Centrica at a Glance

Our purpose

We are an energy services and solutions company, focused on satisfying the changing needs of our customers, enabling the transition to a lower carbon future.

- '21st Century Energy Services and Solutions company'
- Delivering long-term shareholder value through returns and cash flow growth
- Trusted corporate citizen
- Employer of choice

Group highlights

Group Operational Performance

Total recordable injury frequency rate (per 200,000 hours worked)

2019: 1.06
2018: 1.02

Internal carbon footprint ($tCOe_2e$)

2019: 55,145†
2018: 66,566[4]

Centrica Consumer total customers ('000)

2019: 12,512
2018: 12,518

Centrica Business total customers ('000)

2019: 512
2018: 503

Total customer energy consumption (TWh)

2019: 508
2018: 496

Direct Group headcount[1]

2019: 26,932
2018: 30,520

Group Financial Summary (Year ended 31 December 2019)

Group revenue

£22.7bn

2018: £23.3bn[2] ▼ 3%

Return on average capital employed (ROACE)[3]

9%

2018: 13% ▼ 4ppt

Adjusted operating profit[3]

£901m

2018: £1,392m ▼ 35%

Statutory operating loss

£(849)m

2018: £987m profit

Adjusted earnings attributable to shareholders[3]

£419m

2018: £631m ▼ 34%

Statutory loss for the year attributable to shareholders

£(1,023)m

2018: £183m profit

Adjusted basic earnings per share (EPS)[3]

7.3p

2018: 11.2p ▼ 35%

Statutory basic earnings per share (EPS)

(17.8)p

2018: 3.3p

Adjusted operating cash flow[3]

£1,830m

2018: £2,245m ▼ 18%

Statutory net cash flow from operating activities

£1,250m

2018: £1,934m ▼ 35%

Group net debt

£3,181m

2018: £2,656m ▲ 20%

Net exceptional charge after taxation included in statutory loss

£987m

2018: £235m ▲ 320%

(1) Direct Group headcount excludes contractors, agency and outsourced staff.
(2) Restated for presentation of energy derivatives. See note 1 to the Financial Statements.
(3) See notes 2, 4 and 10 to the Financial Statements for definition and reconciliation of these measures.
(4) Restated mainly due to organisational changes which included divestments.
† We engaged PricewaterhouseCoopers (PwC) to undertake a limited assurance engagement over 6 metrics highlighted with the symbol '†' throughout the Annual Report and Accounts 2019. See page 225 or centrica.com/assurance for more details.

Read more about our Key Performance Indicators
Pages 18 to 19

The Group has redefined its operating segments during the year to reflect the way in which the business is now organised. Operating segments are now defined as Centrica Consumer, Centrica Business and Upstream.

The revised operating segments incorporate similar products and services, as well as the major factors that influence the performance of these products and services, such as regulatory environments within Centrica Consumer, and access to commodity markets and trading counterparties within Centrica Business, across different geographical locations in which the Group operates. Further information on the operating segments of the Group is shown at note 4 on page 125.

Centrica Consumer

UK Home

Supplying competitive and reliable energy to residential customers in the UK, and providing innovative services and solutions that help to keep their homes warm and working.

Ireland

Supplying competitive and reliable energy and energy services to residential and business customers across Ireland.

North America Home

Supplying competitive and reliable energy and providing home services to customers in North America.

Centrica Home Solutions

Providing smart home products and end-to-end solutions centred around energy for households in the UK & Ireland, including offers around Home Energy Management and Electric Vehicle Integration.

Read more about Centrica Consumer on
Pages 20 to 23

Centrica Business

UK Business

Supplying energy and services to a diverse range of business customers in the UK, using a variety of products tailored to meet their differing needs and help them more effectively manage their energy consumption and costs.

North America Business

Supplying competitive and reliable electricity and natural gas and energy services to retail and wholesale customers across North America.

Centrica Business Solutions

Providing end-to-end design, installation, maintenance and service solutions including optimisation and covering a wide and expanding range of energy technologies helping our customers transition to a lower carbon future.

Energy Marketing & Trading

Providing risk management and wholesale market access for the Group, building on strong cross-commodity trading capabilities and a global presence in LNG.

Read more about Centrica Business on
Pages 24 to 26

Upstream

Spirit Energy

Producing around 50 million BOE (barrels of oil equivalent) a year, focused on the North Sea (the UK, the Netherlands, Norway and Denmark). We intend to exit our interests in Spirit Energy by the end of 2020.

Centrica Storage

Operating the Rough gas field in the UK North Sea, which has been converted from a storage asset to a producing asset before decommissioning.

Nuclear

Generating power from our 20% interest in eight nuclear power stations in the UK.

Read more about Upstream on
Pages 27 to 28

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

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

Strategic Report

2019

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

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.

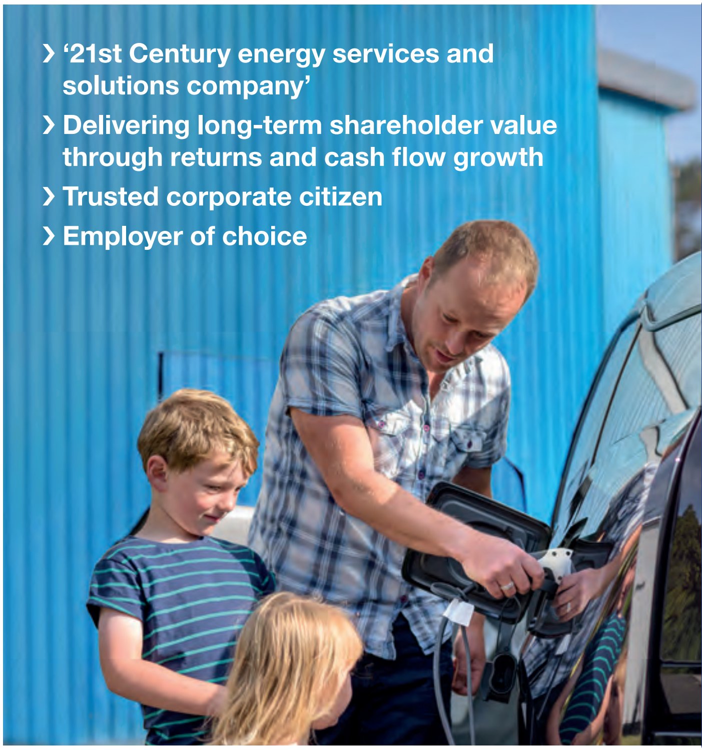
Conclusion

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

Our Strategy

Our purpose, as set out in 2015, has been refreshed, but its essence remains unchanged. We are an energy services and solutions company, focused on satisfying the changing needs of our customers and enabling the transition to a lower carbon future.



Strategic context

Our strategic update in 2019 confirmed that the trends we identified in 2015 continue to play out:

- the energy system is becoming more decentralised as advances in distributed technologies support decarbonisation;
- choice, power and influence are moving to the customer; and
- digitalisation is accelerating proposition development, increasing choice and driving efficiency across our sector.

We are now equipped and committed to help our customers transition to a lower carbon future

- we have developed capabilities to help customers reduce their emissions;
- we will exit hydrocarbon production, creating a leading international energy services and solutions provider;
- we supply natural gas and believe in its near-term role in replacing coal. But we also embrace the ultimate need to decarbonise heating; and
- we have targets to reduce the emissions of our customers, the energy system and our own operations and have made a commitment to be net zero by 2050 and communicate our pathway to it by 2030.

Read more about Delivering our Responsible Business Ambitions
Pages 48 to 54

Section 172(1) Statement

Section 172(1) of the Companies Act 2006 provides that a director of a company must act in a way that he considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to various other stakeholder interests – below are the six key factors:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

Read more about our Stakeholder Engagement on
Pages 16 to 17

Our divisions

In 2017, we reorganised the Group around the customer, creating two new, customer-facing divisions: Centrica Consumer and Centrica Business. These businesses will continue to focus on the areas of energy services and solutions in which we have distinctive capabilities – energy supply and its optimisation, services and solutions centred around energy. We now have sufficient capability in the customer-facing businesses to allow us to focus completely on the customer. The Upstream division includes our Nuclear, and Exploration & Production assets.

Centrica Consumer

Market trends

- Demographic change
- Ubiquitous technology
- Self-service
- Data analytics, Artificial Intelligence and automation
- Increased regulator and consumer activism
- Growing progress and support for decarbonisation
- Increased competitive intensity

Customer needs

- Value for money
- Easy, empathetic and personalised service
- Trusted, expert support
- Solutions, not just products
- Simple, clear choices
- Responsible options (including green tariffs)

Read more about Centrica Consumer on
Pages 20 to 23

Centrica Business

Market trends

- Volumes per customer reducing
- Margins under pressure
- Gas becoming global
- Mega-trends impacting energy sector
- Electricity system becoming more local

Customer needs

- Reduced cost and increased productivity
- Supply security and resilience
- An expert partner to guide them through complexity
- A trusted and credible counterparty
- Not to be distracted from their main activity

Read more about Centrica Business on
Pages 24 to 26

Upstream

Upstream includes our Nuclear and Exploration & Production assets. Our Exploration & Production activity is focused on North West Europe and consists of a 69% stake in the Spirit Energy business and the Rough field. We announced our intention to sell Spirit Energy and Nuclear.

Read more about Upstream on
Pages 27 to 28

Strategic approach

To deliver the strategy we announced in July 2015, and reviewed in 2019, we set ourselves a number of medium-term objectives to 2020 and focus areas of long-term growth.

Our medium-term strategic objectives

- Demonstrating customer-led gross margin growth
- Driving cost efficiency towards being 'most efficient price setter'
- Improving organisational effectiveness
- Securing the capabilities we need for 2020 and beyond
- Maintaining capital discipline and balance sheet strength

Our focus areas for long-term growth

- Energy Supply
- In-home Servicing
- Home Solutions
- Energy Optimisation
- Business Services & Solutions

Our Business Model

Our business model is designed to deliver returns and growth focusing on energy services and solutions, enabling the transition to a lower carbon future.

Our Energy Supply, Services, Home Solutions, Business Solutions and Energy Marketing & Trading businesses are organised into two global customer-facing divisions; Centrica Consumer and Centrica Business. Our strategic framework shifts our focus towards energy services and solutions, in addition to providing energy supply, while putting emphasis on helping our customers transition to a lower carbon future.

Centrica Consumer is focused on energy supply, in-home servicing and home solutions centred around energy, including Home Energy Management and Electric Vehicle Integration.

Centrica Business is structured to deliver the full range of energy products and services solutions – from energy supply, to on-site generation and data-driven optimisation, to electricity wholesale market access.

Our Group priorities

In 2019, we evolved our focus on five key priorities to deliver our strategy and we align performance and risk management processes around these, including our Key Performance Indicators. Our Group Priorities are underpinned by safety, compliance and conduct.

Read more about our Key Performance Indicators on
Pages 18 to 19

- Customer Obsession
- Operational Excellence
- Most Competitive Provider
- Cash flow Growth
- Empowered Colleagues

Safety, compliance and conduct foundation

Our Responsible Business Ambitions

Our 2030 Ambitions set out 15 global goals to help our customers run their world in ever more sustainable ways. The goals are focused around four areas which includes tackling climate change, innovating to make our customers' lives easier, building a more skilled and inclusive workforce and making our communities stronger. Our Ambitions are underpinned by Responsible Business Foundations to ensure we operate with integrity.

Read more about Delivering our Responsible Business Ambitions on
Pages 48 to 54

We are focused on:

- Delivering for our customers
- Enabling the transition to a lower carbon future
- Building the workforce of the future
- Creating stronger communities

Group financial framework to 2022

Our financial goals are delivered through a clear financial framework that enables us to deliver long-term shareholder value through returns and growth.

The risks to achieving the Group's strategy are monitored and reported regularly.

For more information on managing our exposure to risk, see Our Principal Risks and Uncertainties on pages 34 to 45.

Our Group Priorities also ensure that progress in delivering performance in Safety, Customer Satisfaction, Operational Excellence and People is a core part of the overall Group performance, which is then measured through individual employee scorecards.

Metrics	Targets
Adjusted operating cash flow(3)	• Growth over the medium term
Dividend(2)	• Progressive dividend from 2019 rebased level linked to growth in adjusted earnings and operating cash flow • Dividend cover from adjusted earnings of 1.5-2.0
Controllable costs(1)	• £1bn of annualised efficiency delivery over 2019-22
Capital re-discipline	• Annual capital expenditure of around £500m post Spirit Energy and Nuclear disposals
Credit rating	• Strong investment grade ratings
ROACE(3)	• At least 10-12%

(1) Further information on controllable costs can be found in Additional Information – Explanatory notes on page 223.
(2) Dividend Policy – the Group has a progressive dividend policy (based off the 2019 dividend level), linked to long-term growth in adjusted earnings and adjusted operating cash flow, and we will target dividend cover from adjusted earnings in the range 1.5-2.0. See note 11 to the Financial Statements for further details on current year dividends.
(3) See note 2 to the Financial Statements for definition and reconciliation of these measures.

Our customer-facing businesses are supported by the common operating functions of Customer Operations and Field Operations.

These functions are where we interact with the customer and are fundamental to our success.

The Upstream division includes our Nuclear and Exploration & Production businesses, Spirit Energy and Centrica Storage. We have announced our intention to divest Spirit Energy and Nuclear.

To ensure our model remains efficient and scalable, all businesses are supported by a number of centre-led Group functions that are responsible for setting boundaries and standards which allow us to manage risk effectively and ensure a strong system of internal control.

Our strategic frameworks

Centrica Consumer

Energy supply
- Gas supply
- Electricity supply

In-home servicing
- Cover products (protection plans, warranties)
- On demand repair and maintenance
- Electric vehicles charging point installations

Home solutions
- Home security and monitoring
- Remote diagnostics
- Home control
- Appliances control
- Home energy management

Centrica Business

Energy supply
- Gas supply
- Electricity supply

Energy optimisation
- Asset optimisation
- Aggregation and optimisation of distributed energy resources
- Access to energy, capacity and flexible markets
- Trading partner
- Energy commodities and risk products

Business services and solutions
- Multi-technology solutions
- Design, install, maintain and service
- Energy resource management and monitoring
- Operational insights from energy data
- Preventive maintenance

Upstream

- Focus on safety
- Operational excellence

Stakeholder Engagement

Engaging with stakeholders delivers better outcomes for society, and our business. It's fundamental to our long-term success.

The world of energy is evolving, customer needs are changing, and the social and environmental pressures we operate under are increasing. Against this backdrop, it's vital that we understand and collaborate with stakeholders so that we can grow our business in a way that delivers for our customers and society over the long term. These pages highlight some of the ways we engaged stakeholders on material issues in 2019.

Customers

Listening to customers helps us to satisfy their changing needs and reduce costs. We seek feedback on a range of issues such as customer service, new products and pricing. This is done through various methods such as focus groups, listening sessions and surveys, as well as proposition and usability testing.

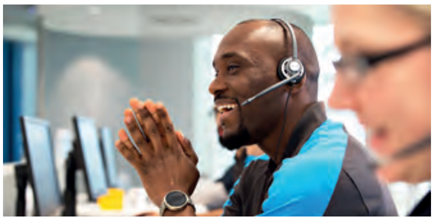
Action from insight
We track feedback from customer journeys and run customer experience surveys. The Board receives a quarterly customer dashboard with key performance and plans, and uses this insight to make decisions that serve our customers for the long term as well as foster stronger relationships with them. Feedback, for example, informed the Board that customers wanted a cost-competitive provider with market-leading customer service. The Board has consequently been involved in transforming our customers' experience which includes oversight of the digital transformation.

Voice of the customer
The Board wanted to empower customer-facing teams with real-time customer service insights, to help them understand the root causes of issues and shape improvements. This led to the 'Discover' platform launching in UK Home and UK Business, which hosts survey feedback from over 20,000 customers a month. Insights from the platform have stimulated Board approval on new ways of working and key customer journeys, such as easier-to-understand bills and pricing renewal policies.

Read more about the benefits of the digital transformation on
Page 21

Read more about our customer service experience on
Pages 22 and 25

Colleagues



We use employee feedback to help develop a workplace where everyone is motivated and able to deliver for our customers. Issues discussed typically include reward, development and culture, with feedback shared via various channels such as events, surveys and performance reviews.

Employee Champion
Joan Gillman, Non-Executive Director, completed her first full year as Employee Champion. Having held listening sessions to hear about some of the cultural 'blockers' and 'pain points' employees were experiencing, she has since acted as the voice of the employee on the Board across discussions relating to talent and resource among other areas. Joan has also worked to improve the Board's understanding of employee concerns, including their desire to feel more connected to the Company's strategy.

Diversity and inclusion
Having a diverse and inclusive workforce is key for our business and people to thrive. Leaders champion inclusion and participate in employee discussions on issues such as gender, ethnicity, sexuality and caring responsibilities, to explore how we can build a more inclusive workplace. With increased insight, the Board took into account the needs of employees by introducing 2030 Responsible Business Ambitions to accelerate progress, signed up to The Valuable 500 to drive disability inclusion and enhanced policies to support carers and parents.

Read more from Joan about her role as Employee Champion on
Page 67

Read more about building a more diverse and inclusive workforce on
Page 52

Shareholders

Shareholders provide funds that help us run and grow our business and they expect a sustainable return. When meeting shareholders and being involved in or responding to information requests, the Directors are conscious that they need to act fairly for all of our shareholders. Such views are particularly important to ensure that when we update on strategy, financial and operational performance, alongside Environmental, Social and Governance (ESG) issues, that it's relevant and beneficial to all our shareholders.

