electricity business in October. The transaction included more than 20,000 customer contracts, together with a workforce of more than 400 engineers. This is a significant step forward in our goal to build a complete energy solutions business for commercial customers. We also acquired JK Environmental Services (UK) Ltd, a company that provides environmental services, sewer cleaning and tankering to the business market.

Direct Energy has improved its process for communicating with customers for whom a single engineer visit is not enough to complete a repair. These customers – typically at a higher risk of dissatisfaction if they are left without heat for prolonged periods – are now contacted by company representatives who outline the next steps for the repair and clarify expectations. This simple process has reduced customer uncertainty and improved Direct Energy's NPS.

### Future commitments

- Achieve a net promoter score of +10 for British Gas by the end of 2012
- Achieve a net promoter score of +28 for Direct Energy in 2011

## Vulnerable customers

Fuel mix	Unit	2010	2009	2008	2007	2006
Total number of vulnerable households impacted by British Gas initiatives	Million	1.6	2.18	1.4	n/a	n/a
Customer accounts on British Gas 'Essentials' tariff for vulnerable customers	No.	507,537	487,665	526,500	340,000	n/a
Customers on ExtraCare	No.	309,000	192,710	190,530	260,000	n/a
Cumulative value of unclaimed benefits identified	£m	28.9	23.4	21.4	14.4	n/a
Age UK partnership - advice packs distributed	No.	350,000	182,000	82,000	75,728	50,000
British Gas Energy Trust - Number of grants awarded	No.	5,402	5,085	5,000	6,439	4,000
British Gas Energy Trust - Value of grants awarded	£m	2.89	3.3	3.3	3.1	1.5

### Previous commitments

- Develop a three-year UK charity partner strategy ●
- Support 2.5m vulnerable households in 2010 ●
- Launch 16 CESP programmes in 2010 ●

We define vulnerable customers as those who are unable to safeguard their personal welfare or the personal welfare of other members of the household, for reasons of age, health, disability or severe financial insecurity. We are committed to helping these customers not only through alleviating immediate issues, but also by addressing long-term root causes through our charity partners.

In the UK, our strategy is to deliver targeted assistance to these customers to ensure that the help they receive is appropriate to their needs. We aim to identify these customers and work with other agencies to offer them advice on managing their energy costs, payment plans and the energy efficiency of their housing. The introduction of the Warm Home Discount scheme in 2011 will shift the way we provide financial assistance to vulnerable customers.

In North America, varying government regulations that offer support for vulnerable customers are delivered in a regionally specific manner. The definition of a vulnerable customer also varies regionally, which means that eligibility for programmes is different across our North American markets.

### Prioritising vulnerable customers

In 2010, British Gas provided support to 1.6m vulnerable households, spending more than £80m, including a £37m injection over the winter 2010/2011. This was lower than the 2.5m households we had anticipated helping, mainly because there were fewer new customers moved on to debt schemes in 2010 than in 2009.

A substantial part of our investment is through our Essentials programme, the largest support programme for vulnerable customers in the UK energy market (in terms of both spend and numbers of those supported – source: Centrica calculations). The programme helps vulnerable customers with lower tariffs, debt advice and efficiency measures, including a home energy audit, free home insulation and free energy-saving products.

Access to the programme is means-tested and is promoted through our literature, employees and charity partners. British Gas call centre employees are trained to identify signs of vulnerability and offer advice about how to receive support. Customers are also referred through the industry-funded Home Heat Helpline. The helpline works alongside dozens of welfare organisations as well as all six major energy suppliers to advise on services and options for people who need assistance – from grants for free home insulation and winter rebates to flexible payment plans and benefits entitlement checks.

In addition to reduced tariffs and debt advice, the Essentials programme provides additional services such as a benefits health check to help customers maximise their income. British Gas works in partnership with Age UK to provide community Benefits Advice Programmes that help people to identify the benefits to which they are entitled. In 2010, a total of 11 such projects ran throughout England and Wales. Since the programme began, 61,700 people have received advice, helping them to access a total of £28.9m in additional benefits.

Within our obligations under the UK Government's Carbon Emissions Reduction Target (CERT), we are required to deliver 40% of the energy efficiency products we provide to a priority group of vulnerable customers, which includes 15% to a 'super' priority group. We also provide free cavity wall insulation for our customers who are 60 or over, and free loft and cavity wall insulation for customers over 70 or who receive eligible benefits. Our Home Energy Care Register is a priority service register for all our gas and electricity customers who are elderly, disabled or chronically sick. It provides essential services for approximately 590,000 of our most vulnerable customers. These include specially designed appliance controls, more accessible billing and communications, and the ability to have bills sent to a nominated carer.

## Managing debt

Our vulnerable customer strategy also helps us to improve the way we manage customer debt. We aim to assist those in debt who would like to pay but struggle to do so, while pursuing those who can pay but choose not to. However, it can be very challenging to identify vulnerable customers and to distinguish between those who are genuinely disadvantaged and those who are not. Our policy is never to disconnect someone we believe to be vulnerable. All disconnections are signed off by an executive team member and in 2010 we led the industry with only two occupied disconnections. An Ofgem Debt Review, published in June 2010, showed there were 6,000 such disconnections across the industry in 2008.

We provide financial support to the British Gas Energy Trust, an independent charity which awards grants to customers struggling with their energy bills. In 2010, the Trust awarded 5,402 grants (up from 5,085 in 2009) worth £2.89m. Since its creation in 2005, the Trust has awarded more than 27,600 grants, working closely with our debt teams to identify those most in need. In early 2011, we announced an additional investment of £20m in the Trust.

## Social housing and CESP

We work closely with local authorities and registered social landlords to deliver our obligations under the Community Energy Saving Programme (CESP). The programme aims to introduce retrofit energy efficiency measures on a community-by-community basis, focusing on the least developed areas in the UK. We see CESP as a major business opportunity and have built up a business delivering complete energy efficiency solutions to local authorities.

In 2010, we launched 26 CESP schemes in 98 low income areas. We have gone beyond the minimum requirements of CESP by focusing on communities that are off the gas grid such as in Dumfries and Galloway, by installing smart meters and by collaborating with our charity partners to provide a broader range of related services. Our 'whole house' approach includes training for tenants on how to work their new equipment. We added this service to address concerns that the CESP scheme does not provide the knowledge necessary to accompany its technical solutions.

In addition we have worked with local authorities and our charity partners to hold open days and community events in the CESP communities within which we work. These provide opportunities for residents to find out more about the benefits of the programme and to get advice from our energy specialists.

In Wales, we are working in an area of intense social deprivation through the Welsh Assembly Government's 'Heads of the Valleys' scheme, which aims to improve up to 40,000 homes. By the end of 2010, we had installed our 1,000th microgeneration technology in the area, providing residents with a local, affordable, and low carbon source of energy.

We have also partnered with Mears, one of the largest facilities management providers in the sector, to offer a full range of microgeneration technology, easier access to CERT and CESP funding and support for local authorities to meet carbon abatement targets.

In January 2011, we won the contract to run the Welsh Assembly Government's new fuel poverty programme building on the skills and experience we have gained from our work with the Scottish Government's flagship fuel poverty scheme – the Energy Assistance Package (EAP). We also this EAP contract, under which we will provide insulation and energy-efficient heating and hot water systems to more than 30,000 households across Scotland over the next three years.

## Charity partnerships

During 2010, we worked in partnership with seven charity partners in the UK to identify and support disadvantaged and vulnerable people, and encourage public debate on how to support these groups. Changes in the regulatory environment and the introduction of the Warm Home Discount scheme have led us to re-evaluate our approach and so we did not develop a three-year charity partner strategy. Instead we continued with our existing programmes. Through the 'here to HELP' programme, our coalition of charity partners offers free or subsidised insulation, benefits assessments and other products and services to support vulnerable customers.

In November 2010, we launched our 12th annual winter campaign in partnership with Age UK. The 'Spread the warmth' campaign, which we channelled through our network of engineers and field sales people, aimed to help older people to reduce winter heating costs and take advantage of energy efficiency. As in previous years, we helped to fund the campaign and provided automated call handling to respond to requests for information packs on how to keep homes warm, how to plan for cold weather and which benefits are available. We funded the distribution of 350,000 information packs.

During 2010 we worked with the following charity partners:

- Save the Children
- National Energy Action
- Money Advice Trust (MAT)
- Royal National Institute for Blind People (RNIB)
- Age UK
- Scope
- Carers UK

### Future commitments

- Following the confirmation of finalised Warm Home Discount scheme details, we will be able to make new future commitments related to our vulnerable customer approach.

# Stakeholder Dialogue in 2010

**We aim to build trust among our customers by listening to their concerns and using their feedback to improve our services and our product offerings. We engage with them on a wide range of issues, including our services and ideas to improve energy efficiency. For more information, see low carbon world.**

We work hard to ensure that our communications with customers are open and credible, and that the right procedures are in place to address any concerns.

We work closely with, and commit to follow, the codes of conduct of the main trade associations and government offices, which include:

- The UK Office of Gas and Electricity Markets (Ofgem)
- The UK Office of Communication (Ofcom)
- Advertising Standards Authority (ASA)
- Committee of Advertising Practice (CAP)
- Broadcast Advertising Clearance Centre (BACC)
- Radio Advertising Clearance Centre (RACC)
- Incorporated Society of British Advertisers (ISBA)
- Direct Marketing Association (DMA)
- Association of Productivity and Quality Control (APQC)
- The Financial Ombudsman
- The Energy Ombudsman
- The Financial Services Authority (FSA)

This helps us to ensure that all our communications, from advertising to telesales, are conducted in accordance with relevant industry standards. We also help to shape industry best practice through our board-level representation within ISBA and The Marketing Society.

## Customer insights – British Gas

British Gas uses a combination of focus groups, workshops, interviews and large-scale telephone, postal and online surveys to gain insight into customers' perceptions and identify specific groups' needs. Based on our findings, we tailor our products and services accordingly.

Our customer service advisers, technicians and engineers interact with thousands of customers every day. We encourage them to capture feedback on concerns and ideas that will help us to improve our service. We also encourage customers to

submit feedback directly via our websites and call centres. To make this easier, we have introduced an automated system in some call centres enabling customers to leave feedback immediately after a call.

Each month our management team receives a representative selection of positive and negative comments on our service to help us identify recurring themes and issues. These comments reflect both long-term trends and short-term reactions to changes in the business. Customer responses to price increases at the end of 2010, for example, helped us to pinpoint specific areas of frustration, and identify areas for improved customer service and communication.

In 2010, we participated in the Concerned Consumer Index (CCI), which surveyed consumers on the energy industry. The survey showed that 40% of respondents think energy companies are doing enough to address environmental issues, up from 17% in 2008. This significant improvement suggests that recent sector activity is acknowledged by consumers. The majority (65%) feel that environmental issues should be the highest priority for the sector, whereas 35% think that social issues are the most important. As a result, we will continue to maintain a balanced approach.

Overall favourability among CCI survey respondents towards British Gas has also increased, reaching 49% – up from 40% in 2008, when the last such survey was completed. Price and customer service remain the most important drivers of consumer choice, but there is increasing interest in environmental performance as well. The survey also showed that British Gas is the most trusted company when it comes to providing energy saving advice, but almost one third of consumers said that they did not know where to go for information on energy saving. This represents an important opportunity for us to improve the guidance we provide.

We also listened to more than 295,000 business customers in 2010 through surveys, focus groups, in-depth interviews and immediate feedback following a call, to understand what our customers value and what can still be improved. Our automated surveys are responded to by around 28,000 business customers per month. In 2009 our business customers told us that they wanted to be able to manage more

of their account through online and digital channels. As a result, we introduced an iPhone application in 2010 enabling business customers to submit meter readings and to request copy invoices and account statements online. We also redeveloped the Contact Us and Help & Advice areas of the website.

## **We're Listening campaign – British Gas**

At the end of 2009, British Gas launched the 'We're Listening' campaign, giving customers an opportunity to provide more direct input to our business. We toured the UK with a mock-up of a British Gas Living Room, visiting shopping centres and other public places to give people a chance to talk with us directly. British Gas Managing Director Phil Bentley was among a number of senior leaders personally involved in these events, demonstrating the senior level commitment to learning from our customers.

As part of the campaign, British Gas published an open letter in national newspapers, inviting the public to join a customer panel with unprecedented access to the business. The panel was independently chaired by Ann Robinson, Director of Consumer Policy at uSwitch.com, a consumer protection organisation. Members of the panel had access to all areas of the business, including power stations, call centres, energy academies and the British Gas head office.

Based on these experiences, the group presented five key priorities for the company and we have reported publicly on our response to these. Following the success of the customer panel, we are appointing a permanent customer board to oversee progress and to give us honest and impartial feedback. This will ensure that British Gas continues to listen to its customers.

## **Customer insights - Direct Energy**

Our North American business, Direct Energy, monitors a range of metrics to produce a customer experience report which has high visibility within the company and is reviewed by the leadership team every quarter. A key focus for 2010 has been to ensure that our employees understand and subscribe to our focus on net promoter scores as the principal measure of customer satisfaction.

In September, Direct Energy trained a group of customer service practitioners from across the business in a new customer-centric approach to business. This helps us to

understand customer needs more closely and to use their perspective to identify solutions to recurring issues. For example, in our US North region we found that customers who signed up to Direct Energy with door-to-door salespeople frequently cancelled later. A Customer Proximity Day where we gathered insights directly from customers helped to identify the reasons for this and make improvements to our sales and customer service.

We have also been using an online panel, established in August 2009, as a forum where we can actively engage customers and consumers to collect insights on various research initiatives. In total, almost 13,000 individuals are members of the online panel, representing Ontario, Alberta, Texas and the US North. In October 2010, we added an online Ideas Factory for employees to contribute in a similar way. There are 200 front-line employees involved in the Ideas Factory.

We use surveys and online chat discussions to research ideas, with a typical response rate from participants of 20–30%. By the end of 2010, we had completed 41 research projects, including one on understanding online consumer behaviour. We also researched payment options in Texas that supported the development and launch of our new pre-payment plan in this market. We will continue to use the online panel and Ideas Factory in 2011 and have enhanced the platform we use to make it more interactive for users.

Across our North American markets, we have a significant number of customers for whom English is not a first language. In 2010 we have been developing our brand strategy, which includes a commitment to reducing complex jargon on our materials to make it easier for our customers to understand. In Texas, our research among our Spanish-speaking customers helps us to understand their unique requirements, as their net promoter scores follow a different pattern from the average customer.

## **Engaging with government and regulators on consumer issues**

We work with energy regulators across all our markets to address a range of consumer issues, including energy pricing and fuel poverty.

In the UK we have engaged extensively with Ofgem and the Department for Energy and Climate Change (DECC) in the development of their prospectus for the rollout of smart

metering in 2010. Our early deployment of smart metering has provided us with insight and experience that we have shared with Ofgem, DECC and the wider industry to help provide impetus to the programme throughout the UK.

Our work in developing a Smart Meter Customer Charter has helped provide consumers with improved confidence in smart meters and the benefits they will bring. We also work to deliver value for money for customers from network charges, most significantly through our input to Ofgem's price control consultations and stakeholder engagement processes.

We engage regularly with Consumer Focus on a wide range of issues currently facing domestic and micro business energy consumers, including customer service, energy pricing and vulnerability. We also have an excellent relationship with the Extra Help Unit, supporting those customers who need our help the most. In 2010 we worked successfully on two joint industry-wide projects which led to new principles being agreed for face-to-face selling and the service provided to prepayment customers. Until its powers are transferred to Citizens Advice and Trading Standards we remain committed to working closely with Consumer Focus on those issues that most affect our customers.

We are active members of the Fuel Poverty Action Group, contributing to the development of a wide range of proposals and action plans that benefit the fuel poor and vulnerable. In 2010 we also sent every MP a pack ahead of the winter with advice on what they could do for their constituents. In North America, Direct Energy engages the relevant government departments and regulators through advocacy and position papers, as well as policy research. In particular, we have been pro-active in engaging on consumer protection issues and we are supportive of strong measures to provide greater reassurance to customers that competitive markets work. For example, in 2010, we worked with the state of Illinois to introduce strong consumer protection legislation in the wake of an incident of misrepresentation involving another energy supplier. As a result of our engagement, the market was not closed to competition.

In Canada, there has been a similar focus on consumer protection, with stringent legislation introduced in Ontario in January 2011. Our dialogue with government has helped us to develop the necessary procedures and training in order to comply with the new requirements. We engage with those responsible for energy, consumer protection, social services and other relevant regulations. We also participate in relevant consultations. For example, in 2010 we contributed to Alberta's Smart Grid Inquiry on topics including privacy issues, data security and ownership of data. Our position is that customers, not utilities, should own their own data. A final report is due out in early 2011.

# Energy security

## Contents

### 2 **Overview**

Delivering sufficient energy supplies

### 3 Planning for future security

### 5 **Performance in 2010**

Fuel mix

### 6 Electricity

### 8 Gas and oil exploration and production

### 9 Gas storage

### 10 **Stakeholder dialogue in 2010**

Government and regulator discussions

Options for delivering secure and sustainable energy supplies

Energy Market Reform (Dec 2010)

# Energy security

## Overview

**Energy security is about ensuring sufficient gas and electricity supplies for our customers. Achieving energy security must be balanced with the need to provide affordable energy and decarbonise energy generation. We seek to do this by pursuing diverse energy sources and continuing to expand our energy infrastructure.**

The energy security challenge is very different across our markets, depending on resource availability and regulatory frameworks. It is particularly acute in Britain, which moved from being a net energy exporter to an importer in 2004. Diminishing North Sea gas reserves will tip this balance further in the future. North America faces different energy security challenges. The United States seeks to reduce reliance on foreign energy imports, and Canada aims to capitalise on significant energy reserves in Alberta and other provinces.

### United Kingdom

Around 59% of the UK's demand for gas was provided by the UK's own production in 2010, but that figure is likely to drop to 46% by 2015. Electricity generation capacity is also in jeopardy. Over 30% of capacity is due to come offline by 2015 as ageing power stations are retired. Centrica and others in the energy sector must invest in the UK's infrastructure to ensure that sufficient levels of gas and electricity are available to meet future consumer demand.

The UK is Centrica's largest market and we are committed to contributing to its energy security. Reliably sourcing and supplying energy is at the core of both our business remit and social responsibility. With 12m British households and nearly 1m British businesses relying on Centrica, meeting their energy demands is critical to their individual success and the national economy.

Energy security must be achieved while also addressing climate change and ensuring energy remains affordable. One way we tackle climate change is by working to decarbonise power generation. We are making progress by building new lower carbon power stations, investing in nuclear energy and expanding offshore wind farms. Established fossil fuels are relatively inexpensive when compared to these cleaner energy sources, so decarbonising power could raise future energy costs. To maintain price certainty, we reduce our reliance on wholesale markets by increasing the amount of energy

available from our own resources. We also advocate for liberalised energy markets because we believe competition delivers better value to consumers, and we press for energy market reforms that reward lower carbon power.

Consumer behaviour change can also contribute to energy security. Using less energy will reduce the pressure on resources and generation capacity, and will also be an important factor in achieving a low carbon future. See Energy for a low carbon world to find out more about how we are helping our customers use less energy and reduce their emissions, and bringing to market new, low carbon technologies.

### North America

The supply mix in the US is shifting with the expansion of shale gas operations as improvements in technology make these more economically viable. Shale now accounts for 20% of US natural gas production, a figure which has doubled in last two years. The increase in shale gas has already resulted in a drop in liquefied natural gas (LNG) imports into the country. However, there are potential social and environmental risks associated with the process used to extract shale gas that must be managed.

Our North American business, Direct Energy, is exploring a variety of options to expand its gas production capabilities and increase power generation capacity. This will enable us to supply more customers from our own resources, reducing the amount we must purchase on the energy markets.

## Delivering sufficient energy supplies

Maintaining energy security for our customers requires ongoing innovation and investment. In 2010, we had a successful year of providing energy to our customers. We increased our gas

production levels, acquired new assets in North America, provided flexibility to the market through our gas storage business, started receiving our off-take of nuclear power and our newly commissioned Langage generation facility in the UK completed a successful first year of power generation.

The 2009 acquisition of Venture Production saw us become the third largest owner of undersea acreage in the North Sea and one of the top three producers of gas and oil in the UK, pumping 650m cubic feet per day. The skills and experience within our Centrica Energy business give us strong potential in the North Sea as we seek to reach more difficult-to-access gas reserves. By honing these capabilities now, we will be well positioned to source gas as global reserves diminish in the future. Centrica Energy expanded its assets and reserves when we acquired our first LNG producing asset with a production-sharing agreement in Trinidad and Tobago. We have also invested in gas resources in Canada to deliver energy to our customers in North America.

Our UK storage assets continued to help Britain respond to market fluctuations. These assets accumulate gas from energy suppliers – including our own businesses – during the summer months when demand is lower, then draw on these reserves when demand increases in the winter.

