

Chairman's Statement

“ It is no coincidence that the primary focus of businesses that are successful in adapting to change lies in responding promptly to the demands of their markets and, specifically, serving the needs of their customers. Centrica is increasingly well positioned to help people in their homes and businesses to do what they need to tackle the climate change challenge and contribute to a lower carbon future.”

Charles Berry
Chairman



In my statement last year, I described taking on the Chairmanship of Centrica as a special privilege, given my interest in the Company from my long career in the energy industry. I recognise that Centrica has faced very challenging external circumstances in recent years and that this has been reflected in the shareholder experience. I also realise that I have stepped into the chair at a time of extraordinary and unprecedented structural change in the energy industry, with the global challenge of climate change facing us. But that is one of the reasons I am confident about Centrica's future and in the underlying strength of our business.

The external environment is constantly evolving and businesses must be prepared to respond. It is no coincidence that the primary focus of businesses that are successful in adapting to change lies in responding promptly to the demands of their markets and, specifically, serving the needs of their customers. Centrica is increasingly well positioned to help people in their homes and businesses to do what they need to tackle this challenge and contribute to a lower carbon future.

For homes, we have strong trusted brands in the UK, Ireland and North America serving approximately 12 million households. In the UK, British Gas has nearly 8,000 highly trusted engineers and technicians, a unique asset we can leverage to help our customers fulfil their energy needs. Their role is also becoming about much more than servicing boilers, vital though that remains. We now have the platform which enables us to provide customers with a range of new offers, such as installing electric vehicle charge points or giving them more control over the energy systems in their homes.

In serving businesses we have a strong position, supplying energy to nearly 1.2 million customer sites in the UK and North America. And Centrica Business Solutions offers services and solutions which play directly into the demand side of the energy transition. By offering a range of sustainable energy solutions in addition to energy supply – from monitoring and analysis of consumption patterns to on-site solar and combined heat and power generation – we can help our industrial customers become more cost efficient while lowering their carbon footprint. We also assist in providing flexibility services which enable electricity grids to be more efficient and reduce the requirement for centralised power generation.

In our customer-facing businesses, we are building upon our legacy and establishing a strong platform for the long term. Our long-term purpose is to provide energy and services to satisfy the changing needs of our customers and enable the transition to a lower carbon future. We have the potential to achieve that. But, in order to make sure that there will be a long term, we must secure the short term.

Creating momentum in 2019

After I took over the chairmanship, faced with some very challenging external circumstances, we took the opportunity at our March Board meeting, as a refreshed team, to stand back and review the business and probe areas where we felt there were particular challenges. The Board as a whole worked through those in discussion with the executive team, culminating in our strategic update in July.

In this we re-affirmed our strategic direction back towards the customer and our desire to exit nuclear – at the right time and in the right way. We announced our intention to sell our stake in the Exploration & Production business, Spirit Energy. This has nothing to do with the quality of Spirit as a business. But our journey is back towards the customer. If we want to embrace our strengths and the challenges of climate change with credibility and rigour, as well as contributing in areas where we can make a real difference, we need to focus on the customer and leave behind exploration and production activities. We also announced ongoing efficiencies, with an ambition to be right at the efficiency frontier. This is key to securing the future in the face of intense competition.

The final step, and I am very aware of the impact on shareholders of this decision, was to reduce the dividend per share from 12p to 5p. We did this reluctantly. But given the external environment and where the Company is going it was vital to make that reset, to achieve a position where we feel the Company will be sustainable and robust in the future.

Our people

So, as we continue to reposition the Company, I believe we are beginning to demonstrate the potential for a recovery in our fortunes. But I recognise that the short term remains painful and I'm very aware of the impact that has on our colleagues. Many of those affected by the ongoing reduction in roles have been with us for a long time and have helped to create the brand and develop the Company. That's why as Chairman I wanted the Board to get closer to our people.

In September we held a Board meeting in Stockport, where our UK home services operation is based, for the first time. It was fantastic for us to listen to our colleagues talking about what they have achieved and what they care about despite the changes they are facing.

I also visited our contact centre in Greater Manchester and listened to our team there looking after vulnerable customers. I continue to marvel at the skill and the professionalism with which they interact on sensitive issues, such as household income, and find ways to support our customers and advise them on government grants and other help available. When I was there, colleagues had just been told that they would be affected by changes in the business. But you wouldn't have noticed it from the way they spoke and interacted with customers on the phone.

These are the things that make the brand. These are things that we do which many of our smaller competitors do not. Simply put, in any business, it always comes down to people in the end. What makes the real difference is people. A brand is only as good as the service that people deliver when they're associated with that name.

Stakeholder engagement

All organisations today must place a much greater emphasis on their purpose, what they stand for and their impact on all stakeholders, including shareholders. A responsible company must think about its impact on the environment, on its employees and on wider society.

There is an increasing focus from fund managers on environmental, social and governance performance. In these areas we are consistently among the top quartile of UK

companies. We have been identified as a world leader for strategic action and disclosure on climate change by CDP, an international NGO reporting to investors, achieving a place on its prestigious 'A List', based on our reporting on this area in 2019.

We are also continuing to actively engage with politicians and regulators in all jurisdictions where we do business, on important policy issues that will shape the new energy sector. However, policy makers and regulators also need to play their part by ensuring a competitive environment that provides an adequate return on the substantial investments that will be needed to meet important societal needs, including the challenge of decarbonisation.

Board changes

There were several Board changes during 2019. Margherita Della Valle stepped down after eight years as a Non-Executive Director and I would like to thank her for all she has done. Sarwjit Sambhi was appointed Chief Executive, Centrica Consumer and joined the Board in March. Pam Kaur joined the Board as a Non-Executive Director in February and Kevin O'Byrne joined the Board and became Chairman of the Audit Committee in May. Heidi Mottram also joined as a Non-Executive Director in January 2020. It has been a pleasure getting to know my new fellow Board members and working with them. We appreciate their refreshing input.

Our Chief Executive Iain Conn will be stepping down in the course of 2020 after over five years at the helm. It has been a very tough role to undertake at a particularly challenging time for the Company and I would like to thank him for everything he has done. He has led the re-positioning of the Company back towards the customer and our core strengths, and towards making a major contribution to a lower carbon future. This has not been easy and required significant changes to the portfolio, reduction in costs and the size of the team, as well as strong attention to cash flow and our debt levels. During this time we have seen material improvements in safety performance and customer outcomes. There have been heavy external shocks during his tenure, many that could not have been anticipated, and he has navigated the Company through them bravely and we appreciate that highly. As we address 2020, we are in a much stronger position from which to build for the future.

Looking forward

Looking ahead, we believe our medium-term prospects remain bright and the potential long-term growth opportunities are significant. Our immediate focus on maximising our distinctive strengths in energy supply and optimisation, and on services and solutions centred around energy, is we believe correct. Embracing the challenges of climate change, and being at the forefront in tackling it, is the right thing to do. The course is set. Now we must deliver on our promises and seek to make this Company one that our employees and customers can be proud of. I would like to conclude by thanking all my colleagues and co-workers at Centrica for their dedication and hard work in challenging circumstances. They are our greatest asset.

Charles Berry

Chairman

12 February 2020