Annual General Meeting (AGM)
All shareholders are invited to the AGM where they have the opportunity to hear about our performance and put questions to the Board. Members of the Board, Investor Relations and customer service, are available to speak with shareholders before and after the meeting on issues that matter to them. All resolutions put to shareholders passed in 2019, with percentages ranging from 85.27% to 99.91%.

Responsible business
Following the introduction of our 2030 Responsible Business Ambitions, we hosted a webinar for investors and analysts to explore our commitments. Our Group Chief Executive also met Climate Action 100+ (CA100+), which represents over 370 investors managing USD$35 trillion in assets. Engagement helped shape our Ambition to tackle climate change, spurred the publication of our net zero policy position and supported our decision to sign-up to the Task Force on Climate-related Financial Disclosures.

Read more about our AGM engagement on
Page 68

Read more about our response to climate change on
Pages 46 to 47 and 50 to 51

Section 172(1) Directors' Duty

As a result of being responsible for overseeing Our Strategy, described on pages 12 to 13, and Our Business Model, described on pages 14 to 15, both of which centre around the interests of key stakeholders, the Directors remain conscious of the impact their decisions can have on employees, communities and the environment.

Proactive engagement remains a central focus for the Board, which ensures the Directors have regard to the matters set out in S.172(1) (a) to (f) of the Company Act. They receive regular stakeholder insights and feedback, which enables them to place stakeholder considerations at the very heart of the Board's decisions. Examples of such decision making is further described on pages 16 to 17 Stakeholder Engagement, on page 57 S.172 table and page 64 Board activity. In doing so, we are better able to operate in a way that is mutually beneficial to society – from developing strategy and introducing new products, to advocating for policy change and managing our social and environmental impact. Examples are further described on pages 48 to 54 Delivering our Responsible Business Ambitions.

Sometimes the Directors have to take decisions that adversely affect one or more of our stakeholder groups. In these cases, we endeavour to treat those impacted fairly.

Read more about our Section 172(1) Directors' Duty on
Page 57

Government and regulators

The Directors understand the value of fostering our relationship with government and regulators to ensure policies are developed in the interests of our customers, while enabling them to better understand our impact on the community and the environment. We provide expertise to support policy development around topics like market competition, employment and the environment. Engagement includes face-to-face meetings and written responses to consultations.

Decarbonising heat
We engaged the UK Government and the Committee on Climate Change (CCC) on how to decarbonise heat in a cost-effective way. We shared insight into our trial of new Home Energy Management solutions, the role hybrid heat pumps could play and the opportunity of green gas. The CCC has since become more supportive of hybrid heat pumps in domestic heating and we remain committed to working together to deliver customer-friendly policies and products that enable society's transition to net zero.

Opening new markets
In collaboration with business trade groups and environmental NGOs, we pursued political and regulatory engagement to open up competition in Virginia's electricity market, so that our customers can access zero carbon power. Due to our efforts, 100% renewable tariffs totalling over 100TWh of annual demand are now available to residential, commercial and industrial customers. This helps customers, such as Bernstein Management Corporation, fulfil their low carbon commitments at a competitive price.

Read more about our net zero policy recommendations on
Pages 46 to 47

Read more about the positive impact of market reform on Bernstein Management Corporation on
Page 26

Suppliers

The Directors fully support collaboration with suppliers as it reduces risk in our supply chain and ensures we maintain high standards of business conduct which benefits our communities. We interact with suppliers through the tender process, surveys and site inspections. Engagement covers topics including payment practices and strengthening social, ethical and environmental compliance.

Risk management
We conducted nine on-the-ground ethical site inspections on higher risk suppliers located in the UK, China, Italy and Turkey. While no modern slavery risk was detected, we worked with suppliers to create tailored action plans to raise labour and safety standards while providing workers with a confidential modern slavery helpline. The Board reviews our strategy and performance in upholding the Modern Slavery Act each year.

Sharing solutions
We hosted Responsible Sourcing Council's first meeting of 2019 to share our responsible procurement achievements so that others can learn from our experience, as well as collaborate to find solutions to some of our challenges. A supplier day was also hosted by one of our Board members, which brought together 14 strategic suppliers to explore innovative ideas to deliver our digital technology strategy. We are following up with suppliers to further scope ideas and hope to run similar sessions going forward.

Read more about reducing risk with suppliers on
Page 54

Read more about modern slavery governance in the Safety, Health, Environment and Security Committee on
Pages 80 to 81

Communities and NGOs

By sharing our expertise and working alongside charities, NGOs and community groups, we not only collaborate to create stronger communities but gain insights that enable the Board to have full regard of our impact on the community and the environment, which helps them better understand the likely consequences of decisions in the long term. In doing so, we can tackle enduring societal challenges together – from tackling climate change to creating carer-friendly communities.

Transition from fossil fuels
We announced our intention to exit oil and gas production by the end of 2020 which will complete our shift towards being a customer-facing company. This allows us to focus on our distinctive strengths and respond to the growing call from customers, NGOs and wider society, to enable the lower carbon future. We believe gas has an important role as a transition fuel which does not always align with the expectations of some stakeholders. We continue to engage with them on this.

Supporting carers
We provide best-in-class support to help carers stay in work by better balancing work with caring responsibilities. With the Board having extended carers' leave allowance to up to six weeks following consultation with our people, we wanted communities to receive these same benefits. Our Group Chief Executive wrote to the UK's largest employers and, together with our charity partner Carers UK, we hosted peer learning forums and campaigned for the UK Government to introduce statutory carers leave which is now part of its legislative programme.

Read more about our transition to a lower carbon future on
Pages 50 to 51

Read more about how we are helping carers thrive on
Page 52

Key Performance Indicators

Our Key Performance Indicators (KPIs) help the Board and executive management assess performance against our Group Priorities.

Our Group Priorities

- Customer Obsession
- Operational Excellence
- Most Competitive Provider
- Cash flow Growth
- Empowered Colleagues
- Safety, compliance and conduct foundation

Read more about Our Strategy
Pages 12 to 13

Read more about Remuneration
Pages 82 to 99

Read more about adjusted performance measures
Pages 223 to 224

Adjusted operating cash flow(1)

Adjusted operating cash flow is our key measure of financial performance and is one of the financial metrics for the short-term incentive plan for our Executive Directors.

Adjusted operating cash flow was down 18% reflecting lower operating profit offset by working capital movements.

Link to Remuneration
Short-term incentive

Link to Group Priorities

Adjusted operating profit(1)

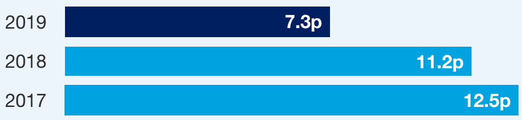
Adjusted operating profit is one of our fundamental financial measures.

Adjusted operating profit was down 35% reflecting reduced profit predominantly in our Upstream segment.

Link to Remuneration
Short-term incentive

Link to Group Priorities

Adjusted basic earnings per share (EPS)(1)



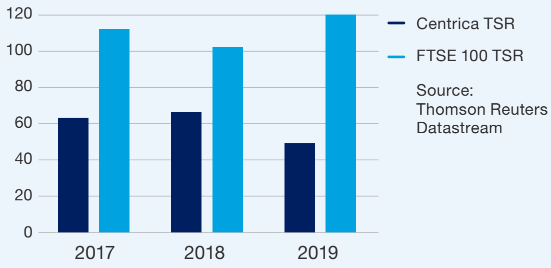
EPS is a standard measure of corporate profitability. EPS is adjusted to better reflect the underlying performance of the business.

Adjusted basic EPS was down 35%, reflecting the reduced operating profit.

Link to Remuneration
Long-term incentive

Link to Group Priorities

Total shareholder return (TSR) by year



The Board believes that TSR is a valuable KPI to assess the Company's performance in the delivery of shareholder value.

Link to Remuneration
Long-term incentive

Link to Group Priorities

(1) See notes 2, 4 and 10 to the Financial Statements for definition and reconciliation of these measures.

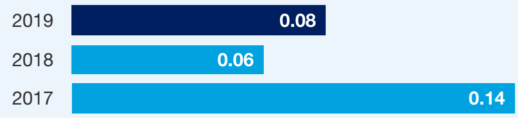
Total recordable injury frequency rate (TRIFR)

Keeping our people safe is a foundation of how we do business. Our TRIFR per 200,000 hours increased by 4%. We remain committed to creating an incident-free workplace.

Link to Remuneration
Long-term incentive

Link to Group Priorities

Process safety incident frequency rate (Tier 1 and 2)



We prevent potential incidents where we source, generate and store energy with process safety. Less process safety hours worked per 200,000 hours led to our frequency rate increasing by 33%.

Link to Remuneration
Long-term incentive

Link to Group Priorities

Brand net promoter score (NPS)(1)

Everything we do is focused on satisfying the changing needs of our customers. Improvements in customer service, enabled by digital transformation, contributed to our aggregated NPS improving by 5.1 points.

Link to Remuneration
Long-term incentive

Link to Group Priorities

Complaints(2)

We are relentless in wanting to provide an excellent service that satisfies our customers and reduces complaints. This has led to our aggregated complaints per 100,000 customers improving by 1%.

Link to Remuneration
Long-term incentive

Link to Group Priorities

Employee engagement

Having a motivated and engaged workforce is key to our success. While we took action on feedback from our annual employee engagement survey to improve performance, business restructuring impacted engagement which decreased by 12%.

Link to Remuneration
Long-term incentive

Link to Group Priorities

The KPI performance outcome associated with executive remuneration is set out on page 88.

(1) Aggregated scores across UK Home, North America Home, Ireland, Centrica Home Solutions, UK Business and North America Business weighted by customer numbers.
(2) Aggregated scores across UK Home, North America Home, Ireland, UK Business and North America Business weighted by customer accounts.

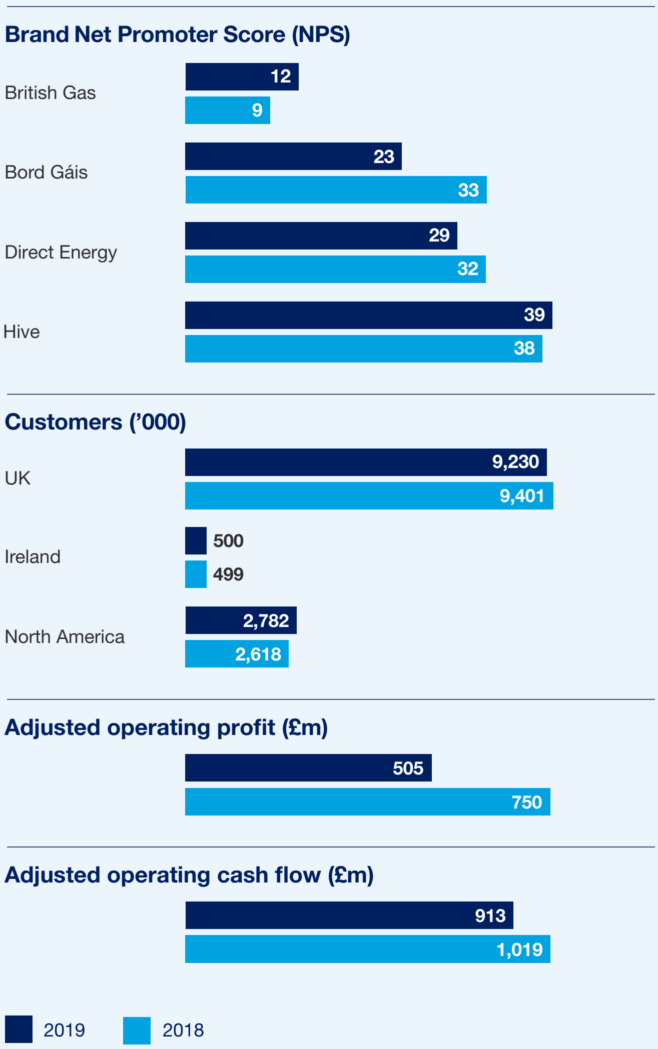
Read more about our responsible business performance on
Pages 48 to 54 and 225 to 228

Centrica Consumer

Centrica Consumer is focused on three areas, Energy Supply, In-Home Servicing and Home Solutions.

- UK Home
- Ireland
- North America Home
- Centrica Home Solutions

Sarwjit Sambhi
Chief Executive, Centrica Consumer



Our Centrica Consumer division is undergoing a digital transformation, broadening its capabilities to enable the launch of innovative new propositions – including combined energy and services bundles – while improving data analytics and customer segmentation. Customer satisfaction levels have risen significantly, and we maintain strong market positions.

In the UK, we are the largest energy supplier; the number one provider of contract energy services; and the largest installer of boilers and smart thermostats. We have leading brand awareness.

In North America, we are among the top three competitive energy suppliers in each of our chosen geographies of Texas, the US North East and Canada. We have a significant services position in a highly fragmented market.

In Ireland, we are the largest gas supplier and the second largest energy supplier overall.

Growth in customer accounts

- Centrica Consumer customer accounts grew by 722,000 in 2019, after adjusting for the impact of the disposal of the Clockwork North America home services business in April which had 182,000 customer accounts at the end of 2018.
- In the UK, total accounts increased by 451,000 in 2019, with 364,000 growth in services due to higher sales of products bundled with energy and 373,000 growth in cumulative home solutions customers, including growth from our remote boiler diagnostics proposition, BoilerIQ, and Cloud storage offer. This more than offset a reduction in energy supply accounts.
- UK Home energy supply customer accounts fell by 286,000, although the rate of losses significantly reduced compared to 2018 against a backdrop of continued high levels of price competition and market switching. Net losses were also lower in the second half of the year compared to the first half and accounts remained broadly stable over November and December 2019, and January 2020. This reflects the launch of a number of attractive customer offers in the fixed price market, including increased sales of energy and services bundles.
- Total accounts were broadly stable in Ireland against a backdrop of high levels of competitive intensity.
- In North America Home, accounts increased by 206,000 as we won some energy supply aggregation auctions in the US North East. We also delivered an increase in sales to customers on fixed price contracts.

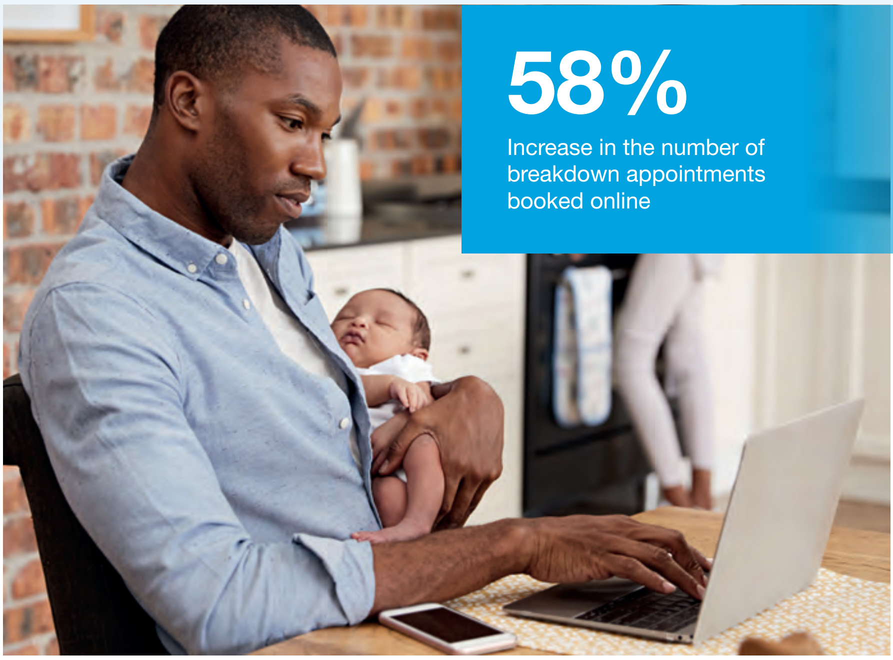
Putting customers at the heart of our digital transformation

Our customers increasingly want to go online to complete day-to-day tasks. We're trying to make that experience as simple, easy and effective as possible.

Calling a contact centre can be frustrating and time consuming; but too often the experience of going online is not much better. That's why in early 2018 we embarked on an ambitious digital transformation programme, identifying hundreds of customer 'pain points' and creating new online ways of tackling them. The result has been a faster, slicker website and app offering improved customer experience.

We have three priorities: to ensure that 100% of any task – such as a meter reading – can be completed successfully online; to make it easy and simple with fewer steps; and to make sure our online services can be used effectively on any device.

We've built an entirely new app which has now been downloaded 1.3 million times and is rated as 'standout' by the Energy Saving Trust. Last year there were 2.9 million fewer calls to our British Gas contact centres because customers found it easier and more effective to deal with us online. Here are just a couple of the new features we've introduced so far.



58%

Increase in the number of breakdown appointments booked online

'Book, Track & Manage'

This allows our customers to book and monitor British Gas engineer appointments online. It includes booking progress updates, a timeline to completion, the ability to amend or cancel appointments and a 'Track my Engineer' feature.

Results & key statistics: Breakdown appointments booked online up 58% since launch; calls about appointments down 30% year on year.

'Heating Offline Troubleshooting'

This new feature on our Hive app was launched towards the end of last year to address one of the biggest frustrations for our Hive customers – what to do when the connection between their boiler, smart thermostat and remote control heating app doesn't work properly.

Previously, to fix the problem, customers were directed to a static page on the website with a long list of steps to attempt which were seen as time consuming and complicated. Many customers understandably gave up and phoned a contact centre instead to speak to an agent.

By contrast the new feature offers customers a simple, interactive, conversational troubleshooting journey – with engaging visual prompts – which dynamically adjusts their path based on their product holding and current status.