2010 was a challenging year in the UK, beginning and ending with very cold winters. High energy demand reduced gas storage volumes to low levels as households turned up their heating. Although media coverage of the situation heightened public concern about energy security, the energy market accommodated demand and delivered energy reliably. During the recent cold weather, our gas storage facility at Rough played a key role in keeping gas flowing in the UK, providing up to 10% of the UK's peak day gas demand.

LNG continues to be an important source of energy in the UK. Imported LNG shipments helped Centrica to meet market demand during last year's cold winter, delivering over 160.9m therms in January and February 2010 – enough to heat 16m homes for one week. We continue to be the largest importer of LNG at the Isle of Grain terminal in the Thames estuary. In February 2011, we signed a unique £2bn deal with Qatargas. The three year contract will deliver enough gas to the Isle of Grain facility to meet the gas needs of 2.5m households.

In North America, Direct Energy gas production increased to record levels in 2010. The low price environment in 2010 helped us expand our gas and oil reserves in Canada through the acquisition of the Wildcat Hills assets. The purchase increased our gas reserves in North America by 45% from 2009.

In 2010, demand for electricity continued to increase in the UK and North American markets. We met this greater demand, providing 36,785GWh to customers, a 22% increase in power generation from 2009. Our power stations continued to operate efficiently with our new Langage gas fired power station in Devon, UK supporting the increase in our UK output to almost 33,000GWh.

In the UK, the total renewable energy purchased in 2010 through power purchase agreements was 2.6TWh, up 7% from 2009. In North America, our power purchase agreements delivered 2.3TWh of renewable electricity to Direct Energy.

The most significant increase in the power supply we had available for our customers came in April 2010 when we began receiving 20% offtake of the output from British Energy's nuclear power stations. The 20% offtake enabled us to deliver 6.7 terawatt hours (TWh) of low carbon nuclear power. Through our equity investment of 20% in British Energy, we also received the first full year of profit on 9.7TWh of electricity the British Energy fleet generated.

Centrica does not operate any nuclear facilities. Instead, we receive output from the British Energy nuclear fleet. Our position on the board of directors of the British Energy Group, along with our partners EDF Energy, enables us to monitor and oversee performance. We use our governance position to ensure that health, safety, security and environmental considerations are managed according to high standards. More information on nuclear safety is available in the Safety section of the report and more on environmental impacts are reported in the Environment section.

## Planning for future security

As demand for electricity continues to grow, planning for future energy security is essential. The record freezing temperatures in January and December 2010 countered the long term decline in gas consumption, so we must ensure sufficient supplies for cold winters. In addition, we must secure enough supply to deliver electricity from our gas fired power stations and provide the levels consumers continue to use. We pursue energy from a variety of sources and regions to secure available supplies. Also, the need to decarbonise energy supply informs the type of power plants and technologies that we choose to develop.

To diversify our gas supply, we are strengthening our ability to extract hard-to-reach gas, exploring new overseas sources and

securing long-term deals to import LNG as domestic UK gas supplies decline. As well as working to develop long-term, stable trading relationships with major LNG producers such as Qatar, we have purchased LNG cargoes from other countries including Australia, Trinidad and Tobago, Norway, Nigeria, Yemen and USA.

We have also diversified our power generation by building new gas fired power stations, expanding our wind capacity and sourcing nuclear power.

Following the successful construction of Langage power station in the UK, Centrica is exploring options to build future gas fired stations. We have consent to build a 1,000MW power station at Kings Lynn and are assessing the viability of a new combined cycle gas turbine (CCGT) at our Brigg power station site. We will continue to review these options before making any commitment to build.

Wind power provides the largest renewable energy source in the UK and offers significant potential for expansion. Upon completion of our 270MW Lincs wind farm development we will have equity interests in wind farms with an installed capacity of 650MW. Lincs onshore construction works progressed well in 2010 and offshore construction commenced in March 2011. We are currently evaluating a number of wind farm projects and, if they are all implemented, they could add further capacity of 5.4GW.

Our planned projects include offshore developments at Race Bank and Docking Shoal, both of which are currently awaiting planning consent. The greatest opportunity for securing renewable power in the future came in January 2010 with our successful bid for the exclusive rights to develop offshore wind farms in the Irish Sea Zone. The Crown Estate's Round 3 offshore wind tendering process gave us the potential to develop as much as 4.2GW of capacity.

Centrica is investing significantly in renewable energy sources, but these sources alone cannot provide energy security. For example, variable wind patterns reduce the reliance we can place on wind farms to ensure sufficient supply.

Our partnership with EDF Energy gives us the option to secure 20% of the electricity from the next generation of nuclear power stations. New nuclear power stations will significantly enhance energy security in the UK with the proposed new builds by EDF Energy providing electricity for over 10m homes. The new stations will also help to achieve carbon emissions reductions. We are working with our partners and the government to ensure that these can be implemented.

Achieving long-term energy security will require coordinated action between energy suppliers, investors and governments. Energy suppliers must develop assets and acquire the skills to implement necessary technologies. We also need to establish a constructive dialogue with the communities that will host new assets such as wind farms and power stations. Investors will need to make capital available for substantial investment programmes. Centrica is committed to working with the government to establish the effective planning processes, stable regulatory and economic frameworks to make these long-term investments viable.

We welcome the UK Government's proposed energy market reform. The direction this reform takes will have a substantial impact on our ability to invest in energy infrastructure, such as new wind and nuclear generation, and three new gas storage assets in Caythorpe, Baird, and Baines. More information is available on the energy market reform in the 'future of energy' section and in the government engagement section.

Through this collaborative partnership of stakeholders, we can invest in a diverse energy mix that will preserve energy security in the long term. For more information about our stakeholder engagement on energy security, see Stakeholder dialogue.

# Performance in 2010

## Fuel mix

Fuel mix	Unit	2010	2009	2008	2007	2006
UK - coal	%	16	15	13	18	15
UK - natural gas	%	72	62	66	56	58
UK - nuclear	%	3	14	13	20	22
UK - renewables	%	7	7	6	4	3
UK - other	%	2	2	2	2	2
North America - coal	%	26	32	25	34	29
North America - natural gas	%	30	40	44	35	40
North America - nuclear	%	32	16	17	21	1
North America - renewables	%	7	11	11	8	20
North America - other	%	5	1	3	2	10

To see the full set of performance data, visit our data centre at [www.centrica.com/responsibility](http://www.centrica.com/responsibility)

## Market fuel mix

The fuel mix shows which energy sources were used to generate all the electricity we supplied to our customers in 2010. This includes both the energy that we use to generate electricity ourselves and the energy we purchase on the wholesale market to meet the remaining demand from our customers.

We know how much carbon is emitted from our own energy generation, but to calculate our total carbon emissions we need to know the mix of the power we have purchased on the wholesale market. The Department of Energy and Climate Change (DECC) provides this information annually in a figure called the 'residual fuel mix'.

The UK residual fuel mix changed significantly in 2010, largely as a result of EDF Energy's purchase of nuclear power producer British Energy in 2009. Whereas British Energy's low carbon nuclear energy output once represented 29.2% of the wholesale market, 80% of the nuclear output goes directly to EDF customers and 20% goes directly to British Gas customers. As a result, the percentage of nuclear power delivered to the wholesale market has significantly declined to 7.2%, and the relative proportions of coal and gas in the

residual fuel mix have changed from 33% to 26% and 43% to 48% respectively. As a result of these changes, the average carbon intensity of electricity in the open market (the residual fuel mix)—and thus the overall carbon intensity of the electricity companies deliver to their customers—has risen sharply.

See a ranking of energy suppliers' fuel mix on our website.

## Centrica's fuel mix

Over the last few years, British Gas has had the lowest carbon intensity of the big six providers (according to regulator Ofgem's definition). The change in ownership of British Energy in 2009 has changed our position substantially.

Centrica's new gas fired generation at Langage power station has helped to reduce the overall UK average carbon intensity. This is because gas has a lower carbon intensity than coal.

The carbon intensity of the energy we generate ourselves was 277g CO<sub>2</sub>/kWh in 2010 and we are committed to reducing that to 270g CO<sub>2</sub>/kWh by 2012. Our carbon intensity figure incorporates the nuclear power we started receiving in April 2010 from British Energy.

# Electricity

Performance indicator	Unit	2010	2009	2008	2007
Exported power available for sale	GWh	36,785	30,134	28,054	24,8982

## Power generation

Centrica delivered more power from its own energy sources, helping to provide energy security to its customers in 2010. Overall, the power we had available for sale increased by 22%. The increase is attributable to the nuclear power we received from British Energy, since our gas fired power stations in both the UK and the US generated less and our UK wind farms had lower output.

Coal-fired and nuclear power stations run constantly, providing baseload power to the energy market. When consumer demand spikes, or supply from baseload generation drops, gas fired power stations provide additional power to ensure that power supply continues to meet demand. Centrica does not operate any coal or nuclear power stations directly, but we receive electricity from these baseload sources through the wholesale market and off-take agreements, respectively.

In North America, Direct Energy operates gas fired power stations in Texas. Our strategy in North America is to increase the amount of energy we provide to our customers from our own sources. We are actively pursuing opportunities to increase our power generation capacity in North America.

## Gas fired power stations

Most of the electricity we generate is from gas fired power stations, and in 2010 they accounted for 69% of our total output on an equity basis. In 2010, the addition of our new gas fired Langage power station in Devon, UK brought our total gas fired power generation effective capacity to 4.8GW.

Reliability of our gas fired power stations remained high at 97%, the same level as 2009. Low wholesale gas prices and a healthy amount of power supply in the UK market resulted in our gas power stations being used less. Therefore, the total exported power in 2010 from our gas fired power stations decreased slightly to 22.8TWh, from 23.2TWh in 2009.

Power generation volumes in North America decreased to 3.85TWh on an equity basis, a 23% drop from 2009. Market conditions in North America in 2010 were challenging with low gas prices and low power prices in Texas.

## Wind power

The total group renewable energy received through power purchase agreements in 2010 was 4.9TWh. In the UK, the total we received through these arrangements was 2.6TWh, while in North America we received 2.3TWh.

In the UK, we have equity investments in five wind farms at Glens of Foudland, Braes of Doune, Barrow, Lynn and Inner Dowsing. We are responsible for the operations and maintenance of Glens of Foudland, Lynn and Inner Dowsing. All the wind farms which we operate continued to run well in 2010, despite generating less electricity due to lower wind yields. We measure their performance on the basis of their turbine generators being available to generate power if the wind blows. Availability is a measurement of the operations and maintenance efforts.

In North America, we do not operate any wind assets but we have power purchasing agreements with specific wind farms in the US.

We continue to develop our wind portfolio with wind farms in operation and advancements in various locations across the North Sea. Offshore construction for Lincs wind farm project commenced in March 2011. We are awaiting the outcome of consent applications for potential offshore wind developments at Docking Shoal and Race Bank. Incentives such as the UK government's Renewable Obligation Certificates (ROCs) – which was essential in proceeding with the Lincs project – will continue to play an important role in establishing a favourable, stable climate for renewable development.

We have started detailed zonal assessments following our successful bid for the exclusive rights to develop offshore wind farms in the Irish Sea Zone. The assessment will help us to identify specific sites for development and potential issues or challenges that we will need to address. A process of consultation with key stakeholders is underway and our outline proposal has been made known through the publication of a scoping document and exhibitions. The exclusive rights, which we secured as part of the Round 3 tendering process, give us the potential to develop as much as 4.2GW of capacity. More information on our consultations is available in our community engagement section.

## Nuclear

Nuclear power is an important source of reliable and low carbon energy that delivers baseload power. In 2010, we received our first full year of profit from our 20% equity stake in British Energy. Our equity stake benefited from 9.7TWh produced from British Energy's nuclear fleet.

The joint venture agreement entitled us 20% of the uncommitted power generated by the British Energy fleet, which we could sell onto our customers. We began receiving this off-take in April 2010, and delivered 6.7TWh of low carbon nuclear power. This accounted for 22% of the energy we provided to customers out of our own generation.

The 2010 output of the British Energy fleet was impacted by long term outages at Dungeness, Heysham 2 and Sizewell B. The most significant loss in terms of overall fleet performance was Sizewell B which was shut down for approximately six months for inspection and repair. In December, we welcomed the announcement of plant life extensions until 2019 for Hartlepool and Heysham 1 nuclear power stations.

Carbon emissions from nuclear power are very low compared with fossil fuels and the process generates large amounts of electricity for the amount of fuel required. For example, approximately one tonne of nuclear fuel (natural uranium) produces as much power as 20,000 tonnes of black coal, or more than the lifetime output of a large wind turbine.<sup>1</sup> The increased amount of low carbon electricity available to our UK customers as a result of the nuclear power generated by our 20% stake helped avoid the emissions of 2.7m tonnes of CO<sub>2</sub>e had the electricity been generated by third parties from whom we source power.

Nuclear generation does produce nuclear waste, some of which can be highly radioactive and therefore requires special attention. To read more about the nuclear waste produced from our 20% equity share, see the Environment section.

The impact on the public of radioactivity from nuclear power generation is negligible. The UK nuclear industry adds less than 0.1% to the radiation received by the average person, and accounts for just 0.3% of the hazardous waste in the UK.

In partnership with EDF Energy, we hope to build four 1.6GW power plants with the first reactor due to begin

generation in 2018. Doing this will not require public subsidy, but will depend on the right, stable regulatory framework in place (see 'future of energy' in the Energy for a low carbon world section of the report). Work has progressed in 2010 to secure planning permissions, site licenses and a funded decommissioning programme. With our partner EDF Energy, we have started to tender some contracts, including the main civil engineering works. Subject to the necessary approvals and the outcome of the UK Government's Energy Market Reform consultation and the level of clarity it brings to the market, we hope to make a final investment decision in 2012 on whether to proceed with developing a new power station at Hinkley Point.

### Future commitment

- Continue our plan to invest £1.5bn in renewable energy assets in the period 2008-2013

<sup>1</sup> World Nuclear Association [www.world-nuclear.org/info/inf03.html](http://www.world-nuclear.org/info/inf03.html)

# Gas and oil exploration and production

Performance indicator	Unit	2010	2009	2008	2007	2006
Centrica Energy gas production volumes	mmth	2,533	1,708	2,418	2,260	1,916
Gas storage volumes	BCF	215.3	193.3	178.1	n/a	n/a
Gas storage duration - Rough	days	75	75	75	n/a	n/a

## Exploration and acquisitions

Centrica's extraction and production capacities grew significantly in 2010. We grew our total reserves by 9% through our drilling programmes and acquisitions. We also benefited from the first full year of production following the acquisition of Venture Production in 2009.

Our exploration and appraisal programme had an exceptionally successful year, with discoveries at the UK North Sea's Olympus, Fulham and Pegasus prospects and in Norway's Fogelberg, Maria and David prospects. In total, we added 31 million barrels of oil equivalent (mmbobe) of reserves as a result of drilling activity in 2010. At least 11 wells are scheduled to be drilled in 2011. While our exploration drilling on the Alcyone, Morpheus, Caerus and Halley prospects were unsuccessful, we developed the previously shut well, Buckland BK4. Centrica has nonetheless retained its position as one of the most active drillers in the UK North Sea.

In North America, Direct Energy acquired 108 gas wells at Wildcat Hills in Alberta, Canada. These wells add 80m cubic feet equivalent (mmcfe) per day, increasing the proportion of gas that Direct Energy now produces from its own resources from 20% to 35%.

Some of the assets at Wildcat Hills are on First Nations land, a culture and people indigenous to the region. Centrica is committed to respecting the rights of indigenous communities, as outlined in our human rights policy. The relationship between energy companies and First Nations communities in Canada is well established where communities receive royalty payments in return for their natural resources. Our community engagement section provides further details on our relations with the First Nations communities.

## Developing existing assets

Existing assets in Norway and the Netherlands are increasing in production, bringing our overall gas production to 2,533 million therms (mmth) in 2010. Our F3FA gas field development project in The Netherlands started producing first gas in January 2011. Its unique mobile production platform design will ultimately enable us to spread its cost across multiple sites.

## Liquefied natural gas (LNG)

The UK has been a net importer of gas since 2004, making LNG imports increasingly important for energy security. We contracted over 1bn therms in 2010 and secured our first LNG producing assets in Trinidad & Tobago in early 2010. Our small team in Trinidad is staffed locally, and liaises with the operators and partners of the assets.

In 2010, we made progress towards building long-term relationships with overseas producers, particularly with Qatar. In February 2011 we signed a £2bn deal with Qatargas. The three year contract will deliver 2.4m tonnes per annum of LNG to the Isle of Grain facility, which is enough to meet approximately 10% of UK annual residential gas demand, equivalent to the needs of 2.5m households.

Centrica continues to expand its LNG import capacity in the UK, enabling the company to meet increasing demand. In 2010, our LNG met around 3% of total UK demand for gas. A new jetty added to the Isle of Grain terminal in 2010 will help us to increase our import capacity further.

## Gas storage

Investment in gas storage in the UK will make an important contribution to energy security. Currently, UK storage capacity represents 4% of annual demand. By comparison, French, German, and Dutch storage assets hold 25%, 22%, and 12% of demand, respectively. Historically, the UK has not needed high levels of storage due to the amount of flexible indigenous production. As the UK becomes increasingly reliant on gas imports, the UK will need increased storage capacity to enhance security of supply. Without additional investment in storage capacity there is a risk that the market will be unable to respond to rapid increases in demand and/or disruptions to supplies.

Our gas storage facility at Rough, off the coast of England, provides over 70% of UK storage capacity and is an important asset to Centrica and the UK to deliver energy security. Our storage business performed very well in a year with record levels of injection and withdrawal.

The exceptionally cold weather in January and February resulted in a record low Net Reservoir Volume (NRV) in March, followed by injection during the summer months of more 100 billion cubic feet (BCF). Further cold weather late in the year led to 47 days of consecutive withdrawals between the middle of November and the end of December, resulting in the lowest ever NRV at the end of the year.

We have three gas storage projects—Caythorpe, Baird and Bains—in development. Caythorpe remains on hold due to reduced market volatility and higher than anticipated construction costs. We are continuing our review of the Baird project's design and economics and expect to make an investment decision in 2011. Similarly, we expect to make an investment decision on the Bains project in 2011.

# Stakeholder dialogue in 2010

**Ensuring a consistent and secure supply of energy requires cooperation among multiple stakeholder groups. Centrica plays an important role, as an integrated energy company whose businesses range from gas fields to customers' homes and businesses. Each of our businesses contributes to energy security, and we rely on numerous partners to work with us to secure future energy supplies.**

We must maintain constant dialogue with local communities. It's important that we demonstrate our genuine interest in the concerns and wellbeing of these stakeholders in order to preserve our licence to operate. Our engagement with communities is necessary particularly when we are constructing energy infrastructure, such as power stations and wind farms, or conducting gas exploration exercises.

Following our successful bid for the exclusive rights to develop offshore wind farms in the Irish Sea Zone as part of the Round 3 tendering process, we started detailed zonal assessments in the region. Our objective at this time is to identify specific sites for development and potential issues or challenges that we will need to address. During this time, we began consulting with stakeholders and we outlined our proposal through the publication of a scoping document and exhibitions. More information on our consultations is available in our community engagement section.

We also engaged with the First Nations, following our acquisitions of natural gas assets at Wildcat Hills in Alberta, Canada. For more information on how we manage our local impact with First Nations communities, see the Community engagement section.

As important influencers of public opinion and sources of valuable input, NGOs also play a significant role in the energy security debate. As we plan and conduct our operations, we regularly consult with social and environmental groups who have an interest in our business impacts. Please see Energy for low carbon world for more on our engagement with NGOs and other stakeholders around climate change.

## Government and regulator discussions

Governments and energy sector regulatory bodies are critically important stakeholders in the energy security agenda. Their policy decisions and oversight have significant influence on the way we manage our assets, conduct business with customers, and plan our investments in new energy infrastructure.

Achieving energy security requires the energy sector to develop new assets in the near future. We are working with governments to establish a regulatory framework that will make these economically viable. Additionally, we seek planning processes that will enable projects to progress smoothly.

In 2010, we engaged with the government on a number of issues relating to energy security, including:

## Options for delivering secure and sustainable energy supplies

In response to Ofgem's Security of supply consultation, which evaluates the UK electricity and gas markets' mechanisms for delivering reliable energy, Centrica published a public response, and continues to engage with regulators. For a summary of our positions, see our response on our website.

## Energy Market Reform (Dec 2010)

At the end of 2010, the UK Government released an evaluation of the UK energy market, with an eye on reform. Centrica is an active participant in this ongoing dialogue, and will continue to work with the government to ensure that we preserve a regulatory environment conducive to a diverse and low-carbon portfolio of energy sources. For more information, see the 'future of energy' section in Energy for a low carbon world.

# Safety

## Contents

### 2 **Overview**

Safety management

Safety at our assets and operations

### 3 Safety in our customer-facing businesses

Customer safety

### 4 **Performance 2010**

Employee safety

### 6 Process safety

Customer safety

### 8 **Stakeholder dialogue 2010**

Employees

Government and industry

Customers

## Overview

**Our operations supplying gas and electricity are inherently hazardous and we fully recognise our responsibility to protect the health and safety of employees, contractors, customers and the wider public. This is the top priority for Centrica. We believe that all work-related injuries can be prevented.**

Our determination to keep employees safe and healthy is supported by our ambition to have a committed, skilled workforce. We recognise that this requires cultural change, putting safety at the heart of everything we do, and a more proactive approach to finding solutions.

