

Our Principal Risks and Uncertainties

We manage risks to support our Group strategy

COVID-19 has posed significant challenges to the risk management and resilience of businesses across the globe. Centrica has a robust approach to risk management which enabled a rapid mobilisation of resources to react and mitigate the potential impacts of the pandemic.

In the following pages, we set out an overview of Centrica's risk management framework, highlighting changes adopted in 2020 and the Principal Risks at the year end. Our Principal Risks remain linked to our Group Priorities and the Group's risk appetite is expressed in relation to our four categories of risk: Strategic, Operational, Financial and Compliance.

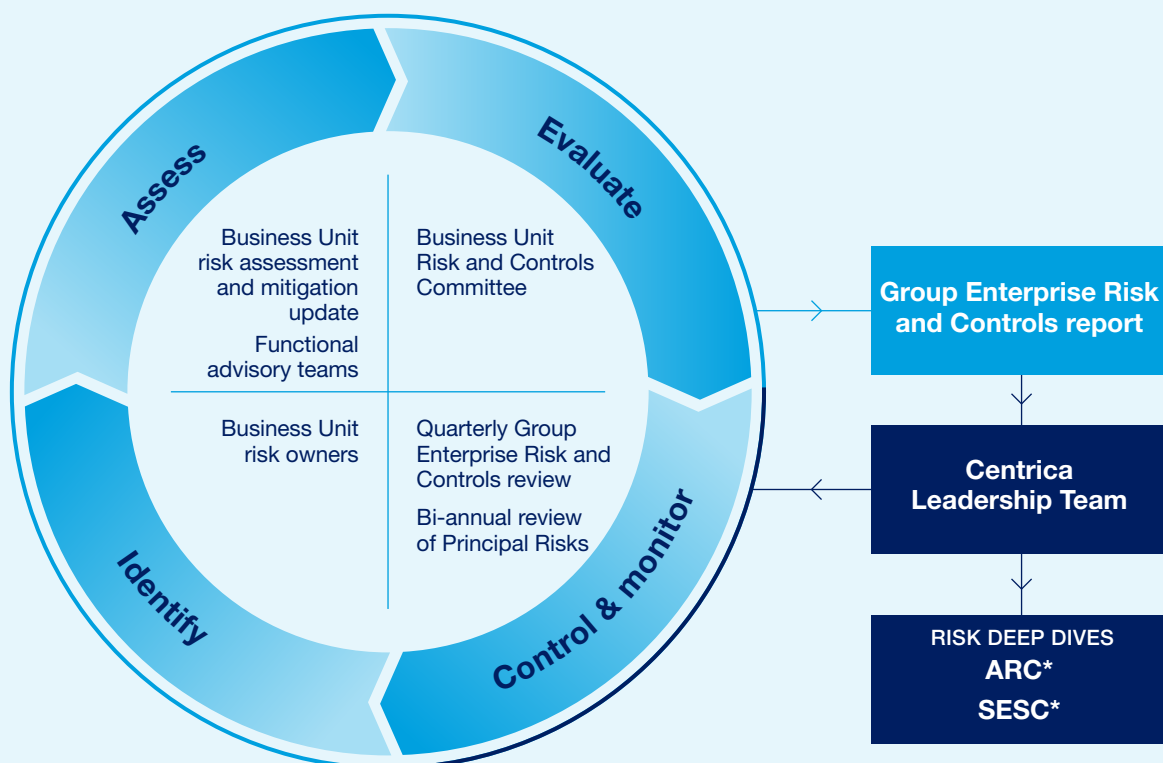
Strengthening risk management and internal control

Centrica's Group Enterprise Risk and Internal Controls Framework remains a core element of our Governance Model which is set out below.

During 2020, in light of changes to the organisational structure and operating model, the Risk Oversight process has been adjusted. The updated model is set out in the Risk Framework section below. The Group Core Principles and Framework and Governance structures remain unchanged.

As part of this review, the Group Enterprise Risk team, working with the Centrica Leadership Team, conducted a full review of Group Principal Risks. An updated set of the most significant Principal Risks to the Group are set out on pages 36 to 39.