> "Customers rightly expect that they should be able to draw on all the services we provide using their PC, tablet or smartphone. Our digital transformation programme is focused on delivering simple and easy-to-use customer journeys."

Sarwjit Sambhi
Chief Executive, Centrica Consumer

Improved customer experience and enhanced customer offers

- We continue to focus on improving customer experience and our digital platforms in all markets, leading to a reduction in call volumes in UK Home, North America Home and Ireland.
- The British Gas Brand Net Promoter Score (NPS) improved to +12. NPS for Bord Gáis Energy, Direct Energy and Hive remained at relatively high levels, although Bord Gáis Energy saw a reduction to +23 against a backdrop of new entrants and increasing competition in the Irish market.
- In UK Home, we saw a 16% increase in digital visits in 2019 compared to 2018, and our new digital app had over 2m downloads in the year. The proportion of transactions completed online had increased to 55% by the end of 2019 compared to 50% at the end of 2018 and call volumes dropped by 4.3 million, or 15%.
- We now have more ‘online only’ than ‘offline only’ UK energy supply customers.
- We fulfilled 98.2% of UK services appointments on the scheduled day compared to 97.6% in 2018.
- In North America Home, energy digital marketing and web sales were up 30% compared to 2018 and made up 21% of total energy sales. The proportion of transactions completed online increased to 49% in 2019 compared to 45% in 2018 and call volumes dropped by 93,000 or 2%, despite growth in customer accounts.
- We launched over 160 propositions in 2019 in UK Home, including bundled energy and services offers, with 71% of customers who took a bundled offer being new to services.
- We launched our first residential electric vehicle tariff in the UK during the year and in November installed our first domestic charging point.
- In January 2020, British Gas launched its new ‘Green Future’ tariff, one of the greenest tariffs on the market which offers customers green gas and renewable energy.

Putting customers at the heart of our field operations

We have totally reorganised the way that our engineers work so that we can deliver a better service to UK households.

Our field operatives – the gas and electrical engineers, heating installers, plumbers and smart energy experts – are one of our greatest assets. They are invited into more homes every year than any other brand in the UK and trusted highly by our customers.

But until now they have been working in a fragmented fashion, organised on a nationwide basis around the individual products and services they provide, with different ways of doing things and sometimes duplicating each other’s efforts.

We realised that, to make services a real engine for growth in the business, things would have to change. So, starting last July, we have completely reorganised. We have dismantled the product ‘silos’ to create local multi-functional teams, bringing all the different skills together, under a local manager.

These new teams are directly accountable for the customers they serve locally and will have full visibility of all their needs. We are changing the way that we recognise our engineers, so that rewards are based squarely on customer approval ratings and successful outcomes. Later this year, we will launch a new integrated computer system, in partnership with Microsoft, to manage operations and customer appointments more efficiently.

This is not just a new way of doing things. It also marks a fundamental change in our mindset. We are no longer thinking in terms of ‘field operations’, but rather of ‘customer delivery’. From now on, we aspire to work around the customer, rather than expecting the customer to work around us.

“The way we worked before was a bit like a department store, with each department working separately and not understanding the full needs of the customer. Now, by bringing our skills together in local teams, we can better understand and meet customer needs.”

Andrew Reaney
Customer Delivery Director, Centrica UK Field Operations

8,000
engineers and technicians

100+
new local managers recruited

Progress towards fundamentally rebasing UK Home

- In July 2019, we announced that we were developing plans to fundamentally rebase our UK Home business.
- In UK energy supply, our focus will be on continuing to improve the customer experience while moving towards becoming the lowest cost supplier by 2022. Achieving cost leadership will enable sustainable customer and margin growth.
- In UK in-home servicing, we are also focusing on improving our levels of competitiveness while maintaining a high-quality customer experience.
- We removed around 800 non-customer facing roles across energy and services in 2019 as part of our efficiency plans, with energy supply back office costs 15% lower in 2019 than in 2018.
- The cost per UK energy supply customer was £109 in 2019 compared to £103 in 2018, although the underlying figure in 2018 was £111 when excluding the impact of a one-off bad debt credit. The decrease in the underlying figure came despite the lower average number of customer accounts than in 2018 and the impact of inflation.
- UK services cost per customer in 2019 decreased to £330 compared to £348 in 2018, with significant levels of cost efficiency more than offsetting the impact of inflation. Revenue per customer was flat.
- In addition to the progress already made in 2019 to improve the customer experience, we have plans in place to drive a further increase in digital transactions to help reduce call volumes. We are also upskilling contact centre colleagues to reduce the number of internal call transfers, reducing costs and improving the customer experience.
- We continue to develop plans to re-organise around customer end-to-end journeys and transform our technology stack to be more flexible and lower cost. We now have two end-to-end customer journey teams up and running and have a proof of concept technology platform based on our online-only British Gas Lite offer live in the market.
- We are preparing ourselves to benefit from new market opportunities, such as electric vehicle integration. In 2019, we upskilled around 100 of our service engineers to install electric vehicle charging points.

Refocusing Home Solutions

- We announced in July 2019 that our Home Solutions activity would be focused on the UK and Ireland, as we continue to leverage our distinctive field force and look to launch propositions focused around Home Energy Management and Remote Diagnostics and Monitoring.
- Centrica Home Solutions revenue increased by 10% to £74m in 2019 and the gross margin percentage increased to 22% compared to 19% in 2018.
- In May, we launched Hive thermostatic radiator valves which allow customers to digitally manage the temperature in individual rooms in their houses. We have sold over 100,000 units to date.
- Customer satisfaction rates remain high, with the Hive brand NPS at +39, and we continue to see a positive impact on our energy and services businesses. The energy NPS of a Hive customer is 20 points higher on average than for an energy only customer.
- We have taken actions to lower operating costs in the second half of the year, reducing headcount in Centrica Home Solutions by around 40%. As a result, we expect to deliver £15m of operating cost savings and £10m of capital expenditure savings in 2020 when compared to 2019.

10%

increase in Centrica Home Solutions revenue

451,000

growth in UK customer accounts

49%

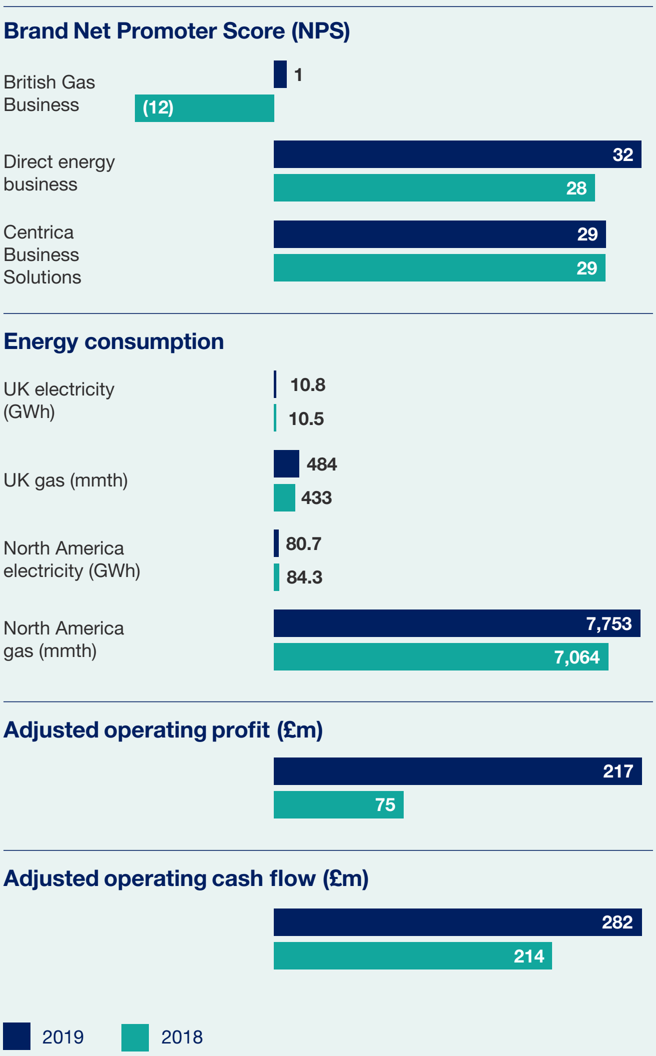
In North America Home, the proportion of transactions completed online increased to 49% in 2019

Centrica Business

Centrica Business is focused on three areas, Energy Supply, Energy Optimisation and Business Services & Solutions.

- UK Business
- North America Business
- Centrica Business Solutions
- Energy Marketing & Trading

Richard Hookway
Chief Executive, Centrica Business



Centrica Business has built enhanced capabilities across a range of activities, including distributed energy, route-to-market services and energy optimisation. We maintain strong market positions; we have delivered cost efficiencies to position ourselves competitively; and our customer satisfaction levels have improved.

We are the largest energy supplier to SME customers in the UK and retain a significant presence in the Industrial & Commercial market, where we focus on customers who want to take business services and solutions as well as energy supply.

In North America, we are the second largest supplier of gas and power to business customers and we have significant wholesale and optimisation positions. We have major global route-to-market and demand response optimisation positions, managing around 25 gigawatts of route-to-market capacity and 2.5 gigawatts of optimisation capacity across the UK, North America and Continental Europe.

Customer number stability and volume growth

- UK Business delivered growth in small and medium enterprise (SME) energy supply customer accounts, including from the online only British Gas Lite tariff.
- North America Business energy supply customer accounts were down 6%, reflecting our decision to focus our sales and retention activity on higher value, higher consuming customers. Total gas volumes were up 10%, reflecting this focus and the full year impact of small bolt-on acquisitions completed during 2018.

Improved customer experience

- UK Business brand NPS increased by 13pts over the year to +1, reflecting further operational improvements and enhancements to our digital platform.
- North America Business brand NPS improved by 4pts to +32, as we continued to launch new customer propositions, including those offering optionality on hedging profiles giving the customer more control.
- Centrica Business Solutions brand NPS remained high at +29.

Improving returns in North America Business

- We announced in July 2019 that, following a review of our business energy supply and optimisation activity in North America, we were making structural interventions to improve returns.
- Actions taken to improve margin delivery and customer quality, reduce costs and optimise capital employed have resulted in an improvement in post-tax economic returns to 9% in 2019 from 6% in 2018.
- Further actions underway are expected to result in post-tax average economic returns of 10-12%, which we are targeting to achieve in 2020, and no worse than 8% at the bottom of the cycle.

Saving energy and money to boost healthcare resources in Devon

Centrica Business Solutions is undertaking its most ambitious NHS project yet in the south west of England.

The Royal Devon and Exeter NHS Foundation Trust provides healthcare services to a population of nearly half a million across many sites and communities. Understandably, the trust would rather spend scarce resources on caring for people than paying for energy. So we're helping the Trust to do that.

We're currently installing state-of-the-art energy technology at five healthcare sites across Exeter, including a new 1.5 megawatt combined heat and power (CHP) unit at Wonford Hospital to generate electricity onsite, roof mounted solar panels, LED light fittings, air conditioning upgrades and new energy efficient boilers.

The £7 million project is due for completion by mid-2020 and is expected to reduce the annual emissions of the trust by 2,200 tonnes of carbon dioxide, equivalent to taking more than 1,450 cars off the road. It will save money too, an impressive £800,000 a year, which can be reinvested in critical frontline services.

By providing these solutions we are helping Royal Devon and Exeter to achieve its broader sustainability goals. Centrica currently supplies more than 1,300 NHS providers with products and services.

"This initiative with Centrica is a major part of our approach to reduce the amount of money we spend on energy and utilities, releasing more funds to invest in frontline patient care and other vital functions. At the same time, reducing our energy consumption helps reduce our environmental impact."

Robert Steele
Deputy Director of Strategic Capital Planning, Royal Devon & Exeter NHS Foundation Trust

2,200
tonnes of CO_2 saved a year

1,450
Equivalent to taking 1,450 cars off the road

£800,000
a year cost saving

Growing Business Solutions

- We are delivering growth in Business Solutions through leveraging existing energy supply customer relationships and the expansion of our technology range, with the focus increasingly on lower-carbon solutions. We are targeting £1 billion of revenue by 2022 and EBITDA break-even by 2021.
- The Centrica Business Solutions order book has increased by 19% compared to the end of 2018, revenue in 2019 was up 36% to £285 million and the adjusted operating loss reduced.
- On 1 July 2019, we acquired the energy services and solutions company SmartWatt for a total consideration of $37 million, adding further capabilities in energy efficiency, lighting retrofits, heating, ventilation and air-conditioning, building automation, water conservation and performance assurance in North America.
- We continue to utilise our FlexPond Demand Side Response platform in support of our customer solutions and are also offering it as a 'software as a service' offer to third parties, including an agreement with Japanese utility TEPCO to provide flexibility services for the reserve market in the Kyushu region of Japan.

Expanding our global LNG footprint and route-to-market offering

- In LNG, we signed a landmark LNG sales and purchase arrangement in February under which Tokyo Gas and Centrica will jointly purchase 2.6 million tonnes per annum, delivered ex-ship, from the Mozambique LNG Project from the start-up of production until the early 2040s.
- In customer solutions, our global total route-to-market capacity under management is now 25.0 Gigawatt (GW), 9% higher than at the start of 2019.

Fresh impetus for renewables in North America

100%
Renewable power below the utility default rate

200+
New customers

Direct Energy is gaining hundreds of new customers in the US state of Virginia by offering 100% renewable power.

The United States is a patchwork of different energy rules, with some states allowing free competition and others retaining a monopoly supplier. That creates a challenging environment for Direct Energy.

One of our leading customers, real estate group Bernstein Management Corporation, has been buying retail power and gas from Direct Energy Business for their Maryland and Washington D.C. properties since 2010; but state regulations prevented them from doing the same in Virginia. Until now.

Rule changes introduced last year mean that customers with usage below 5 Megawatts can use an independent supplier if that supplier can offer 100% renewable power. Direct Energy acquired its licence in February 2019 and Bernstein was one of the first customers to sign up.

The Company will purchase renewable power at a fixed rate, giving it certainty and boosting progress towards its own renewable goals. But the truly remarkable aspect of the deal is that Bernstein is paying less for its power now than the prevailing monopoly utility rate for electricity in Virginia and will continue to do so.

Last October Centrica also launched a new business unit in the US, Direct Energy Renewable Services, which is focused on this growing market. It will allow us to meet the demands of customers like Bernstein in a more joined-up way.

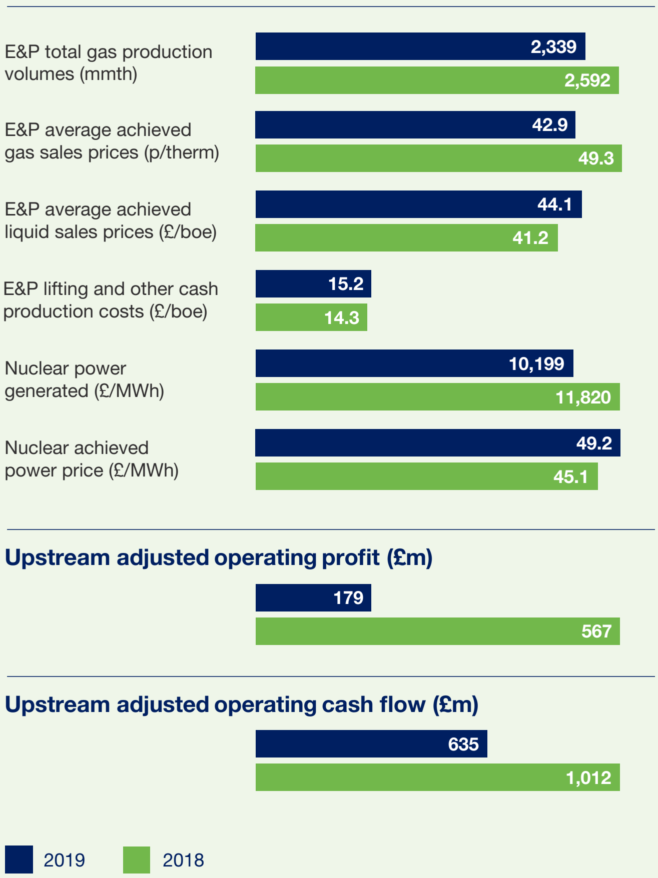
> "For us to have the ability to offer renewable power at below the utility headroom price speaks volumes. It's a 'win, win' for all parties involved and it clearly demonstrates the demand for green energy in Virginia."

Keith Korin
Bernstein Account Lead,
Direct Energy Business

Upstream

Our Upstream division consists of our Exploration & Production (E&P) and Nuclear power generation businesses.

- ❯ **Spirit Energy**
- ❯ **Centrica Storage**
- ❯ **Nuclear**



In E&P, Spirit Energy, our joint venture with Stadtwerke München, is a robust, self-financing business.

However, Centrica's journey is back to consumer, so E&P is no longer strategically core for us. That is why we have announced our intention to exit from Spirit Energy by the end of 2020.

We continue to own and operate the Rough field and the onshore Easington gas processing terminal. Our focus is on maximising the value of both these assets.

We also own a 20% interest in EDF Energy's nuclear power generation fleet. In 2018, we announced our intention to dispose of this stake by the end of 2020.

Production and generation performance

- Nuclear generation volumes were down 14% to 10.2TWh in 2019 compared to 2018, reflecting the extensions to outages at the Dungeness B and Hunterston B power stations.
- Total E&P production volumes were down 10% to 52.3mmboe in 2019 compared to 2018.
  - Spirit Energy production was down 2% to 45.8mmboe with a slight increase in gas production volumes offset by lower liquids production. We saw improved operational performance from the operated Morecambe field which largely offset natural decline across the portfolio and lower availability at Statfjord.
  - Rough production was down 42% to 6.5mmboe, in line with the expected decline profile of the reservoir.