We have made strong progress on safety since we launched the Group Health, Safety and Environment (HS&E) strategy in 2009. This maps our journey from a compliant to an advanced and ultimately a leading safety culture, demonstrating best practice. Audits, gap analyses and a Group-wide roadmap provide a consistent framework for our businesses to assess their performance and develop continuous improvement plans. As a result, our performance continues to improve and in 2010 we cut lost time injuries by 16.3% to 0.41 per 100,000 hours worked, down from 0.49 in 2009.

For information on health, see [Employee health](#).

For information on environment, see [Internal carbon footprint and Environmental practices](#).

### Safety management

Safety risks in our operations range from slips, trips, falls and road safety incidents in our customer-facing businesses to the risk of a major incident at our oil/gas and power generation facilities. Our approach aims to manage these risks effectively and flexibly to meet local needs. We want to develop a culture where all safety risks are tackled with the same determination to improve performance, in a way that encourages the spread of best practice.

Our health, safety and environment strategy is supported by new standards and procedures outlining our minimum expectations of performance and reporting. By the end of 2010, we had completed initial assessments in all businesses to identify gaps against these standards and our businesses had completed almost 100 roadmap self-assessments. These self-assessments, which cover systems and processes, as well as behaviours, help teams to gain a better understanding of their safety culture compared to the Group framework. In 2011 we will commence a three-year independent audit programme to ensure each business meets the minimum requirements set out in the standards.

To support the strategy implementation, we provided training for our top 200 managers to help them understand their responsibilities and the changes expected. Safety criteria covering leadership, proactive plans and performance are also included in annual incentives for Centrica executives.

To provide more information on safety incidents across the business, we have begun reporting the total recordable injury rate. Recording all injuries, not just those that result in lost time, is providing us with a more complete picture of accidents to help us eliminate all injuries. Any major safety incidents must be reported to the Chief Executive and Group Health, Safety and Environment Director as soon as possible after the incident and in all cases within 24 hours. We are also developing a set of metrics to report safety performance for those activities where we do not have direct control, such as contractor and third party operations, in order to understand performance and risks in these areas.

### Safety at our assets and operations

Serious safety incidents at our oil/gas and power generation sites are rare but their potential consequences for our employees and the wider community are severe. Consequently, we maintain a strong focus on process safety, which is concerned with the prevention of harm to people and the environment from fires, explosions and accidental releases of hazardous substances. Requirements for process safety are embedded in our Group health, safety and environment framework and we routinely monitor a range of leading and lagging indicators to identify and address the potential precursors of major incidents.

Centrica has a good safety record at our oil/gas and power generation operations and there were no major process safety incidents in 2010. Several sites achieved significant milestones, including Roosecote power station which reached five years with no lost time injuries. In North America, the Paris Energy Center in Texas had no loss time injuries over a five-year period. However, we remain vigilant and learn from near misses.

Near misses provide a valuable opportunity to learn from and help prevent future incidents. In 2010 we implemented

procedures to improve sharing and learning across our oil/gas and power generation businesses. Process safety performance is also one of four groups of indicators reported quarterly to the Centrica Executive Committee (CEC). The CEC reviews any 'high potential' events and ensures lessons on precautions and procedures are shared throughout the business. There was one such event in 2010. This was a gas release at a well site in Direct Energy's upstream business in Alberta. While no fire or injury occurred, the event could have had more serious consequences in different circumstances. Direct Energy took action to address the root causes of the incident, which included improving procedures, and the learning was shared across the Group.

Following the incident on the Deepwater Horizon drilling rig in the Gulf of Mexico, we conducted a thorough review of our systems and procedures in our high hazard operations, with a particular focus on third party operations. While Centrica is not engaged in any deepwater drilling, we have looked hard at the causes of the incident and subsequent investigations to understand how we can further strengthen our own operations. As a result, in 2011 we will introduce improved monitoring of safety performance among our contractors and continue to embed a culture where employees feel able to challenge any unsafe practices.

Our 20% stake in nuclear power generator British Energy, jointly owned with EDF Energy, involves specific safety challenges at the existing nuclear power stations. While we do not operate any of the nuclear facilities, we have a responsibility as a minority shareholder and as a member of the board of British Energy Group plc to monitor and oversee safety performance. British Energy has a strong safety record and for more detailed information on the health and safety performance of the existing fleet of nuclear power stations, please see [www.edfenergy.com/sustainability](http://www.edfenergy.com/sustainability).

See also [www.centrica.com/nuclear](http://www.centrica.com/nuclear) for more information.

## Safety in our customer-facing businesses

The majority of Centrica employees work in our customer-facing businesses within British Gas and Direct Energy. The nature of these operations brings with it a wide range of personal safety risks, from road safety to working in unfamiliar environments such as customers' homes.

We target common accidents like slips and falls through behavioural campaigns. The British Gas 'What if' campaign has resulted in a continuous improvement in our personal safety injury rates in this part of the business since it was introduced in 2009. Lost time injuries decreased from 0.61 per 100,000 hours worked in 2009 to 0.52 by the end of 2010. However, it is challenging to benchmark this data externally because companies take different approaches to tracking lost time injury rates.

Driving is one of the most hazardous activities that many of our employees face. In 2010 we increased our focus on road safety to improve performance and released a new Group

road safety standard. Road accidents are a particularly significant risk for employees regularly driving high mileages. We prioritise these employees, together with new drivers, those changing vehicle type and other high-risk drivers, to undertake driver development training and we evaluate driver performance regularly.

Our businesses are required to report road safety performance quarterly to the Centrica Executive Committee in the form of high and low severity road safety incidents per million kilometres driven. Direct Energy is not yet able to provide road safety data for the newly acquired business Clockwork Home Services and is not therefore in a position to set a North American target for 2011. Our Group low severity road safety incident rate for 2010 excluding Direct Energy was 11.1 incidents per million kilometres driven and we are planning campaigns to help us reduce this to 10 by the end of 2011. Overall, our low severity road safety incident rate for 2010 including the existing Direct Energy business was 9.5 per million kilometres driven.

## Customer safety

The safety of our customers is of critical importance to Centrica. We are responsible for the safety of those living in close proximity to our high hazard operations and we are also responsible for the safety of gas supplies and appliances in millions of homes.

While domestic gas leaks are a constant risk, carbon monoxide (CO), being invisible, odourless and tasteless, can pose an even greater risk when emitted from poorly fitted or maintained equipment.

In the context of the total number of gas appliances in households, the number of recorded CO incidents in the UK remains rare. The number of confirmed CO incidents investigated by British Gas across the UK rose from 36 in 2009 to 57 in 2010, their highest level since 2004. In 11 of these cases, there was a British Gas service history. British Gas continues to raise awareness of carbon monoxide through industry-wide publicity campaigns organised by the Carbon Monoxide Consumer Awareness Alliance (COCAA), of which Centrica is a member. We also distribute CO alarms and make sure service engineers are skilled in protecting customer safety.

Direct Energy has a rigorous process for ensuring that carbon monoxide detectors and combustion analyzers are always available for customers and correctly calibrated. All furnace start-ups include a check for carbon monoxide.

Customers can also be at risk from tampering with or bypassing their meters, which can lead to electrocution and gas explosions. British Gas is leading the industry in tackling this issue, which UK electricity and gas regulator Ofgem estimates affects 0.25-0.35% of meters.

We are also addressing risks for customers when we carry out work in their homes. For example, our Canadian Home Services business implemented new safe work procedures to address how to control a work site and equipment in a way that protects customers, especially children.

## Employee safety

Performance indicator	Unit	2010	2009	2008	2007	2006
Lost time injuries - Total	per 100,000 hours worked	0.41	0.49	1.00	1.05	0.80
Fatalities	No.	0	0	1	0	7
Total recordable incident rate	per 100,000 hours worked	2.13	n/a	n/a	n/a	n/a
Road safety incident rate - low severity	per one million km driven	11.1	n/a	n/a	n/a	n/a
Road safety incident rate - high severity		0.03	n/a	n/a	n/a	n/a

Scope includes contractors who work on our premises or under our management systems, where we have management control of activities

### Previous commitments

Reduce lost time injuries by 12.5% to 0.43 per 100,000 hours worked in 2010 ●

Develop a road safety key performance indicator ●

All top 200 managers to attend a health and safety workshop in 2010 ●

Conduct health and safety audits concentrating on management systems of each business unit in 2010 ●

Conduct risk-based audits of each business unit, focused on the top health and safety risks and audit controls in 2011, covering occupational health, personal safety and process safety ●

Implement a hazard tool to track unsafe acts or conditions in relevant operations ●

Develop corporate governance auditing arrangements ●

### Progress key:

Achieved ● Partially achieved ● Not achieved ●

Employee safety is of paramount importance to our business. During 2010, we reduced the number of lost time incidents by 16.3% to 0.41 per 100,000 hours worked, exceeding our target of a 12.5% reduction for existing businesses. This represents continual improvement since 2008 and reflects our focus on changing the company's safety culture.

Our businesses expanded rapidly in 2010 with new acquisitions in the UK and North America, including Clockwork Home

Services. Throughout this we have worked to integrate newly acquired operations within our Group safety strategy and apply best practice. Our overall lost time incident rate including Clockwork data was 0.43 per 100,000 hours worked in 2010, but we are reporting this figure separately as it is not calculated on the same basis as our original target. However, our target for 2011 to achieve a lost time incident rate of 0.37 does include Clockwork.

### Reducing injuries

We continue to achieve low levels of lost time injuries in our generation, exploration and storage businesses. For example, in 2010 Barry and Roosecote power stations celebrated four and five years without a lost-time accident respectively. Barry and Brigg power stations received Gold Awards from the Royal Society for the Prevention of Accidents awards for their safety performance, management systems and safety culture, while Killingholme and Peterborough power stations received the President's Award recognising 13 consecutive years of Gold Awards. Our entire Storage business, representing around 400 employees, also achieved a full year without a lost time injury.

Lost time injuries remain a challenge within our customer-facing businesses, but we continue to make progress. In British Gas, lost time injuries decreased from 0.61 per 100,000 hours worked in 2009 to 0.52 by the end of 2010. British Gas was awarded 'Training Initiative of the Year' at the 2010 CORGI Awards for its work with occupational training specialists Cognisco and Skills2Learn to improve engineers' safety through risk assessments and behaviour change. The awards recognise excellence across the plumbing, heating and renewable energy industries.

Throughout 2010, we have been monitoring road safety data to improve our understanding of the risks to our company car and van drivers. Direct Energy is not yet able to provide road safety

data for the newly acquired Clockwork Home Services business, and is not therefore in a position to set a target for 2011. Our Group low severity road safety incident rate for 2010 excluding Direct Energy was 11.1 incidents per million kilometres driven and we are planning campaigns to help us reduce this to 10 by the end of 2011. Overall, our low severity road safety incident rate for 2010 including the existing Direct Energy business was 9.5 per million kilometres driven. Our high severity incident rate was 0.03 incidents per million kilometres driven, representing eight incidents in total over the year.

We have been able to increase the data we collect and report as a result of our Group-wide systems for recording safety incidents, which enable us to investigate root causes and put in place corrective actions.

This year, we are reporting our total recordable incident rate for the first time – at 2.13 per 100,000 hours worked, which includes data from Clockwork. This is equivalent to 1,476 incidents in total. We aim to improve this to 1.97 in 2011. We have also introduced a hazard tool to identify unsafe acts or conditions before an incident happens. This is available for teams to use but is not a mandatory requirement across the Group and has been implemented in the power business only so far.

There were no fatal incidents among Centrica Group employees in 2010. Tragically, two contractors working on Centrica projects were killed in 2010. A subcontractor working for Heerema on Centrica Energy's F3-FA project was killed at their shipyard in the Netherlands, when scaffolding collapsed. A contractor working for Direct Energy was killed while doing pre-drilling survey work in Alberta in a driving incident. The contracting company and the authorities have investigated and Direct Energy has provided support.

We believe it is part of being a responsible business to monitor, review and publish information about contractor and third party incidents to inform our wider safety objectives and commitment. Contractors working on our premises are already covered in the Group data reported. From 2011, we are adopting a new measurement approach which will incorporate contractor data for activities that are not directly controlled by Centrica.

## Safety training

We already provide regular training to employees working in high hazard operations and in 2010 we increased training and awareness opportunities for all employees. Direct Energy introduced a new interactive e-learning programme, part of the 'Six to Own' safety training series, which aimed to put safety at the forefront of employees' minds in the decisions they make day to day. Our Group-wide Time Out for Safety Week highlighted how properly maintained workplaces, homes and vehicles can

help avoid accidents. For example, within our Centrica Storage business we ran competitions for employees and their families focusing on safety messages.

To raise awareness more widely, we developed a four-minute animation which follows a journey from 'compliant' to 'advanced' and ultimately to 'leading', demonstrating what each of these behaviours looks like in reality. It shows, for example, how van drivers, office-based workers or engineers can put safety at the heart of their working lives and how managers should enable them to do so. This animation has also been used to explain best practice regarding the environment and workplace health.

In 2010, we also provided workshops for our top 200 managers to help them understand their role in creating a leading safety culture. These received very positive feedback and are helping to create a more safety-conscious mindset among our employees. By focusing on the behaviours of leaders and employees, this is helping to drive a cultural change in the business and to support the implementation of our strategy.

## Safety management and auditing

In 2011, we will commence a three-year audit programme to ensure each business meets the health, safety and environment standards that we have published. This builds on the gap assessments of management systems that we carried out in 2010 to identify areas for improvement and promote best practice. Our Group framework is providing a consistent benchmark against which each business can assess their performance. This then enables them to put together action plans to address improvement areas.

### Future commitments

- Reduce lost time injuries by 14% to 0.37 per 100,000 hours worked in 2011
- Reduce lost time injuries to 0.20 per 100,000 hours worked by the end of 2013
- Reduce total recordable incidents to 1.97 per 100,000 hours worked in 2011
- Reduce road safety incidents to 10 per million kilometres driven in 2011
- Track and report fatalities, lost time injury rate and recordable incident rate at managed third party operations, and fatalities and major injuries at monitored third party operations
- Commence three-year audit programme to ensure each business meets our safety standards
- Complete a health, safety and environment culture survey across the Group
- Develop the Roadmap further to cover additional identified functional areas such as road safety and unsupervised workers

## Process safety

### Previous commitments

- Implement the Group process safety training initiative ●
- Implement improvements to process safety performance monitoring and incident learning ●

Process safety is concerned with the prevention of harm to people and the environment from fires, explosions, and accidental releases of hazardous substances.

### Process safety training

In 2010 we delivered the first phase of a Group-wide process safety training initiative to support the specific competency requirements of people in our oil/gas and power generation businesses. More than 130 employees attended these training sessions, which aim to better equip managers, engineers and operations staff with knowledge of the fundamentals of process safety. Leadership competence and commitment is a consistent feature of our safety strategy, so the training will encompass senior leaders across the business in 2011.

The Group-wide training initiative complements business-specific programmes such as Centrica Energy's process safety awareness training at the Health and Safety Laboratory and Centrica Storage's Safety Awareness programme.

### Process safety monitoring

In 2010 we refined the reporting of process safety performance. This included improvements to both the quantity and quality of event reports, especially near misses. We also increased the visibility of a range of leading and lagging metrics, such as those on asset integrity management and regulatory inspections. These changes are enabling us to take action to address issues before they lead to incidents.

### Future commitments

- Deliver director-level process safety training
- Develop human factors self-assessment tool and best practice case studies

## Customer safety

Performance indicator	Unit	2010	2009	2008	2007	2006
Carbon monoxide incidents (British Gas service history)	No.	11	8	7	5	4
Total carbon monoxide incidents (all suppliers)	No.	57	36	43	29	29
Number of CO alarms provided by British Gas	No.	248,168	340,164	303,327	268,515	233,307

### Previous commitment

- Classify the severity of customer accidents ●

Customer safety is an important issue for British Gas and Direct Energy. Accidents in customers' homes account for a significant proportion of employee injuries and we are working

to improve our understanding of accidents suffered by customers while engineers are in their homes.

Our Canadian Home Services business implemented new safe work procedures in 2010 to address how to control a work site and equipment in a way that protects customers, especially children. These procedures were supported by a task observation programme for our technicians to help them

identify, evaluate and control hazards that could affect customers. We also give members of the public the opportunity to call in and provide feedback on our drivers, which helps to increase their focus on driving safely. There were no customer accidents in our North American home services business in 2010.

Work is underway to classify the severity of customer accidents, but collecting accurate data is challenging; our engineers currently report all accidents that occur while they are visiting a customer's home, even if their presence was not the cause. We aim to complete this work in 2011 as this area is a high priority for Centrica and is discussed regularly at meetings of the Centrica Executive Committee (CEC).

Carbon monoxide poisoning is also a risk to householders with gas appliances. The number of carbon monoxide (CO) incidents in the UK remains rare. Despite this, recorded CO incidents rose in 2010 to 57, the highest level since 2004. There was also a slight increase in the number of incidents where British Gas has a service history, although this does not necessarily imply British Gas is at fault.

The increase can be attributed to a number of factors, including the extended cold weather at the beginning and end of the year, which meant gas appliances were used for longer periods, highlighting any defects. Boiler flues can also be affected by cold weather, resulting in waste gases including CO not being expelled effectively. A significant number of the incidents were also caused by a lack of maintenance.

Awareness of CO risks in the UK is low and 80% of households do not have an audible CO alarm. All British Gas engineers carry CO awareness literature in their vans, along with carbon monoxide alarms, which they are trained to install and explain to customers. British Gas has installed more than 3m alarms in customers' homes over the last 13 years.

In 2010, British Gas was awarded the Gas Industry Safety Group's (GISG) 'Decade of Excellence Award' for its work to tackle CO risks through incident investigation and knowledge sharing, such as our involvement with the Gas Safety Trust's 'Hotspot' report, which details geographical CO hotspots based on the number of reported CO incidents per person. For details of our involvement with the Carbon Monoxide Be Alarmed campaign, see stakeholder dialogue.

Direct Energy has a rigorous process for ensuring that carbon monoxide detectors and combustion analyzers are always available for customers and correctly calibrated. All furnace start-ups include a check for carbon monoxide. The importance of these standard procedures was highlighted when one of our furnace repair technicians recorded dangerously high levels of carbon monoxide at a property he was visiting. He shut off the source of the gas and contacted emergency services to ensure that the building's residents were not harmed. His quick actions protected the residents from any serious injury or illness and were reported on the front page of the Ottawa Metro.

### **Future commitments**

- Complete classification of severity of customer accidents as part of an overall reporting framework for customer safety across the Group

To see the full set of performance data, visit our data centre at [www.centrica.com/responsibility](http://www.centrica.com/responsibility)

## Employees

Engaged employees are vital to fulfilling our vision of a leading safety culture. We consult them through health and safety committees at every site and hold health, safety and environment forums where employees can make suggestions, raise concerns and discuss issues.

During 2010, we developed a communications plan to accompany the roll out of our new safety policy. We created a DVD on the theme 'Centrica Cares', along with other supporting material, which we made available across the Group to generate discussion about what it means to create a leading safety culture.

Results from the employee engagement survey show that 88% of employees agree that workplace safety and security is considered important at Centrica. We also place importance on participation at our third party managed operations. This was demonstrated by a recent audit by the UK Health and Safety Executive, which rated Centrica Energy's Kittiwake platform as having the best level of workforce involvement anywhere in the North Sea.

However, we recognise that safety is no area for complacency, so in 2011 we will be conducting a survey to better understand how employees view our approach to safety. The survey will cover whether employees feel encouraged to highlight unsafe practices.

## Government and industry

We actively engage with government and industry bodies such as the UK Health & Safety Executive (HSE). We are a signatory to the HSE pledge – a UK-wide initiative which aims to bring organisations from all sectors together to commit to making their workplaces as safe and healthy as possible. We have committed to continue working closely with the HSE and its partners. During 2010 we conducted safety training for HSE employees and organised a joint conference on process safety. We are also a technical partner of and active participant in the work of the Energy Institute and the Engineering, Equipment and Material Users' Association.

We also work with other safety representatives to share best practice. For example, employees from our Centrica Storage business participated in several forums in 2010, including a 'Step Change in Safety' networking event and a meeting of BP's safety representatives. Those attending then shared their experiences with the wider workforce. This sharing included a helicopter awareness session, which provided an insight into

helicopter maintenance and safety arrangements for regular and occasional flyers.

During 2010, we invited British Energy's Safety Technical Director to present on 'Emergency Preparedness' to the Centrica board. This covered what the British Energy response would be to an emergency situation at a nuclear plant and what Centrica could expect in such a situation. A representative of the nuclear regulator, the Office for Nuclear Development, also presented on the same topic.