Centrica Group's Annual Risk Management Process



*Audit and Risk Committee (ARC)

*Safety, Environment and Sustainability Committee (SESC, formerly SHESEC)

Risk appetite

The Board is ultimately responsible for aligning the risk appetite of the Group with our long-term strategic objectives, taking into account the emerging and Principal Risks. The Board has determined the risk appetites for all the key risks within Centrica's Risk Universe, which are summarised into the categories of Strategic, Operational, Financial and Compliance.

Due to the industry and the nature of some of the markets in which the Group operates, we have high to moderate risk appetites for our strategic and operational risks. However, we have a minimal risk appetite for safety risks and we continue to strive for an incident free workplace. We have a low risk appetite for failing to conduct business operations in compliance with the laws and regulations that Centrica manages as part of its various licences to operate. For Financial Risks we adopt a conservative approach to manage our liquidity position and balance sheet strength. However, due to the higher risks inherent in managing the commodity and weather variables within our energy supply businesses, we accept a higher appetite for certain elements of financial markets risk.

Risks are assessed at a Business Unit level to determine impact and likelihood. During the Business Unit and Group level risk reviews the adequacy of mitigating actions are considered to determine the net residual risk scores and compare them to the Group risk appetite.

Risk framework

Day-to-day ownership of risk sits with business management under the regular scrutiny of the Centrica Leadership Team to whom the Board has delegated principal responsibility for risk oversight. The Group Principal Risks are those which potentially could impact delivery of our strategic objectives over the medium to long-term as determined through our strategic planning process.

The annual risk management process is summarised in the diagram on the previous page.

Quarterly Business Unit risk reviews

- Each Business Unit (BU) is responsible for identifying and assessing its significant risks with support from functional subject matter experts. Current and emerging risks and issues are formally reviewed quarterly by the Business Unit Leadership teams.
- The finalised risk reporting and assessment of each BU's control environment is then formally discussed at a Group Risk and Controls Review for each BU chaired by the Group CFO.
- At these quarterly reviews, recent assurance reports and findings from internal audits and other assurance reviews are discussed. Actions from previous audits and assurance reviews are tracked to ensure close out in line with agreed timescales.

Executive and Committee reviews

- Bi-annually the Group Principal Risks are presented to the Centrica Leadership Team for review and challenge. These include the aggregate risk assessments from the BU 'bottom-up' process and any Group level risk assessments.
- The Group Principal Risk profile, as updated by the Centrica Leadership Team, is presented to the Audit and Risk Committee (ARC, formerly Audit Committee) for review.
- Internal Audit presents quarterly to the ARC on any material findings as a result of independent assurance work.
- Risk deep dives were undertaken by the ARC and SESC to review high priority risks, ad-hoc topics and emerging matters.

In our assessment of viability, we consider the potential impact of 'severe but plausible' risks and note linkages to the Group Principal Risks as described on pages 41 to 42. The annual Viability Review has been presented to and approved by the Audit and Risk Committee.

Board

- The Board reviews risk as part of its strategy review process and, during the year, conducted a robust assessment of the Company's principal and emerging risks.
- At the year end the Board reviewed and approved the Principal Risk and Uncertainties disclosure.
- On an annual basis we evaluate our System of Risk Management and Control, which is supported by an annual certification of controls and adherence to Group policies by senior management.

Changes in risk climate and emerging risks

Business Units and functions review their risks and report key changes as part of the Monthly Business Performance Reviews. Major emerging risks and issues are escalated immediately.

During 2020 a number of Group level areas of risk were closely monitored and actions taken to mitigate their impact on the Group.

COVID-19

At the beginning of the pandemic the Group mobilised a Global Crisis Management Team (GCMT) to co-ordinate our response and ensure the consistency of actions to protect the safety of our customers, colleagues and communities. The Principal Risks outlined in pages 36 to 39 reflect the impacts of COVID-19 where applicable.

Monthly Board-level reporting tracks the impact of the pandemic and provides information on the Group and Business Unit mitigations.

Steps were taken to underpin the long-term financial strength of the Group as referenced in Section 172 pages 25 to 27. Centrica has maintained a strong direct link to both the UK Government and regulators. Changes in operational processes and working practices have been adopted and modified as the pandemic has progressed.

The longer-term potential financial impacts on the Group have been considered in the Viability Statement as set out on pages 40 to 42.

