Group Chief Executive's Statement

> "We remain dedicated to satisfying the changing needs of our customers, but increasingly those needs are around the challenge of addressing the threat of climate change, and in 2019 we were therefore ready to make a commitment to enable our customers to transition to a lower carbon future."

Iain Conn
Group Chief Executive

2019 presented a challenging operating environment for Centrica, with the implementation of the UK default tariff cap and very low UK natural gas prices.

These circumstances put significant pressure on our business and although underlying performance in our customer-facing divisions improved, including enabling us to deliver better customer outcomes and growth in account numbers, we were not able to mitigate the full impact of external factors or the lower performance volumes delivered from our Exploration & Production and Nuclear businesses. We did deliver operating cash flow and net debt within our target range and cost efficiencies were above target. Adjusted operating profit was down 35% to £901 million and adjusted operating cash flow was down 18% to £1,830 million. We also recognised £1,103 million of net pre-tax exceptional charges in 2019, mainly relating to impairments of our Exploration and Production and Nuclear assets, reflecting the current low commodity price environment and restructuring costs associated with our Group-wide cost efficiency programme.

After adjusting for external factors, including the UK default tariff cap and lower commodity prices, underlying operating profit was only marginally down relative to 2018 and the contribution of the customer-facing divisions was materially up. However, the impact of the external factors on our forecast cash flows, and the subsequent decision to cut the dividend following the Strategic Update we conducted in H1 2019, resulted in a very poor shareholder experience in 2019, something I greatly regret.

2019 context

2019 was also an extremely difficult year for the Centrica team, with a significant number of colleagues leaving the Company as we continued with our transformation, simplification and efficiency programmes. Despite these pressures, the Centrica team performed admirably, with improvements in net promoter scores, reduced customer complaints, the introduction of attractive new propositions, and the development of new capabilities as we shift the Company towards enabling a lower carbon future for our customers. Consumer accounts grew by 722,000 over the year, and by 451,000 in the UK, with continuing growth in services and solutions relationships and a further stabilisation of account losses in energy supply. Many other metrics were excellent, including continued top-quartile performance in process safety, and the actions we have underway have created significant momentum into 2020. Unfortunately, with so much change to the organisation and with the fall in our share price, our employee engagement scores were materially impacted. Improving these engagement scores will be a focus for the Executive team in 2020.

Having summarised the year, let me now return to some of the major events, milestones and deliverables which characterised 2019.

Strategic update

As we entered 2019, we knew we faced a very challenging set of circumstances, made worse by the fall in wholesale gas and power prices towards the end of 2018. We responded in two ways – first, initiating an acceleration of our transformation activity and cost efficiency programmes and, second, from March through to June, the Board conducted a Strategic Update including a review of our portfolio, performance and strategic choices. In July we presented our conclusions to shareholders. We announced that we would be completing our shift back towards the customer, exiting oil and gas production as well as the already announced intention to sell our stake in nuclear power generation. We had signalled since 2015 a lower emphasis on oil and gas production and, as we deliver this final shift, Centrica will finally become a leading international energy services and solutions provider, focused on our distinctive strengths of energy supply and its optimisation, and services and solutions centred around energy. This includes growing opportunities in home energy management, mobility solutions and system optimisation, ensuring the Company will be well positioned for the future and able to satisfy the changing needs of our customers, with an emphasis on helping them transition to a lower carbon future.

The Board's assessment of our business and the changed external circumstances in which it currently operates, and the requirement to meet additional obligations to our pension schemes, also resulted in us taking the very difficult decision to reduce the level of the dividend to 5 pence per share. We believe this was essential in order to create a sustainable basis in which we can balance distributions to shareholders with the amount that we need to invest into the business, and continue to support our other obligations, including to our pension funds and servicing our debt. With the Company having reduced its net debt by around 40% since the start of 2015 and with our planned exits from exploration, production and nuclear reducing our exposure to natural gas prices, we believe that the smaller company will be resilient to the environment in which we are operating while able to maintain strong investment grade credit metrics.

