Group Highlights

Group Operational Performance

Brand net promoter score (NPS)(1)

Total recordable injury frequency rate (per 200,000 hours of work)(1)

Employee engagement(1)

Total carbon emissions (tCO_2e)(1)

Total customers(1)

Group Financial Summary (Year ended 31 December 2021)

Group revenue from business performance(2):

£18.3bn

2020: £14.9bn ▲23%

Group adjusted operating profit from continuing operations:

£948m

2020: £447m ▲112%

Group statutory profit/(loss) from continuing operations:

£954m

2020: £(362)m

Group adjusted basic EPS from continuing operations:

4.1p

2020: 2.8p ▲46%

Group statutory basic EPS from continuing operations:

10.0p

2020: (4.7)p

Group statutory basic EPS from continuing and discontinued operations:

20.7p

2020: 0.7p

Group free cash flow from continuing operations:

£1,174m

2020: £685m ▲71%

Group statutory net cash flow from continuing operating activities:

£1,611m

2020: £957m ▲68%

Group net cash/(debt):

£680m

2020: £(2,998)m

† Included in DNV Business Assurance Services UK Limited (DNV)'s independent limited assurance engagement. See page 242 or centrica.com/assurance for more.
(1) Excludes Direct Energy which is now classified as a discontinued operation. Data relating to historical engagement scores may therefore differ elsewhere in the report.
(2) Restated due to changes in methodology following a move from equity to operational control.

Chairman's Statement

"We have made significant disposals that have simplified our Company, we have radically reorganised and changed the way we lead Centrica's workforce to make it fit for the future."

Scott Wheway
Chairman

Where we were

In last year's Annual Report, I said that we were clear about what we needed to do to turn around our business, but we had only taken the first steps in a marathon. Through 2021, the Centrica team have made good progress against many of those steps whilst also leading through the continuing COVID-19 crisis and unprecedented volatility in the energy and commodity markets. So, whilst we are still only partly through the marathon, we have made further inroads in key areas that give us a good foundation for 2022, and I'm proud of what the team has achieved.

When we asked Chris O'Shea to become Group Chief Executive in April 2020, nobody was under any illusion about the scale of the challenges we faced. Over a ten-year period, we had lost two million energy and one million services customers in British Gas, over half our earnings, and more than three-quarters of our stock market value. We had to quickly wake up to the reality that radical action was needed to ensure the business could survive and thrive in the future.

Where we are now

This year, Chris and the wider management team rose to the hard challenges we needed to face urgently. We have made significant disposals that have simplified our Company, we have radically reorganised and changed the way we lead Centrica's workforce to make it fit for the future, we have started to build operational capability in our customer-facing businesses to improve their efficiency, and we've navigated the very significant impacts of COVID-19.

Stabilising the balance sheet, reducing volatility, building capability

The completion of the sale of Direct Energy at the beginning of the year, for £2.7 billion, has materially strengthened our balance sheet and removed a source of significant earnings volatility from the Group. Coupled with the sale of our Norwegian oil and gas exploration and production assets, this allows us to focus more on our core businesses, where we have strong customer-facing market positions and capabilities.

Alongside this, the reorganisation of the business that commenced in 2020 included the delayering of the organisation so that colleagues are empowered and better reflect, serve and anticipate the needs of our customers. And implementation of new terms and conditions, which have been in place since April 2021, means that we can now compete more effectively and create more skilled UK jobs.

This year we have kept a relentless focus on improving our core business and our customers' experiences. However, ensuring that we have the capacity and capability to focus on our customer-facing energy and services businesses means letting go of the areas we don't see as part of our long-term future. The process to divest our interest in Spirit Energy had been ongoing since 2019, as we looked to exit Exploration and Production (E&P) in a way that maximises value for shareholders. I believe we have achieved this through the sale of Spirit Energy's Norwegian Assets and the Statfjord field. We will still hold our 69% stake in Spirit Energy's remaining UK and Netherlands assets, focusing on realising value from the remaining gas reserves and de-risking decommissioning liabilities. While we will continue to assess opportunities to exit from these remaining activities over time, Spirit Energy will also pursue potential opportunities to leverage existing infrastructure for net zero projects. We are keenly aware that we are custodians of key pieces of national infrastructure that may have an important role in the transition to net zero.