Brexit

The Group continued to monitor the progress of the Brexit negotiations throughout 2020. In H2, the Brexit Readiness Working Group was re-established to ensure the Group was prepared and mitigations were in place to minimise business disruption post Brexit. This included proactive engagement with our critical suppliers and continuous monitoring of the implications for electricity trading and carbon markets. Business Unit teams will continue to monitor, assess and implement changes to processes as greater clarity emerges. Specifically, the Energy Marketing & Trading (EM&T) team will focus on understanding the implications for their business with the establishment of new efficient electricity arrangements for EU-UK interconnectors by April 2022.

Industrial action

Integrated contingency plans were developed in 2020 as a response to potential industrial action following terms and conditions negotiations with our employees and Trade Unions. The plans covered a range of scenarios to manage the impact of strike action on customers, colleagues and our business. We continue dialogue with our Trade Union representatives and focus our available resource on delivering for our vulnerable customers, and work with our regulators to keep them informed of our customer outcomes.

Climate change

We continuously consider the wider context in which we operate and, in particular, the impact of climate change. As an energy supplier, we recognise that risks associated with climate change are multi-faceted and interconnect with some of our Principal Risks. The direct risk of climate change on Centrica includes weather volatility impacting customer demand. The Weather Risk has been included in our Principal Risks detailed on page 38 due to the increased likelihood of severe weather events. Further medium- and long-term risks including transitional and physical risks are detailed in the People and Planet section on page 31.

The risks posed by climate change and the opportunities to the Group to support our customers transitioning to a lower carbon future are monitored at a Committee and Board level.

Oversight of climate-related risks is maintained by the SESC Committee. The Group Environmental team has presented to both the SESC Committee and Centrica Leadership Team on climate-related risks during 2020 and BU risk committees consider climate-related risks in their Quarterly Risk reviews.

Technology

Advances in technology bring both opportunities and threats in the medium term. Failure to adapt and exploit opportunities from advances in technology in the medium term will impact our ability to grow, compete and meet the changing needs of our customers. Digital connectivity, and intelligent systems supported by advanced analytics and artificial intelligence will drive unanticipated changes. We continue to automate and integrate our operations and monitor the changing technology landscape.

Principal Risks

Key changes in our presentation of the Principal Risks from the 2019 Annual Report reflect a review and rationalisation of the most significant risks to the Group, changes to the external environment, a dynamic risk landscape and articulation of risks to give clearer transparency on themes and specific issues.

The following Principal Risks were adopted by the Board in 2020 and reflect the position of Group at the point of signing the accounts. The risks are presented in order of magnitude to the Group based on net residual risk, after mitigations.

Overview

Political and Regulatory Intervention

Risk Category: Strategic

FY 19: Political & Regulatory Intervention

Group Priority



Magnitude

NO CHANGE

Risk of political or regulatory intervention and changes, including those resulting from Brexit, or a failure to influence such changes.

- Risk of further government intervention to support vulnerable customers or increased corporate taxation to fund costs of COVID-19 related measures
- Increased focus on Environmental, Social and Governance interventions and impact on investor relations
- The Group faces potential erosion of profit margins through potential further FCA interventions on pricing impacting our UK Services business

Examples of mitigations




We continue to be committed to an open, transparent and competitive UK energy market which provides choice for consumers.

- Ongoing dialogue with policy makers to help form future regulatory requirements
- Dedicated Corporate Affairs and Regulatory teams which examine upcoming political and regulatory changes and their impact
- Brexit Planning Team re-convened as part of the Global Crisis Management Team to re-assess potential risks from Brexit. Management to continuously monitor the implications of the deal

Developments

- The risk globally that governments will determine vulnerable customers need more protection may be addressed via additional market intervention
- Risk of increase to corporation tax rates to reduce public debt accumulated during the pandemic could impact future cash flows
- Potential impact of planned regulatory changes in certain US states will no longer exist following the Direct Energy sale to NRG
- In Q4 2020, publication of the 10-point plan for a Green Revolution and the Energy White Paper 'Powering our Net Zero Future' present significant medium-term opportunities and challenges for the Group. With the Government's energy agenda covering Consultation in spring 2021 this will provide greater clarity and detail as we develop the Group's response