Whilst I am convinced that the difficult decisions we took were the right ones, and absolutely necessary to complete the re-positioning of the Company for the future, I recognise that the shareholder experience over a number of years has been very poor. Although in 2018 we were in the top quartile of total shareholder return in the FTSE 100 as we regained momentum relative to 2017, in 2019 we were near the bottom on this measure. However, our performance was much improved during the second half of the year compared to the first half, with adjusted earnings per share of 7.3p for the year as a whole, relative to 2.4p in the first half, driven by strong momentum in our customer-facing divisions. We expect to benefit from this momentum into 2020.

External environment

Turning to the external environment, we are now beginning to see some of the adverse consequences of the temporary UK default tariff that we had predicted, including job losses, company failures, and other suppliers exiting the market. The price cap has reduced margins and put huge pressure on costs for many participants. Despite the high level of competition, very few UK energy suppliers are making money and, for those who are, pre-tax margins make it difficult to invest in the skills or technology required for the future. We are responding by broadening the propositions we offer to move away from just energy supply, while reducing our costs still further to allow us to price as competitively as possible. We remain committed to working with the government and the regulator to help determine the right conditions for the temporary cap to be lifted.

Natural gas prices have fallen further, and are currently under \$2/mmbtu in North America and under 30p/therm in the UK, below our own 'low case' scenario. Forward prices for 2020 remain weak and, while our proposed exit from exploration, production and nuclear will reduce our exposure to commodity volatility, these low prices continue to have a significant impact on Centrica.

Operational progress

Despite the very difficult context I have outlined, 2019 was a year where we made good progress in our core objective – to satisfy the changing needs of our customers. Focusing on improving our operational effectiveness has made us more cost-efficient and able to offer better value for money to our customers. We have continued to build the capabilities that we believe our customers will want and need in the future and exited areas where our offering was relatively undifferentiated. Overall Consumer account holdings were up 722,000 in 2019, the first full year of growth in my time with Centrica, and Business customer accounts were broadly stable. Brand net promoter scores (NPS) improved in UK Home from +9 to +12, in UK Business from -12 to +1, in North America Business from +28 to +32 and remained high in the other business units.

I am pleased to say that customer relationships and customer numbers are beginning to move in the right direction. I recognise that we have lost a significant number of energy supply customers in the UK in recent years, although a large proportion of the reductions we saw in 2017 and 2018 stemmed from a deliberate choice on our part to exit from certain channels that were loss-making. In 2019 the rate of UK energy supply net losses was less than half the rate of losses in 2018, and less than a quarter the rate of losses in 2017 against a backdrop of continued high levels of price competition and market switching. This reflects our efforts on both cost efficiency and proposition development. We will continue to focus on improving in both these areas and delighting our customers as a result.

722,000

Consumer accounts grew by 722,000 over the year

+12

Brand net promoter scores (NPS) improved in UK Home from +9 to +12

We are also redesigning our core operations in the UK, reorganising around customer end-to-end journeys rather than traditional industry processes. The trend for customers to increasingly want to deal with us digitally will continue; for example, the proportion of transactions completed online in UK Home has increased to 55% compared to 50% at the end of 2018. We are consolidating our call centres in the UK as a result and focusing our efforts on improving our digital journeys. In North America and Ireland we are pursuing a similar agenda.

We continue to unlock new opportunities for future growth. We are developing a set of capabilities to deliver propositions beyond those of energy supply and boiler servicing, from demand response for businesses to bundled energy supply and home energy management solutions for residential customers. This includes remote diagnostics, smart energy control and electric vehicle integration. We are set to provide electric vehicle charging installation points and related services in the UK for Ford, VW Citygate and NCP.

We are shifting the centre of gravity of our relationships with our customers away from commoditised energy supply towards a new suite of propositions that we know many will value. Many of these differentiated propositions do not require us to offer energy supply to the same customer, and as a result we are able to expand into new markets in Continental Europe and countries such as Mexico, while cross-selling to existing energy customers in the UK, Ireland, Canada and the United States. North America remains the biggest energy market in the world and the fastest-growing market for energy services and solutions. We have added significant new capabilities to Centrica Business Solutions, including in energy efficiency, lighting retrofits, HVAC, building automation, and water conservation through the acquisition of the North American energy services and solutions company SmartWatt.