We are focusing on returning our core UK businesses to growth

I am all too aware that the shareholder experience has been challenging after too many years of disappointment and unacceptable performance, and it's my job to make sure our Company is stewarded in the right direction to create and grow a sustainable business and, as a consequence, unlock shareholder value. Your Board is very mindful of the importance of the dividend to shareholders, and it remains under active consideration. Whilst the share price increased by around 50%, we are very conscious this was from a low base. We've made progress, and many of the building blocks are in place, but we still have some way to accelerate the type of sustainable growth that we strive to deliver. As part of this, the continuous improvement of our customers' experience will be front and centre of our efforts in 2022.

The changing energy landscape

We saw unprecedented increases in wholesale commodity prices over the second half of 2021, resulting in an energy crisis in the UK. The scale of this crisis has been damaging for the whole energy sector, with millions of customers impacted by the failure of their supplier. Many lessons must be learned from this crisis, but the simple facts are that customers were encouraged to switch to suppliers that did not have sufficiently robust business models. In some cases, these suppliers played fast and loose with their customers' money, and the costs of these failures will run into billions of pounds which, under the present regulations, will be added to everyone's bills, even those customers that stayed with trustworthy companies such as British Gas. This must never be allowed to happen again, and, as you might expect, we have been engaging constructively with Ofgem and the Government on the future of retail energy markets in the UK, calling for more and tighter regulation. We are committed to supporting proposals that protect and put the customer at the heart of the solution while ensuring that well run and responsible energy suppliers can make a fair return.

Net zero

At Centrica, we understand that we are an important stakeholder in the drive to net zero. There are some big questions still to be answered around the decarbonisation of our homes and businesses and the associated infrastructure needed to accelerate progress in areas such as electric vehicles. We will continue to ask the hard questions about how we find an affordable and practical path to allow our customers to transition to net zero whilst working with Government and regulators on this issue.

We see our role as the guardians of customers to help them through the net zero transition. This presents a significant opportunity for our services and solutions businesses and Centrica as a whole. With the largest services field force in the UK, our people are in the best position to deliver the low carbon heating solutions that will make net zero a reality. In support of this, I'm pleased that we were able to launch our Climate Transition Plan in 2021, which sets out our roadmap to become a net zero business by 2045 and help our customers do the same by 2050.

As a Board, we have allocated time to upskill ourselves on the carbon transition. Building Board capability in this area is essential as we look at balancing the need to decarbonise with the needs of our customers and the long-term needs of the country.

Moving forward

Our Company is moving in the right direction, but there is still a lot to do as we build our capability. The organisation's culture is changing for the better, with colleagues more engaged, empowered and feeling part of an inclusive environment. I want to thank all Centrica colleagues for their hard work and dedication during what was another challenging year for everyone.

Our purpose, 'Helping you live sustainably, simply and affordably', is now embedded not only in our thoughts and words but also in our actions. We need to remain focused on ensuring that the Centrica of the future will concentrate on energy supply and services that help our domestic and business customers transition to a low carbon world. There are many exciting opportunities ahead of us, and I look forward to updating you on further progress next year.

Scott Wheway
Chairman
23 February 2022

Read more about our performance Pages 16 to 25

Read more about our governance Pages 48 to 49

Group Chief Executive's Statement

"Throughout 2021 we've been working hard to steer your Company in the right direction. Whilst we still have a long way to go, there are positive signs that we are beginning to turn around our business."