Commodity Risk		Asset Production		Access to Sufficient Market Liquidity	
Risk Category: Financial		Risk Category: Operational		Risk Category: Financial	
FY 19: Financial Market		FY 19: Asset Development, Availability & Performance		FY 19: Balance Sheet Strength and Credit Position	
Group Priority	Magnitude	Group Priority	Magnitude	Group Priority	Magnitude
↑ ==	NO CHANGE	✓⚠	INCREASE	↑ ==	DECREASE
<p>Risk of financial loss due to our exposure to market, credit and operational risk.</p> <ul style="list-style-type: none"> Material downward movements in commodity prices can impact in year P&L through reduced revenue on sale of asset production and impact the long-term valuation of asset portfolio Commodity exposure arises within the trading businesses, which provide a route to market for Centrica's upstream and power generation operations, sourcing of electricity and gas for the Group's energy supply businesses and proprietary trading activities. We also have commodity exposures driven by our LNG portfolio and, in particular, the Cheniere contract Our ability to accurately forecast changes in our customer demand can result in a commodity exposure as we need to balance our established hedges and market prices 		<p>Risk that failures in the development or integrity of our investments in operated and non-operated assets could compromise performance delivery.</p> <ul style="list-style-type: none"> 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 our objectives Failure to capture adequate return on our 20% nuclear investment due to operational issues suppressing earnings and cash flows or increased decommissioning costs 		<p>Risk that our balance sheet may not be resilient, limiting our ability to access funding with implications for our ability to withstand difficult market or trading conditions or financial stresses to the business.</p> <ul style="list-style-type: none"> Failure to achieve our financial and strategic targets could adversely impact our investment grade credit rating, which would adversely impact access to cost-effective capital and trading arrangements Long-term financial obligations, such as pension schemes, may increase in value due to factors both inside and outside of our control resulting in additional funding required to meet our obligations External events could see a deterioration in asset values, resulting in a weaker balance sheet position 	
<ul style="list-style-type: none"> Financial risks reviewed regularly in dedicated Risk Committee forums within trading entities Downstream pricing, hedging and demand forecasting is actively managed by the monthly Downstream Energy Margin Meeting Increased credit risk exposure review and mitigation actions taken, both within the individual Business Units and at Group level Centrica Business Solutions increased their reviews of demand curves and made more regular adjustments of anticipated demand changes Updated exploration & production (E&P) hedging policy to help mitigate risk of commodity fluctuations 		<ul style="list-style-type: none"> Group annual plan includes contingencies to cover events such as unexpected outages from assets 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 We use our presence on the Board of EDF Energy Nuclear Generation Group Limited to monitor the performance of the Nuclear fleet The exploration and production portfolio is not dependent on a single asset and the impact of an outage is diluted. The Spirit Energy joint venture structure also mitigates the impact of outages 		<ul style="list-style-type: none"> Regular communication with key stakeholders (e.g. pension trustees, banks, credit rating agencies) Significant mitigating actions have been taken to strengthen the balance sheet in response to COVID-19, reducing 2020 cash expenditure and delaying capital projects Active portfolio management to strengthen the balance sheet, for example the decision to sell the Direct Energy business to significantly reduce the level of net debt Closely monitoring leading indicators of potential credit issues, segmenting debt to focus on high risk customers and actively working with customers to manage debt Open dialogue with the UK Government and Ofgem about additional support should the COVID-19 crisis lead to material bad debt has led to agreement to factor bad debt into the calculation of the price cap 	
<ul style="list-style-type: none"> Depressed commodity prices in 2020 have materially impacted the asset businesses through impairment, reduced in-year profits and delayed investment in further exploration COVID-19 led to a substantive and immediate decrease in business volume consumption along with a fall in commodity prices, resulting in excess commodity being sold at a loss. Action was taken by management to review and adjust demand forecasts dynamically to mitigate further hedging losses in an uncertain COVID-19 environment During 2020, in reaction to the fall in commodity prices and the impact of COVID-19, Spirit Energy took measures to maintain a free cash flow neutral position, such as actions to reduce operating costs, capital expenditure and decommissioning spend 		<ul style="list-style-type: none"> During 2020 we have experienced nuclear plant availability issues. We are waiting for the regulatory approval of safety cases for Hunterston and Hinkley nuclear stations to return to service During 2020, despite the pandemic, Spirit Energy maintained all activity and programmes critical to the safe operation of assets. The 2020 production levels continue to be broadly in line with plan In December 2020 an outage occurred at Whitegate power station in Ireland. Repairs are ongoing and the asset may not return to service until Q3 2021 		<ul style="list-style-type: none"> Proceeds from the sale of Direct Energy have significantly strengthened the balance sheet, reduced the Group net debt including the pension deficit and the potential cash and collateral calls needed following a credit downgrade The Group has significant cash and credit facilities which it has yet to draw down There is continued concern from the credit rating agencies as to the potential recovery of the UK energy market The DE Sale has reduced the Group's global diversification. Credit rating agencies will closely monitor Centrica's business performance and UK market share in 2021 	