In Ontario, Canada, Direct Energy chairs the Services Sector Labour Management Health and Safety Committee. The aim is to educate residential, industrial, commercial and institutional property owners about their role and responsibilities in helping ensure the safety of tradespeople who service their premises. Specific issues being addressed by this group include safe access to equipment and provisions for fall protection on multi-storey buildings.

## Customers

In the UK, our engineers and customer service advisors engage customers on carbon monoxide safety. They are trained to provide advice and recognise warning signs. British Gas also raises carbon monoxide (CO) awareness with its own communications and through participation with all leading CO awareness groups and charities.

Throughout 2010 British Gas has continued to support the Carbon Monoxide Consumer Awareness Alliance (COCAA). COCAA aims to be the leading authority on Carbon Monoxide poisoning awareness and campaigning, believing that the responsibility for raising awareness on Carbon Monoxide poisoning is not something that can be given to any one individual or organisation. British Gas has worked proactively with COCAA, including participating in the Alliance's annual Carbon Monoxide Awareness Week, where we attended venues around the country, issuing advice on incident prevention and donating carbon monoxide alarms to members of the public at each event. We also support the Be-alarmed campaign.

As well as the relationship with COCAA, British Gas has worked with all the major carbon monoxide charities, including The Gas Safety Trust, CO Awareness, CO Gas Safety and the Dominic Rodgers Trust. We meet with them to assist all with the common goal of raising awareness and promoting greater use of detectors. Also in 2010, we participated in a carbon monoxide awareness workshop at Glossop hosted by Tom Levitt, who was Member of Parliament for High Peak at the time.

# People

## Contents

**2 Overview**

Engagement and retention

Employee survey

**3 Engaging employees**

Trade union engagement

Learning and skills

Building skills for a low carbon world

**4 Recognising and developing talent**

Recruitment

**5 Performance in 2010**

Engagement and retention

**7 Consultation**

**8 Training and skills**

**9 Recruitment**

**10 Stakeholder dialogue 2010**

**11 Vision and values**

Union consultation

# People

## Overview

**A committed workforce with the right technical skills and understanding of our customers is essential to deliver energy security and support our strategic move into energy services. We remain committed to developing the potential of our existing employees as well as bringing new skills into the company through acquisitions and recruitment.**

In 2010, we implemented a number of internal, structural changes in our businesses. Departments in British Gas changed to align activities between our energy sales, energy services and new markets businesses. Centrica Energy completed the acquisition of the Venture Production teams into the gas exploration and production business. At the same time, new acquisitions in the UK and North America have bolstered our skills base to help us expand into energy services and extend our gas production capacity.

Our focus during these changes was to enhance the business by aligning teams, developing the skills of our existing employees and sourcing new talent through recruitment and acquisitions. It is inevitable that the scale of these changes will impact our employees, and integrating people from our new acquisitions also brings challenges. Throughout the process, we have sought to manage this impact and have worked hard to keep them informed and engaged in our strategy – our business cannot succeed without them.

We aim to offer an environment in which all our employees can flourish. We want to attract and retain the best talent and our learning and personal development plans help us to achieve this.

## Engagement and retention

We want our employees to feel valued and engaged. This helps to make Centrica an employer of choice, strengthening our ability to attract and retain the most talented people. Engaged and motivated employees also help our business as their enthusiasm and positive working environment contributes to a better experience for our customers.

We regularly interact with employees through surveys, meetings and focus groups to gauge how we are doing and ensure we address any concerns. Some employee feedback is available in the Dialogue section. Our research shows that better employee engagement correlates with lower employee

turnover, more motivated and productive people, and improved customer service. For example, an analysis of net promoter scores (NPS) shows that teams with higher engagement levels achieve higher customer satisfaction scores. Understanding this link will help us to target engagement activities for particular groups of employees and improve our wider business performance.

Our efforts to create an engaging workplace were rewarded in the UK as each of our UK businesses were recognised by the Sunday Times. British Gas ranked 14th in the Sunday Times Top 25 Best Big Companies 2011, while Centrica Storage ranked 64 and Centrica Energy 79 in the Sunday Times Best 100 Companies to Work For 2011 list. The results are based on our people's perceptions of what it's like to work for the company. This is then compared with employees of other participating companies.

## Employee survey

In 2010, the overall engagement score from our annual employee survey dropped two points from 66% to 64%. Given the scale of changes to the business, this was not unexpected. We remain in the top quartile of the external Aon Hewitt Global Engagement Survey benchmark (covering a range of sectors) and the drop in the score mirrors a broader trend during 2010 that shows more companies reporting a fall than a rise in engagement levels.

For the first time, we also organised a separate survey for our UK service engineers in conjunction with the GMB trade union. The survey was designed to gain a better understanding of their work environment and the steps we can take to improve it. Nearly 60% of our engineers completed the survey providing us with close to 4,000 comments and insights. Feedback was generally positive about Centrica being a good place to work, but it also provided valuable input on how we can improve.

## Engaging employees

We understand that changes in the business can be unsettling for our employees. Our engagement efforts in 2010 were designed to minimise uncertainty and inspire and engage employees on our new strategy.

An important focus was developing and sharing the new vision and values in British Gas, Direct Energy and Centrica Energy. To gain support, we engaged employees involved from the start, asking them to draw on their experience to help us define what our vision and values should be.

British Gas held Make a Difference Days for 3,000 managers in the UK to gain their support and give them the training they need to share the new vision and values with their own teams.

Direct Energy adopted a similar approach through 'Our Charge', which used road shows, focus groups and town hall events to help employees understand the vision and values and how to apply these in their everyday responsibilities.

Centrica Energy held a series of focus groups and road shows for employees across the business to develop the Centrica Energy (CE) Way, which sets out its vision for how the business should be run, how employees are expected to act and what it should be like for them working there. CE leaders ran sessions to launch the CE Way to everyone in the business during autumn 2010.

## Trade union engagement

Our relationships with trade unions are important as we seek to implement changes in our organisation and create an efficient business. The shift to energy services in our British Gas business has placed new demands on our employees as we seek to enhance the service we provide customers. Good trade union relations have been vital in managing this process and diffusing potential industrial action. During 2010 we worked with the GMB to reach an agreement on changes to engineers' contracts that would require more evening and weekend work. Almost two-thirds of engineers accepted new contracts, leading to the changes being applied to all the service engineers and enabling us to fulfil our promises to customers.

We also work closely with other unions including UNISON, Prospect and Unite in the UK, and a variety of unions in North America (see the Consultation section for a full list). For example, British Gas Business entered into a formal partnership agreement with UNISON, agreeing to seek the union's input on proposals before they are finalised.

## Learning and skills

As our business grows, we need employees with the right skills and behaviours to deliver on our strategy. We have a three-pronged approach to building our talent pipeline:

- Continuing to develop the skills of our existing employees through learning and development programmes
- Partnering with universities and industry organisations
- Bringing in new skills through acquisitions and external recruitment

In 2010, we began a strategic capability review to gain a better understanding of our resource and capability needs across British Gas and Centrica Energy. Due for completion in 2011, this in-depth review will help us identify existing strengths and gaps to target training effectively.

We believe that everyone who works for us has talent, and continuous learning and development is key to ensuring that all of our people have the opportunity to fulfil their potential.

## Building skills for a low carbon world

In 2010, we announced our decision to go early on the UK government's Green Deal. To achieve this we must ensure our workforce has the necessary skills to advise on and deliver energy services for our customers ranging from insulation and energy efficiency to microgeneration of renewable energy.

We have made a commitment to invest £60m by the end of 2012 to create over 3,700 jobs in smart meter delivery and home insulation in the UK. Over 2,000 of these jobs will be in the new British Gas Smart Metering business. This business was established in 2010 to lead the drive to meet the UK government's target for smart meters to be installed in every British home by 2020 – some 47m gas and electricity meters in total. We have already employed over 500 people in the Smart Metering business, of which 496 are the Smart Energy Experts who will install the meters.

Smart Energy Experts must complete the unique Smart Energy Expert training programme that combines the technical and customer service skills needed for our Smart Metering business. This training will be delivered through our six British Gas training academies. Of the 496 experts hired, 272 completed their training in 2010.

We opened a Green Skills training academy in Tredegar, South Wales in 2010. As well as delivering skills training for British Gas employees, the academy will offer training for people in the local community, where there is a high rate of unemployment, to give them the qualifications they need to become energy efficiency assessors. Our well-established apprenticeship programme is also helping us recruit and develop new talent.

## Recognising and developing talent

We recognise that all of our people have different talents and aspirations. Career paths such as the Energy Expert Framework for our contact centre teams seek to recognise both technical and leadership expertise and the value that they bring to the business.

Talent Boards have been established across Centrica to identify high potential managers and target training accordingly.

We worked in 2010 to strengthen the ability of our leaders to recognize and nurture talent. Honest Conversation workshops across the business provide them with the tools they need to have effective performance discussions with their teams. We have also developed a 'Talent Toolkit' to help leaders identify, manage and develop the talent in their teams.

We continue to invest in the development of our leadership pipeline. Our General Management Programme focuses on equipping our High Upward Potential leaders with the leadership skills and behaviours to support them in the transition to bigger roles in the future. The Leaders Journey and Leadership Master classes, as well as coaching and mentoring, support the broader leadership population in developing within their role and for the future.

In 2010, we launched MyWorld to help our people achieve their best – from having great performance conversations and creating effective development plans, to understanding the opportunities available and increasing wellbeing. MyWorld is supported by a "one-stop-shop" intranet site, available to all employees.

We established new performance guidelines in 2010 to ensure there is a consistent benchmark across the Group to assess employee performance. This is closely linked with our vision. We also aim to provide new employees with a consistent induction experience when joining Centrica. We then work with them to develop career plans through our ongoing training and development opportunities.

## Recruitment

Our internal recruitment team has grown to meet the increase in demand from our businesses. By reducing reliance on external recruitment agencies we have reduced costs and improved retention rates by having contact with candidates earlier in the process.

In 2010, Centrica was rated 80th in The Times newspaper's Top 100 Graduate Employer list, the highest position ever held by an integrated energy company.

# Performance in 2010

## Engagement and retention

Performance indicator	Unit	2010	2009	2008	2007	2006
Percentage of employees committed to Centrica	%	64	66	57	53	1,300
Total number of redundancies	No.	687	1,009	399	1,381	81.5
Percentage of employees retained	%	89.9	91.2	85.4	84.1	18.5
Percentage of employee attrition	%	10.1	8.8	14.6	15.9	n/a
<b>Employee tenure</b>						
Less than one year	%	16.8	11.3	15	16.3	n/a
1 to 2 years	%	15.3	17.8	18.5	19.1	n/a
2 to 5 years	%	19.8	23.2	23.2	25.9	n/a
5 to 10 years	%	26.3	25.2	22.1	17.2	n/a
10 to 20 years	%	10.1	10.4	9.3	9.2	n/a
More than 20 years	%	11.8	12.1	11.9	12.3	n/a
Average number of days absent per full time employee	days	6.8	7.7	8.8	9.3	n/a

### Previous commitments

Retain 89% of our workforce in 2010 ●

Achieve 67% employee engagement ●

### Progress key:

Achieved ● Partially achieved ● Not achieved ●

The overall drop, likely to be a reflection of the changes in the business, means we did not meet our 2010 target to raise the score to 67%. However, the drop in engagement scores is consistent with a broader trend among other companies across a range of sectors in the Aon Hewitt Global Engagement Survey. We remain in the top quartile although our performance fell below the average score for top quartile companies. We aim to meet this score and remain in the high performance category in 2012, when the next employee survey is conducted.

Our UK service engineers were not included in the full employee engagement survey, given the discussions in 2010 with their trade union GMB over changes to their contracts. Instead, we commissioned an independent survey in conjunction with the GMB. Nearly 60% of eligible employees participated, providing almost 4,000 comments and insights. The results show that engineers believe British Gas is a good place to work and they have a high level of pride in the work they do. Areas for us to focus on include improved performance management and building confidence that we will act on the survey results. Joint action plans have been drawn up with the GMB and we have set out a five point plan to address these issues over the next year. Progress will be measured through future surveys and feedback from engineers.

## Employee engagement

The employee survey allows us to monitor progress against previous years' goals and benchmark our performance against peer companies in the UK, Europe and North America.

In 2010, we achieved a response rate of 81% (down from 90% in 2009) with over 25,400 UK and North American employees taking part in our full employee survey. Our overall engagement score dropped two points from 66% in 2009 to 64%. Most of our businesses saw a slight fall in their engagement scores except for Centrica Energy, which experienced a four percentage point increase.

The survey supported wider discussions with the GMB over changes to service engineers' contracts in light of our new customer commitment. See the Dialogue section for more information.

We want all employees to understand our strategy and their role in helping us to achieve our goals. British Gas organised a range of activities from town hall events, leadership conferences, road shows, team talks, focus groups and workshops to communicate the new vision and strategy to employees. Corporate centre held bi-annual conferences to communicate Centrica's strategy and results. We also organised an induction session for new employees at our corporate centre in Windsor and completed two similar sessions for over 150 new employees at Centrica Energy. These sessions support our efforts to guide managers and new starters through the induction process.

New starters at Centrica Energy have access to a dedicated website to find out more about the company and additional resources are available via the 'Welcome' intranet site. Every new CE employee is invited to a full day induction workshop hosted by senior leaders. The session helps to show how the different elements of Centrica Energy work together.

During 2010 an important focus was integrating employees from recent acquisitions. All 600 employees from the gas and electricity division of Connaught Compliance were briefed following our acquisition of the company in the second half of 2010. Feedback from employees was overwhelmingly positive. We also completed the integration of Venture employees into Centrica Energy, following the acquisition in 2009. In North America, Direct Energy began the process of integrating employees from both Clockwork Home Services and Wildcat Hills, acquired in 2010.

Following the completion of the 2010 survey, a decision was made to conduct our employee engagement survey once every two years. Previously, we have conducted a full survey every two years with an interim survey in between. However, feedback from the businesses has indicated more time is necessary to develop, implement and embed action plans to respond to survey findings. The next survey will be in 2012.

## Retention

Although Group retention levels dropped from 91% in 2009 to 89.9% in 2010, we achieved our target of 89%. We set our 2010 target slightly below our 2009 performance in acknowledgement that the move out of recession in the UK will have an impact on retention levels as employees feel more confident about the external job market. However, we believe the fragile pace of recovery, coupled with our strong performance and continued focus on engagement, recognition and rewards, will help to maintain our retention levels.

## Employee tenure

The make up of our employee base has stayed similar to previous years. The greatest percentage of our workforce has been at the company between five and 10 years while the lowest percentage is those between 10 and 20 years. The greatest change from 2009 was an increase in new employees who have been with the business for less than one year.

## Absence

We monitor the absence of all employees until they return to work and know that preventing ill health is important to tackling absenteeism. When employees do become unwell, we aim to help them get back to work as quickly as possible.

While we include the absence figure in our employee data, the main section for reporting this data and associated programmes is the Employee health section.

## Redundancy

In 2010, we had 687 redundancies across our global operations. While many structural changes occurred within our business in 2010, the focus was on achieving efficiencies between departments rather than reducing headcount. For those employees that faced redundancy, we have a dedicated intranet site to keep them informed and updated on plans. We provide information packs and offer outplacement provisions tailored to specific roles for all employee levels.

### Future commitments

- Retain 90% of our workforce in 2011
- Achieve a score of 67% and remain in the high performance category in 2012

## Consultation

Performance indicator	Unit	2010	2009	2008	2007
Percentage of employees with trade union membership - Group	%	43	45.8	n/a	n/a
Percentage of employees with trade union membership - UK	%	49	54	53.9	52
Percentage of employees with trade union membership - North America	%	14	16.2	14.8	16

Based on employees who pay trade union membership through payroll

Approximately 43% of Centrica employees are members of a trade union based on measurements of the number of employees who pay trade union membership through their payroll. We aim to maintain positive and constructive relationships with employee unions and engage with them on changes that may impact their members, such as contractual changes or restructuring.

Our main union relationships in 2010 included:

- GMB and UNISON for British Gas employees
- Prospect and Unite for Centrica Energy employees in the UK
- CEP, USWA, UA, IBEW, CCQ cover Direct Energy Services Technicians
- CEP for our Direct Energy Home Services clerical staff both full-time and part-time employees

Information on how we engaged with our trade unions in 2010 is available in the Stakeholder dialogue section.

## Training and skills

Performance indicator	Unit	2010	2009	2008	2007
Amount spent on training our UK engineers	£m	21.54	26.5	29.2	26.8

### Previous commitments

- Invest £60m in training our engineers by the end of 2012 ●
- Continue to expand the use of the Learning Management System ●
- Continue to develop our peoples' capabilities and career potential ●

Our employees across North America completed 'Six to Own', which was a series of mandatory learning programmes delivered via the Learning Management System to educate and raise awareness on key policies and practices. Those included Business Principles, Harassment and Discrimination, Travel and Expenses, and Safety, Health and Wellbeing. Two additional modules – Information Security and Delegation of Authority – are being launched in 2011.

### Building engineering skills

We invested £25.1m in 2010 as part of our £60m commitment to create over 3,700 jobs in home insulation and smart meter installation. Our six British Gas training academies – in Glasgow, Leeds, Leicester, Thatcham, Tredegar and Dartford – will deliver training for these new roles. Each academy includes a green training area where apprentices can learn to install low carbon technologies including solar panels and biomass boilers along with energy efficient solutions. In 2010, we hired almost 500 Smart Energy Experts to support the roll out of smart meters in our newly created British Gas Smart Metering Business. By the end of 2010, 272 had graduated from our energy academies to begin installing smart meters.

We opened our first Green Skills academy in 2010 in Tredegar, South Wales, developed in partnership with the Welsh Assembly. The academy will provide skills training for 1,300 British Gas employees and support energy efficiency assessor training for people in the local community.

### Learning management system

As well as focusing on technical skills training, we remain committed to developing our employees' capabilities and supporting their career aspirations. Our Learning Management System (LMS), introduced in 2009, offers a range of online training courses and other development tools. In 2010, our UK employees completed nearly 52,000 online courses equivalent to over 30,400 hours, an increase from 16,900 and 22,000 respectively in 2009. A further 8,300 courses were completed as classroom study with over 110,000 hours of training. At Direct Energy, 16,500 online training hours were completed by our employees in North America.

### Developing capabilities and potential

In 2010, a working group was established to review the British Gas Customer Service Agent Development Journey, which is the training programme to help call centre employees identify their strengths and weaknesses and support their career progression. In 2011, the programme will deliver a portfolio of behavioural development for a variety of roles. The programme will be driven by the individual and consist of a variety of learning solutions in a flexible format, from short practical activities, workshops and e-learning.

We have continued to focus on developing our leadership pipeline. In 2010 twelve leaders from the UK and North America joined our General Management Programme, which is now in its fourth year. The programme runs in conjunction with the Said Business School at the University of Oxford and is designed to develop our High Upward Potential senior leaders of the future. Eighty percent of participants have subsequently been promoted or taken on new development opportunities. In our business units, individual potential is assessed as part of the talent process and high potential managers participate in local Leadership Development Programmes.

We believe that some of the greatest development opportunities exist through practical work experience. At Direct Energy, 'Your Turn' was created to provide non-management employees with an opportunity to explore and achieve their career goals. The pilot programme in Pittsburgh, Pennsylvania puts select employees through a two-year rotation in four departments throughout the business. Each rotation will expand the participants' energy expertise, facilitate sharing of ideas across Direct Energy, and benefit the teams involved.

Similarly, we launched a programme to encourage Centrica Energy employees to undertake secondments in different parts of the business as part of their personal development journey. Development opportunities are also available to employees in our Indian operation to help build local capacity.

## Apprenticeships

We believe Centrica is the largest single trainer and employer of domestic gas engineers in Great Britain, with just under 10,000 service engineers. In 2010, we recruited 450 apprentices. Around 94% of Academy engineering recruits complete their training – one of the highest success rate in the industry – and 90% of apprentices are still with the company after five years.

British Gas works closely with the Duke of Edinburgh's Awards Scheme to build apprentices' problem-solving, communication, team working and business skills. In 2010, British Gas apprentices volunteered their time at OM Memorial School near our operation in Noida, India.

## Work experience

We organise summer placement programmes for university students in line with our commitment to the Confederation of British Industry's Higher Education Taskforce. Seventy-five students, up from 50 in 2009, joined us to gather valuable work experience. Centrica was again named the Best Workplace Experience Provider by the National Council for Work Experience for its summer placement programme.

### Future commitments

- Invest £60m in training our engineers by the end of 2012
- Continue to expand the use of the Learning Management System
- Continue to invest in the development of our people to enable them to reach their full potential

# Recruitment

### Previous commitments

Strive for 75% of external hires to be handled by the Centrica Recruitment Team (CRT) in 2010 ●

Continue our two-year plan to gain a place in The Times Top 100 Graduate Recruiters list by 2011 ●

The Centrica Recruitment team grew in 2010 to meet the increase in demand for external hires from our business. We have found that making contact with new employees earlier by recruiting people through our internal team, rather than using external agencies, helps to improve retention and engagement levels. Both hiring managers and potential employees rated the recruitment experience 50% higher in 2010 compared with the previous year.