Chris O'Shea
Group Chief Executive

It appears that this decade may be one of the most eventful for a long time, one where we learn and adapt more quickly than we've done in the past. COVID-19 has now been with us for almost two years, and we are learning to live with it. The development and roll-out of vaccines are at a pace we have never seen before, and people are adapting to a profound change in how we live our lives with incredible resilience. It hasn't been easy, but it's amazing what we can achieve when we all work together.

Approaching the need to remove carbon from our atmosphere in the energy transition, in the same way, is critical. At Centrica, we choose to see the opportunity in net zero, not the obstacles. The opportunity to contribute to the essential reduction in climate change; to create thousands of well-paid, skilled jobs; to help our customers decide the best path to net zero for them; and to make net zero achievable by making it affordable. It's both daunting and exciting; a huge challenge but also a huge opportunity for Centrica, whether you call it the energy transition, net zero, or decarbonisation.

Throughout 2021 we've been working hard to steer your Company in the right direction. Whilst we still have a long way to go, there are positive signs that we are beginning to turn around our business. We clearly need to improve our customer service levels, particularly in British Gas Services & Solutions where absence levels more than doubled in 2021, meaning we struggled to provide as high a level of service as I would have liked. Central to this journey is our continued and relentless focus on simplifying our business, building the workforce to deliver net zero, and empowering those colleagues to deliver the best for our customers – happy colleagues mean happy customers, which leads to happy shareholders.

Building the workforce for a net zero future

Reaching an agreement with colleagues and implementing new terms and conditions were critical steps to put us on a steady footing to compete. We had seen our customer numbers and share price decline for many years and this prevented us from creating new jobs. I regret the pain felt by colleagues and customers during this process. But it has allowed us to get back to recruiting in a big way. This underpins our commitment to creating at least one new apprenticeship for every day of this eventful decade.

I'm pleased that in 2021 we created around 600 new, highly skilled and well-paid British jobs through our apprenticeship scheme. Whilst we have some way to go to achieve our 2030 ambition that 50% of these recruits are women, we are making inroads with over 25% of our apprentices recruited this year being women. These are the engineers who will install and maintain your smart meter, electric vehicle charge point, hydrogen boiler, electric heat pump, radiators, and hot water tanks. These are the people who will deliver the net zero future of the UK. We are doing all of this today, and we'll be doing more tomorrow.

Listening to colleagues

Our colleagues are vital to turning around our business. This year, we have spent more time than ever before listening to colleagues and acting on what we hear. Colleague engagement has been unacceptably low over recent years, and we have set a target of achieving engagement levels seen in high-performing companies over three years. This requires an average increase of 10 percentage points per year. I think we are beginning to turn a corner, with colleague engagement scores increasing by 13 points over the year to 55%. Engaged colleagues will see the opportunities rather than the problems; empowered colleagues will deliver those opportunities.

Although there is still a long way to go, I am encouraged that we are heading in the right direction. We launched our Shadow Board this year, which comprises colleagues from across the business and in different locations. They are empowered to influence decisions, positively disrupt assumptions, challenge my thinking and that of the Centrica Leadership Team, and advocate for colleague-centred decision-making. I'm already enjoying our meetings and the valuable and diverse perspectives of our Shadow Board.

And we've made great progress on creating a workplace where everyone feels welcome and included. I am incredibly proud of the work achieved in collaboration with our many colleague networks to raise awareness and produce guidelines for topics that have been considered workplace taboos for far too long, including menopause, fertility, domestic abuse and gender transitioning. At Centrica, nothing is off the table – we will discuss anything our colleagues want us to.

Simplifying the portfolio

Whether it's the £2.7 billion disposal of Direct Energy completed in early 2021; the headline price of £0.8 billion for the disposal of Spirit Energy's Norwegian business; or the smaller disposals of Io-Tahoe, an AI-driven data management business, and the former British Gas headquarters in Staines; we are focusing on our core capabilities, so we can improve, strengthening our foundations so we can grow.