E&P development and exploration progress

- In March 2019, the Oda field, Spirit Energy's first development as the operator on the Norwegian Continental Shelf, came on line five months earlier than originally planned and under budget.
- The development of the Nova field in Norway is proceeding as planned, with production due to begin in the third quarter of 2021. The field has an estimated 77mmboe of 2P reserves and Spirit Energy owns 20%.
- In January 2020, we announced plans with our Statfjord partners to drill up to 100 new wells and extend production from the area by more than 10 years.
- Spirit Energy's 2P reserves were 14mmboe higher at the end of 2019 than at the end of 2018, with 64mmboe of positive revisions more than offsetting the impact of production and the Valemon and Sindre divestments in the year. This represents a 2P reserves replacement ratio of 140%. The Statfjord life extension resulted in 31mmboe of the revision, with positive revisions also recognised at Kvitebjorn, Cygnus and South Morecambe.
- In 2019, three wells were drilled in the Greater Warwick Area, in which Spirit Energy owns a 50% interest. The Lincoln Crestal well confirmed the presence of light oil and produced at potentially commercial rates. The Warwick area yielded mixed results. Warwick Deep proved unsuccessful with water production and minor oil encountered. Warwick West was a discovery and confirmed the presence of light oil which was produced to surface during well testing. Further technical analysis is required to understand reservoir quality in this area.

Breathing new life into our longest serving asset

Spirit Energy has transformed efficiency and production at Morecambe.

The Morecambe Bay gas fields have been a part of Centrica since the Company was founded more than 20 years ago. At one time, they accounted for 15% of the UK's entire gas needs. They are still a significant production hub. But until recently the ageing infrastructure was beset by problems.

The challenge of extending Morecambe's life was taken on by the team at Spirit Energy, our specialist exploration and production joint venture with Stadtwerke München. The first task was to shut down the parts of the infrastructure that were no longer needed. We now have one less onshore terminal at Barrow and two fewer platforms to maintain offshore.

The next step was to improve the integrity of the remaining facilities and modernise maintenance strategies to increase uptime. Experts now manage our onshore gas compressor, a key piece of equipment which enables the flow of gas to the grid. Proactive maintenance has helped us to reduce the number of 'trips' and failures. Better root cause analysis has enabled us to eliminate defects and get the plant back online quicker when there is a trip.

We are already reaping big benefits and the results have exceeded our expectations. Safety performance is at a five-year high. Production volumes increased from 3.2mmboe in 2018 to 6.7 million in 2019. Production efficiency has more than doubled from a lowly 32% to 77%.

The rationalised and stable asset also costs less to run. Improved working practices and a focus on supply chain efficiencies have reduced operating cost to £100 million in 2019, down from £140 million the year before.

It is true that we are in the process of selling our stake in Spirit Energy. But we are doing this because Centrica's journey is back to the consumer. It has nothing to do with the quality of Spirit as a business, which is very high. The turnaround at Morecambe shows what a focused team can achieve and is a great illustration of Spirit Energy's potential.

> **"It's a great time to be involved with Morecambe. The facilities are strategically important as a gas hub and may have a second life as we transition to other forms of energy. The Spirit team are building an operating foundation to be proud of and we are now working on the next phase of value creation from our asset."**

John Cowie
Morecambe Hub Asset Manager, Spirit Energy

Group Financial Review

> "The environment was challenging for Centrica's portfolio in 2019, which impacted the Company's performance. However, performance during the second half was much improved compared to the first half."

Chris O'Shea
Group Chief Financial Officer

Group revenue

- Group revenue included in business performance reduced by £0.6bn or 2% to £26.8bn (2018: £27.4bn). Gross segment revenue, which includes revenue generated from the sale of products and services between segments, reduced by £1.0bn or 3% to £28.0bn (2018: £29.0bn).
- Centrica Consumer gross segment revenue was broadly flat as the impact of energy supply customer account growth in North America offset the impact of a lower average number of energy supply accounts in the UK and lower prices, in part due to the introduction of the UK default tariff cap.
- Centrica Business gross segment revenue fell by £0.7bn, largely due to the impact of lower wholesale commodity prices and warmer weather on gas optimisation revenue in North America.
- Upstream gross segment revenue fell by £0.4bn due to reduced oil and gas production and nuclear power generation volumes and lower achieved gas prices due to falling wholesale commodity prices.

Adjusted operating profit
£901m
2018: £1,392m ▼ 35%

Statutory operating loss
£(849)m
2018: £987m profit

Statutory loss for the year attributable to shareholders
£(1,023)m
2018: £183m profit

Adjusted effective tax rate
34%
2018: 41% ▼ 7ppt

Adjusted operating cash flow
£1,830m
2018: £2,245m ▼ 18%

Statutory basic earnings per share (EPS)
(17.8)p
2018: 3.3p

Adjusted basic earnings per share (EPS)
7.3p
2018: 11.2p ▼ 35%

Statutory net cash flow from operating activities
£1,250m
2018: £1,934m ▼ 35%

Operating profit

- The statutory operating loss was £849m (2018: operating profit of £987m). Adjusted operating profit was £901m (2018: £1,392m). The difference between the two measures of profit relates to exceptional items and certain re-measurements. A table reconciling the different profit measures is shown below.

Adjusted operating profit

- Centrica Consumer adjusted operating profit was down £245m or 33% to £505m.
  - There was a £300m negative revenue impact from the UK residential energy supply default tariff cap, including a one-off £70m impact in the first quarter due to Ofgem's revision to the methodology calculating supplier wholesale costs during the transitional period.
  - Total efficiency savings more than offset lower gross margin resulting from lower average UK energy supply accounts and a change in customer mix in both energy and services towards lower priced products.
- Centrica Business adjusted operating profit was up £142m or 189% to £217m.
  - This includes the impact of a significant improvement in power retail margins in North America and good trading and optimisation performance in Europe.
  - It also includes benefit from the decision to defer delivery of gas from 2019 into 2020 from the one remaining large legacy gas contract and strong trading and optimisation performance in Europe.
- Upstream adjusted operating profit was down £388m or 68% to £179m.
  - Nuclear adjusted operating profit was down £27m or 59% to £19m, with lower output resulting from extensions to outages at the Dungeness B and Hunterston B nuclear power stations not fully offset by the impact of a higher achieved power price.
  - Exploration & Production adjusted operating profit was down £361m or 69% to £160m, largely due to lower achieved gas sales prices reflecting the falling UK NBP price, lower volumes from Rough reflecting the field's natural decline, higher depreciation charges following 2018 asset write-backs and production mix, and field specific write-offs.

Exceptional items

- A net exceptional pre-tax charge of £1,103m was included within Group operating loss before taxation in 2019 (2018: £185m) including:
  - A £476m charge relating to the impairment of E&P assets, predominantly due to the reduction in near-term prices and long-term price forecasts and a conclusion that certain field reserves levels were not sufficient for development.
  - A £381m charge relating to the impairment of power assets, including £372m related to the nuclear investment largely as a result of a reduction in price forecasts and availability issues at the Hunterston B and Dungeness B power stations.
  - A £77m charge following the strategic decision to refocus Centrica Home Solutions activity on the UK and Ireland, largely related to asset impairments (including goodwill), inventory write-downs and onerous contract provisions.
  - £356m of restructuring charges arising from the continuation of phase 2 of the Group's cost efficiency programme, principally related to redundancy, change resource, consultancy, property rationalisation costs, and other transformational activity including member compensation payments from renegotiating UK defined benefit pension arrangements.
  - A £152m net credit relating to pension changes. This includes a £260m credit in relation to a rule amendment to the UK defined benefit pension scheme arrangements to offer members an option to level up their ongoing pension if they retire before the statutory pension age, partially offset by £108m of pension strain costs associated with redundancy.
  - A £35m net gain on disposals of the Clockwork assets, Valemon, Sindre, the King's Lynn power station (which is held for sale) and contingent consideration on the historic disposal of Trinidad and Tobago E&P assets.
- These charges in total generated a taxation credit of £116m (2018: £89m). As a result, total net exceptional charges after taxation were £987m (2018: £235m).
- Further details can be found in note 7(a).

Operating profit

		2019			2018		
Year ended 31 December	Notes	Business performance £m	Exceptional items and certain re-measurements £m	Statutory result £m	Business performance £m	Exceptional items and certain re-measurements £m	Statutory result £m
Adjusted operating profit/(loss)							
Centrica Consumer		**505**			750		
Centrica Business		**217**			75		
Upstream		**179**			567		
Group operating profit/(loss)	4(c)	**901**	**(1,750)**	**(849)**	1,392	(405)	987
Net finance cost	8	**(255)**	**–**	**(255)**	(273)	(139)	(412)
Taxation	9	**(218)**	**219**	**1**	(461)	128	(333)
Profit/(loss) for the period		**428**	**(1,531)**	**(1,103)**	658	(416)	242
Profit attributable to non-controlling interests		**(9)**			(27)		
Adjusted earnings		**419**			631		

Certain re-measurements

- The Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair valued under IFRS 9.
- The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued.
- The operating loss in the statutory results includes a net pre-tax loss of £647m (2018: £220m) relating to these re-measurements, with the decline in gas prices over the period being reflected in the fair valuing of historic and current energy procurement to meet the needs of our customers.
- These re-measurements generated a taxation credit of £103m (2018: £39m). As a result, the total net re-measurement loss after taxation was £544m (2018: £181m).
- The Group recognises the realised gains and losses on these contracts when the underlying transaction occurs. The business performance profits arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements.
- Further details can be found in note 7(b).

Group finance charge and taxation

Finance charge

- Net finance costs decreased to £255m (2018: £273m), largely reflecting the impact of a £1.1bn repurchase of gross debt which was completed in 2018 and the maturity of a bond in September 2018. There were no exceptional net finance items (2018: £139m).

Taxation

- Business performance taxation on profit decreased to £218m (2018: £461m). After taking account of tax on joint ventures and associates, the adjusted tax charge was £217m (2018: £458m). The resultant adjusted tax rate for the Group was 34% (2018: 41%). The decrease in adjusted tax rate reflects the more highly taxed E&P businesses contributing 18% of adjusted operating profit, compared to 37% in 2018. An adjusted effective tax rate calculation is shown below.

Group earnings

Adjusted earnings

- Profit for the year from business performance decreased to £428m (2018: £658m) and after adjusting for non-controlling interests, adjusted earnings fell by 34% to £419m (2018: £631m). This reflects the overall decline in adjusted operating profit, partly offset by the lower net finance costs and adjusted tax charge as described above.
- Adjusted basic EPS was down 35% to 7.3p (2018: 11.2p).

Group statutory loss

- The statutory loss attributable to shareholders for the period was £1,023m (2018: profit of £183m). The reconciling items between Group profit for the period from business performance and statutory profit are related to exceptional items and certain re-measurements.
- The movement to a statutory loss, compared to a statutory profit in 2018, is due to the reduction in adjusted earnings and the increase in the exceptional charges and loss from certain re-measurements, all as described above.
- The Group reported a statutory basic EPS loss of 17.8p (2018: profit of 3.3p).

Dividend

- In addition to the interim dividend of 1.5p per share, the proposed final dividend is 3.5p, giving a total full year dividend of 5.0p (2018: 12.0p).

Group tax charge

Year ended 31 December	2019 £m	2018 £m
Adjusted operating profit before impacts of taxation	**901**	1,392
Add: JV/associate taxation included in adjusted operating profit	**(1)**	(3)
Net finance cost	**(255)**	(273)
Adjusted profit before taxation	**645**	1,116
Taxation on profit	**218**	461
Share of JV/associate taxation	**(1)**	(3)
Adjusted tax charge	**217**	458
Adjusted effective tax rate	**34%**	41%

Group cash flow, net debt and balance sheet

Operating cash flow

- Adjusted operating cash flow, which is reconciled to net cash flow from operating activities in the table below, fell by £415m or 18% to £1,830m, largely in line with the reduction in adjusted operating profit after accounting for the increase in depreciation.
- Net cash flow from operating activities decreased to £1,250m (2018: £1,934m), which reflects the reduction in adjusted operating cash flow as described above, higher pension deficit repair payments as agreed with the trustees as part of the triennial review, increased exceptional payments largely relating to the Group's restructuring programme and an inflow of margin cash compared to an outflow in 2018.

Net cash flow

- Net cash outflow from investing activities decreased to £503m (2018: £1,007m) primarily due to the Clockwork disposal proceeds, reduced capital expenditure and lower acquisition spend.
- Net cash outflow from financing activities fell to £1,077m (2018: £2,540m) largely reflecting lower repayment of borrowings due to the debt repurchase programme and a bond maturity in 2018, and a slight reduction in cash equity dividends paid reflecting the rebasing of the 2019 interim dividend paid in November 2019.

Net debt

- Reflecting all of this, and the Company adopting IFRS 16 which increased opening 2019 net debt by £394m, the Group's net debt increased by £525m to £3,181m in the year (2018: £2,656m), including cash collateral posted or received in support of wholesale energy procurement.

Balance sheet

- Net assets decreased to £1,795m (31 December 2018: £3,948m) driven by the statutory loss made in the year, net actuarial losses, exchange differences on translation of foreign operations and dividend payments made during the year.

2019 Acquisitions and disposals

- On 1 July 2019 the Group acquired SmartWatt Energy Inc., a leading energy services and solutions company in North America, for consideration of $37m (£29m). There have been no other material acquisitions during the year.
- On 30 April 2019, the Group disposed of Clockwork Home Services for a gross consideration of $300m which, after deal-specific adjustments related to working capital, resulted in a net consideration of $279m (£215m).
- The Group also disposed of Norwegian exploration and production assets, Valemon and Sindre, during the year. Proceeds of £33 million were equal to the carrying value of the assets disposed of subsequent to the recognition of an impairment charge of £49 million. The impairment charge is included in net gain on disposal programmes within exceptional items.
- Further details on acquisitions, assets purchased and disposals are included in notes 4(e) and 12.

Events after balance sheet date

- On 23 December 2019, the Group agreed to sell its 382MW King's Lynn combined cycle gas turbine power station to RWE Generation for headline consideration of £105 million, adjusted for final working capital, based on a valuation date of 31 December 2019. The deal completed on 12 February 2020.
- Further details of events after the balance sheet date are described in note 26.

Risks and capital management

- The nature of the Group's principal risks and uncertainties are largely unchanged from those set out in its 2018 Annual Report, with two changes to note. The Information Systems and Security risk has been separated into two principal risks, enabling more focused conversations on our digital transformation and ongoing security. A new principal risk, Regulated Insurance and Services, has also been identified.
- In addition, there continues to be a high degree of uncertainty surrounding the future relationship between the EU and UK including trade agreements and the supply of electricity and gas.
- Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note S3. Details of the Group's capital management processes are provided under sources of finance in note 24(c).

Accounting policies

- UK listed companies are required to comply with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group's specific accounting measures, including changes of accounting presentation and selected key sources of estimation uncertainty, are explained in notes 1, 2 and 3. Changes include the presentation of the income statement for energy derivative contracts following an IFRIC agenda decision on the recognition of fair value.

Operating cash flow

Year ended 31 December	2019 £m	2018 £m
Net cash flow from operating activities	**1,250**	1,934
Add back/(deduct):		
Net margin and cash collateral inflow/(outflow)(1)	**46**	(57)
Payments relating to exceptional charges	**298**	248
Dividends received from joint ventures and associates	**1**	22
Defined benefit pension deficit payment	**235**	98
Adjusted operating cash flow	**1,830**	2,245

(1) Net margin and cash collateral inflow includes the reversal of collateral amounts posted when the related derivative contract settles.

Our view on taxation

The Group takes its obligations to pay and collect the correct amount of tax very seriously.

Responsibility for tax governance and strategy lies with the Group Chief Financial Officer, overseen by the Board and the Audit Committee.

Our approach

Wherever we do business in the world, we take great care to ensure we fully comply with all of our obligations to pay or collect taxes and to meet local reporting and disclosure requirements.

We fully disclose information on ownership, transactions and financing structures to the relevant tax authorities. Our cross-border tax reporting reflects the underlying commercial reality of our business.

We are committed to providing disclosures and information necessary to assist understanding beyond that required by law and regulation.

We do not tolerate tax evasion or fraud by our employees or other parties associated with Centrica. If we become aware of any such wrongdoing, we take appropriate action.

We ensure that income and costs, including costs of financing operations, are appropriately recognised on a fair and sustainable basis across all countries where the Group has a business presence. We understand that this is not an exact science and we engage openly with tax authorities to explain our approach.

In the UK we maintain a transparent and constructive relationship with Her Majesty's Revenue & Customs (HMRC). This includes regular, open dialogue on issues of significance to HMRC and Centrica. Our relationship with fiscal authorities in other countries where we do business is conducted on the same principles.

We carefully manage the tax risks and costs inherent in every commercial transaction, in the same way as any other cost. However, we do not enter into artificial arrangements in order to avoid taxation nor to defeat the stated purpose of tax legislation.

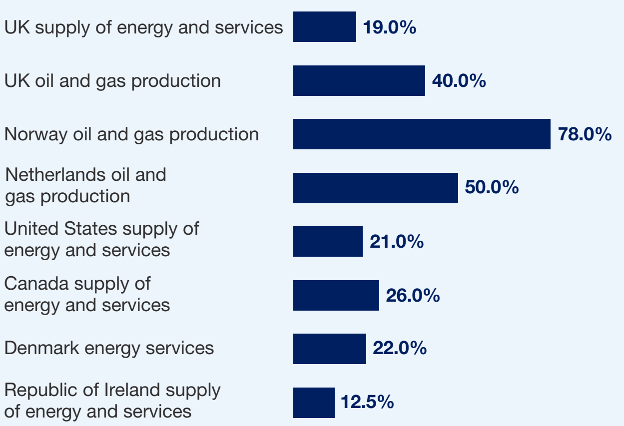
We actively engage in consultation with governments on tax policy where we believe we are in a position as a Group to provide valuable commercial insight.