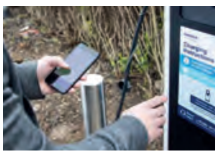
In addition to sourcing and optimising energy supply for our customers, our Energy Marketing & Trading business has grown its customer-facing route-to-market services in Europe and delivered excellent optimisation results. In February we signed a landmark LNG agreement under which Tokyo Gas and Centrica will jointly purchase 2.6 million tonnes per annum, delivered ex-ship, from the Mozambique LNG Project. We will jointly market and optimise this gas between our respective home markets of Japan and Europe.

In our asset businesses, Spirit Energy production was 45.8 million barrels of oil equivalent (mmboe), our operated Morecambe Bay delivered excellent plant availability and production efficiency, but there were shortfalls in non-operated fields in Norway. We have also been working with our joint venture partner, Stadtwerke München, in preparing Spirit Energy for a joint sales process which is now underway. Centrica's Rough gas asset delivered 6.5mmboe of production, and continued to demonstrate strong performance in process safety. The Nuclear business had a very challenging year, with reactors at two sites, Hunterston and Dungeness, shut down for most of the year for regulatory inspections. As a result, our share of electricity generated from the Nuclear fleet was 10.2 TWh, down from 11.8 TWh in 2018. We are awaiting regulatory approvals to bring the reactors back online.

Read more about our Divisional Review on Page 20

Key events in 2019

January



Centrica launch **Mobility Ventures**

Centrica Business Solutions and WSP develop integrated energy solutions as part of the Modern Energy Partners project

February

Direct Energy partners with Budweiser Canada to provide renewable energy

March

Centrica signs contract with Alcoa to support a Power Purchase Agreement with 197MW Norwegian wind farm

Centrica Business Solutions and Tokyo Electric Power Company join forces to support decarbonisation of Japanese grid

April

Centrica introduces **Responsible Business Ambitions** out to 2030

May

Direct Energy completes sale of franchise home services business, Clockwork, Inc.

Centrica Business Solutions launches global Electric Vehicle (EV) offer and joins UK-wide Go Ultra Low campaign

Centrica's Local Energy Market trial completes battery installation in over 100 Cornish homes in addition to over 100 businesses

June

Centrica Business Solutions expands US operations with agreement to purchase SmartWatt

Transformation and efficiency

Operationally, we have made a lot of progress in 2019 and delivered encouraging results in many areas. However, we still have much work to do as we adapt to very changed circumstances. We must finish the job of becoming the most competitive provider, particularly in the UK energy supply market, and not give our customers a reason to leave us. This requires becoming structurally even more efficient. In some cases we are dealing with legacy systems and processes that need to change in order to get there but there is also significant progress we can make in simplifying and improving customer journeys, and streamlining our internal processes. In 2019 we delivered £315 million of cost efficiencies, ahead of our target, with the associated exceptional restructuring costs to deliver these savings also £356 million. Cumulative efficiencies delivered since 2015 are now £1.26 billion per annum on a like-for-like basis. This has allowed us to offset inflation, invest for growth, and still have a nominal like-for-like controllable cost base of £4.6 billion at the end of 2019 relative to £5.0 billion in 2015. We are targeting a further £350 million of efficiencies in 2020 in our core programme, most of which is underpinned, which is expected to result in exceptional cash restructuring costs of around £300 million. We remain on track to have delivered £2 billion of cumulative efficiencies over the period 2015-22.

We know however that we can't just cost cut our way to success. While there will still be continuous improvement activities undertaken every year, 2020 is expected to be the last major year of change, transformation and efficiency delivery which will also underpin much of what we need to see come through in 2021. We therefore have an imperative to improve gross margin capture and to use our new capabilities to grow our customer relationships so that we can stabilise and then grow Centrica. While we are encouraged by the progress we have made, our customer journeys are still not as good as we would like and we have to keep focusing relentlessly on improving the experience we offer our customers and driving up NPS as the key measure of our success.