The team filled 479 vacancies in 2010, cutting spend with external recruitment firms by £4.4m. Despite this increase, the unusually high level of recruitment in 2010 meant that 62% of external hires were filled by the team, meaning we did not meet our objective of 75%. As demand drops, we expect the proportion of external hires to be filled by the team to grow.

Our graduate recruitment programme continues to be an important part of our approach to identify and recruit future talent. In 2010, we launched the Direct Energy Graduate Programme and just over 70 graduates were recruited in the UK and North America.

In 2010, Centrica was rated 80th in The Times newspaper's Top 100 Graduate Employer list, the highest position ever held by an energy supplier or utility company.

In 2011, the newly formed Centrica Resourcing Team will focus on maximising the use of our in-house expertise to attract and select new talent. The team will improve the candidate hiring experience by delivering new online on-boarding and offer processes in conjunction with raising line manager recruitment capability through improved training support.

**Employees are a key stakeholder group. We engage with them to create a working environment in which everyone can flourish.**

## Employee survey

Our main avenue for formal engagement with employees is the employee survey. We encourage employees to tell us their views about working at Centrica and say what they think about our values, behaviour and the opportunities and rewards we offer amongst other things. Their feedback enables managers to gauge the level of commitment to the company, and identify areas we need to focus on to help employees feel more valued and better recognised.

The survey helps us to measure employee engagement in a comprehensive and consistent way. Over 25,600 people – 81% of eligible participants – completed the survey in 2010. Group-wide employee engagement dropped slightly by two points from 66% to 64%.

Scores improved in several areas compared with the last full survey in 2008 (see table). We asked a new question in the 2010 survey on whether employees felt the company has high ethical values. We were pleased that a high proportion of employees either agreed or strongly agreed that Centrica has high ethical standards.

Performance indicator results (% respondents who agree or strongly agree)	2010	2008 (last full survey)
This company has high ethical standards	77%	n/a
This company takes its environmental and social responsibilities seriously	83%	66%
This company is committed to creating a work environment that is open and accepting of individual differences	75%	68%
Given the opportunity, I would recommend our company's products and services to friends / family and associates	74%	65%
I am empowered to make decisions necessary to do my job well	79%	73%
I receive adequate recognition (beyond compensation) for my contributions/achievements	55%	55%

Highest scoring responses	(% agreement)
I feel good about the job I do for customers	93%
I have the tools and equipment required for my role	90%
I am proud to work for British Gas	87%
I can openly discuss safety related issues with my manager and team	87%
I believe my performance is important to the success of the business	86%

Lowest scoring responses	(% agreement)
The time allocated to do a job is adequate to deliver a great service to customers	74%
Performance management is a fair reflection of the work I do each day	73%
The way I am measured is an accurate reflection of my total contribution to the business	73%
I am confident that the survey results will be acted upon	63%
The way I am measured drives the right behaviours for my customers	63%

The survey collected just under 4,000 written comments which mirrored the quantitative feedback.

The survey also identified areas where we must improve further. Only 55% of our employees feel they receive adequate recognition (beyond compensation) for their achievements. We want this score to be higher and will be reviewing our approach to recognition in 2011 to develop programmes that address this issue.

Employees also provided qualitative feedback on their experiences in response to the questions 'What Makes This A Great Place To Work?' and 'What Would Make This A Better Place To Work?'. View some responses to those questions from British Gas and Centrica Energy employees.

We also ran an independent survey with the GMB for our service engineers. Feedback shows that engineers believe British Gas is a good place to work and they have a high level of pride in the work they do. Areas for improvement include the performance management process and building confidence that the survey results will be acted upon. We have introduced a series of initiatives to address the issues identified, including improvements to performance measurement and management, response to holiday requests, training on customer service and advice, and technical support.

## Vision and values

Dialogue with employees has played a critical role in managing the changes in our business as a result of restructuring, mergers and acquisitions since 2009.

We consulted widely with employees to develop our new vision and values for British Gas, Direct Energy and Centrica Energy. We worked with them to understand their perceptions of what it means to work for Centrica, the culture they want to create and their expectations of the business.

Workshops, focus groups and road shows such as the British Gas Business Engagement Programme were an opportunity to test the new values with employees and discuss how they will impact their work. We organised 10 Make a Difference Days where our 3,000 managers attended workshops to engage them on British Gas' business priorities and give them the training they need to embed the new vision and values within their own teams.

This approach was used across Centrica as we sought to embed the CE Way in Centrica Energy and Our Charge in Direct Energy. During 2010, CE leaders ran sessions to introduce the CE Way to their teams.

## Union consultation

In 2010, we worked closely with our trade unions across our operating regions. In the UK, we engaged with the GMB union on the changes we wanted to make to our British Gas Heating Services business to fulfil our customer commitments. British Gas also expanded its relationship with UNISON. In North America, Direct Energy consulted unions regarding the closure of our home appliance repair business.

We consulted with the GMB union in 2010 on the changes we wanted to make to our British Gas Heating Services business. Changes were necessary to provide greater flexibility to customers, for example, giving the option of home visits at evenings and weekends. Such changes meant potentially longer hours from our service engineers during the winter months.

To help raise awareness of the changes, the British Gas management team spent a few months travelling the country to meet as many service engineers as possible. Feedback was sought from engineers on the changes and potential solutions which fed into our consultations with the GMB.

Initial discussions with the union led to the possibility of industrial action in March 2010. However, through ongoing communications and commitments on both sides for constructive dialogue, we reached agreement with the GMB. The resulting agreement introduced an innovative, flexible pay deal for service engineers that offsets longer working weeks during the busy winter months against a pay increase and shorter working hours during the quieter summer months.

### On our website you can:

- View comments from both the General Secretary of the GMB and British Gas Managing Director on the relationship between the two organisations.
- See the full joint statements from the GMB and British Gas following the agreement.

British Gas has also built an open and collaborative relationship with UNISON. We built a strong relationship with UNISON through various interactions during 2010, which culminated in the creation of a Partnership Agreement. These included:

- A temporary, joint forum with employees and UNISON to discuss the plans for the changes in the business
- Robust discussions with UNISON on frontline base pay that reached a fair and reasonable outcome that was a compromise for all parties
- Regular, ad hoc meetings between local HR and Management teams and the UNISON representatives to discuss and resolve local operational issues
- Implementation of the Partnership Agreement where British Gas agreed to recognise UNISON as a trade union representative under the terms of this partnering agreement

Following a strategic review, Direct Energy announced in December the decision to discontinue the operation of a home appliance repair business with full closure planned by April 2011. We are consulting a number of employees and their unions. This impacted 138 employees, represented by several different unions. We consulted with the unions for clarity and agreement over severance packages. We also met with employees to ensure understanding of why the decision had been made. In addition to severance packages, employees were offered a career transition service tailored to their technical expertise and skills and more traditional career outplacement programs were made available to non-union employees.

# Marketplace

**Maintaining consumer trust and complying with the demands of governments and regulators is critical to our ability to operate in and lead the energy marketplace. We must be fair to our customers by conducting our business with integrity, with respect for our stakeholders and pride in our reputation. This also means ensuring our marketing and customer communications are clear, our sales teams behave ethically and customer privacy is protected.**

For information on customer service, energy pricing and vulnerable customers, see Customer trust.

## Responsible marketing

The fairest way to share information with our customers is to provide simple, straightforward and honest communications and marketing materials. We have specialist compliance teams that work in collaboration with our marketing teams and agencies to ensure that all materials represent the company and its services accurately and clearly.

All advertising, sales and promotional material must be formally approved by these teams before publication. We have extended our compliance with the UK Financial Services Authority's 'Treating Customers Fairly' principles – legally required for some of our service contracts in the UK – to all British Gas customer-facing operations. We were the first residential energy supplier in the UK to commit to these principles with the aim to strengthen processes and maintain standards.

In all of our markets, our advertising must comply with applicable legal and regulatory standards. In North America these standards are monitored in different ways in each of the markets we work in. In the UK, advertising codes are enforced by the Advertising Standards Authority (ASA) and through general consumer laws such as the Consumer Protection from Unfair Trading Regulations (2008). In 2010, British Gas had one complaint upheld, relating to a TV advertisement that was aired in December 2009.

It is never our intention to mislead the public. We take our obligations under advertising codes very seriously and work diligently to rectify any misunderstandings.

## Sales practices

We believe that transparent and simple sales practices are important to treating customers fairly, and we have a responsibility to uphold consistently high standards. Doing so

helps to reduce the risk of distributing misleading information and to ensure our customers have confidence in our communications. To read about our engagements with customers, visit the Customer trust section.

In addition to our compliance with the 'Treating Customers Fairly' principles, British Gas meets Ofgem's requirements for best practice, which empower customers to make informed decisions on their energy providers using clear and transparent information. Our dedicated sales quality team oversees the implementation of these standards, and shares best practice between businesses. See British Gas' sales code of practice on the British Gas website for more details.

Despite our efforts, we do still receive sales complaints. Typical complaints about sales in our sector include issues such as inadequate explanation of contracts and payment terms. In the UK, the energy Ombudsman monitors sales complaints. In 2010, the Ombudsman received 62 complaints about British Gas' sales practices, 41% fewer than the 105 in 2009.

In North America, Direct Energy is subject to stringent consumer protection laws and mandatory sales processes, partly as a result of historical incidents of misrepresentation in the sector, which raised concerns with consumers and legislators. Direct Energy complies with these laws and, particularly in markets where misrepresentation has been an issue, we work with legislators to implement tougher consumer protection laws. We are open with regulators about our intentions, particularly with regard to door-to-door sales, so they are aware of where, what and how we are communicating with customers. See our Customer trust stakeholder dialogue section for more details about how we have been working with governments and regulators in North America.

Direct Energy continually improves processes and training to support sales agents. For example, we employ third-party verification and quality checks on door-to-door sales agents to ensure they use appropriate uniforms, show identity cards and follow proper sales processes. We take swift and firm action if a forgery or related fraudulent activity occurs and can quickly deactivate an agent's ability to conduct future sales.

# Billing and customer communications

## Previous commitments

- Introduce a single bill for British Gas dual fuel customers in 2010 ●
- Launch a prepayment service in Texas through Direct Energy ●
- Enhance online account services for Direct Energy customers ●

It is important that our customers feel that our communications with them are open and transparent. As our most regular form of direct customer communication, our bills provide a channel for sharing useful information to help customers understand their energy use and how to reduce it. We are therefore working to understand how to simplify the design of our bills and present information intuitively, despite strict regulation of customer bills, which limits changes that can be made in the UK. See our Customer trust stakeholder dialogue section for more about our engagements in this area.

Our online platform continues to improve and self serve transactions now account for around 40% of customer contacts, with the number of meter readings submitted, payment transactions and annual service visits booked online increasing substantially year on year. In 2010, 21.7% of British Gas domestic customers had online accounts, up from 16.3% in 2009. The number of business customers submitting meter readings online went up from 21,000 in 2009 to 63,000 in 2010.

In 2010 we improved and expanded our online billing services to include an iPhone application for submitting meter readings. We also engage with our customers where possible through social media channels, enabling our customers to talk to us directly through new avenues such as Twitter and Facebook. In May 2010, a study by eDigital Research rated the British Gas website top among the 12 leading utility and broadband suppliers in terms of usability and customer experience. We will continue to work with regulators to simplify billing further.

In line with our commitment to introduce a single bill for dual fuel customers, we have been working to develop this option and in 2011, 2m British Gas customers will receive a joint bill for their gas and electricity. This change is in response to

feedback from our customer panel (see Customer trust for more information).

Due to the structure of energy market regulation in North America, there are only two markets where we bill our residential customers directly – Texas and Alberta. In all other markets, the regulated utility bills the customers. Where we do bill our customers we want to ensure that their bills are as clear as possible. In 2010, Direct Energy focused on improving online account services for these customers by improving response time through the 'contact us' facility, developing a dynamic online frequently asked questions functionality, and promoting initiatives and addressing customer concerns through Twitter and Facebook. In Texas, we developed an online account manager service that increases the usability of the online services and increases our ability to share information through communications and guidance. We have had a positive customer response to this service and will continue to consider ways of developing it further moving forward.

To meet the diverse needs of our customers, we also provide bills in different languages and formats. For example, our 'Language Line' serves British Gas customers for whom English is not their first language. In 2010, the line processed 5,702 calls. In Texas, Direct Energy offers Spanish language support to its Hispanic customers. In 2010, 15% of our customers opted for Spanish billing.

For those who may have difficulty understanding their bill, we provide a 'talking bill' service which explains the bill and helps them arrange payment. For the visually impaired, we provide alternate formats including bold, large-print, Braille, and audio billing and communications. Overall, we sent out more than 140,000 of these alternative format bills in 2010.

Some customers prefer the certainty of paying for energy needs in advance with pre-paid billing options. British Gas is the only energy company in the UK to offer an online top-up service for pre-paid customers, making payment much easier by eliminating the need to go out to a post office or other pay point. In February 2010, British Gas removed the price differential for gas pre-pay meter accounts. This means British Gas' pre-pay gas customers are now paying, on average, the same for their energy as customers who pay by cash or cheque.

In 2010, we expanded our pay-as-you-go service to North America with Direct Energy's 'Power-to-Go', launched in Texas, a good example of our ability to apply our UK experience in the North American market. As well as accessibility, the service provides customers with daily information on their usage to help them manage their electricity consumption.

# Data protection

Due to the nature of our business, Centrica holds personal information about customers and employees. To have confidence in our ability to manage their private information, our customers need to know that we treat it with the utmost discretion. We have robust controls procedures and staff awareness campaigns in place to ensure that this information is kept securely and not misused or unlawfully disclosed.

We need information about customers to enable us to deliver energy and services to them and we use this to identify additional benefits for customers, particularly eligible vulnerable customers. To supplement this, we are also developing ways to identify and support our vulnerable customers while safeguarding their privacy. For example, as part of a collaborative data sharing project with the UK Department of Work and Pensions and other energy suppliers, we were able to deliver support to more than 50,000 of our most vulnerable customers in a way that meets their needs without impinging on their privacy. This capability will be critical with the introduction of the Warm Home Discount Scheme during 2011. For more information, please see Customer trust.

Our employees have an important role to play in the protection of customer data by ensuring it never falls into the wrong hands. This is essential for our success and for retaining the trust and loyalty of our customers. A breach of information security could have serious consequences for our business and the individuals involved, and it is the responsibility of everyone at Centrica to keep data safe.

In 2010 we ran an awareness campaign called 'Keep Mum' which saw employees' mothers featured in communications discouraging employees from, for example, leaving laptops logged on, leaving printing lying around, or discussing sensitive information with strangers. The campaign reminded employees about how vital information is to the continued success of the business and provided tips to help them manage information better. The campaign was recognised externally for best practice in employee communications at the CorpComms Awards and PRWeek awards.

## Future commitments

- Continue the rollout of human rights training to high risk areas of the business
- Integrate human rights training into our induction programme

# Environmental practices

**We are committed to understanding, managing and reducing the environmental impact of our activities through innovation, technology and cultural change. Carbon emissions contributing to climate change remain the most significant and material environmental impact of our operations, but we are working to minimise other impacts as well.**

Our Group Environment Policy outlines our commitment to reduce our environmental impacts and our robust Environmental Management Systems (EMS) enable us manage these impacts and measure progress against our targets. Our employees help us meet our targets by changing their behaviours and encouraging others to do the same through awareness raising and environmental activities.

Efforts to reduce our carbon footprint are reported as part of our wider goal of providing energy for a low carbon world. Other impacts are reported here including the waste we generate, the water we use and the effect our operations could have on biodiversity.

For full data on our waste, water use, air emissions and compliance, visit our data centre.

## Environmental management

### Previous commitment

We will implement and certify our environmental management system across Direct Energy, our European business, and our renewable energy business by end of 2010

Our EMS provide a common approach across Centrica businesses to monitor, manage and reduce environmental impacts and comply with our environmental policy in all our activities. Such systems help us to identify, control and reduce environmental risks and impacts. The systems address areas such as emissions from energy production and use, travel and company vehicles and waste and biodiversity. They can also be used to influence employee and customer behaviour.

We aim to certify our EMS to the ISO 14001 environmental management standard across all our operations and to achieve 90% coverage by 2013. By the end of 2010, approximately 68% of our operations (based on 2010 revenue) had achieved certification.

## Implementing our Environmental Management Systems

In 2010 we implemented our EMS within our renewables operation and maintenance department and at our new gas fired power station at Langage, enhancing our understanding and management of issues such as energy efficiency, waste management and vessel use.

In North America, we achieved ISO 14001 certification for Direct Energy Home Services in Canada and the US, and Direct Energy Business Services in Canada, as well as both our power and gas businesses, successfully concluding a two-year implementation programme. This was the first international environmental achievement for Direct Energy and shows real progress, despite the fact that ISO 14001 standard is not widely recognised in North America.

The implementation process enhanced Direct Energy's understanding and management of a range of issues including emissions, discharges, waste management, contractor management and general resource use. As part of this process we implemented environmental improvement plans to produce quantifiable data that assists the business in understanding and reducing negative environmental impacts. This work will help us to expand ISO 14001 certification for more of the Direct Energy business by 2012/2013. See our case study on Direct Energy's progress on 2010 for more information.

In 2010, we introduced new software, 'ourEnvironment', to improve the quality and coverage of our environmental data collection across the Group. This system and our training programme for its use will enhance our understanding of our impacts and help us identify areas for further development.

## Summary of EMS progress

Achieved in 2010	Planned for 2011	Planned for 2012/2013
<ul style="list-style-type: none"> <li>• Renewables - operations and maintenance</li> <li>• Langage power station</li> </ul>	Renewables: <ul style="list-style-type: none"> <li>• development activities</li> <li>• project activities</li> </ul>	Assets acquired in 2009 takeover of Venture Production
	British Gas – new activities and acquisitions, including: <ul style="list-style-type: none"> <li>• Insulation business</li> <li>• Solar Technologies</li> <li>• Smart Metering</li> <li>• Tredegar Academy</li> <li>• Dyno Rod (20 franchises)</li> </ul>	British Gas Commercial Services
<ul style="list-style-type: none"> <li>• Direct Energy Gas</li> <li>• Direct Energy Power</li> <li>• Direct Energy Canada and US – home services</li> <li>• Direct Energy Canada – business services</li> </ul>		<ul style="list-style-type: none"> <li>• Wildcat Hills gas operations (acquired 2010)</li> <li>• Clockwork Home Services (acquired 2010)</li> <li>• Direct Energy residential, as well as other areas including fleet</li> </ul>

## Employees and the environment

In order to improve our environmental performance, we need to make sure our employees understand our environmental objectives and are aware of opportunities for them to contribute. Raising their environmental awareness helps us to improve our overall performance because their behaviour often determines whether we will succeed. We are implementing a Group-wide health, safety and environmental (HSE) programme to change behaviour through tailored plans for each part of the business. Senior management and executive bonuses are now directly linked to progress against HSE targets (see more on the Annual Incentive Scheme).

In the UK, we engage employees around environmental issues through our Green Teams – local networks of employees who lead site-level environmental campaigns – and send out regular e-newsletters to alert employees to our targets, progress and activities. In 2010, the Green Teams also held awareness events on World Environment Day and ran campaigns on important issues ranging from reducing our waste to reducing the carbon footprint of our property, fleet and travel. Based on the success of the teams at some sites, we hope to re-establish Green Teams at sites which have been less active so that we can continue to involve our employees in waste, energy, water and resource reduction programmes and promote other positive environmental behaviours. Direct Energy also aims to build a similar network of environmental champions in North America in 2011.

## Water use

### Previous commitment

Reduce UK office water use by 7.5% in 2010 ●

For a company of our size, we consume a relatively small amount of water, although our use – especially for cooling – is significantly greater. We recognise that water availability is becoming increasingly significant to our global stakeholders and to increase the visibility of our water footprint, we participated in the Carbon Disclosure Project's first Water Disclosure Project in 2010. In addition, we calculated our total freshwater consumption in 2010 to be 6,820,775m<sup>3</sup>. As we do not operate water-intensive activities in water-stressed areas, we do not consider water to be a material issue for Centrica. Visit the materiality section for more information on our approach to identifying material issues.

Our water use falls into three main categories:

- Office water is potable water consumed in our buildings
- Cooling water is water that we do not consume but redirect through pipes to cool our power generation or gas processing facilities before returning it to the same water source over a short time period; we source our cooling water from seas, rivers and estuaries (more than 99% is saline)
- Process water is water that we use and which is then subject to on- or off-site treatment before being used again or returned to a water source

The vast majority (more than 97%) of our water use is related to cooling and process water used in our energy sourcing and generating operations. We use rather than consume this water, as it is returned to the same water catchment area within a short time frame. We complete environmental impact assessments as part of all power station and gas asset planning or licence applications. These include water management plans for limiting the volume and rate of water withdrawal and discharging according to local ecological and environmental conditions.