Although the disposal of Spirit Energy's Norwegian business took longer than we would have liked, we wanted to make sure we got the right deal, and this meant making sure we sold the business to people who could give us the confidence they would meet the substantial associated decommissioning liabilities for two reasons: firstly, to make sure the assets are decommissioned in a way which is right for our planet; and secondly, to make sure the cost doesn't come back to Centrica. Whilst we have retained Spirit Energy's assets in the UK and the Netherlands, we won't invest in exploring for new hydrocarbons. We'll use the cash flows generated by Spirit to meet the remaining decommissioning obligations. The business is in run-off, and we'll seek to realise value through a combination of running fields to the end of their life, selling fields to responsible buyers, or, where possible, converting fields to aid in the energy transition, for example, capturing and storing carbon.

Simplifying the business

Our new business unit structure and delayered organisation are now established. As part of this, we split British Gas into two separate businesses: British Gas Energy and British Gas Services & Solutions. This allows us to focus on what's important for customers who often have different needs; however, the businesses will also continue to work very closely alongside each other to deliver combined solutions to those customers who want both energy and services. Both businesses have new managing directors appointed this year. Catherine O'Kelly, who has been with Centrica since 2011 and most recently led Bord Gáis Energy in Ireland, looks after British Gas Energy. Jana Siber looks after British Gas Services & Solutions, having joined us early in 2022 from Arriva Group, where she was managing director for Mainland Europe. I am delighted to have Catherine and Jana in these roles; they both bring a wealth of experience with them.

Reflecting on our 2021 financial performance

Kate Ringrose, our Group Chief Financial Officer, covers the financial performance in detail on pages 16 to 21. On the whole, we managed the volatile external environment well during 2021.

We continue to focus on cash flow generation and balance sheet strength, and ended the year with net cash of £680 million compared to net debt of £2,998 million at the end of 2020, as we received proceeds from the Direct Energy sale and maintained a tight focus on costs, capital expenditure and restructuring spend across the Company.

Adjusted basic earnings per share from continuing operations were up 46% to 4.1p as the positive impacts of higher commodity prices on our Upstream activities, cost efficiencies and a partial recovery from COVID-19 impacts in 2020 more than offset the impact of a disappointing British Gas Services & Solutions performance and lower Energy Marketing & Trading profit.

Statutory basic earnings per share from continuing operations were 10p compared to a loss of 4.7p in 2020, which included the impact of material impairment of Upstream assets due to the increase in commodity prices.

Responsible energy

We've seen substantial increases in global wholesale energy prices, which will inevitably lead to higher prices for all energy customers.

We provide energy to retail customers principally in two countries, Ireland and the UK, which are part of a global energy market and dependent on gas imports; both are part of a very interconnected European electricity and gas market. Recent months have seen an unprecedented change in these markets, with a surge in European electricity and global gas prices exposing the fragility of suppliers with unsustainable business models. The current situation demonstrates the importance of having a responsible business model and a disciplined approach to hedging and risk management, with the capabilities in our Energy Marketing & Trading business proving particularly valuable.

The collapse of energy suppliers, principally in the UK, has resulted in millions of customers being moved to new suppliers through Ofgem's Supplier of Last Resort Process. We played our part to support customers, taking on more than 700,000 new customers from failed suppliers since 1 January 2021 to date and ensuring their continued supply of gas and electricity. This is a distressing time for those customers and a worrying time for all customers, and we will do everything we can to help.

Again, we see a huge opportunity to fix issues in the UK's complex energy regulations to ensure this crisis never happens again by simplifying and strengthening regulations to protect customers.

We want the regulator to retain but reform price regulation.

The sector is collectively loss-making, and this means it is not sustainable. The regulator and suppliers need to work together to reform price regulations in a way that is fair to all customers, protects vulnerable customers through the transition to low carbon and attracts the investment needed to meet the net zero challenge.