The Group's tax charge, taxes paid and the UK tax charge

The Group's businesses are subject to corporate income tax rates as set out in the statutory tax rates on profits table. The overall tax charge is therefore dependent on the mix of profits and the tax rate to which those profits are subject.

Statutory tax rates on profits

Group activities



Tax charge compared to cash tax paid

	Current tax charge/(credit) £m	Cash tax paid/ (recovered) £m
UK	1	(111)
Europe	131	193
North America	57	46
Total	**189**	**128**

For details on the Group's effective tax rate see pages 29 to 32.

Further information on the tax charge is set out in note 9 on
Pages 135 to 137

Our Group Tax Strategy, a more detailed explanation of the way the Group's tax liability is calculated and the timing of cash payments, is provided on our website at
centrica.com/responsibletax

Our Principal Risks and Uncertainties

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

The Group presented an update to the 2015 strategy in the July 2019 Interim announcement. The trends identified in 2015 continue to play out with decentralisation of energy systems, shifting power to the consumer; and increasing digitalisation, presenting both opportunities and risks. Identifying and appropriately managing these risks is critical to the successful delivery of our strategy whilst enabling the transition to a lower carbon future.

The strategy update detailed an evolution of the Group Priorities. Within our System of Risk Management and Internal Control we assess risk in relation to the delivery of Group Priorities and determine the level of risk we are prepared to take. Within this framework we consider safety, compliance and conduct to continue to be an underpinning priority. The Group Risk Appetite Statements were updated in the context of the evolved Group Priorities and approved in November 2019:

- **Customer Obsession:** It is only through delighting our customers and giving them propositions that they want and are willing to pay for that we will be able to grow our Group. We have a moderate risk appetite for pursuing innovative opportunities to deliver better service throughout the customer journey.
- **Operational Excellence:** Paying attention to excellence in the basics in our operations and the way we execute our business processes as we serve our customers is fundamental to our competitive success. As we aim to improve our operations, we have a moderate risk appetite for pursuing innovative opportunities to deliver better service through the customer journey and to deliver improved operational excellence.
- **Most Competitive Provider:** Being the most competitive provider enables us to retain our customers and enable the provision of other services and solutions to them thereby growing our Group. We have a moderate to high risk appetite for identifying and implementing innovative improvements to save cost but a lower risk appetite for managing procurement and managing our business-as-usual processes in a rigorous and systematic way.
- **Cash flow Growth:** Our aim is to deliver long-term shareholder value through returns and cash flow growth. We assess our stakeholder expectations in establishing our financial priorities, allocating capital across our portfolio of businesses, and operating within a disciplined financial framework. We have a moderate risk appetite for seeking opportunities to deliver cash flow growth. However, there are some aspects of this priority impacted by external risks where we have to accept a higher risk appetite.
- **Empowered Colleagues:** A productive, empowered and capable workforce is critical to delivery of our Group strategic priorities. Accordingly, we accept a moderate level of risk in finding effective ways to empower ourselves to innovate and to attract, develop and reward people with the diverse capabilities needed to deliver our ambitions.
- **Safety, compliance and conduct:** We put customers at the heart of everything we do. As part of treating customers fairly we set high standards of fairness and have a low risk appetite for failures of conduct towards customers. Our risk appetite is as low as reasonably practicable as we continue to strive for an incident-free workplace and to conduct business operations in compliance with the laws and regulations and we have a low appetite for rewarding and retaining people who fail to demonstrate Our Values and act within Our Code.

Strengthening our System of Risk Management and Internal Control

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

We categorise our risks as:

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

We identify all ‘severe, but plausible’ consequences of our risks, where the realisation is more than remote in likelihood. These consequences are considered in our assessment of viability as described on pages 44 to 45.

On an annual basis, we evaluate our System of Risk Management and Internal Control, learning from any control incidents that have arisen, to ensure we are mitigating risks in line with our risk appetite. We are evolving our System of Risk Management and Internal Control to ensure it remains appropriate in support of our strategy.

Evaluating risks through our Enterprise Risk Framework

Our Enterprise Risk Framework is designed to enable us to identify, evaluate and mitigate our risks appropriately. It comprises six steps:

Identify

- Identify significant risks to achieving business unit and/or function objectives

Assess & Analyse

- Assess inherent impact and likelihood using the Group risk assessment matrix
- Identify risk type (RRS, RRJ or External Risk) and determine target risk rating
- Identify mitigating activity and key risk indicators and assess current risk exposure

Design & Implement Controls

- Design and implement controls and actions to mitigate the potential impact and likelihood of risks

Report, Evaluate & Improve

- Report consolidated risk, assurance and control position to the Group Ethics, Risk, Assurance, Control and Compliance Committee, Audit Committee and Safety, Health, Environment, Security and Ethics Committee (SHESEC)
- Evaluate priority risks within the Group risk profile to identify any corrective actions
- Evaluate Group-wide severe, but plausible, risks and implications
- Drive continuous improvement through reviewing the Risk Universe and Group risk appetite

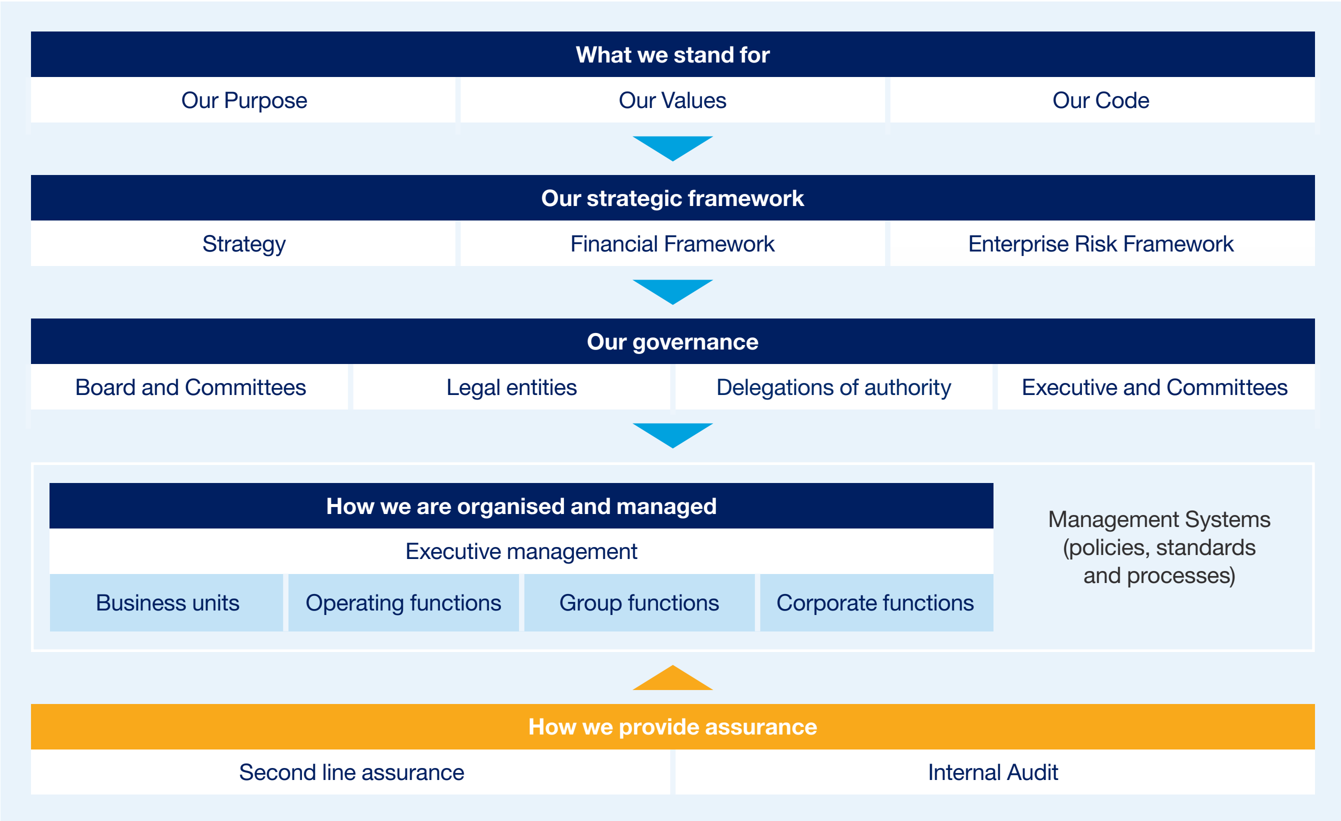
Calibrate & Assure

- Risks are calibrated to ensure consistency and prioritise responses
- Second line assurance and internal audit activity
- Assess impact of assurance findings

Manage & Monitor

- Management of risks and controls to deliver target risk level
- Monitor through inspection, performance reviews and regular reporting
- Identify and implement specific remediation actions

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



Mitigating risk through our System of Risk Management and Internal Control

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

What we stand for:

- Our Purpose: We are an energy and services company. Everything we do is focused on satisfying the changing needs of our customers and enabling the transition to a lower carbon future.
- Our Values: Our Values of Care, Collaboration, Courage, Delivery and Agility underpin our strategy and Group Priorities.
- Our Code: This was launched in early 2018 to replace our Business Principles and provides the foundation for how we operate.

Our strategic framework:

- Strategy: This is aligned throughout the organisation by the five Group Priorities and underpinning priority of safety, compliance and conduct.
- Financial Framework: Sets out parameters and targets within which we operate to guide our strategic planning and financial decision-making.
- Enterprise Risk Framework: Incorporates the Principal Risks within the Group Risk Universe.

Our governance:

- Board and Committees: Structured to effectively execute required duties and through which our Principal Risks are monitored.
- Legal entities: Subsidiary company legal entities with boards of directors required to meet legal and regulatory obligations.
- Delegations of authority: Accountability is delegated through the organisation to individuals in accordance with risk appetite.
- Executive and Committees: Oversight to ensure appropriate planning and performance management.

How we are organised and managed:

- Management Systems: The detailed policies, standards and processes establishing the mandatory requirements and which are required for the systematic management of related risks.

How we provide assurance:

- Second line assurance: Ensuring policies and standards are complied with through monitoring and testing activities performed by individuals who are not directly responsible for the operation of the controls relating particularly to Finance, Health Safety & Environment (HSES), and Digital Technology Services.
- Internal Audit: Providing confidence to the Board, via the Audit Committee, that the Group has appropriate risk management procedures and effective controls in place.

Changes in risk climate and emerging risks

We monitor closely the evolving risk climate in relation to each of our Principal Risks. We consider that the overall risk climate has broadly remained unchanged over the past year, but the markets in which the Group operates continue to be challenging.

Our global Consumer businesses continue to face significant uncertainty with respect to political risks and potential regulatory intervention. Markets in both the UK and US remain highly competitive with pressure from new and existing entrants. Whilst the outcome of the UK general election in December has provided greater certainty over the UK's Brexit strategy, the prospect was raised of the nationalisation of parts of the energy sector under an alternative government in the future. Our UK Energy Supply business is now operating in a market subject to a price cap with the potential for further regulation in UK markets. Recent developments in US states (notably the announcement by New York State to re-regulate aspects of its market) are indicators that further interventions are also a possibility in North American markets.

The Board recognises the significant emerging risks posed by climate change. A climate change risk register is being developed to identify and assess the Group's climate change risks which will be integrated into the Board's oversight of risk through the Group Enterprise Risk Framework. Further details of the risk and opportunities posed by climate change can be seen on pages 46 to 51.

The Group continues to monitor risks relating to global energy and services trends. Our Strategic Update in July 2019 highlighted that the Company's focus would be on its strengths of energy supply and its optimisation, and on services and solutions centred around energy, with an emphasis on helping our customers transition to a low carbon future. This focus is critical to help the Group deliver customer-led growth. Quarterly performance reviews are held with each business and function to monitor progress against targets and embed continuous improvement.

The continued drive for cost efficiency with a view to becoming the lowest cost provider in all our markets, consistent with chosen brand positioning and propositions, is key for the Group, but brings associated risks and challenges. The volume, pace and complexity of change remain significant, including continued large-scale transformational programmes, organisational and structural changes. The Board is focused on risks associated with our people, ensuring that talent is retained and the Company has the capabilities and capacity needed to deliver the strategic goals for 2020 and beyond.

Our Information Systems are transitioning to a new operating model, designed to create a new customer-centric architecture approach to support our Group priority of customer obsession. Security and privacy risks remain a core focus area for the Board and regular Board reviews consider the threats and mitigating actions being taken to detect and protect against potential physical, cyber and insider attacks.

Maintaining capital discipline and balance sheet strength is key and the Board focuses on monitoring our pension obligations and the credit rating of the Group. To mitigate the risk of rising pension obligations and contributions a revised pension funding plan has been agreed and increased interest rate hedging will mitigate the risk of further deficit growth.

Principal Risks

The Group Risk Universe is made up of a holistic framework of Principal Risks, laid out below in the Group's order of prioritisation based on potential impact then likelihood of the risk. We have indicated if the magnitude of the risk driving the prioritisation of risks has increased, decreased or remained unchanged from last year. The Board makes a robust assessment of these Principal Risks, considering future performance and our ability to deliver the strategy, including solvency and liquidity risks. In order to reflect the evolving risk landscape, we have made a number of changes to our Group Risk Universe:

- **Information Systems and Security:** the Board agreed to separate this into two Principal Risks (Digital Technology and Information Systems and Cyber, Security and Resilience), enabling more focused conversations on how we are investing in our digital transformation and our ongoing security and recognising the different appetites for risk between these two areas.
- **Regulated Insurance and Services:** a new Principal Risk, capturing risk relating to our regulated insurance and services businesses British Gas Insurance Limited and British Gas Services Limited. This will facilitate the alignment of our Group Enterprise Risk Framework with the requirements for these businesses.

For each Principal Risk, we discuss the nature of the risk and the impact on our Group Priorities. Each Principal Risk is regularly overseen directly by the Board or one of its Committees, with the Board retaining overall responsibility for risk across the Group.

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

Non-Financial Reporting Statement

The following Principal Risks have been identified as specifically relating to the matters listed above: Health, Safety and Environment (HSE), People, Strategy Delivery, Legal, Regulatory and Ethical Standards Compliance and Procurement and Supplier Management (Pages 38 to 43).

Principal Risk:	Related topic:
Health, Safety and Environment	Environment and Employees
People	Human Rights and Employees
Strategy Delivery	Social matters
Legal, Regulatory and Ethical Standards Compliance	Anti-bribery and corruption
Procurement and Supplier Management	Human rights, anti-bribery and corruption

Description	**Political and Regulatory Intervention** Risk of political or regulatory intervention and changes, including those resulting from Brexit, or a failure to influence such changes. **External Risk** **Governance oversight:** Board **Priority**: Cash flow Growth **Magnitude**: NO CHANGE	**Financial Market** Risk of financial loss due to our exposure to market movements, including commodity prices, inflation, interest rates and currency fluctuations. **External Risk** with elements that are **Risks Requiring Judgement**. **Governance oversight:** Board and Audit Committee **Priority**: Cash flow Growth **Magnitude**: NO CHANGE	**Health, Safety and Environment (HSE)** Risk of failure to protect the health and safety of customers, employees and third parties or to take appropriate measures to protect our environment and in response to climate change. **Risk Requiring Standards** **Governance oversight:** Board and Safety, Health, Environment, Security and Ethics Committee **Priority**: Safety, compliance and conduct foundation **Magnitude**: NO CHANGE
Potential impacts	Brexit continues to pose risks should the UK fail to agree a trade deal with the EU or through macro-economic impacts following the UK's exit from the EU. While the default price cap has now been in force in the UK market for 12 months, there is continued regulatory pressure in the Consumer Energy Supply markets in the UK and North America that could result in the erosion of our profit margins. There is a risk of partial/total regulation of a small number of retail and/or natural gas markets in the US. Operating costs could also increase in the case of further smart meter and/or energy efficiency obligations. The UK General Election has brought the threat of nationalisation back onto the political agenda.	Due to our large upstream and downstream business positions, our exposure to adverse price movements in commodity markets could impact profitability and cash flow generation across the business. While increased volatility in commodity prices could provide more opportunities, it could also give rise to higher collateral costs and/or additional credit risk for both Energy Marketing & Trading (EM&T) and North America Business. Further, it would create volatility in asset and contract valuations. An unseasonally warm autumn/winter in the UK and a cooler summer in the US could reduce customer demand significantly.	Our operations have the potential to result in personal or environmental harm. Significant HSE events could have regulatory, financial and reputational repercussions that would adversely affect some, or all, of our brands and businesses. We recognise and report on incidents that do occur, as described on page 19.
Mitigation	• We are committed to an open, transparent and competitive UK energy market which provides choice for consumers. • Executive Directors and senior management actively engage in discussions with political parties, regulatory authorities and other stakeholders. • We have dedicated Corporate Affairs and Regulatory teams which examine upcoming political and regulatory changes and their impact. Our dedicated Brexit project group continues to assess the Brexit-related risks as the UK aims to negotiate a trade deal with the EU during 2020.	• Financial risk is reviewed regularly by the Financial Risk, Assurance and Control Committee, and the Group Ethics, Risk, Assurance, Control and Compliance Committee to assess financial exposures and compliance with risk limits. Regular review is also undertaken by the Audit Committee. • Stress testing analysis is presented weekly to the EM&T Risk Committee. • As we move into new trading arrangements, we are focused on ensuring that our financial risk policies remain appropriate to the risks we face. • We have appropriate hedging strategies in place that are regularly updated to mitigate exposure to commodity and financial market volatility. • We continue to invest in our systems to further automate and strengthen our control environment.	• HSE Management Systems are established to include the policies, standards and procedures to protect customers, employees and third parties. • We continue to invest in training to ensure we maintain safe operating practices and require all employees to complete the relevant online HSE courses for their role. • We drive an Incident Free Workplace (IFW) culture across our business. • We undertake regular reviews and have assurance processes in place with reporting to the HSE Committee on a quarterly basis. • We engage with regulatory agencies such as the Environment Agency, Oil and Gas Authority and UK HSE to ensure we comply with legislative/regulatory requirements. • We are restructuring our business to make it less carbon intensive and we engage with climate change bodies and NGOs to offer our perspective, understand the direction of future actions and assess our readiness to respond to change.