As clean water sources become increasingly scarce, we remain committed to using water efficiently and responsibly. In 2010, we reduced our UK office water use by more than 15%, exceeding our 7.5% target. We aim to reduce our UK office water use by a further 7.5% in 2011.

## Waste

### Previous commitments

- Reduce UK office waste sent to landfill by 22% (2007 baseline) ●
- Reduce total UK office waste by 5% ●
- Reduce UK paper use by 10% ●
- Recycle 65% of UK office waste ●

We aim to reduce the amount of waste we produce in all our operations and, where we cannot eliminate waste, to recycle or recover as much as possible. Our reduction targets primarily focus on our customer-facing businesses, as the amount and type of waste from operations such as gas exploration and production, and energy generation varies considerably depending on the operational profile of the plants. In all our operations, however, we take every opportunity to recycle and minimise the amount of waste we send to landfill.

### Office waste

Employees at all our UK sites have worked hard to reduce the amount of office waste they produce. With the support of our Green Teams we almost met our target to reduce total office waste by 5%, achieving a 4% reduction. We were well ahead of our target to reduce paper use by 10%, achieving a 22% reduction in 2010, and we aim to reduce this by a further 10% in 2011. We did not achieve our ambitious goals to cut office waste to landfill by 22% (achieving a 9% reduction in 2010)

and increase our recycling rate to 65% (achieving a 60% average during the year). Based on our progress, we are confident that we can meet our 2011 target to recycle 65% of all UK office waste.

As standard practice, the waste contracting industry does not use actual weights for waste, requiring companies to estimate the weight of waste they produce through the use of industry standard estimates. These estimates do not account for variables such as waste compaction and are therefore prone to error. As we place more importance on managing our waste there is a clear need to enhance the accuracy of our data. In 2010, we undertook a trial to install weighing equipment at selected sites in order to test the accuracy of estimated bin weights by accurately measuring the amount of waste we generate at the test sites.

Following the success of these trials, we have decided to install on-site weighing equipment at our 16 largest UK sites, which cover almost 16,000 employees, to record the actual weight of all the waste we produce and recycle at these sites. This will take place in early 2011, and will reduce the margin of error in our data and enable us to improve our waste management practices further. We believe this puts us at the forefront of waste management in our sector and demonstrates our commitment to reducing our environmental impacts. To improve the proportion of waste that we recycle, we trialled dry mixed recycling (DMR) at five sites in 2010. The trial has reduced the number of bins we need on site and has reduced confusion for employees around what can and cannot be recycled. As well as introducing DMR bins, we also updated and improved the corresponding signage and communicated the changes to staff. We now plan to introduce dry mixed recycling at our largest 16 UK sites by mid-2011.

While waste minimisation and recycling are preferable options in the hierarchy of waste management, there is always a residual fraction of waste that requires disposal. Historically, non-recyclable waste has been sent to landfill, which causes environmental issues. In 2010 we set a challenging zero waste-to-landfill target at our two head offices in Windsor and Staines and subsequently diverted their landfill waste to a local Energy-from-Waste (EfW) facility for energy recovery. We are currently investigating the feasibility of extending this practice and target to all our main UK sites by the end of 2012. For more information on these projects, see our waste management case study.

In North America, Direct Energy has further enhanced its understanding of waste management and practices across its operations, through the implementation of its EMS. Plans are now in place to develop environmental improvement programmes to, for instance, improve waste recycling for materials such as steel, cardboard, and plastic.

## Hazardous waste

As well as aiming to reduce office waste, we also continue to work to better manage our hazardous waste. We produced 7,392 tonnes of hazardous waste in 2010, up from 6,740 tonnes in 2009 in line with the growth of our business. We are currently developing an online 'Dangerous goods management system' that outlines how we deal with any hazardous materials and waste in a safe way for both employees and the environment. We are now exploring the feasibility of having the 'Dangerous goods management system' linked across the businesses.

## Nuclear waste

Our purchase of a 20% stake in nuclear power generator British Energy in 2009 has presented new areas for us to manage. We do not operate any of the nuclear facilities, but we work closely with EDF Energy and play an important governance role in ensuring best practice environmental standards through monitoring and challenge. While we receive the benefits of receiving low carbon nuclear power, it also produces nuclear waste and spent fuel. We want to be transparent about the outcomes of our activities, so we have chosen to report data on nuclear waste relating to our 20% stake. The British Energy fleet comprises two types of nuclear reactors, Advanced Gas-cooled Reactors (AGRs) and a Pressurised Water Reactor (PWR) at Sizewell.

Nuclear energy can generate very large amounts of electricity for the amount of fuel required. For example, approximately one tonne of nuclear fuel (natural uranium) produces as much power as 20,000 tonnes of black coal. However, the small amounts of waste it does produce are radioactive. All of British Energy's power stations are granted authorisations to dispose of radioactive waste by either the Environment Agency or the Scottish Environment Protection Agency. These authorisations require the recording of the amounts of waste sent off-site each year via these different treatment or disposal routes.

Around 90% is classified as low level nuclear waste (LLW) such as paper, cloth, nuts and bolts, and old components and equipment that come from routine procedures at power stations. LLW does not require special handling but is still treated separately from standard non-radiological waste. Intermediate level waste (ILW) includes filters and other components that act as a barrier to radiation being released into the environment. ILW has a higher level of radioactivity and therefore is encased in cement inside steel drums and stored securely on site pending a long-term disposal solution.

Nuclear waste is treated in a number of ways to reduce overall volumes before being disposed of at a special facility near Drigg in Cumbria, incinerated at Hythe, or in the case of some metals, sent for recycling at Lillyhall in Cumbria. In 2010, our 20% stake in nuclear generation resulted in the disposal of 99.6m<sup>3</sup> of low level nuclear waste and an

estimated 32.4m<sup>3</sup> of ILW being generated, based on British Energy's submission to the UK's 2010 Radioactive Waste Inventory.

High level waste (HLW) results from reprocessing spent nuclear fuel. HLW is not produced at British Energy stations but arises when nuclear fuel is reprocessed at Sellafield by British Nuclear Fuels (BNFL). Overall, HLW represents only 0.1% of waste produced by volume and accounts for 95% of the radioactivity from waste.

Nuclear power also results in radioactive spent fuel. In 2010, our 20% stake accounted for 32.6 tonnes of uranium fuel being loaded into the reactors. Once the fuel has been used, it is initially stored on site in cooling ponds, which contains the heat it releases and provides a natural shield against radiation. AGR spent fuel is then sent offsite to Sellafield for reprocessing or storage. In 2010, our stake accounted for 26.4 tonnes of AGR fuel sent offsite. PWR spent fuel is stored on site at Sizewell. At the end of 2010, the total amount of spent fuel from AGRs and the PWR that is stored on site in cooling ponds at the British Energy nuclear power stations was 513.8 tonnes.

For more information on the waste produced by British Energy's nuclear power stations, please see [www.edfenergy.com/sustainability](http://www.edfenergy.com/sustainability).

## Biodiversity

Though it has not historically been one of our most material environmental issues, in 2010, our stakeholder engagement programme identified biodiversity as an issue of increasing importance. We believe it is important to manage our impact on ecosystems and we focus our activities at a local level and at facilities which have the potential to have the most impact.

Our efforts include engaging with our stakeholders to ensure we are addressing their concerns and any potential impacts. For example, we have been engaging with organisations such as Natural England to ensure that the construction of our wind farms in the UK is carried out in a way that does not harm local ecosystems.

We are committed to managing the impacts of our operations – particularly in our sourcing and generating activities where the potential impact is greatest. We have conducted environmental impact assessments at all energy exploration and production sites and introduced biodiversity action plans at five of our eight power stations, with two more in development. Monitoring programmes at our wind farms have also been implemented where a potential impact has been identified. In 2010 we produced our first biodiversity action plan for a gas terminal at our Barrow terminal in Cumbria.

We are also beginning to implement biodiversity action plans at office-based sites, and trialled one at our corporate

headquarters in 2010. The plan came out of a study of the local ecology and potential impacts, and we'll look to implement the action plan further in 2011.

We will continue our dialogue on biodiversity with our stakeholders as we assess the potential impacts across all our operations. We are also committed to developing action plans which involve our staff and local communities where possible, to manage any impacts in line with our Group Environment policy.

## Air emissions

We report on our emissions to air in accordance with best practice and in compliance with regulations. Data for emissions of sulphur dioxide (SO<sub>2</sub>), nitrogen oxide (NO<sub>x</sub>) and ozone-depleting substances is available in our data centre.

No significant trends in air emissions occurred in 2010, in line with our expectations.

## Environmental compliance

Our EMS are designed to ensure compliance with all relevant environmental regulations and to drive continual improvement. However, in 2010 we were fined for two spills in our offshore operations on the Dutch continental shelf. One incident involved the accidental release of 2,750 litres of coolant water due to a faulty valve. The other involved the loss of 48 barrels of drilling mud into the marine environment.

In both cases we undertook a full investigation and determined the impact on the environment to be negligible. Any opportunities for improvement have been recorded in our corrective actions register and communicated to all relevant parties to share learning and minimise the chance of repeat incidents. Actions include reviewing our permit to work system and our risk assessment procedures to ensure they are effective and well communicated. We have also reviewed maintenance and inspection schedules.

On 21 May 2010, approximately 25m<sup>3</sup> of cement was released from the drilling rig West Alpha in the Norwegian Sea. The cement was released due to operational difficulties related to lumps in the cement. We informed regulators and our investigations concluded that the impact on the local environment was not significant. As a consequence of our internal investigation, we are reviewing our risk management and non-compliance processes and those of our contractors, as well as enhancing the understanding of relevant regulations for Centrica and drilling/contractor staff.

The vast majority of non-compliances recorded during 2010 were minor breaches reported by ourselves to the regulators and associated with no or negligible environmental impact. We received three warning letters relating to permit breaches in our UK energy exploration and production activities. Two of these letters were received due to a clerical error relating to the temporary closure of two power stations. The other came as a result of excessive amounts of water released from one of our

power stations. In all cases the Environment Agency classified the events as having no environmental harm.

We have recorded an increase in incidents and complaints during 2010 compared to the previous year. This is in part due to our significant expansion in operations through acquisitions made in 2010 but also as a consequence of improved reporting. During 2010 we continued to expand the use of our incident reporting system, myHSE, across the Group, most notably within British Gas and Centrica Energy. This has allowed us to capture more accurate data on environmental incidents and enables us to investigate and understand all incidents, no matter how minor, in order to better prevent reoccurrence, improve reporting and seize opportunities to share learning and good practice.

See our data centre for further compliance data.

Key data	2010	2009
Total waste (tonnes)	29,463	27,312
Office waste (tonnes)	2,882	2,398
Office waste recycled/recovered (%)	55	56
Operational waste (tonnes)	26,581	24,915
Operational waste recycled/recovered (%)	61	70
Cooling water (000m <sup>3</sup> )	827,226	885,097
Office water (m <sup>3</sup> )	223,168	235,704
Process water (m <sup>3</sup> )	1,927,661	2,219,370

### Future commitments

- Achieve certification of Direct Energy business under ISO 14001 by 2013
- Achieve certification of 90% of the Group under ISO 14001 by 2012
- Reduce paper usage by 10% in the UK
- Recycle 65% of UK office waste in 2011
- Send zero waste to landfill from the 16 largest UK sites by the end of 2012
- Introduce dry mixed recycling at the 16 largest UK sites by the end of 2011
- Implement 'Dangerous goods management system' across the business by mid-2011
- Reduce water usage by 7.5% in the UK

**We expanded and reorganised our business in 2010 as we shifted our focus towards new energy services and power generation opportunities. Our new structure demands new skills which we are filling through acquisitions, recruitment and targeted training opportunities for existing employees. These priorities are outlined in more detail in the People section.**

Our priorities are underpinned by our commitment to be a responsible employer. This means rewarding the contribution our employees make through competitive pay and benefits. It also means building a diverse workforce, which brings immense value to our business by improving engagement, extending our talent pool and enabling us to better reflect the diverse customers and communities we serve in each of our markets. We also work to ensure a healthy and safe workplace to enable our employees to achieve their best.

We employ 34,969 people, mainly in the UK (28,994) and North America (5,534). Their roles range from offshore platform work and domestic heating and gas engineering to call centre and office work. Further data on the size of our workforce and the issues discussed here are available in our data centre.

## Reward and remuneration

Our approach to remuneration seeks to achieve the right balance between rewarding success and managing costs. Providing competitive pay and benefits supports our efforts to recruit and retain talent as we expand our business into new areas through acquisitions and changes to our business model. We also recognise the important motivational role reward and remuneration plays in helping our employees feel valued. In 2010, our average salary in the UK increased by 3% to £26,613, compared to £25,913 in 2009. All Centrica employees are paid more than the national minimum wage.

During 2010, equal pay rose up the political agenda in light of the UK Government's proposals to implement mandatory Equal Pay Audits. Over the last eight years, Centrica has conducted an Equal Pay Review in the UK to identify pay differences between male and female employees. The review concluded that Centrica's performance management and reward processes are not subject to gender bias and confirmed that our approach is aligned to FTSE 100 best practice.

Executive compensation is regularly reviewed to ensure it continues to be competitive, motivational, linked to performance and reflects changing governance requirements. It remains a challenge to maintain a balance between incentivising good performance and avoiding the reputational risks associated with over-compensating our employees. During 2010, our internal audit and risk function was asked to consider links between risk and remuneration in our business.

As a result, we do not believe our remuneration arrangements encourage excessive risk-taking, but plan to keep this under review. For a breakdown of our executive compensation see our Annual Report and Accounts.

In 2009, we began to link health, safety and environment performance to the bonus of senior management, including Executives, as part of the Annual Incentive Scheme, which impacts around 13% of employees. In 2010, progress against targets on health, safety and environment performance impacted up to 10% of these employees' bonuses. This was assessed against the trend of key performance indicators over the year towards our targets, as well as comparison with 2009 performance. We will continue this approach in 2011, as good performance in these areas is crucial to meeting our business priorities and we need to ensure that meeting our targets is a top priority.

We have a number of employee share schemes through which we make share payments to employees who choose to participate (see our Annual Report and Accounts). Participation in the UK-based Centrica Sharesave scheme increased to 51% from 46% in 2010, and Share Incentive Plan participation increased to 25% in 2010 from 23% in 2009.

Involvement in the Direct Energy Employee Share Purchase Plan decreased, from 35% in 2009 to 29% in 2010. Participation has been decreasing since 2007, when 40% of employees were involved. In light of this, we changed suppliers in 2010, which introduced a more user-friendly website and better call centre advice and service for the Share Purchase Plan. We have also improved our communications, including web presentations and new brochures to help employees gain a better understanding of the Plan and their investments. We will continue our efforts with the new supplier to improve services and expand participation in the scheme in 2011.

## Pensions

We are committed to ensuring that our employees receive the pension benefits that they expect and to which they are entitled. All employees have access to pension schemes. We benchmark against market rates to ensure we remain competitive, which requires careful monitoring and balancing of costs and risks associated with the provision of defined benefit schemes.

New legislation and tax changes in the UK, including changes to tax relief on contributions for high earners and the new National Employment Savings Trust provisions, will have an impact on our pension arrangements. We will continue to develop our pension strategy and alternative provisions as the regulations are published, alongside a comprehensive communications plan explaining the impact on employees. In 2010, Direct Energy conducted an extensive audit of its retirement savings plans in North America to ensure that a robust governance framework is in place to manage them. We will consider rationalisation of our pension schemes in 2011 where appropriate.

## Employee benefits

### Previous commitment

Continue to engage with employees to develop their understanding of the benefits and share plans available to them to encourage participation ●

Along with remuneration, we reward and motivate our employees through other benefits, which help to ensure that Centrica is a great place to work. We offer a range of core and optional benefits for employees across the Group that vary according to individual needs.

Our flexible benefits programme (FlexSA) in the UK offers a top-up allowance equivalent to 3% of base salary. This allows our employees to select benefits of their choice such as medical and dental insurance, critical illness cover, travel insurance, additional annual leave, voluntary pension contributions and charitable donations. In 2010, 15,500 UK employees were eligible to participate in the scheme and more than 85% chose to make use of the scheme rather than take the cash equivalent. More than 2000 employees give to charities through their FlexSA allowance – see Community investment for more on employee giving.

Tax-efficient benefits such as childcare vouchers and bike-for-work schemes are also available to UK employees. They also have access to a range of High Street discounted services and products through the Perkz voluntary discount scheme, and receive 25% off our own British Gas and Dyno products and services.

In 2010 we began providing a number of our UK employees with an annual Total Reward Statement (TRS) to help them understand the value of their pay, benefit and share packages. We plan to extend this to cover the entire UK workforce in 2011/12.

In Canada, employee benefits including life insurance, disability, health and dental benefits. These are provided in accordance with collective bargaining agreements and, for non-

represented employees, these benefits are provided under a “Flex Benefits” program.

In the US, Direct Energy sponsors three benefit programs for its employees. During 2010 several changes were implemented to these plans to comply with national Health Care Reform (HCR) legislation for 2011, aligning plan design to market practices and revising the underwriting arrangements. Further work is required to comply with changes in HCR and evolving market conditions.

Through the 2010 employee engagement survey, we asked employees whether the benefits Centrica provides meet their and their families’ needs. In 2010, 67% of employees said yes, up from 59% in 2009.

## Diversity and inclusion

### Previous commitment

Establish and begin implementation of a three year diversity strategy ●

We want to maintain a workplace in which employees from all backgrounds can flourish. As well as enabling us to reach a wider talent pool, embracing a diverse workforce helps us better understand and meet the needs of the customers we serve with appropriate products and services. Making sure all employees feel included and can express themselves within their teams also contributes to engagement and promotes commitment to Centrica from our people. See more on our diversity commitments in our diversity and inclusion policy.

Group-wide diversity data is reviewed quarterly by the Centrica Executive Committee and is monitored and managed by each business unit. It is challenging to set targets for diversity because we don’t want to discriminate – even if it is to the benefit of an under-represented group. We prefer to focus on directional targets that promote positive action rather than positive discrimination.

In line with this, we reviewed our policies to ensure they are consistent with the UK’s 2010 Equality Act covering sex, race, religion and age. As a result of this self-assessment, we developed a diversity agenda which aims to ensure consistent standards and drive improvements in our UK businesses by improving the collection and monitoring of diversity data and leading engagement with our employees and managers.

Our North American Diversity Council is responsible for developing our diversity strategy and ensuring specific regional targets are met. The council achieved good progress towards its goals of raising awareness about the council as well as our wider approach to diversity and inclusion. In 2010, we

established the council in our larger offices and began branching out to some of the smaller offices as well. Each chapter plans and carries out events and training centred on diversity and inclusion, including generational and cultural diversity. In 2011, the council plans to continue its activities through internal training opportunities, expansion to cover our new Clockwork Home Services business and external engagement on best practice.

We are working to ensure all managers understand the value of having a wide range of perspectives in their teams to help us meet our business goals. During 2010 in the UK, transformational leadership master classes helped leaders to understand the benefits of different leadership styles and how they can work together effectively. In 2011, we will continue to promote diversity in leadership roles and in recruitment.

## Age

We encourage the retention and recruitment of older people, recognising the valuable experience they bring to Centrica. In 2010, 7% of our UK workforce was over 55. The largest age band was the 25-34 range at 35.8%. In North America, Direct Energy's largest age band was the 35-45 range in 2010, representing 31% of the workforce.

British Gas has taken a leading position in promoting opportunities for older workers. In 2007, we removed upper age limits for our apprenticeship schemes in the UK and over a third of our apprentice engineers are over the age of 25 when they join. We encourage recruitment of mature graduates into our graduate scheme with 22% of participants over the age of 25. Direct Energy also encourages the retention of older workers. In 2010, 10% of Direct Energy's employees were over 55 years of age.

For the third consecutive year, Centrica won the American Association of Retired Persons International Innovative Employer Award. The award recognises our work to create an environment that supports lifelong learning and training, flexible work arrangements, recruitment and promotion of older workers.

The UK's 2010 Equality Act removed the default retirement age of 65 from April 2011. Employees may still choose when they want to retire but the company can no longer require employees to retire. This will have a limited impact on our workforce planning, recruitment and succession planning, as on average only 40 employees retire from Centrica each year. For more on how we are addressing the wellbeing of the employees affected by the Equality Act, see Employee health.

## Gender

Improving female representation at all levels remains a priority for our diversity agenda, as well as a challenge due to the high

proportion of engineers we employ – engineering remains a predominantly male profession. A dedicated diversity and inclusion team at our British Gas Academy is working to improve the representation of female engineers.

In 2010, women represented 29% of our workforce across the Group, a slight decrease from 30% the previous year. To better understand the relationship between gender and recruitment, we have conducted preliminary research of the application and selection process. We have noted that there are slight differences of approach to applications between males and females – males put through a greater quantity of applications, while females submit fewer but better suited applications, and tend to perform better once they have reached the selection process stage. We have also determined that middle management have the lowest levels of female recruitment, and this may reflect the fact that the bulk of the roles at this level are technical management roles, which have traditionally been male-dominated roles. With further research we can better understand how we can ensure we are not missing out on women who may be interested in these roles.