Right now, consumers are paying the price for multiple supplier failures largely due to irresponsible practices and poor business models. The energy retail market requires stronger prudential regulation to ensure those involved in the industry are fit and proper, companies have adequate capital and properly monitored risk management procedures, and customer deposits are properly protected. Requiring every customer in the UK to pay to replace customer deposits spent by failed companies is not the same as safeguarding customer deposits. We believe energy suppliers in the UK should be able to refund all customer deposits on demand. As a responsible supplier, we separately identify customer deposits, and held nearly £300 million in a separate bank account as at the end of 2021. We have urged our regulator, Ofgem, to make this a requirement for all energy suppliers without delay. Until this happens, we run the wholly unacceptable and very real risk of history repeating itself.

The focus of regulation also needs to change. It needs to be about customer requirements and protection rather than success being measured mainly by customer switching rates. Recent changes and announcements from Ofgem are a step in the right direction but much more is needed.

Ofgem have also launched proposals to implement additional assessments for energy market participants from 1 April 2022 and a consultation on proposed changes to the supplier licence application guidance. We wait to see the exact nature and timing of any changes and we'll continue to engage with Ofgem on the future of retail energy markets in the UK, to ensure that well run, responsible suppliers can make a fair return.

Playing our part to tackle climate change

COP26 was a significant moment for the UK, and it highlighted, once again, the existential threat of climate change. I had the privilege of attending the summit, where I saw the business community's increased presence, which is a positive thing because collaboration with all parts of society is critical for developing new technologies, new thinking, and renewed determination to tackle climate change.

If we all work together, we will deliver net zero. As for the outcome of COP26, I think it's a step in the right direction, and now we have to build on the momentum. We'll do everything we can on this front, working with all of our commercial partners, customers, government and non-governmental organisations.

The solutions to climate change require a range of technologies, including increased electrification and decarbonised gas such as hydrogen. Ideally, we'd all like decarbonisation to happen tomorrow, but in reality, it can't. We need to use gas in the interim and, for many years to come, to help us to get net zero. It may be an unpalatable truth for some, but we must favour pragmatism over ideology to achieve the end goal. It's why I am sceptical of people pushing for a one-size-fits-all approach because it doesn't help. Our customers want hassle-free and affordable solutions. As the UK and Ireland's biggest electricity and gas supplier, we speak from more than 200 years of experience.

We must realise that everyone's circumstances are not the same, so we must ensure that the transition to net zero is fair and affordable for all so nobody gets left behind. This is the ethos that runs through our Climate Transition Plan, which we launched in 2021 to outline in detail how we intend to become a net zero business by 2045 and use our services and solutions capability to help our customers be net zero by 2050. We will never tire of advocating for our customers – we want to do this with our customers, not to them.

Continuing what we started

Many of our colleagues had the honour of participating in the London Marathon this year for our charity partner, Carers UK. There are interesting parallels between running a marathon and turning around our business. First, you have to build a resilient mindset. You need to invest in training and make sure that you have the right resources at the right time to go the distance. You need a solid plan of action and must be prepared to face any challenges along the way.

Over the past year, our people have started to adopt a winning mindset, and I have seen that our passion and determination to succeed is beginning to gain momentum. We have a plan of action underpinned by our purpose, and customers are at the heart of it. Whilst there is still a long way to go to turn around our business, we have started the race, and in 2022, we will pick up the pace when hopefully the worst of COVID-19 will be behind us, resulting in absence returning to more normal levels and service improving. We'll continue to focus on the end goal; by doing that, we'll put ourselves in the best position possible to drive further improvements in our performance and ultimately deliver long-term shareholder value.

I am well aware of how the stresses of the past two years have affected colleagues and customers, and I hope you and your loved ones are safe and well. Rest assured, we'll continue to do all we can to support colleagues and customers through difficult, uncertain times. And we'll see the opportunities where others see the obstacles.

Chris O'Shea
Group Chief Executive
23 February 2022

Read more about Our Strategy Pages 10 to 11

Read more about our People Pages 26 to 31

Read more about our Planet Pages to 32 to 35

Read more about our foundations Page 36

Our Purpose

By living our values, we will be better able to fulfil our purpose and help our customers live sustainably, simply and affordably.