Our Group Priorities: Customer Obsession · Operational Excellence · Most Competitive Provider · Cash flow Growth · Empowered Colleagues · Safety, compliance and conduct foundation

People

Risk that we are unable to attract and retain employees to ensure that the business has the appropriate capabilities to meet our strategic objectives. There is also a potential risk of industrial action as a large proportion of our field and office-based employees are represented by trade unions and works councils.

Risk Requiring Judgement with elements that are **Risks Requiring Standards**.

Governance oversight:
Board and Safety, Health, Environment, Security and Ethics Committee

Priority **Magnitude**
INCREASE

Failure to attract and retain key capabilities across the business could have a detrimental impact on our ability to meet our strategic objectives.

The risk of industrial action in our businesses may have a potential impact on customer service levels and retention.

We require the right behaviours from our leaders and employees to deliver our business strategy in line with Our Values and Our Code.

- Our Code and Our Values set the behavioural expectations for all employees and protection of human rights.
- The Executive Committee has clear oversight through regular discussions of the people-related challenges inherent in our transformation programme.
- We have been developing a more strategic relationship with our trade union colleagues and engage with them on restructuring and issues that could impact terms and conditions, with clear and open processes to cultivate an environment of trust and honesty.
- We conduct annual employee engagement surveys and results are reviewed and actioned by senior leaders.

Change Management

Risk of failure in the identification, alignment and execution of change programmes and business restructuring.

Risk Requiring Judgement with elements that are **Risks Requiring Standards**.

Governance oversight:
Board

Priority **Magnitude**
INCREASE

If transformation projects are not aligned to our strategic objectives, or not implemented appropriately, the expected benefits may not be realised and resources for other critical projects may be depleted.

There are many transformation initiatives that could be disruptive and/or result in compromise to the control environment if not governed appropriately.

- We have a standardised requirement articulated as Our Approach to Managing Change Impacts.
- Transformation programmes are approved by the Board via the Group Strategic Planning and capital allocation process.
- Investment appraisal criteria are defined in Group Investment Committee Guidance.
- Progress on specific projects is consistently monitored through Steering Groups and reported through to the Board.
- We have dedicated change capability at Group and business unit level to monitor the realisation of benefits, the prioritisation of efforts and to share best practice.
- We have post-merger integration procedures in place to integrate acquired businesses.

External Market Environment

Risk that events in the external market or environment could hinder the delivery of our strategy.

Risk Requiring Judgement

Governance oversight:
Board

Priority **Magnitude**
NO CHANGE

We operate in highly competitive markets, where customer behaviour, needs and demands are evolving due to digitalisation, energy efficiency, climate change, government initiatives and the general economic outlook. Failure to react appropriately and rapidly to changes in customer behaviour could result in the erosion of our customer base, leading to reduced revenues and associated margins. In addition, we are subject to global market volatility in our upstream businesses in commodity markets.

- We focus on understanding consumer segments and their needs, through products and services that are attractive and competitive.
- We undertake regular analysis of commodity price fundamentals and their potential impact on our business plans and forecasts.
- Our Market and Competitive Intelligence team monitors movements in markets and provides information to enable appropriate decision-making.
- The Group is now equipped and committed to help our customers transition to a lower carbon future.
- We have developed Centrica Innovations and our Technology & Engineering function to keep abreast of technological advances.

	Strategy Delivery	Brand, Trust and Reputation	Cyber, Security and Resilience
Description	Risk that our strategy is not appropriate to respond to external issues and/or the risk that the strategy is not deliverable due to insufficient capability. **Risk Requiring Judgement** **Governance oversight:** Board **Priority:** Cash flow Growth **Magnitude:** DECREASE	Risk that our competitive position is compromised by poor standards of fairness and transparency, and by failing to protect our brands. **Risk Requiring Judgement** **Governance oversight:** Board **Priority:** Customer Obsession **Magnitude:** DECREASE	Risk of IT system internal misuse, cyber-attack, security of IT systems and resilience and business continuity. **Risk Requiring Standards** **Governance oversight:** Board, Audit Committee and Safety, Health, Environment, Security and Ethics Committee **Priority:** Safety, compliance and conduct foundation **Magnitude:** NEW
Potential impacts	Successful delivery of our strategy requires serving customers in a way that satisfies their changing needs in a competitive marketplace. Failure to identify changing trends in customers' needs, stay ahead of technological and digital advancements, develop appropriate responses to changing markets and competitive environments, and build the necessary capabilities to compete, have the potential to adversely impact our cash flow growth and value goals.	Failure to appropriately manage brand perception, media attention and lobbying from pressure groups could impact customer sentiment and could ultimately result in a reduction in overall customer numbers. Failure to be fair and transparent could lead to reputational damage, falling share prices and, in the case of very poor standards, legal and regulatory action.	Our substantial customer base and strategic requirement to be at the forefront of technological development mean that it is critical that our technology is robust, our systems are secure and our data is protected. Sensitive data faces the threat of misappropriation, for example from hackers and viruses, leading to potential financial loss and/or reputational damage.
Mitigation	• The Board sets and reviews the Group's strategy, determining the strategic direction and confirming the strategic choices made by the business. Regular reviews are conducted considering changes in market trends and the competitive environment, social matters and the business response. • The Board and Executive Committee regularly review the capabilities required to deliver on the strategy and address issues as they appear. • We have a clear financial framework to ensure capital is allocated in accordance with our strategy and that balance sheet strength and return on capital boundary conditions are met. • We have dedicated teams to ensure we continue to develop and innovate in new technologies. • Our Digital Technology Services function works in partnership with change functions to assure and deliver programmes of change.	• We aim to deliver a fair, simplified and transparent offering to all our customers. • We engage with NGOs, consumer and customer groups, political parties, regulators, charities and other stakeholders to identify solutions to help reduce bills and improve trust in the industry. • We review and monitor changes in our customer brand position through NPS. • We are transforming our complaints process to lower backlogs and resolution times, and to address root causes. • We closely monitor key metrics including broken promises/ appointments, grade of service and complaint numbers.	• We operate a combined Global Security function which includes Physical Security and Resilience and Digital Technology Services Information Security. • Our information security strategy seeks to integrate information systems, personnel and physical aspects to prevent, detect and investigate threats and incidents. • We have established governance bodies to oversee compliance with new security requirements. • We regularly evaluate the adequacy of our infrastructure and IT security controls, test our contingency and recovery processes, and undertake employee awareness and training. • Controls testing and security patching around our core systems is performed regularly, and our controls are further tested by outside experts.

Our Group Priorities: Customer Obsession; Operational Excellence; Most Competitive Provider; Cash flow Growth; Empowered Colleagues; Safety, compliance and conduct foundation

Balance Sheet Strength and Credit Position

Risk that our balance sheet may not be resilient, with implications for our ability to withstand difficult market or trading conditions or financial stresses to the business.

Risk Requiring Judgement

Governance oversight:
Board and Audit Committee

Priority

Magnitude
INCREASE

Failure to operate within the Group's financial framework could result in risk to maintaining our target credit rating, which would impact our access to cost-effective capital and trading arrangements.

Long-term financial obligations may increase in value due to factors both inside and outside of our control, such as pension schemes, resulting in additional funding required to meet our obligations.

- We assess available resources on a regular basis. Significant committed facilities are maintained with sufficient cash held on deposit to meet fluctuations as they arise.
- We model the severe but plausible scenarios and consequences of our risks and their potential to impact our net debt position.
- The current credit rating position is reported and discussed regularly by the Board.
- We consider accounting assumptions impacting on our balance sheet carefully, including decommissioning and impairment.
- Long-term obligation estimates are updated annually.
- Counterparty exposures are restricted by setting credit limits for each counterparty, where possible with reference to published credit ratings.
- Wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with Group policy.

Financial Processing and Reporting

Risk of errors or losses arising from the processing and reporting of financial transactions for both internal and external purposes.

Risk Requiring Standards

Governance oversight:
Board and Audit Committee

Priority

Magnitude
NO CHANGE

The accounting landscape is evolving with the adoption of IFRS 16 in 2019.

During the current transformation of our Finance function the potential for failures in core controls is increased.

There is a risk that we fail to comply with relevant tax and regulatory requirements.

- The Audit Committee reviews our compliance with both our internal policies and external requirements.
- The Audit Committee has regularly reviewed progress with regard to the further strengthening of the control environment. During 2019 Project Link was established to further enhance the financial control environment of the Group.
- Our financial control framework incorporates our financial controls and management self-assessment compliance.
- We undertake detailed testing and evaluation of the effectiveness of our controls in response to critical financial risks, reporting to the Finance, Risk, Assurance and Control Committee quarterly.
- The Group Tax function has a control framework, to ensure compliance with all requirements, which has been globalised to drive consistency and simplification.

Customer Service

Risk of failure to consistently provide good quality customer service through the customer lifecycle, with potential consequences being increased consumer churn and declining gross margin.

Risk Requiring Judgement

Governance oversight:
Board

Priority

Magnitude
NO CHANGE

The delivery of high-quality customer service is central to our business strategy. With the entry of new competitors to the market, customers are increasingly likely to switch if they are unimpressed with their customer experience.

Remaining at the forefront of digital developments and innovation is critical as it leads to increased choice and control for our customers.

We also face risks regarding our ability to develop and price propositions competitively and profitably, which has increased recently as our business moves into new markets.

- Leadership teams in our frontline businesses establish accountability for specific aspects of the customer journey and assess performance daily and weekly.
- We operate an environment of continuous improvement, incorporating an accredited programme (STAR), and use root cause analysis of complaint and NPS insight to continuously improve our service delivery.
- Customer and Field Operations teams monitor customer service levels, ensuring enquiries are answered in a timescale and manner acceptable to the customer, complaint levels are minimised, and that customer satisfaction is reviewed at all stages of the customer journey.
- Customer service agents are quality assessed for consistency with a rigorous training and performance management programme.
- Performance parameters are monitored weekly for all third-party service providers involved in the customer service process.

	Digital Technology and Information Systems	Business Planning, Forecasting and Performance Management	Asset Development, Availability and Performance
Description	Risk of reduced availability and sustainability, data optimisation and business benefit realisation associated with IT systems and data essential for our operations. **Risk Requiring Standards** and elements that are **Risks Requiring Judgements**. **Governance oversight:** Board, Audit Committee and Safety, Health, Environment, Security and Ethics Committee **Priority**: ✓ (Operational Excellence) **Magnitude**: NEW	Risk that plans and forecasts may not be deliverable or may fail to drive efficient and effective performance, and the risk of failures in performance reporting. **Risk Requiring Judgement** with elements that are **Risks Requiring Standards**. **Governance oversight:** Board **Priority**: ⚠ (Safety, compliance and conduct foundation) **Magnitude**: NO CHANGE	Risk that failures in the development or integrity of our investments in operated and non-operated assets could compromise performance delivery. **Risk Requiring Judgement** **Governance oversight:** Board **Priority**: ✓ (Operational Excellence) **Magnitude**: DECREASE
Potential impacts	Reliance on our IT infrastructure is significant, and it is therefore key that our systems are available in line with user requirements but balanced with financial resources to ensure sustainability. Our data is a key asset and optimisation of that data is key to delivery of our strategic objectives. Failure to deliver IT solutions in support of the prioritised objectives and change programmes in the business would have consequences both for our organisational transformation and, in some cases, our compliance obligations.	We prioritise how we allocate resources according to our business plans and forecasts. Failure to accurately plan and forecast, accounting for the evolving business environment, could result in sub-optimal decisions and failure to realise anticipated benefits.	Failure to invest in the maintenance and development of our assets could result in significant safety issues or asset underperformance through unplanned outages. Operational integrity is vital to our ability to deliver projects in line with the strategic objectives. During 2019 we experienced asset outages across our Nuclear fleet as reported on page 8.
Mitigation	• We have a Digital Technology Services Strategy Committee in place to track progress of the strategic priorities for technology, data and digital activities. • We regularly evaluate the adequacy of our infrastructure and IT security controls, test our contingency and recovery processes, and undertake employee awareness and training. • Controls testing and security patching around our core systems is performed regularly and our controls are further tested by outside experts.	• Annual planning processes are subject to scrutiny from the Executive Committee and the Board with respect to underlying market trends, competitive threats, organisational capability and delivery. Central contingencies are considered in response to the aggregated risk position. • Group functions utilise standard planning processes in support of business unit priorities, driving improved integration of plans. • The performance of each business unit is reviewed against their plan throughout the year so that any indications of plans not being delivered can be understood and any required actions can be undertaken. • Quarterly performance review meetings involving the Group CEO and CFO enable the review of plans and forecasts, with revisions identified as necessary. • Post Investment Reviews are conducted to assess investment performance, whether benefits were fully realised and lessons that can be applied for future investment.	• Capital allocation and investment decisions are governed through the Investment Committee. • Group-wide minimum standards are applied to all assets, whether operated or non-operated. • Maintenance activity and improvement programmes are conducted across the asset base to optimise effectiveness and maximise production levels.

Our Group Priorities: Customer Obsession; Operational Excellence; Most Competitive Provider; Cash flow Growth; Empowered Colleagues; Safety, compliance and conduct foundation

Legal, Regulatory and Ethical Standards Compliance

Risk of failure to comply with laws and regulations, and to behave ethically in line with Our Code, resulting in adverse reputational and/or financial impact.

Risk Requiring Standards

Governance oversight:
Board and Safety, Health, Environment, Security and Ethics Committee and Audit Committee

Priority

Magnitude
DECREASE

Any real or perceived failure to follow Our Code or comply with legal or regulatory obligations would undermine trust in our business.

Non-compliance could lead to financial penalties, reputational damage, customer churn and/or legal and/or regulatory action.

- Regulatory compliance monitoring activities are performed by a single function to drive Group-wide consistency and quality.
- Control frameworks are in place to deliver customer experience in line with requirements over sales compliance, billing, retentions, customer correspondence and complaints handling. These are regularly reviewed by relevant leadership teams through KPIs.
- Our Financial Crime team monitors threats throughout the business and adequacy of response to the threat of anti-bribery and corruption.
- A global ‘Speak Up’ helpline exists to provide a consistent Group-wide approach and reinforce the importance of this channel as a means to flag unethical behaviour.

Regulated Insurance and Services

Risk of loss/adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning, resulting from premium and reserve risk, catastrophe risk and other non-life underwriting risks.

Risk Requiring Standards

Governance oversight:
Regulated Entity Boards, Board, Audit Committee and Safety, Health, Environment, Security and Ethics Committee

Priority

Magnitude
NEW

There is a significant increase in the number of customer claims as a result of extreme cold conditions.

Gross Premium Rate is significantly overpriced leading to low volume sales or Net Premium Rate is significantly underpriced, resulting in inadequate cash flow and/or leading to a high loss ratio, and adversely affecting profitability and solvency.

Claims made by customers are not adequately validated, leading to the completion of work which is not underwritten by the insurer, which adversely impacts the loss ratio BGI is exposed to, or an unintended liability as a result of imperfectly or ambiguously worded policies and/or terms & conditions.

- We utilise risk models and demand data to understand the cold weather risks with the data and corresponding actions overseen by the Quarterly Insurance Risk Committee.
- Pricing of premiums is closely monitored and reviewed.
- Anti-fraud controls have been designed and implemented to mitigate the risk of fraudulent claims.
- Insurance policy documentation is subject to review and approval at the Joint Insurance Meeting.

Procurement and Supplier Management

Risk of failure to source effectively and to co-ordinate and collaborate with the supply chain to ensure value delivery and continuity.

Risk Requiring Judgement with elements that are **Risks Requiring Standards**.

Governance oversight:
Board and Safety, Health, Environment, Security and Ethics Committee

Priority

Magnitude
NO CHANGE

Our business operations rely on products and services provided through third parties, including outsourced activities, infrastructure and operating responsibility for some assets. We rely on these parties to comply with contractual terms in addition to legal, regulatory and ethical business requirements.

Failure to comply with the Group policy and standards when procuring goods and services or to manage key suppliers and contracts effectively could inhibit the ability of the business to maintain competitive products and services or expose the Group to a range of regulatory or legal risks.

- We operate an end-to-end category management process to maximise value capture throughout the procurement lifecycle, from market analysis through to ongoing contract management and monitoring.
- All suppliers are required to sign up to our ‘Ethical Procurement’ policies and procedures.
- We review the ethical conduct of our suppliers, including a programme of supplier visits to provide additional assurance over practices employed.
- Financial health, human rights risk and anti-bribery and corruption due diligence and monitoring are implemented in supplier selection and contract renewal processes.
- Audits are conducted in relation to third-party operation of jointly operated Exploration & Production assets.