Overview	Cyber Risk	Weather Risk	Capability of People, Process & Systems
	Risk Category: Operational	Risk Category: Financial	Risk Category: Operational
	FY 19: Cyber Security and Resilience	FY 19: Not Applicable – New risk	FY 19: People, Change Management, Digital Technology and Information Systems
	Group Priority  Magnitude NO CHANGE	Group Priority  Magnitude NO CHANGE	Group Priority  Magnitude INCREASE
	<p>Risk of cyber-attack, security of IT systems and resilience to restore system availability. A cyber-attack presents a risk to Centrica operations in the following ways:</p> <ul style="list-style-type: none"> • Destructive compromise of the Group-wide network resulting in a loss of all services • Confidentiality (leakage of customer data) • Integrity (accuracy of Centrica's data) • Availability (loss and access to data) <p>Due to the diversity of Centrica's services, the Company could suffer all the above which could lead to regulatory compliance impact or fines, including but not limited to, General Data Protection Regulations (GDPR), Network and Information Security Regulation (NIS), Payment Card Industry-Data Security Standard (PCI), Smart Energy Code</p>	<p>The impact on present or future profitability resulting from deviations in normal weather.</p> <ul style="list-style-type: none"> • Downstream businesses, as registered shippers, are exposed to financial risk due to uncertain future wholesale commodity prices, which are significantly impacted by weather • An unseasonably warm autumn/winter in the UK could reduce customer demand significantly 	<p>Risk that we are unable to attract and retain employees, fail to deliver the planned benefits from technological change or poor process controls leading to the business failing to have the appropriate capabilities to meet our strategic objectives.</p> <ul style="list-style-type: none"> • Failure to attract and retain key capabilities across the business could have a detrimental impact on our ability to meet 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
Examples of mitigations	<ul style="list-style-type: none"> • Ongoing collaboration and information sharing with industry peers, Security Service and National Cyber Security Centre continues • Guidance on protecting our data while working from home and articles on how to recognise a COVID-19 scam have been published on the intranet • The Cyber Security Maturity Improvement Programme to focus on activities that make Centrica a much harder target to attack and exploit effectively • Information Security tooling, that identifies, mitigates and removes malicious domains and Internet Protocols 	<ul style="list-style-type: none"> • Downstream pricing, hedging and demand forecasting is actively managed by the monthly Downstream Energy Margin Meeting • Committee oversight of commodity and financial risks (including weather risks) by the Audit and Risk Committee • Options to mitigate weather risk in British Gas, to narrow the range of gross margin outcomes, are reviewed ahead of winter seasons 	<p>People capabilities:</p> <ul style="list-style-type: none"> • A full skills and capability gap analysis delivered in Q4 2020 • Continuous focus on our values and culture aligned to our purpose • Greater focus on diversity and inclusion at all levels of the organisation <p>Systems:</p> <ul style="list-style-type: none"> • Regular evaluation of the adequacy of our infrastructure and IT security controls, testing of our contingency and recovery processes, and employee awareness training • Digital Technology Services (DTS) track progress of the strategic priorities for technology, data and digital activities • Introduction of a new operating model in our DTS function for the delivery of change
Developments	<ul style="list-style-type: none"> • Nation State and criminal actors are using COVID-19 as a lure to introduce malware or to harvest information such as log in details and passwords • Increase in attacks against newly (and often rapidly) deployed remote access or remote working infrastructure • Rise in social engineering techniques taking advantage of human traits such as curiosity and concern around the coronavirus pandemic 	<ul style="list-style-type: none"> • Implementation of revised demand curve to account for warming weather conditions • A hedge of the Q4-20 weather risk was executed to reduce earnings volatility over the first half of winter in British Gas 	<ul style="list-style-type: none"> • Business Units and functions have been closely monitoring the impact of the 2020 reorganisation and modernising of employee terms and conditions on knowledge and skills retention • Throughout the pandemic there has been increased direct employee communications from the Centrica Leadership Team, with continued emphasis on wellbeing, mental health and ways of working. Pulse surveys are regularly completed to gauge employee sentiment and address concerns • As a part of the organisational redesign, Project Delivery Teams in DTS have been rewired into the new Centrica Business Units to work closely with customer teams and drive value and business benefit • The development of the new platform for British Gas Evolve customers is managed through an agile delivery model. A governance model for the migration of customers has been implemented with oversight provided through monthly reviews with the Group CEO and CFO