Female representation at senior level is gradually improving, with 25% of senior managers across the Group being female (up from 24.4% in 2009). The Centrica board had two female members in 2010, as did the Centrica Executive Committee. We had an additional female board member join us from January 2011. In 2010, we formed a Senior Leaders Committee to increase the retention, promotion and recruitment of senior women in the business. We are focusing efforts on leadership training, recruitment, flexible working and employee network groups and will continue these in 2011.

During 2010 we held a series of workshops for senior female managers on topics such as 'First impressions count', 'Working the room', 'Developing your personal marketing strategy' and 'Presentation and communication'. We also worked with external recruitment partners to broaden their search criteria and now insist on mixed gender shortlists for senior level positions.

We recognise that we also need to support our male workforce in specific ways, such as in the event of fatherhood or coping with separation. In 2010, we became a founding member of Employers for Fathers – a group of organisations dedicated to supporting fathers in the workplace and championing family friendly policies and practices.

## Flexible working

Centrica's flexible working programme is designed to give employees greater control over their lives while using office space more efficiently. Employees can choose changeable start and finish times, shift work, job sharing, staggered hours and part-time working. Flexible working is encouraged to help all of our employees balance work and family commitments, and in 2010 we worked with recruitment experts to consider

practical toolkits for managers on implementing job sharing at senior levels. We also feel it is important to provide flexible working arrangements for those employees who are carers. In the UK in 2010 we were awarded the Working Families Top Employers 2010 Awards for Best for Fathers, Best for Flexible Working and Best for Carers.

## Human Capital ROI

Human capital return on investment (HCROI) measures the financial return from employees' contribution to the business compared to our investment in remuneration, benefits and training. A higher number indicates a higher return. HCROI is a useful metric for the company to benchmark itself against peers. We can compare the two key elements of the metric – employee costs and financial performance – to analyse how and where improvements could be made to achieve greater value. In 2010 our HCROI increased by 4% from 2.25 to 2.33.

### Future commitments

- Extend the Total Reward Statement to all UK employees in 2011 and 2012
- Continue to promote diversity in leadership roles and in recruitment

Key data	2010	2009
Percentage of employees participating in Centrica Sharesave (UK)	51%	46%
Percentage of employees participating in Direct Energy Employee Share Purchase Plan	29%	35%
Average employee salary <sup>1,2</sup>	£26,613	£25,913
Percentage of employees from ethnic minority groups (Group)	16%	15.5
Percentage of employees who declared a disability <sup>3</sup>	3.4%	Not measured in 2009
Employee gender ratio – Group	29F/71M	30F/70M
Female senior managers	25%	24.4%
HCROI <sup>4</sup>	2.33	2.25

<sup>1</sup>This data measures actual salary rather than the full time equivalent (i.e. it is not pro-rated).

<sup>2</sup>UK only.

<sup>3</sup>Of those who responded to the employee engagement survey.

<sup>4</sup>PwC Saratoga measurement of financial return for investment in employee remuneration, benefits and training.

To explore this data further, visit our data centre at [www.centrica.com/responsibility](http://www.centrica.com/responsibility)

# Employee health

We aim to play an active role in promoting the wellbeing of our employees and helping to ensure their long-term health. Creating and supporting a healthy, flourishing workforce helps to increase productivity, reduce absenteeism and promote Centrica as a great place to work.

## Previous commitments

- Develop an effective health management strategy ●
- Strengthen business assurance of occupational health provision ●

The scale of changes to our business in 2010 made supporting employees' health and wellbeing particularly important (see the People section for more details on these changes). Our new Group-wide health management approach has helped us to transform our UK occupational health service delivery and increase our engagement with Direct Energy to overcome challenges in implementing our health and wellbeing programmes in North America.

Our health and wellbeing approach, part of our Group-wide health, safety and environment (HSE) strategy, outlines our expectations relating to occupational health in three key areas:

- Be Well – we focus on promoting and supporting healthy lifestyle choices and behaviours among our employees so they can get the most out of life and work
- Stay well – we seek to maintain a safe and healthy work environment for employees through ongoing activities such as health risk assessments, monitoring programmes and making sure people are fit to work
- Get Well – we help people get back to work after illness through specialist support and occupational health programmes, and by recognising and adapting to any limits in their capabilities

Our strategy and wellbeing programmes were recognised externally at the 2010 Occupational Health Awards, where we won the 'Health and wellbeing service delivery' category. The awards celebrate outstanding achievements in workplace health and wellbeing, and recognise innovation, teamwork, leadership and quality. Though we are proud of the external recognition of the effectiveness of our health management approach, we still have more to do and are committed to further developing and enhancing our programmes accordingly.

Day-to-day management of workplace health issues varies according to local regulations in each of our markets, but our overarching approach applies across the Group. It is underpinned by Group standards for health monitoring and surveillance, verification and reporting of occupational

illnesses, which were developed in 2010 and are helping us to clarify health risks. In addition, we have demonstrated our commitment to meeting external standards by signing the Energy Networks Association's 'Powering Improvement' occupational health and wellbeing commitments.

## Be well – Promoting and supporting healthy lifestyles and behaviour

### Previous commitment

- Encourage 10,000 employees to participate in the Global Corporate Challenge 2010 ●

Maintaining a healthy working environment and encouraging and promoting healthy behaviours can prevent ill health, reduce absence and increase productivity. We aim to help employees manage their own health and wellbeing through health assessments, workshops and practical advice. In particular, we are exploring ways to promote healthier choices among employees, using a network of wellbeing advocates who share information with colleagues.

In early 2011 we launched a visual road map as a resource for these advocates to illustrate the role that lifestyle choices can play in staying healthy. For example, exercise and good nutrition can increase wellbeing and reduce problems such as obesity which can have a long-term impact on health.

We also work with external organisations such as the UK's Business in the Community (BITC) to share our experience and expertise with the aim of promoting health and wellbeing more widely. As part of this, we are collaborating to develop guidelines on quantifying the link between wellness and employee engagement activities, such as volunteering or participating in our Green Teams. We are also working to develop the UK's first certified wellbeing course for employees in 2011, which we plan to share with other companies.

In 2010 we continued to participate in the Global Corporate Challenge (GCC) with 14,500 employees tracking the number of steps they took over a four-month period. Linked to this programme, Centrica contributed to research by the UK's University of Lancaster which found a strong positive relationship between participation in the GCC and health and mental wellbeing.

Alongside our initiatives to encourage healthy lifestyles, we provide an Employee Assistance Programme (EAP), which helps employees and their families with a wide range of life management and personal issues. In order to better ensure the effectiveness of the programme against our approach to employee health, we changed providers in 2010 and will work with them in 2011 to continue to improve the service.

In 2010, 2,277 new contacts were made through the UK programme, slightly fewer than the 2,502 recorded in 2009, with stress and anxiety the most common work-related issues. We run a similar programme in North America, although we are working to increase uptake in the United States, which is currently much lower than in Canada. Direct Energy's programme recorded 310 new cases in 2010 (down from 350 in 2009) of which 234 required counselling (compared with 237 in 2009).

It is difficult to put a measure of performance against the number of calls to the EAP, because its use is discretionary. Therefore in 2011, we plan to focus on understanding the long-term outcome and effectiveness of the support provided, particularly in relation to employee absence as we seek to reduce the rate to 6.6 days per full-time equivalent in 2011. This is an important area for Centrica, as we want to ensure the service helps us manage our risk while supporting employees effectively.

## Stay well – Providing a healthy work environment

### Previous commitments

Explore the possibility of extending health assessments throughout the Group

Conduct fitness assessments with a focus on obesity and related health risks

Like safety risks, health risks vary between our energy production business and our customer-facing operations. Our approach aims to manage the different health risks that employees face, to prevent problems escalating into illness or absence, as well as providing support through wellbeing initiatives and tools.

For example, although the number of reported health problems remains small in our energy exploration and production business, offshore workers are at higher risk from health-related issues such as hearing loss than office-based workers or service engineers, due to the unique environment and circumstances in which they work. We have therefore increased the size of the occupational health team working with these employees to ensure that appropriate programmes and emergency response plans are in place. In addition, we are building our team at Direct Energy to meet increasing demand for these roles.

We have also been working to explore opportunities to ensure health assessments are available to employees across the Group. As a result, we launched SMILE, an online health assessment tool for British Gas employees, which aims to identify potential future health problems, and will be available to all British Gas employees in 2011. We have identified an opportunity through our EAP to provide health assessments throughout the UK, and aim to do so in 2011. We will explore the possibility of extending health assessments to North America in 2011 as well.

We are working to ensure our employees, particularly line managers, understand and address health issues in line with our overall wellbeing approach rather than dealing with them as and when they arise. To communicate and raise awareness of our approach, we ran a series of 'Well Flourishing People' events across the UK in 2010. These featured speakers, workshops and activities designed to strengthen line managers' practical skills in helping colleagues to avoid becoming ill in the first place. Our top 200 leaders also committed to improving employee wellbeing as part of wider health, safety and environment workshops. We want to build an environment of trust and respect between managers and employees, so that issues such as stress can be discussed openly and caught early.

Stress and anxiety remain the most common mental health concerns and in 2010 we launched a stress management e-learning programme at our corporate headquarters in the UK, called 'It could happen to anyone'. The course addressed topics such as the factors that lead to stress and how to manage them. We plan to expand the programme across the Group in 2011 and to start tracking the impact this intervention has on reducing stress-related mental health issues.

The e-learning programme is one part of an extensive range of health information, advice and resources available to employees. Our MyWellbeing intranet site provides information and practical, confidential advice and in 2010 we launched a travel health clinic at our UK head offices for those employees who travel internationally for work. In North America, employees have experienced considerable change during the year, so we provided every employee with a booklet on how to understand stress and every manager with information on how to recognise the early symptoms of stress. We have also provided webinars, online wellness assessments and a video library with comprehensive information about managing life issues that might lead to stress or other health concerns.

As well as existing health risks, we have also identified emerging health issues that need to be addressed. For example, we have increased our focus on how we should prepare for more late age working following the removal of the default retirement age in the UK in 2010. We want to understand how to ensure that older employees can continue to gain expertise despite changes to their physical capabilities.

# Get well – Managing ill health and absence

## Previous commitments

- Reduce the absence rate to no more than 7.5 days per full-time employee
- Ensure that employees who are sick are referred to the occupational health team on day 8 of their absence, replacing the requirement for a GP 'fit note'

Preventing ill health is important to tackling absenteeism but when employees do become unwell, we monitor their progress and aim to help them get back to work as quickly as possible. In 2010, we saw a continued decline in absence rates across the Group, down to 6.8 days per full time employee (FTE) from 7.7 days in 2009. Not all absence is work-related, but we have improved the accuracy of our systems to track those that are. We aim to reduce the absence rate further in 2011 to 6.6 days per FTE.

The main work-related illnesses that affect our employees are musculoskeletal problems and mental health issues. We provide advice and treatment for physical problems such as knee and back conditions, and run programmes to improve understanding and management of mental health issues. In 2010, we saw a continued decline in absence rates across the Group, down to 6.8 days per full time equivalent (FTE) from 7.7 days in 2009

This is in the median range of the UK energy industry based on our research, though benchmarking remains a challenge because there currently isn't a common definition or consistent way of recording work-related illnesses. We also have data for North America available for the first time, but all comparable data remains UK only. Across the Group, including Direct Energy, the incidence rate is 528 per 100,000 employees.

Rapid referrals to physiotherapists are helping to reduce the lost working days from musculoskeletal conditions. In 2010, 363 employees in the UK participated in preventative workshops on back care, knee care and upper limb disorder. Direct Energy also introduced online training and ergonomic self-assessments for office-based employees in North America during 2010 and 200 employees have already taken part. We are aiming to make these self-assessments mandatory in 2011.

In our experience and from a growing body of evidence, long periods away from the workplace can have a detrimental effect on recovery and overall well-being. We believe that early

advice from an occupational health professional to employees and line managers can support the employee in returning safely to work.

The day eight referral to the occupational health team was originally trialled in 2007/2008 in our Southampton call centre and with engineers in Scotland. The findings of these pilots showed no impact on short-term absence, but we saw the number of long-term absence reports – those greater than 20 days - shift to medium absence, or eight to 19 days. In 2010 we deployed the day eight referral throughout our business in the UK, which has contributed to our ability to reduce employee absence.

In line with our commitment to share best practice externally, we are working with other companies to understand how to reduce workplace illnesses. In 2010, we benchmarked approaches to work-related illness and absence with other major UK utility companies. The participating organisations each provided an overview of what they are currently doing, offered comments and suggestions, and discussed options for more formal benchmarking within the sector. We aim to build on these relationships in 2011.

Key data	2010	2009
Occupational health referrals – UK	8,900	8927
Work-related musculoskeletal disorders – UK	91	39
Work-related mental health issues – UK	74	127
Absence (days per full-time equivalent)	6.8	7.7

## Future commitments

- Develop an accredited wellbeing certification in 2011 and roll out training to all wellbeing teams and advocates
- Further embed an understanding of the wellbeing approach across management in 2011
- Reduce absence rate to 6.6 days per full time equivalent in 2011
- Introduce mandatory ergonomic self-assessments for Direct Energy employees in 2011
- Expand health assessments to cover all UK employees in 2011

# Supply chain

**Our social and environmental impacts extend beyond our direct operations to the goods and services we buy from our suppliers. These impacts can present risks to our reputation and continuity of supply which we must manage accordingly. We also have an opportunity to influence suppliers and encourage them to adopt responsible business practices through our purchasing power. Embedding responsible procurement practices into our supply chain can bring additional benefits by minimising business interruptions and enhancing our relationship with suppliers by aligning business standards.**

We spend billions of pounds annually with thousands of suppliers, mostly in the UK and North America. They provide us with a range of products, from central heating boilers to large-scale equipment for our gas exploration operations. We also buy services ranging from outsourced call centres to office support functions such as cleaning, catering and security. The risks associated with these different types of suppliers are diverse and vary considerably depending on where they are based.

The nature of our supply chain is changing as part of our strategy to support customers in the transition to a low carbon world. For example, we plan to install 2m smart meters by the end of 2012 and aim to be a leading supplier and installer of solar panels. Some elements of these products are sourced from developing countries, which introduces additional risks that we must manage.

We respond to these challenges through our responsible procurement programme, working with suppliers to communicate our standards, improve performance and monitor compliance.

Our standards are embodied in our Group-wide Responsible Procurement and Supplier Management Policy. They set out our expectations for suppliers, covering environmental management, health and safety, discrimination, human rights and bribery and corruption. We are introducing corporate responsibility (CR) clauses in supplier contracts which commit them to these standards and more than 270 suppliers have already signed up.

Closer supplier relationships present an opportunity which, if managed correctly, can support our aim to become the most trusted energy company. By ensuring the highest standards in our supply chain and working with suppliers to tackle social and environmental impacts, we provide reassurance to our customers and build our reputation as a responsible business. We are also working with suppliers to understand how best to reduce carbon emissions throughout our supply chain as part of our efforts to lead the transition to a low carbon world. We will continue work in this area in 2011.

As a responsible company we also recognise that we must treat our suppliers responsibly. Centrica is a signatory to The Prompt Payment Code in the UK and the UK Oil and Gas Supply Chain Code of Practice.

## Establishing supplier standards

### Previous commitments

Sign up an additional 150 suppliers to the CR clauses in 2010 ●

We include CR clauses in supplier contracts setting out the standards we expect them to meet. Our approach is to focus on strategic suppliers whose contracts are up for renewal or those who are new suppliers. Procurement managers use an online risk assessment tool to identify strategic suppliers based on annual spend, the type of goods or services they provide, their impact with our customers and the geographic regions in which they operate.

Of the 227 contract negotiations the Group-wide procurement functions undertook in 2010, 171 suppliers signed up to the CR clauses, exceeding our target of 150; the remainder continue to be in negotiation or subject to an escalation process. From 2010, CR clauses are now included in all contracts with Centrica Energy's key contractors and our aim is to ensure all new contracts across Centrica retain the responsible procurement clause going forward.

## Monitoring compliance

### Previous commitments

Explore supplier audit programmes and introduce one for Group and British Gas suppliers by 2011 ●

Complete and roll out a non-financial risk tool ●

Integrate non-financial risk tool into supplier management processes to link to financial risk assessments ●

Our procurement teams monitor suppliers' performance against the CR clauses through regular meetings as part of our supplier management process. We aim to improve standards, so if a supplier is not in compliance we agree remediation plans and work with them to improve performance. We reserve the right to terminate a contract if suppliers fail to implement the plan.

The project to develop a non-financial risk tool delivered an initial project. In 2011, we'll be looking to develop it into an online based system. Through this system we aim to track supplier risk on an ongoing basis and introduce a regular audit programme. This will require specialist training for our procurement teams which we will develop in partnership with other companies by sharing expertise. We will begin this process in 2011 by identifying which are considered high risk.

Our long-term goal is to integrate CR and financial risk analysis, and supplier performance into our overall supplier management tool, enabling us to better track compliance and identify areas for improvement. During 2010, we made progress towards this goal by integrating the Responsible Procurement Steering Group within our wider Supplier Governance Group. This will further embed our responsible procurement standards into our normal business relationships with suppliers, including new suppliers of energy efficient products and services.

## Training for procurement teams

### Previous commitments

- Train 100% of the UK Group and downstream procurement teams by the end of 2010 ●
- Establish a programme to ensure new procurement staff and employees who return from extended leave receive training ●

Our procurement teams are central to the implementation of our responsible procurement policies, being the first point of contact for our suppliers. It is crucial to the success of the responsible procurement programme that we ensure they have the capabilities and resources they need. We provide training sessions and toolkits to ensure they are able to identify non-financial risks in our supply chain, understand CR issues and feel confident raising these with suppliers.

In 2010, we provided updates on the CR policy and toolkit for our Group and UK downstream teams negotiating new contracts with suppliers. As the risk and audit programmes are completed, we will train our teams to ensure they have the knowledge to apply the systems in their roles and develop an induction programme for new procurement staff.

## Working with suppliers to drive improvements

### Previous commitment

- Hold a forum for upstream suppliers in the UK ●

Only by working with our suppliers can we achieve lasting change in our supply chain. We want our relationship with them to be mutually beneficial, so we engage with them to improve their standards and help them manage CR risks in their own supply chain.

We visit strategic supplier sites to learn more about their business and meet regularly with suppliers to discuss performance issues and share updates on remediation plans. In the UK, we hold an annual forum for key strategic suppliers where we organise workshops and training sessions to discuss our standards and share ideas. The forums are an opportunity for us to explore how we can work together to reduce our impacts, and in 2010, 25 key suppliers from across the business attended.

Another output from the forum was agreement that there are no standard systems for measuring responsible procurement and related issues. For instance, understanding the carbon footprint of our supply chain is an important area for us with our ambition to lead the move to a low carbon world, but there is no agreed approach to measuring it. In the meantime, we agreed in the forum that our procurement teams will explore different options for measuring carbon emissions based on individual products by using market-based estimations.

Our North American business Direct Energy organised its first forum in 2010 for 25 suppliers to discuss responsible procurement. We also held a forum in Aberdeen, UK, specifically for suppliers to Centrica Energy's gas production operations. We will hold a similar event for Centrica Storage suppliers in 2011.

### Future commitments

- Identify ways of reducing carbon emissions through collaboration with strategic suppliers
- Ensure all new contracts include responsible procurement clauses
- Begin audit process with all identified high-risk suppliers

Key data	2010	2009
Number of suppliers signed up to CR clauses*	171	101

\*Cumulative figure as of year-end 2010 and since March 2009: 272

# Community engagement

**Centrica plays a variety of roles in the communities in which we operate. We are a major employer and a corporate partner to charities and community organisations. We contribute to local and national economies through employment opportunities, and the goods and services we buy have real benefits for these communities. Our local communities also host our infrastructure, including power stations, wind farms and gas projects. Our aim is to minimise the adverse effects from such activities and seek to be a positive influence to our host communities.**

We engage with local communities to gain a better understanding of their concerns and needs. Through such engagement we can address negative impacts our operations may have and make the most of our benefits. A good relationship with communities is critical to maintaining our licence to operate, and to building a positive relationship with the communities who provide the talent we need as employees and sustain our business as customers.

Centrica also has an opportunity to support communities regarding some of the challenges and limitations they may face, such as poverty, social exclusion, and access to education and skills development. We work with our community partners to identify issues that we are best positioned to address. We align our community investments with our core business activities, as outlined in our Group Community and Local Impact Policy.

## Managing our impacts

We understand that the presence of our gas production and wind farm operations may have an impact on host communities and we aim to establish an open and honest dialogue with them to understand how to minimise negative impacts and build sustainable relationships. For more on our approach to engaging with stakeholders, visit the Stakeholder engagement section.