Viability Statement

Requirement

In accordance with provision 31 of the 2018 UK Corporate Governance Code (2018 Code) the Directors have assessed the prospects and viability of the Group taking into account the business model (as set out in the Strategic Report on pages 14 to 15), current position in the context of liquidity and credit metrics of the Group, and principal risks.

Assessment of prospects

Central to our prospects and delivery of our long-term growth objectives is the Group's business model and strategy which was reviewed in 2019 along with the revised Group Financial Framework to 2022 as set out on page 14. A summary of the business strategy is provided in the Strategic report on pages 12 to 13. In assessing our prospects, we consider the success in delivery of our strategy and our current business performance. We are confident that the measures we have taken and the efficiencies we have realised, as described on page 13, leave the Group in a strong relative competitive position.

The progress in delivering the Group's strategic objectives is assessed annually by the Board through its Corporate Planning process. During this process the Group also considers the forecast strength of the Group at the end of the planning period and the forecast cash the Group would generate against its long-term obligations to debt and defined pension holders.

In assessing delivery of the strategic plan, we consider the market context as well as the progress on executing on our strategic objectives. The financial position of the Group, its performance, cash flows and liquidity are presented in the Financial Review on pages 29 to 33. The Board considers the principal risks facing the Group, as set out on pages 34 to 43. The risks we consider to be of greatest significance include:

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

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

The Directors have evaluated and approved the Group Annual Plan for 2020 and, during 2019, have approved the updated strategic plan. In doing so, the Board considered the longer-term prospects of the Group in assessing the forecast strength of the Group, the planned cash generation and obligations at the end of the planning period. Overall, we are comfortable in the prospects for the Group in the context of our strategy and our management of the principal risks.

Assessment of viability

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

A key consideration in the viability assessment is the management of the Group's financing profile through accessing a diverse source of term funding and maintaining access to carefully assessed levels of standby liquidity. These committed facilities of £4.4 billion (set out on page 158) are not due to expire until 2024. The undrawn committed facilities at 31 December 2019 were £3.1 billion.

To make the viability assessment, we have identified five sensitivities (A to E) which incorporate the impact of our principal risks as set out on pages 34 to 43. These five key sensitivities and the linkage to our principal risks are set out in the table below. These risks were selected as they have the most material impact on cash flow, liquidity and credit metrics.

Viability sensitivity tests assessed	Links to Principal Risks
A. External risks associated with a 30% fall in commodity prices	Financial Markets
B. The risk of further regulatory intervention and/or risks in relation to cyber, data protection and customer conduct	Legal, Regulatory and Ethical Standards Compliance Cyber, Security & Resilience Digital Technology and Information Systems
C. Significant under performance operationally of our Upstream asset portfolio	Health, Safety and Environment Asset Development, Availability and Performance
D. Failure to fully deliver our growth agenda and programme to transition Centrica to a low cost, customer focused provider	Change Management People Strategy Delivery External Market Environment
E. Additional Pension contributions are required, the level of undrawn credit facilities are reduced and the Group is subject to a single notch credit downgrade	Balance Sheet and Credit Position

These sensitivities were applied to the Group Annual Plan for 2020 and our Strategic Forecasts over 2021 and 2022 with a particular focus on the impact on headroom against the £3.1 billion of undrawn committed facilities noted previously and our credit metrics.

The five sensitivities were then grouped into three scenarios as set out in the table below. We do not believe that it is plausible that all five sensitivities would occur at the same time, and therefore we consider each of the three scenarios as a plausible combination of events and sensitivities. Within these scenarios, commodity (sensitivity A) and credit rating and liquidity risks (sensitivity E) were selected as constant events in all three scenarios.

Sensitivities grouped into 3 scenarios	
Scenario 1: A significant external event outside of the Group's control such as a significant and sustained reduction in commodity price, along with additional regulatory events and additional debt and liquidity risks	A + B + E
Scenario 2: A significant external event outside of the Group's control such as a significant and sustained reduction in commodity price, along with a significant disruption to the Asset-Based Businesses and additional debt and liquidity risks	A + C + E
Scenario 3: A significant external event outside of the Group's control such as a significant and sustained reduction in commodity price, along with an underperformance in delivering Gross Margin and additional debt and liquidity risks.	A + D + E

The scenarios applied sought to confirm that the Group would have sufficient liquidity available against its existing undrawn committed facilities of £3.1 billion and that calculated credit metrics would not imply a sustained fall to below investment grade (S&P BB and Moody's Ba1 NP).

The key assumptions embedded in these tests include:

- historical evidence and the evaluation of similar events observed in the market have been used to inform the potential impact of modelled scenarios;
- whilst we have announced an intention to dispose of the Spirit Energy and Nuclear businesses, this assessment has been prepared on the basis that the current portfolio of assets is maintained and no disposal proceeds are received. By including the disposal the viability assessment is not negatively impacted; and
- no new debt funding within the three-year period of the assessment.

In order to reach a conclusion as to the Group's viability the Directors have considered the following:

- Given the available headroom, did any of the tests breach the available headroom in the 3-year period. While scenario 1 had the most severe impact, sufficient headroom against the £3.1 billion of committed facilities was available in all three scenarios.
- With regards to a downgrade to sub investment grade, scenario 2 had the most severe impact. Given Centrica is currently rated BBB (s)/ A-2 (s) for S&P, and Baa1 (n)/ P-2 (n) for Moody's, this scenario did not lead to a downgrade to sub investment grade (BB for S&P, and Ba1 NP for Moody's).

Minor mitigations were required in certain of the above scenarios, and additional mitigations could be deployed to increase headroom and reduce the risk of a credit downgrade include reductions in operational expenditure, bonuses, capital expenditure and dividend payments, all of which are within the Group's control.

Conclusion

The Directors have considered all the above factors in their assessment of viability over the next three years, including the availability of mitigating actions within their control in the event that one of the scenarios above materialises. We have performed sensitivity analysis that enables the Directors to confirm that they have a reasonable expectation that no individual risk, or plausible combination of risks, will impact on the Group's ability to continue to operate and meet its liabilities, as they fall due, over a period of at least three years.

A Pathway to Net Zero

Climate change is the greatest threat facing society and the energy sector is at the forefront of the need to respond. That's why we're committed to enabling a lower carbon future and why we've set out key policy recommendations to support a pathway to net zero.

We welcome the political momentum that has developed around the need to tackle climate change and we are committed to working with governments, regulators and legislators, to ensure we have the right policies and frameworks in place to achieve net zero by 2050.

The next decade is vital if we are to mitigate the worst effects of climate change. We do not, however, believe that the world is moving fast enough in taking action or finding solutions to some of the challenges around net zero. Decarbonisation will require action at all levels of society – it will involve inspiring and empowering consumers, as well as policy support to introduce and scale up activities and technologies for a lower carbon future.

Power

The power sector has been at the heart of the energy transition and is where the quickest progress can be made in reducing emissions over the next 20 years. Despite generation from renewables being at an all-time high and generation from fossil fuels at an all-time low[(1)], the UK still needs a quadrupling of renewable capacity by 2050[(2)]. To maximise utilisation and minimise costs, we also need a mix of technologies to back-up intermittency and balance the grid while avoiding the need for expensive network upgrades and the construction of large-scale centralised assets.

We're calling on the UK Government to:

- stimulate investment and reduce risk in expanding renewable generation by allowing developers to participate in regular renewable auctions (CfDs), and set an escalating carbon price with a clear forward trajectory; and
- implement a policy framework and reforms to the network architecture that support renewables by driving expansion of flexible and decentralised technologies such as storage, solar and demand response.

Heat

Fossil fuels dominate heating, so transforming how we heat our homes and businesses is an urgent challenge. With 85% of UK homes having a gas boiler[(3)], we need to accelerate the deployment of lower carbon heating solutions. Hybrid heat pumps are the most practical and cost-competitive alternative in the near term, while hydrogen is needed longer term.

We're calling on the UK Government to:

- enable the roll-out of hybrid heat pumps by setting up a grant scheme when the Renewable Heat Incentive ends in 2021, while expanding wider energy efficiency funding for industrial, commercial and public sectors;
- introduce higher decarbonisation standards by bringing forward a Future Homes Standard to 2021 from 2025, banning the use of gas and oil-fired heating in new builds as well as phasing out oil and coal usage in off-grid homes by 2022; and
- stimulate investment and research to define the longer-term role that heat networks, heat pumps, biogas and hydrogen can play.

The gas network

Gas provides an important back-up to intermittent renewables and will remain a key part of the energy mix as we transition to a lower carbon future. We believe green gas and hydrogen should increasingly be injected into the network to replace natural gas. This would also help decarbonise heat in the least disruptive and most cost-effective way.

We're calling on the UK Government to:

- provide greater clarity on the mechanisms that support green gas beyond 2021 to boost investment and increase blending of green gas in the network;
- collaborate across the sector to update the Gas Quality Index which will allow more green gas to be injected into the network and carbon savings to be banked more efficiently; and
- encourage policy to accelerate trials and adoption of hydrogen and Carbon Capture and Storage (CCS) in the long term. Key sites should be identified to support large-scale projects, while new funding models are needed to encourage investment with more effective allocation of risk between the developer and government.

2.7GW†

Our flexible, distributed and low carbon capacity under management

9,000

Our global footprint of skilled engineers and technicians to help decarbonise homes and businesses

Largest UK biomethane provider

We have a 50% share in Barrow Green Gas, the UK's largest shipper of biomethane

(1) Carbon Brief, Analysis: UK electricity generation in 2018 falls to lowest level since 1994, 2019.
(2) Committee on Climate Change (CCC), Net Zero Report, 2019.
† Included in PwC's limited assurance engagement.

(3) CCC, Heat in UK Buildings Today, 2017.

Towards this aim, we have set out key policy recommendations for the near term that will support energy's pathway to net zero across the critical areas of power, heat, the gas network and transport. With the UK now committed to become net zero by 2050, we have focused primarily on outlining the policy recommendations that we believe will help the UK Government achieve this, while summarising how we advocate for lower carbon policies beyond the UK.

Our commitment to net zero

Since 2015, we have been repositioning our business away from centralised power generation and oil and gas production, towards providing energy services and solutions that enable a lower carbon future. And in 2019, we set 2030 Responsible Business Ambitions to:

- help our customers reduce their emissions by 25% through direct and indirect action;
- enable a decarbonised energy system with 7GW of flexible, distributed and low carbon technologies; and
- be net zero by 2050 and develop a pathway to it by 2030.

Net zero

Transport

Transport is the most polluting sector in the UK[4] and electric vehicles (EVs) provide a great opportunity to cut emissions. With EVs set to become cost-competitive by the mid-2020s and The Paris Declaration on Electro-Mobility and Climate Change targeting 100 million EVs to be on the road by 2030, it's vital that we continue their drive into the mainstream and expand the charging infrastructure rapidly.

We're calling on the UK Government to:

- require EV charge points to be smart and interoperable to maximise usability and reduce 'range anxiety' which is a key barrier to take-up;
- allow EV charging to take place in a competitive market to ensure consumers get the best deal; and
- enable research and development into low carbon gases like biogas and hydrogen, which will likely support the decarbonisation of larger vehicles and shipping.

17,200

Electric vehicle charge points we've installed since 2013

(4) Office for National Statistics, Road Transport and Air Emissions, 2019.

Our global recommendations

Tackling climate change is a global imperative, so we also advocate lower carbon policies beyond the UK. Below are a few examples from our core markets.

Ireland priorities:

- ensure that natural gas remains the most cost-effective fossil fuel during the transition to net zero, and introduce appropriate supports to stimulate investment in grid-injected Renewable Gas projects;
- implement appropriate support schemes, funding mechanisms and skills development to help customers transition to lower carbon heating solutions;
- support CCS near Whitegate Power Station to provide a clean and reliable back-up to renewable generation; and
- enable EVs by developing the charging infrastructure and increasing support for Compressed Natural Gas (CNG), Bio-CNG and hydrogen.

North America priorities:

- support robust competitive markets to give consumers greater choice and access to a range of low carbon and energy efficiency solutions;
- develop smart grid capabilities that enable data insights, flexibility and distributed energy solutions to balance a lower carbon grid;
- promote electrification and reform wholesale markets to send fair price signals that recognise the full value of carbon-free generation, energy efficiency and demand response; and
- support the transition to EVs, which includes robust competition for charging services.

Read more about our strategy on
Pages 12 to 13

Read more about our Responsible Business Ambitions on
Pages 48 to 54

Delivering our Responsible Business Ambitions

Energy is at the heart of homes, businesses and communities and has huge potential to contribute to a more sustainable world.

We take our role as a global energy services and solutions company very seriously, and are committed to accelerate the positive impact we have in society and on the environment. That's why, in 2019, we introduced our 2030 Responsible Business Ambitions – a set of 15 global goals that help our customers run their world in ever more sustainable ways.

Our 2030 Ambitions support the United Nations Sustainable Development Goals and address some of the most challenging issues facing society, in areas where we can have the biggest impact. This includes tackling climate change, driving innovation to make our customers' lives easier, building a more skilled and inclusive workforce and making our communities stronger.

We have a long journey ahead of us, but, by working closely with our customers and expert partners, we will maximise our positive impact and help create a more sustainable world. In doing so, we will realise our strategy to satisfy the changing needs of our customers and enable the transition to a lower carbon future.

Our 2030 Ambitions are underpinned by our Responsible Business Foundations, which ensure our business operates with integrity.

Read more about our Responsible Business Ambitions at
centrica.com/sustainability

Non-Financial Reporting Statement

In line with the Non-Financial Reporting Directive, we have set out where the relevant information we need to report against can be found, together with an explanation of the relevant Group policies which relate to the below matters and an overall summary of the effectiveness of such policies. Specific examples of how these policies are implemented, any due diligence processes are conducted and outcomes can be found on the pages specified below.

- Business Model (Pages 14 to 15)
- Anti-Bribery and Corruption (Pages 43 and 54)
- Human rights (Pages 17, 39, 43 and 54)
- Employees (Pages 16, 19, 38 to 39, 52 and 54)
- Social matters (Pages 16 to 17, 19 to 26, 40, 49 and 53 to 54)
- Environment (Pages 16 to 17, 38, 46 to 47, 50 to 51 and 54)
- Non-financial key performance indicators across Our 2030 Ambitions and Foundations (Pages 49 to 54 and 225 to 228)

Our Code represents a high-level summary of our key policies and forms the foundation for how we do business. Our policy positions are embodied across our Responsible Business Ambitions and Foundations framework. Where specific policies are published externally, these are shared throughout.

Read more about Our Code at
centrica.com/ourcode

Read more about our Group policies including the Diversity, Respect and Inclusion Policy, the Health, Safety, Environment and Security Policy and the Procurement and Corporate Responsibility Policy for Suppliers at
centrica.com/policies

Our 2030 Responsible Business Ambitions

Helping you run your world in ever more sustainable ways

Our Ambition for Customers

Delivering for our customers

Our Ambition for Climate Change

Enabling the transition to a lower carbon future

Our Ambition for Colleagues

Building the workforce of the future

Our Ambition for Communities

Creating stronger communities

Our Ambition for Customers

Delivering for our customers

Through the latest innovations and a commitment to service, we are making our customers' lives easier.

Key: Progress against Ambitions ▲ On track ▼ Behind

Deliver solutions to make our customers' lives easier

2030 Ambitions	2019 Progress (Year 1)
Help customers understand and manage their energy better	**10** Innovations delivered ▲
Give customers peace of mind through tailored propositions and connected technologies	**6** Innovations delivered ▲
Develop solutions to help our customers run their worlds	**6** Innovations delivered ▲

During 2019, we delivered 22 innovations across our goal areas to transform the way we live, work and move. For example, we:

- introduced and sold 100,000 Hive Radiator Valves which helps customers manage the temperature in individual rooms to save energy and improve comfort; and
- developed innovative technologies through our £100 million Centrica Innovations fund which includes investment in Mixergy. Mixergy is a smart hot water system that only heats the amount of water required by adjusting to household routines while storing excess renewable energy from the grid, improving flexibility and reducing energy use from heat losses by up to 40% a year.

We additionally rolled out existing services and solutions that make our customers' lives easier and more sustainable. Around 1.8 million customers now use Hive connected home products that can be controlled with just a tap on the app – from smart thermostats, plugs, lights and cameras, to contact and motion sensors. Our leadership of the UK's smart meter roll-out was also maintained, with cumulative installs totalling over 7.7 million across homes and businesses, improving bill accuracy and energy management.

Satisfy our customers with excellent service

2030 Ambition	2019 Progress (Year 1)
Make it simpler for people to deal with us in ways that work for them	**49%** Customers using online account management ▲

Our customers want and deserve a better service. One of the ways we are doing this is through the transformation of our customers' digital experience. We are reorganising processes to create smoother journeys, transforming our IT stack to become more flexible and embedding machine-learning automation alongside improved apps. In UK Home, we have also introduced capabilities to book appointments and track engineer visits online, while upgrading diagnostics to boost first-time fix rates. Actions like these have increased the volume of customers managing their accounts online and improved customer satisfaction, as reflected in our aggregated NPS rising by 5.1 points to +15.1.

Read more about the digital transformation on
Page 21

> "We bought originally three and then another five…no longer do we have either hot or cold spots within the house as the heating is more even and we only heat rooms which we use at certain times of the day."

Richard Southgate gave his new Hive Radiator Valves a 5-star rating on Trustpilot (18 December 2019)

Our Ambition for Climate Change

Enabling the transition to a lower carbon future

We are helping to shape a low carbon future by enabling our customers, the energy system and our business to manage energy more sustainably.