Highly Competitive Markets**Risk Category:** Strategic**FY 19:** External Market Environment

Group Priority  **Magnitude**
NO CHANGE


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

- Successful delivery of our strategy requires serving customers in a way that satisfies their changing needs in a competitive marketplace. Reflecting increased focus on climate change, renewables and a move to lower carbon products and propositions
- Pace of change is critical given competitive pressures, ability to rightsize the cost base and take advantage of market opportunities
- Driving transformation at pace creates additional risk

- Significant focus on profitable growth and innovation across all Business Units including customer retention in the downstream businesses. Focus on developing our products to respond to changing customer needs and sentiment
- Regular review of organisational model to support delivery of strategic objectives
- Launch of British Gas Evolve is a significant step in addressing the challenge from new low-cost markets entrants
- Regular review of skills and capability to sustain a strong ethically minded and performance-focused culture

- Core markets continue to be highly competitive
- Competitive pressures may lessen if regulators and market participants determine that higher margins are needed to improve sustainability of the sector or competitors fail to maintain low prices during the pandemic
- Our Group reorganisation announced in June 2020 is designed to place the focus on the customer and reduce the cost base of the Group

Legal, Regulatory & Ethical Compliance**Risk Category:** Compliance**FY 19:** Legal, Regulatory, and Ethical Standards Compliance

Group Priority  **Magnitude**
NO CHANGE

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.

- 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 dedicated teams 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
- The Financial Crime Team monitors threats throughout the business and adequacy of response to the threat of bribery and corruption
- A global 'Speak Up' helpline exists to provide a consistent Group-wide approach to reporting unethical behaviour
- Continuous dialogue with Ofgem and the FCA

- During COVID-19 our approach to customer visits is continually reviewed to ensure that employees are operating in line with government guidelines and that the health and safety of employees and customers is maintained
- British Gas agreed with Ofgem to make payments totalling £1.73 million for handling of changes to prepayment meter top-up arrangements
- The Our Code employee annual training for 2020 included expense fraud and information security dilemmas as part of a campaign to raise awareness of increased fraud risks

Health, Safety, Environment: Process Containment**Risk Category:** Operational**FY 19:** Health, Safety and Environment

Group Priority  **Magnitude**
NO CHANGE

Risk of failure to protect the health and safety of employees and third parties or to take appropriate measures to protect our environment and respond to climate change.

- 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

- Continued investment in training to ensure maintenance of safe operating practices
- HSE Management Systems are established to include policies, standards and procedures to protect employees, third parties and our environment
- Continuous engagement with regulatory agencies such as the Environment Agency, Oil and Gas Authority and UK Health and Safety Executive
- Assurance over our HSE processes and controls provided by our in-house HSE teams supported by external subject matter experts, where needed

- As part of continuous improvement activities, Spirit Energy has commissioned an independent review to assess its safety culture and identify any areas of improvement
- Minimum manning levels have been assessed and contingency plans made for key assets (offshore and onshore) in light of COVID-19
- Mitigations have been implemented to address potential operational issues from higher staff absence rates or staff contracting COVID-19
- HSE Function has been working with the business to ensure effective HSE resources and competency in the new organisational structure