Throughout the preparation and construction of our newest gas-fired power station at Langage in the UK, Centrica held community meetings every six weeks. These meetings were designed to inform and communicate with local residents and other stakeholders about the impacts and benefits of having the power station in their community. The meetings also gave them an opportunity to voice to company representatives their concerns. In the initial phase of the project, concerns included transport and traffic issues, plans for accommodation of workers and waste removal, all of which we worked to resolve during project completion. During commissioning in 2010, stakeholders noted the noise levels of the operating plant, and we explored and addressed the issue with the concerned stakeholders and the Environment Agency.

As part of our ongoing relationship with the community, we have identified opportunities to invest in local projects such as funding renovations to the village hall where community meetings and activities attended by a large number of local residents often take place. We have also opened an education centre at Langage, designed to help young people better understand the use of energy and their role in conserving it. It opened in early 2011 for its first scheduled school visit.

We also continue to engage the public about the implications of existing and future offshore wind farm developments and the benefits of renewable energy through a series of exhibitions and events across the UK. Our previous engagements have highlighted a number of concerns that generally stakeholders have regarding wind farms. These include the potential visual impact of offshore wind farms and grid infrastructure built onshore, to noise and potential offshore environmental issues. We engage with coastal communities to build their understanding of the actual impacts.

We explain the impacts and our approach to managing them through awareness exhibitions, newsletters and online communications. For example, our 'Responsible Renewables' booklet provides background information on wind farms and our approach. In addition, Centrica's development team has been participating in supply chain workshops for businesses around Britain to help raise awareness of future offshore wind developments, which may create significant opportunities for them.

One area where we are particularly working to raise awareness of our approach to managing potential impacts is the pending Round 3 developments in the Irish Sea Zone. Several years in advance of planning and construction, we have issued a scoping document to key stakeholders outlining the studies that we are carrying out to assess the area, enabling them to feedback from an early stage.

Centrica Energy also took a more unique approach to renewable energy communications in 2010 by sponsoring three British Kite Surfing Championship events including the finals in Blackpool. These events were hosted at venues close to the company's offshore wind farms or prospective developments. With both the site and kite-surfers harnessing the natural

power of wind, the event offered a valuable forum to engage with community members about renewable energy. We plan to introduce another event in North Wales in 2011.

Centrica Storage is engaging with communities near storage sites to receive feedback on our presence and understand where our support is best placed. At Easington, Centrica Storage runs quarterly meetings with local residents to discuss issues. For instance, in 2010 concerns were noted on emergency safety procedure, therefore we worked to raise awareness about the efficiency of our emergency alarm system. At Caythorpe, Centrica Storage and Centrica Energy have made a commitment to launching a community fund where local projects can apply for support.

In North America, the 2010 acquisition of Suncor Energy's Wildcat Hills natural gas assets in Alberta, Canada brought an 80% growth in Direct Energy's total natural gas equivalent production. Despite the well-established relationship between energy companies and indigenous communities, this was the first time Centrica has owned assets on land owned by First Nations communities. We are committed to upholding the rights (see human rights section for our approach to human rights) and autonomy of First Nation citizens, and are working with them and Suncor Energy to ensure we continue to meet their needs. To that end, Direct Energy holds an annual open house where the local community is invited to learn about the company's plans for the asset and provide feedback. Looking forward, the company is looking at opportunities to support the local community through local charitable events and educational initiatives. In the four months that Direct Energy has had full ownership of the Wildcat Hills natural gas assets, the company has paid Indian Oil and Gas Canada more than CAD\$8.6m in royalties.

Going forward, Centrica Energy is looking to explore for natural gas present within previously unmined coal seams in South Wales. This clean-burning coal bed methane (CBM) could provide a long-term source of energy. We have been given consent for two exploratory sites in the Neath Port Talbot local authority area and aim to commence exploration during summer 2011. We hosted community education days for each of these sites in March to provide an opportunity for local residents and community stakeholders to learn more about our plans. Our aim is to conduct ongoing dialogue with local communities throughout the exploratory phase and complete the work in a way that does not adversely affect the local environment. See [www.centrica.com/CBM](http://www.centrica.com/CBM) for further details.

## Working with community partners

On a wider level, Centrica supports the communities where we operate by investing in social projects that enhance community relationships and relate to our core business activities. We also provide volunteering time and promote fundraising to encourage our employees to get involved in local communities. More information on investments and employee activities is available in the Community investment section.

Working with charity partners is essential to understanding the needs of each community and directing our support accordingly. Through dialogue with our customers and partners, for example, we have identified swimming as a skill that is in demand in many UK communities. As a result, 2010 was the second of a total six-year relationship with British Swimming with the aim of supporting swimming at all levels – from elite swimmers to beginners. The relationship includes support for athletes, sponsorship of elite competitions, provision of free swimming for community members and employees, and the development of the Pools 4 Schools programme.

Pools 4 Schools, which installs temporary swimming pools into schools that lack access to swimming facilities, has thus far taught 20,000 children to swim, and won the 'Business to community' award at the European Sponsorship Awards in 2010. For more on our British Swimming partnership, see our case study.

Through our 'Here to HELP' coalition of charity partners in the UK, we provide energy-related assistance to society's most vulnerable. In 2010, this took the form of free or subsidised insulation, benefits assessments, and other products and services from our charity partners (see more on how we support vulnerable customers in Customer trust).

Communities also benefit from the energy-saving initiatives British Gas is delivering as part of our obligations under the UK Community Energy Saving Programme (CESP), as well as providing additional support (see Customer trust). Through our charity partners and other programmes – including Generation Green, Green Streets and British Swimming – our localised approach enables us to determine where our support is most needed. Whether we are working to build skills, regenerate communities or combat fuel poverty, the overall aim is to tailor solutions for optimal long-term impact.

Some partnerships relate to causes that directly impact the welfare of our employees. For example, Centrica Storage's support of the Royal National Lifeboat Institution enhances the safety of employees in offshore gas processing and storage terminals. The charity provides offshore safety expertise and is on-call should any emergency arise.

See the case study database on our website for more on our community initiatives.

# Skills and training for the future

## Previous commitment

Continue to expand resources and lesson plans available to Generation Green schools and update them monthly ●

## Progress key:

Achieved ● Partially achieved ● Not achieved ●

Contributing to the wider skills agenda helps individuals to secure productive employment, strengthens local economies and helps us to create a pipeline of talented and skilled employees to support our business. See the People section for more information.

We aim to provide training opportunities – often in disadvantaged communities – in order to build skills and strengthen the local workforce.

For example, British Gas' new Green Skills Academy in Tredegar, South Wales, trains local people to become smart energy experts and builds other 'green' skills in a region facing high rates of unemployment. It is these trainees who will help us implement our business strategy to meet the energy needs of a low-carbon future.

In line with our vision to support the transition to a low carbon world, we also sponsor programmes to educate children on energy use and climate change. We want our programmes to reflect the most current thinking, technology, and energy developments. For example, British Gas relaunched its Generation Green school engagement programme in 2010, and of the more than 11,000 schools enrolled, around 2,500 have benefited from free green schools equipment. The curriculum and rewards scheme was supplemented in 2010 by the opportunity for students to participate in activities such as a Generation Green Think Tank and a green general election. In the UK, British Gas has invested £15m in a project to install free solar panels in up to 750 schools, enabling them to produce their own green electricity, reducing their energy bills by up to 20%, and providing an exciting way to teach students about renewable energy. We will provide new lesson plans to all of our Generation Green partner schools to help them to engage their students in the project.

In 2010, British Gas produced a number of resources for teachers, and from August 2010 ensured that these were updated monthly and tackled key sustainability subjects:

- January: Energy Display Meter materials
- March: Generation Green general election materials
- August: Complete refresh of all material for ages four through 14
- September: 10/10/10 campaign materials, nature lesson resources and assembly plan on changing weather
- October: Sustainable travel lesson resources and resources for energy week
- November: Local environment resource
- December: Global citizenship resource

In total, 28,000 lesson resources were downloaded by teachers in 2010.

In North America, Direct Energy began a similar programme to introduce an energy efficiency education model in Pennsylvanian schools. Together with the Alliance to Save Energy, we have developed and shared lesson plans and activity ideas to get students involved in energy conservation and other environmental activities.

Direct Energy has also been working with Scientists in Schools to bring science, energy and environmental workshops to local students, engaging them in hands-on activities and providing them with role models in the field of science. We hope to inspire some of these students to pursue careers in science and environment-related fields, which is closely aligned with our focus on building skills around climate change and the environment.

Looking at the wider science agenda in schools, in early 2011, Centrica Storage will develop and introduce a supplement to the UK's national curriculum for science. In partnership with Humber Chemical Focus, an industry organisation, the module will include online and paper-based lesson plans utilising real-life processes to build understanding around the application of science in the energy industry. Centrica Storage and British Gas aim to begin promoting the curriculum later in 2011.

## Future commitments

- Continue to engage with communities during the development of new wind farm projects

# Community investment

**We focus our community contributions towards initiatives that enhance our ability to engage with stakeholders on the issues where we have the greatest impact. Our greatest focus is environmental programmes, microgeneration and energy management technologies and vulnerable customer initiatives.**

Whether we are working to build skills, regenerate communities or combat fuel poverty, the overall aim is to tailor solutions for optimal long-term impact. Through our charity partners and other programmes – including Generation Green, Green Streets and Neighbor-to-Neighbor – having a localised approach across the Group enables us to determine where our support is most needed.

Our employees have shown they are very enthusiastic about supporting these initiatives as well as other causes they care about. We enable them to do so by facilitating donations, offering volunteering and fundraising opportunities and giving them time off to volunteer.

Centrica's total community contributions in 2010 equated to £105.3m. This total includes London Benchmarking Group (LBG) contributions and voluntary social contributions.

The LBG contribution of £22.2m is made up of cash and in-kind contributions support and includes investments in energy efficiency programmes in the community, support for our key charity partners and contributions towards developing skills in our communities. The LBG figure also includes the value of time given by our employees during working hours. Our community contributions as defined by LBG increased in 2010 primarily due to our £15m initiative 'Solar for Schools'.

Our voluntary social contributions include support for vulnerable customers through, for example, our 'Essentials' and 'Neighbor to Neighbor' programmes. This number also increased in 2010, mainly due to contributions such as an additional £20m donation to the British Gas Energy Trust to help customers manage their debt, and a £50 credit to our 'Essentials' tariff customers to help with fuel payments during the cold weather.

Combining our voluntary and LBG contributions provides a wider measure of our community investments and reflects the continuing growth in programmes that help support our vulnerable customers. It also allows us to account for the work we are doing to meet the needs of a low carbon future through community programmes such as Generation Green and Green Streets.

Our employees gave to a wide range of causes both linked to our programmes and according to their own interests. They raised more than £600,000 in contributions through fundraising initiatives in 2010, and more than 6,400 employees gave a total of 52,600 hours of volunteering time.

In 2010, we implemented a new community investment data collection tool which has enabled us to track our contributions and those of our employees more completely. Through the

training provided for using the system, employees who input the data have gained a wider understanding of our approach to community investment and how we collect data. As a result, we have seen an increase in the reporting of contributions across the business from about 85% coverage of initiatives to around 90% coverage, making our community investment reporting more accurate. Plans are in place to continue developing the data collection system in 2011 where feedback has identified opportunities for further improvement.

Our Group community and local impact policy provides a framework for the investments that we make at a Group level.

## Enabling employee giving

### Previous commitment

Enable all engineers to access our Get Involved intranet site by the end of 2010

Employees invest in causes that matter to them through fundraising, donations and volunteering. We enable this activity by providing tools and opportunities, which not only supports our employees but enhances the company's community impact and promotes employee engagement.

Our community initiatives are facilitated in the UK through the 'Get Involved' programme and in North America by the 'Direct in the Community' programme. These programmes help our employees contribute by offering payroll giving, matched funding, and time off work for volunteering activities.

Permanent employees are eligible for two days off per year for volunteering in the UK, and one day in North America. In addition to payroll giving, our UK employees can donate part of their flexible benefits – more than 3,400 employees chose to do so in 2010. For more information on flexible benefits, please see the Workplace section.

For our employees in the field, it can be a challenge to keep up to date with community opportunities and available tools. In 2010, we were successful in providing access to Get Involved to all of our British Gas engineers through their field laptops, and are now working towards increasing their engagement through the intranet channels. At Direct Energy, our field engineers are not able to be online, but we are working towards enabling them to participate in 'Direct in the Community' services such as payroll giving through manual methods. Community investment in North America is coordinated directly by employees through four regional Community Investment Councils, comprised of five to 10

employees each. Each Council is given CAD\$20,000 to allocate to the charities they feel are most deserving, and best represent the interests of the employees in the region. The Councils, introduced in 2009, have improved engagement by empowering employees to make the decisions about donations themselves and are helping us target support for local needs. Funding will be increased to CAD\$30,000 per Council in 2011.

## Employees and our charity partners

### Previous commitment

Continue to support employees getting involved by supporting employee fundraising and developing volunteering programmes with our strategic charity partners and with Generation Green

Our work with charity partners helps us understand and respond to local needs in a way that promotes long-term success. See Community engagement for more on our work with these partners, and visit our customer trust section to see how these partners help us meet the needs of our vulnerable customers.

Our employees volunteered across a wide range of programmes through our charity partners in 2010. In the UK, as part of the annual 'Giving Weekends' initiative, British Gas worked with charity partner Age UK to provide employee support to help those most in need in their communities. The initiative was started in 2008 by a team of British Gas engineers who wanted to use their skills and resources to help local people. More than 450 British Gas employees from across the company, including gas and electrical engineers, call centre workers and apprentices, donated their time. Our British Gas engineering apprentices volunteered 18,200 hours through participation in the Duke of Edinburgh Awards Scheme in 2010, and our information systems apprentices aim to join them in 2011. Thirty apprentices also travelled to the OM Memorial School project near our operation in Noida, India, and volunteered their time to improving the facilities.

In North America, Direct Energy set an ambitious employee volunteering goal of 10,000 hours in 2010 and exceeded this with a total of 10,900 hours given by nearly 1,100 employees. We are very proud of this accomplishment, which represents a 70% increase from 2009 and are aiming to hit 12,500 hours in 2011. Volunteering activities covered a wide range of activities and causes, ranging from individual efforts to more than 100 employees harvesting over five tonnes of leftover produce from a farm in Ontario to give to a local food bank.

Some partnerships relate to causes that directly impact the welfare of our employees. For example, Centrica Storage's support of the Royal National Lifeboat Institution enhances the safety of employees in offshore gas processing and storage terminals. The charity provides offshore safety expertise and is on-call should any emergency arise. Employees carry out regular fundraising activities for the charity, from supporting national fundraising days to organising their own events. Centrica Storage also continues to support communities near

its operations and, in 2010, began a partnership with Yorkshire Wildlife Trust to 'adopt' the beach near the Easington gas terminal. As part of this commitment, Centrica Storage volunteers will clean the beach four times a year.

In Canada, we have worked with 'Raising the Roof' since 2003 to help provide sustainable solutions to homelessness. We have been involved in many of the charity's initiatives, including raising awareness and promoting research into youth homelessness, raising funds and creating a network of homelessness agencies across Canada, and educating the public about the issue. Direct Energy employees have shown their support by raising CAD\$600,000 in support of these solutions since the start of this partnership as well as volunteering their time.

Our employees are also passionate about fundraising for the causes they have a personal connection with. In May 2010, British Gas employees selected The Make-a-Wish Foundation to receive the benefits of a wide range of individual and team fundraising activities across the UK. For example, our summer placement students participated in a fundraising challenge that helped to develop their project management skills and raise money for the charity. These types of activities have helped us to make progress toward meeting our £250,000 target by mid-2011.

The commitment to Make-a-Wish Foundation has enabled British Gas to focus support for employee fundraising and engage employees around a central cause. Similarly, many of our sites across the UK and North America select local charity partners and provide support through regular fundraising and volunteering.

British Gas is aiming to develop a database of volunteering opportunities and interested employees in 2011. It will list volunteering opportunities for community engagement programmes such as Generation Green and the British Swimming partnership. See the Community engagement section for more information on these programmes.

Key data	2010	2009
Total community contributions (£m)	105.3	77.0
London Benchmarking Group contributions (£m)	22.2	3.8
Voluntary contributions (£m)	83.1	72.9
Employee volunteering hours	52,599*	37,062*

\* The total includes volunteering that takes place during and outside working hours, as recorded by our employees

### Future commitments

- Develop a database of employee volunteers and opportunities in 2011
- Include our information systems employees in Duke of Edinburgh awards scheme in 2011
- Reach 12,500 hours of volunteering in North America in 2011

## As our business grows and evolves, we remain committed to upholding the human rights of the people impacted by our operations.

For an energy company, our direct impact on human rights is quite low. Most of our operations are based in countries with legal frameworks to protect human rights, such as the UK, Canada and the United States, where risks of human rights violations are small. Only 0.04% of our employees are based in countries with a high risk<sup>1</sup> to human rights. That figure climbs to approximately 0.1% if you include those employees who travel to countries for business but are not based in the country.

Nonetheless, we take our responsibility to respect human rights very seriously. Centrica is a signatory to the United Nations Global Compact (UNGC), and observes the basic principles of the Universal Declaration on Human Rights (UDHR), the Core Conventions of the International Labour Organisation (ILO), and the Voluntary Principles on Security and Human Rights. We embody these values in our business principles – our third principle is ‘Respecting human rights’. Our Group Human Rights policy further outlines these responsibilities. These commitments guide our business conduct and our relationships with stakeholders as an employer, business partner and community member.

In February 2011, we provided human rights training for our teams responsible for developing gas projects internationally. Developed in collaboration with the Institute of Business Ethics (IBE), the training highlighted human rights principles and standards, taught how to identify human rights impacts and challenged participants with ethical dilemmas. Simon Webley, Research Director at IBE, delivered the training.

Building on the workshop, we developed a human rights e-learning programme, which we plan to roll out in 2011 to parts of the business more at risk to potential human rights impacts. We are also integrating our human rights policy into our business principles e-learning induction programme.

The expansion of Centrica’s services business and increased focus on energy efficiency products has increased the need for awareness of human rights with suppliers of these products. Our Responsible Procurement and Supplier Management policy commits us to consider the performance

of our suppliers on corporate responsibility issues including human rights. Read our Supply chain section to review our progress in implementing our responsible procurement programme that seeks to identify and minimise potential risks.

It’s also important that we recognise and respect the special relationship that exists between indigenous communities and their land. When our operations touch these communities, we undertake engagement programmes to understand our impact and ensure our operations support – rather than detract from – their cultural heritage (see Community engagement).

Our Security Policy includes a commitment to ensure that any security forces with whom we work must respect human rights. Our Group Security team is responsible for monitoring performance and quality control of security contracts and the provision of security services. In 2010, there were no reported cases where the policy was not respected with regard to human rights.

Our people are crucial to the success of our business and it is essential that we ensure their rights are upheld. We aim to have diverse approach to recruiting and managing our employees that doesn’t discriminate based on ethnicity, gender or age, and aims to boost representation of these under-represented groups where appropriate. We work closely with trade unions to understand the specific needs of our engineers and ensure we are meeting their needs. For more information, explore the People and Workplace sections of the report.

### Future commitments

- Continue the rollout of human rights training to high risk areas of the business
- Integrate human rights training into our induction programme

<sup>1</sup>Country risk sourced from the Human Rights Risk Atlas 2011 by Maplecroft

# Economic statement

## Economic indicators

Revenue (from continuing operations)	Unit	2010	2009*	2008*
Total	£m	22,423	21,963	20,872
British Gas Residential	£m	8,355	7,911	7,779
British Gas Services	£m	1,464	1,338	1,347
British Gas Business	£m	2,906	3,316	3,063
Centrica Energy	£m	3,565	3,094	2,638
Centrica Storage	£m	232	196	221
Direct Energy	£m	5,901	6,108	5,824

Number of employees - headcount	2010	2009	2008
Total	34,970	34,125	32,817
UK	28,994	27,674	27,538
North America	5,534	5,042	4,991
Rest of the world	442	1409	288

Employee costs	Unit	2010	2009	2008*
Wages and salaries	£m	1,345	1,223	1,139
Social security	£m	115	103	87
Other pensions and retirement benefits	£m	134	77	109
Share schemes	£m	48	38	35

Suppliers	Unit	2010	2009 <sup>#</sup>	2008 <sup>#</sup>
Total spend with suppliers <sup>#</sup>	£m	17,622	18,337	16,840

Shareholders and creditors	Unit	2010	2009	2008**
Ordinary dividend per share	pence	14.3	12.8	12.2
Total dividend paid to shareholders	£m	668	635	500
Net debt	£m	-3312	-3136	-511
Net interest expense	£m	-265	-179	-2

\*\*Restated to reflect the bonus element of the Rights Issue

Governments	Unit	2010	2009 <sup>#</sup>	2008
Total taxation paid	£m	540	503	907

Profit and reinvestment	Unit	2010	2009 <sup>#</sup>	2008*
Profit/(loss) attributable to equity holders <sup>^</sup>	£m	1,209	1,094	911

\* Denotes restated figure, please see Annual Report and Accounts for more information

<sup>^</sup> Before exceptional items and certain re-measurements

<sup>#</sup> The comparatives have been restated to align with the 2010 analysis of working capital movements.