£315m

In 2019 we delivered £315 million of cost efficiencies

£1.26bn

Cumulative efficiencies delivered since 2015 are now £1.26 billion per annum on a like-for-like-basis

July

Centrica announces it **plans to exit oil and gas production**

Centrica announces partnership with Ford to offer EV solutions in UK and Ireland

August

Centrica Energy Trading and Enovos Germany sign a Power Purchase Agreement that enables a German photovoltaic installation to operate without subsidy

September

Centrica loads its first liquified natural gas cargo at the Sabine Pass liquefaction plant in Louisiana

October

November

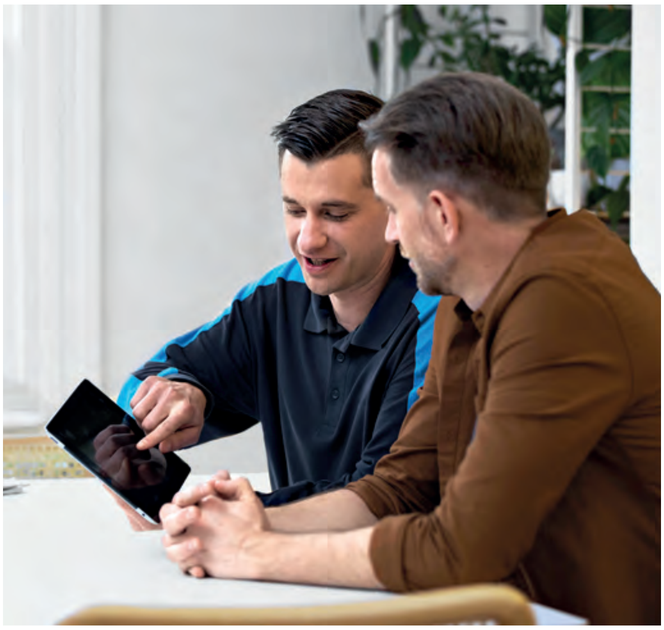
Centrica wins judicial review relating to the treatment of wholesale cost transitional arrangements

Direct Energy Business signs long-term agreement to take power from **solar project in California**

December

Centrica agrees to sell its 382MW King's Lynn gas-fired power station

2019



Our colleagues

As a business, the changes we have been making to set ourselves up for success in the challenging new operating environment have resulted in a lot of upheaval for our colleagues in the Centrica team. I recognise how difficult this has been for many of them and am humbled by how hard they have worked. I want to thank them for having remained committed to doing the best for our customers and to delivering excellent operations across the Company. They have upheld and lived our values throughout.

Over the last four years our direct workforce has fallen by over one third, from 39,000 at the end of 2015 to just under 27,000 at the end of 2019. This has had a very big impact on morale and the changing business environment and energy transition has created uncertainty about our future. I take very seriously the calls for better communications, making our strategy and vision more accessible, and enabling leaders to empower the wider team, so that we can pull together as a team to deliver the business outcomes we need for our customers. We also need to begin to re-establish a winning mentality as our business stabilises and we shape new opportunities. It is particularly important when we consider that 2020 is going to be another year of significant change for the Company but, as the last year of major transformation, it is the gateway to a new future as a smaller and more sustainable energy services and solutions company.

To ensure we complete our transformation journey successfully, we must continue to live our values of care, delivery, collaboration, agility and courage which we have established group-wide over the last few years. I'm delighted with the way our organisation has embraced our values and, along with Our Code, these help guide us when the going gets tough and we have to face difficult choices and decisions. We have continued to pay attention to other foundational areas including safety, compliance and conduct. In safety, we strive for an incident-free workplace and aim to continuously improve performance through our focus on targeted safety interventions alongside improved controls and monitoring. While there were no significant (Tier 1) process safety events in 2019, we had two Tier 2 process safety events. Our total recordable injury frequency rate also increased by 4% to 1.06 per 200,000 hours worked, although outside of the UK we saw significant improvements in many businesses.

Despite all the change, we have continued to develop and invest in our people, the core strength of our Company, developing new ways to help them to build their skills and improve the consistency with which we approach our work. We also continue to work on the three pillars of our diversity and inclusion agenda: a diverse workforce, an inclusive environment, and meritocratic processes. We have seen significant improvements since I joined the Company – the Board is now 23% female and 23% ethnic minority members. Five of my twelve direct executive reports are women and we have very active affinity groups including our LGBTQ+ community, Spectrum. I recognise there is more to do across all areas of diversity and inclusion. Only by having a diverse and inclusive workforce will we be successful and harness the full range of talent that we need.