Key: Progress against Ambitions ▲ On track ▼ Behind

Help our customers reduce emissions in line with Paris goals(1)

2030 Ambition	2019 Progress (Year 1)
Help our customers reduce emissions by 25%, by direct (3%) and indirect action	**3.9%**(2) Emission reduction ▲

Over 90% of our carbon emissions arise from our customers. So the greatest contribution we can make to tackle climate change is to help them use energy more sustainably. Through our services and solutions, we directly enabled customers to reduce emissions by an average of 3.9% in 2019. This is equivalent to $2.6mtCO_2e$, which is an increase of 180% compared to 2018 and is equivalent to the annual emissions of around 900,000 UK homes.

For example, we:

- continued to grow the infrastructure for a low carbon transport system by installing over 17,200 electric vehicle (EV) charge points since 2013, and joined forces with Ford to deliver charging installations and energy tariffs at scale;
- signed one of the UK's largest combined green energy contracts supplying over 4,500 Catholic schools and churches; and
- partnered with Budweiser Canada to provide 100% certified renewable power to brew beer from zero carbon sources.

Read our Health, Safety, Environment and Security Policy at
centrica.com/HSESpolicy

Enable a decarbonised energy system

2030 Ambition	2019 Progress (Year 1)
Deliver 7GW of flexible, distributed and low carbon technologies as well as provide system access and optimisation services	**2.7GW†** Flexible, distributed and low carbon technologies ▲

We are helping create a cleaner energy system by pioneering end-to-end solutions that enhance grid flexibility, support renewables and reduce reliance on fossil fuels. In line with plans during 2019, we delivered 2.7GW† of flexible, distributed and low carbon technology – enough capacity to directly charge around 400,000 electric vehicles simultaneously. This included signing an agreement with Tokyo Electric Power Company, to use our demand response platform to meet industrial demand more flexibly when the grid is under pressure, which avoids the need to turn on additional generation from fossil fuels. We also provided a route-to-market for renewables with 11GW under management. To further this, we have entered into a long-term Power Purchase Agreement for Intersect Power's Athos Solar I 250MW project, generating clean energy for around 70,000 homes in North America.

Reduce our own emissions in line with Paris goals(1)

2030 Ambition	2019 Progress (Year 4)
Be net zero by 2050 and communicate our pathway to it by 2030	**55,145†** Internal carbon footprint (tCO_2e) ▲

Following the strategic transformation of our business, we now produce over 80% less carbon than we did a decade ago (see Strategy overleaf). During 2019, however, our total carbon emissions rose by 31% compared to 2018 due to increased generation from our upstream assets. Meanwhile, the internal carbon footprint of our property, fleet and travel declined by 39% against our 35% reduction target for 2015-25. The reduction of our 2019 footprint was achieved through low carbon fleet initiatives like installing GPS and 'right sizing' vehicles to smaller and more efficient models, delivering property efficiencies across lighting, heating and cooling systems, alongside savings arising from the restructuring of our business. To further reduce emissions, we joined EV100 which brings together forward-looking companies committed to accelerating the transition to EVs, and commits us to electrify our 12,500-strong fleet by 2030.

(1) Paris goals refer to the global agreement to keep temperature rise well below 2°C above pre-industrial levels, and pursue efforts to limit the increase to 1.5°C.
(2) Direct savings only. We intend to enhance our understanding and disclosure of indirect customer carbon savings relating to decarbonising the energy system and advocating for cleaner energy policies. Read how we are advocating for cleaner energy policies on page 17.
† Included in PwC's limited assurance engagement. See page 225 or centrica.com/assurance for more details.

Task Force on Climate-related Financial Disclosures

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Became signatories of the Task Force on Climate-related Financial Disclosures in 2020

CDP DISCLOSURE INSIGHT ACTION

Rated 'A' for leadership in action and disclosure on climate change by CDP

Climate change is the greatest challenge facing society, and the energy sector has a key role in tackling it. We are committed to reducing energy's impact on the climate, and support increased disclosure on how companies are responding to this important issue. Towards this, we became signatories of the Task Force on Climate-related Financial Disclosures (TCFD) in 2020, and we are committed to progressively align with the recommendations, as well as continuously improve our disclosure.

Governance

The Board has oversight of climate-related issues. In 2019, the Safety, Health, Environment, Security and Ethics Committee reviewed our position on climate change, our performance against our 2030 Ambitions to tackle climate change (see previous page), and our analysis of asset resilience in a net zero 2050 scenario. Meanwhile, the Centrica Executive Committee's Health, Safety, Environment and Security (HSES) Sub-Committee, which is chaired by the Group Chief Executive and is responsible for setting objectives, targets and policies on climate change, met quarterly during 2019. The Sub-Committee developed, approved and assessed performance against our 2030 Ambitions while performing deep dives on topics such as low carbon products.

Strategy

Our business is based on satisfying the changing needs of our customers and enabling the transition to a lower carbon future. We are moving away from fossil fuel production to focus on providing services and solutions that help our customers run their world in ever more sustainable ways, while setting an Ambition to become net zero by 2050. We have assessed the strategic risks and opportunities of decarbonisation, including a 1.5 degree scenario in the UK, and believe that we are well positioned to succeed in the energy transition. In 2020, we will continue to assess our strategy against the requirements of the low carbon transition while senior leaders will further engage stakeholders such as Climate Action 100+ to inform our strategy (see page 16).

Risk management

Climate change risks are managed through our Enterprise Risk Management process. Risk profiles are produced at a business level and reviewed quarterly at the Group Ethics, Risk, Assurance, Control and Compliance Committee. The HSES function additionally provides horizon scanning, testing and calibration. Meanwhile, longer-term risks are assessed at the annual Board Planning Conference, which considers how the market environment, technology and policy are influenced by climate change.

We have identified and assessed near- and long-term climate-related risks and opportunities. These include trends in policy, technology and markets, such as the decarbonisation of heat, the electrification of transport and changing consumer behaviour. Physical aspects of climate change have also been considered – from the potential impact of extreme weather on our people and operations, to an increase in average temperatures on demand for services and solutions.

Metrics and targets

We were early adopters of best practice greenhouse gas emissions reporting and have a strong track record in setting and achieving climate-related targets. We monitor and report our global scope 1, 2 and 3 emissions (see table below) and have set 2030 Ambitions that are aligned to Paris goals. As part of our TCFD implementation roadmap, we will develop and implement a framework to track and disclose metrics that assess climate-related risks and opportunities on our business.

Our carbon emissions

	2019		2018	
Total carbon emissions	**2,283,514tCO_2e†**		1,737,122tCO_2e	
Scope 1 emissions	**2,246,167tCO_2e†**		1,698,388tCO_2e	
Scope 2 emissions	**37,347tCO_2e†**		38,734tCO_2e	
Scope 3 emissions	**127,209,632tCO_2e**		126,137,878tCO_2e	
Total carbon intensity by revenue	**101tCO_2e/£m**		74tCO_2e/£m(1)	
	UK & Offshore	**Non-UK**	UK & Offshore	Non-UK
Total energy use(2)	**3,130,631,079 KWh**	**6,964,542,291 KWh**	1,642,646,626 KWh	5,635,480,865 KWh

We report on an equity basis with practices drawn from WRI/WBCSD Greenhouse Gas Protocol, IPIECA's Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions and Defra's Environmental Reporting Guidelines.

† Included in PwC's limited assurance engagement. See page 225 or centrica.com/assurance for more details.

(1) Restated due to a change in accounting methodology.

(2) Total energy use of 10,095,173,370kWh has been included in PwC's limited assurance engagement.

Our Ambition for Colleagues

Building the workforce of the future

We are developing vital skills and a more inclusive workforce to ensure we deliver for our customers.

Key: Progress against Ambitions ▲ On track ▼ Behind

Empower people with future skills

2030 Ambition	2019 Progress (Year 1)
Inspire and develop 100,000 people with essential STEM skills	**11,409**[(1)] People ▲

We are developing essential STEM (Science, Technology, Engineering and Maths) skills, to deliver for our customers. In 2019, colleagues learnt new skills through our apprenticeships, Career Development Hub and specialist Learning Academies. From 2020, we want to reach more people with new and inspirational STEM learning content.

(1) May involve double counting if someone has undertaken more than one STEM activity.

Build a more inclusive workplace

2030 Ambitions	2019 Progress (Year 1)
Attract and develop more women into STEM with 40% of STEM recruits to be female	**17%** Female STEM recruits ▼
Aspire for senior leadership to reflect the full diversity of our labour markets	**29%** Senior gender diversity ▼ **10%** Senior ethnic diversity ▲
Help one million carers stay in or return to work via active promotion of carer-positive policies	**1,000** Carers supported ▲

Having a diverse workforce that reflects our communities is key to satisfying the changing needs of our customers. That's why we are passionate about creating an inclusive workplace where everyone feels motivated and able to reach their full potential.

Towards this in 2019, we:

- sought to encourage the next generation of young girls to explore a career in STEM by working with the Royal Academy of Engineering to showcase strong female role models;
- rolled out unconscious bias training with interactive workshops completed by leadership and made further training available to all employees; and
- progressed our carer-positive culture by extending our world-class carers leave allowance to up to six weeks in total, advocated for the introduction of statutory carers' leave in the UK which is now part of the UK Government's legislative programme and hosted peer learning forums to share best practice.

Despite our efforts, progress against some Ambitions were impacted by business transformation so we hope to make greater progress next year. We received recognition for diversity and inclusion activities in 2019, including the Working Families' Best in Care and Eldercare Award while two of our leaders ranked in the OUTstanding LGBT+ Role Model Lists.

Read our Diversity, Respect and Inclusion Policy at centrica.com/DRIpolicy

Our diversity

	2019				Changes to gender senior executives and direct reports not made for 2018			
	Female		Male		Female		Male	
Gender breakdown[(2)]	Headcount	Percentage	Headcount	Percentage	Headcount	Percentage	Headcount	Percentage
Board of Directors	2	17	10	83	2	17	10	83
Senior executives and direct reports	12	35	22	65	12	32	25	68
Senior management	224	29	561	71	277	28	703	72
All employees	7,420	29	18,507	71	8,723	29	21,359	71

(2) Headcount as at 31 December differs from numbers referenced elsewhere in the Annual Report and Accounts due to different methodologies. To accurately reflect the full diversity of our workforce, we use overall headcount numbers rather than a headcount based on their full-time equivalent. Gender of three employees is unknown. In January 2020, female representation on the Board increased to 23%.

	2019		2018	
Ethnic minority breakdown[(3)]	Headcount	Percentage	Headcount	Percentage
Board of Directors	3	25	0	0
Senior executives and direct reports	6	18	8	22
Senior management	81	10	86	9
All employees	3,126	12	3,683	12

(3) Based on 63% of employees in 2019 and 65% of employees in 2018 who voluntarily disclosed that they are from a Black, Asian, Mixed/Multiple or other ethnic group across the UK and North America, which constitutes the majority of our workforce.

Our Ambition for Communities

Creating stronger communities

By offering our knowledge and expertise, we are empowering communities to take control of their energy and tackle pressing social issues.

Key: Progress against Ambitions ▲ On track ▼ Behind

Apply new energy technologies to drive positive change

2030 Ambitions	2019 Progress (Year 1)
Deliver £5bn of value for communities through new and distributed energy technologies	**£27.6m** Value for communities ▲
Deliver £300m in energy efficiency savings to public and essential services	**£2.5m** Savings for public and essential services ▲

Our services and solutions help communities increase their energy resilience, reduce their environmental impact and unlock financial savings that can be used to build a more productive and prosperous economy for all.

For example in 2019, we:

- enabled money from energy savings to be redirected towards patient care by cumulatively installing distributed energy solutions at 90 hospitals; and
- rolled-out technologies such as solar and battery storage in over 200 UK homes and businesses as part of the Cornwall Local Energy Market trial. The trial will test how flexible demand, generation and storage can support the grid during peak times, help stimulate the growth of renewables and create opportunities to reduce energy bills.

Read more about how we are saving energy and money to boost healthcare in Devon on Page 25

Read more about how distributed energy solutions are creating savings for communities at centrica.com/economicfuture

Our research shows that if just 50% of the UK's Industry, Healthcare and Hospitality & Leisure sectors took up distributed energy solutions, the potential benefits would be:

£980m
Annual energy bill savings

260,000
Jobs supported

£18.5bn
Gross value added to the economy

11%(1)
Annual carbon footprint reduction

> **"Sustainable healthcare will help our budgets stretch further and the savings, alongside the reduction in our carbon emissions, are invaluable."**

David Furnival
Group Director of Estates at Facilities, Manchester University NHS Foundation Trust (Centrica Business Solutions customer)

Collaborate across sectors to improve local communities

2030 Ambitions	2019 Progress (Year 1)
Encourage our people to share their skills by volunteering over 100,000 days	**2,452** Volunteering days ▼
Deliver 2,500 skills development opportunities for young people not in education or employment	**362** Young people ▲

We tackle issues our communities and business care passionately about. In 2019, over 360 young, unemployed people were given the opportunity to gain workplace skills through Movement to Work. This brings the overall number of young people helped through the scheme to 1,800 since 2014. Our volunteering days reduced by almost 50% compared to 2018, with participation impacted by the reorganisation of our business.

£6m
Contributions we have enabled over the course of our flagship charity partnerships with Carers UK, Focus Ireland and the Children's Miracle Network Hospitals in North America

(1) Carbon and economic values are calculated using different scenarios. See centrica.com/economicfuture for more information.

Our Responsible Business Ambitions

Our Responsible Business Ambitions are underpinned by strong foundations that ensure our business operates with integrity.

Customers

We care about our customers and want to be there for them. We spent £164 million in mandatory and voluntary contributions to help people with their energy bills. This included nearly 619,000 customers through the UK's Warm Home Discount scheme and over 2,400 customers via North America's Neighbor-to-Neighbor bill assistance programme. The British Gas Energy Trust supported an additional 24,200 customers and non-customers with energy and debt advice. We are also upskilling our call centre advisers to avoid the need for transferring calls, which contributed to our aggregated complaints per 100,000 customers falling by 1% to 3,429.

Environment

Our environmental impact is monitored and managed closely. Following a reduction of more than 40% across our water and waste consumption in 2018, our water consumption dropped a further 11% to 516,836m^3 while our waste decreased 9% to 27,596 tonnes. We do not undertake water-intensive activities in water-stressed zones.

Colleagues

We want our people to feel safe, engaged and rewarded. While there were no significant (Tier 1) process safety events in 2019, we had two Tier 2 process safety events. The events related to a 439kg release of gas into the atmosphere following a partial valve opening at a Spirit Energy platform, while a small fire occurred at a customer's site when a combined heat and power (CHP) engine failed. Meanwhile, our total recordable injury frequency rate increased by 4% to 1.06 per 200,000 hours worked. We strive for an incident-free workplace and aim to continuously improve performance with targeted safety interventions alongside improved controls and monitoring. Alongside physical safety, we also focus on mental health. Mental health support was progressed in 2019 with the introduction of the 'Unmind' Wellbeing app, leadership training and support via our 150-strong network of Mental Health First Aiders. The reorganisation of our business contributed to our employee engagement score declining by 12% to 43% favourable. We recognise our people have been through significant change and we want to improve their experience by connecting them with our purpose and enabling them to perform at their best.

We reward our people fairly. This includes paying at least the Living Wage in the UK and upholding equal pay. We are working to reduce our gender pay gap but recognise that it will take time for the positive impact of our diversity and inclusion action plan (see page 52) to transform our business, sector and society. Our gender pay gap is driven by more men working in higher-paid, traditionally male-dominated technical roles such as engineering and, in 2019, our median gender pay gap reduced by 1% to 30% which remains above the national average.

Communities

Our Code and Our Values help us operate in a way that is beneficial to society by setting out the high standards and behaviours we expect from everyone who works for us or with us. For example, Our Code includes our commitment to uphold and protect human rights. We take action to ensure our people and suppliers are safeguarded from abuses which includes undertaking human rights training and conducting on-the-ground ethical site inspections (see page 17) as part of our work to uphold the UK's Modern Slavery Act. Clear guidance is additionally provided on avoiding bribery and corruption by condemning payments we feel to be improper and taking extra care when offering or receiving gifts and hospitality. To reduce risk, training is provided to colleagues in higher risk roles while our Financial Crime team undertakes due diligence and monitors action to reduce threats including across supplier selection, contract renewals and our gifts and hospitality register. During 2019, we provided refresher training to help employees with their ongoing understanding of Our Code. Due to the significant transformation of our business, completion rates of training dropped from 96% to 82% so we will focus on improving this in 2020. If anyone suspects Our Code is being violated, we provide a confidential Speak Up helpline to raise concerns (see page 56).

We want our presence to be a force for good in our communities. In 2019, we invested £167 million in mandatory, voluntary and charitable contributions (see page 53). We also assessed a further 52 suppliers on their social, ethical and environmental standards which resulted in a sustainability score of 59 (low risk). This is better than the multi-industry average of 45 (medium risk). If suppliers receive a medium or high-risk rating, we consider appropriate action which may involve collaboration to raise standards and conducting an on-the-ground ethical site inspection or terminating our relationship.

Read more about Our Code and policies at
centrica.com/ourcode

Read more in our Gender Pay Statement at
centrica.com/genderpay

Read more about our Procurement and Corporate Responsibility Policy for Suppliers at
centrica.com/supplierpolicy

Read more in our Modern Slavery Statement at
centrica.com/modernslavery

The Strategic Report, which has been prepared in accordance with the requirements of the Companies Act 2006, has been approved by the Board and signed on its behalf by:

Justine Campbell
Group General Counsel
& Company Secretary
12 February 2020