A lower carbon future

During 2019 we also reflected on Centrica's purpose. We remain dedicated to satisfying the changing needs of our customers, but increasingly those needs are around the challenge of addressing the threat of climate change, and in 2019 we were therefore ready to make a commitment enabling our customers to transition to a lower carbon future at the core of Centrica's purpose. We have owned the obligation to reduce the emissions of our customers (Scope 3 emissions) and, in addition, we are focused on enabling an energy system which is more efficient and lower carbon whilst continuing to reduce our own carbon footprint. I am pleased that Centrica regained the coveted CDP 'A' rating in early 2020, has signed up to the Taskforce on Climate-related Financial Disclosures (TCFD), and has engaged constructively with representatives of the Climate Action 100+ group of investors.

Centrica is a company now much more in tune with the transition to a lower carbon future. However, our origins and much of our business still revolves around natural gas. While the world will probably use more natural gas before it uses less, as gas displaces coal in the global energy system, we must play our part in helping our customers to use less energy in everything they do, and over time to decarbonise heating through the adoption of new technologies including partial use of hydrogen in the gas system, solar, batteries and heat pumps. Centrica is committed to developing a plan to be net zero by 2050 and playing a major role in helping our customers to do the same.

Read about our Responsible Business Ambitions to tackle climate change on
Pages 50 to 51

> **Despite all the change, we have continued to develop and invest in our people, the core strength of our Company, developing new ways to help them to build their skills and improve the consistency with which we approach our work.”**

Regulatory and political landscape

I fully recognise we are a business that operates at the behest of policymakers and regulators and the space that we are allowed to occupy is significantly determined by them. We continue to be committed to full engagement with whoever is in power politically, and to collaborate and partner with our regulators in all of our geographies. In November it was announced that we had been successful in the judicial review which challenged the UK energy regulator Ofgem’s treatment of wholesale energy costs in the initial period of the UK default tariff cap, and Ofgem announced in January 2020 that they were launching a consultation on the appropriate recovery mechanism. The decision to challenge the regulator in this area was not taken lightly but reflected how important I believe it is that regulatory processes are transparent and rigorous. It is in the long-term interests of customers that we have well designed regulation that supports an effectively functioning energy market.

Over the last few years the continued layering on of new regulation in the energy market in the UK has left it in a very challenging situation. I would encourage further reflection on this and some changes, including the lifting of the price cap, if we’re going to create a sustainable market which facilitates much needed future investment. In North America, similarly, I believe in well regulated, competitive markets because these are in the best interests of the customer. We have a range of market designs across our geographies and it is clear that some are more effective than others.

Brexit provided significant uncertainty through 2019. The UK’s departure on 31 January 2020 was certainly a milestone, but much remains to be addressed in the negotiation on the future relationship that is to come. Provided policymakers are pragmatic and thoughtful, there should not be material impact of Brexit on the energy markets other than the general impacts of foreign exchange movements on the price of energy and the potential impact of changes in economic growth on demand for energy and our services. Centrica operates in multiple jurisdictions, including Continental Europe, and we will continue to develop our capabilities to serve customers in all these geographies.

CEO succession

Finally, I will be stepping down as Chief Executive in the course of 2020 after five fascinating, but extremely tough years which have been very difficult for our shareholders and our Centrica colleagues in particular. We determined in 2015 that it was urgent the Company repositioned back towards the customer, and built skills and capabilities more in tune with where the energy markets were going, and in line with the demands to address climate change. During that time, as well as the usual challenges of commodity price movements and economic fluctuations, Centrica has faced unprecedented political uncertainty and regulatory intervention. Climate change has risen up the agenda as the major challenge facing our world and, as we predicted in 2015, a new decentralised, more digital and increasingly decarbonised energy system has begun to develop.

Centrica is having to make some huge changes to reposition itself for the future, and much of the burden of this has fallen on the shoulders of our team. I am deeply grateful for the hard work and dedication of the talented people I have worked with in this company, their commitment and caring attitude are what makes it great. As we have done over the last 208 years, Centrica needs to adapt while staying true to our values and to our core of energy, and services and solutions built around it.

Conclusion

In summary, 2019 has been a very difficult year in terms of the external environment and our key outputs. Our strategy remains clear and our direction towards the customer is unchanged. We are beginning to see success in doing what we said we would do and performance stabilise. We have significant momentum as we enter 2020, and I see 2020 as a gateway to the future of Centrica as a leading international energy services and solutions company, in tune with where the world is going.

Iain Conn
Group Chief Executive
12 February 2020