Our Values

care
We care deeply about our impact

- The safety of our team and of others around us is paramount
- We respect others, and the trust they place in us
- We want to make a difference to society and those we touch
- We have a sense of responsibility which goes beyond our job

delivery
We do things right and deliver

- We value delivering great service and customer outcomes
- We are rigorous, do things the right way, and follow best practice
- We recognise the journey is as important as the result
- We seek simplicity, efficiency and continuous improvement

collaboration
Together we win

- We enjoy working with others
- We believe relationships and partnerships are fundamental
- We are best when we work as a team
- We seek out views and mutual understanding, even from our harshest critics

agility
We are nimble, curious and innovative

- We don't stand still and know when to change
- We seek out the new to make a difference
- We are restless, always looking to do better
- We embrace the ideas and perspectives of others

courage
We step up and take responsibility

- We pursue the right outcome, knowing it is rarely easy
- We are prepared to stand for what we believe
- We will challenge where we believe the path is wrong
- We face into the challenge and grasp the opportunity

Macro Trends

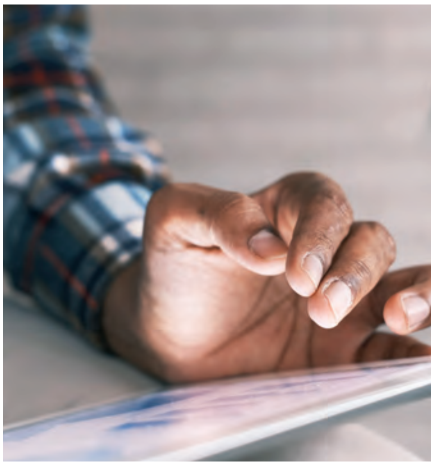
Our business is exposed to a range of macro trends which shape the landscape in which we operate over the medium to long term. These trends span across industries, underpinning our business model, and forming a core part of our strategic outlook.

Climate Change

Climate change is an increasingly important consideration in all our lives, with carbon emissions continuing to be the key driver. The impetus to act has never been greater with increasing social demand and regulatory mandate to decarbonise across all sectors. Climate change is the most important strategic driver guiding Centrica today and is a core part of our purpose.

How we're responding

- We've clearly outlined our plans for how we intend to decarbonise power, heat and transport through our Climate Transition Plan published October 2021.
- We will continue to build out our green supply and solutions offerings for customers.
- We're training the next generation of apprentices to deliver low carbon technologies like heat pumps and electric vehicle chargers while exploring the future of hydrogen.
- We're committed to creating additional green generation with up to £500 million to deploy through Centrica Energy Assets in renewable and flexible assets by 2025.



Digitalisation

Digitalisation will be key to creating the flexible energy system of the future and we have positioned ourselves at the heart of that. Customers demand that their homes and businesses become increasingly connected, controllable and flexible and we have market leading solutions to help them do that.

How we're responding

- We are deploying our leading FlexPond™ aggregation and optimisation technology to help use energy in the most efficient way in homes and businesses to help balance the grid.
- Through Hive we bring our customers closer to their energy allowing them to precisely control and monitor their homes.
- Through digitalising our energy and services businesses with new, flexible platforms we will be able to ensure our customers have access to quality service at a competitive price.

Consumer Focus

Consumers are driving our behaviour more than ever as their priorities shift towards greener offerings and hassle-free digital customer experience while still being cost conscious. As a business we continue to strive towards always delivering for our customers in line with our purpose.

How we're responding

- We have embedded the restructuring of our business allowing us to respond to our customers' needs more easily.
- We are focused on becoming the most competitive supplier delivering cost efficiency through agile new systems.
- We are committed to helping enable the transition to net zero and will continue to provide the best energy and heating solutions to our customers', tailored to their needs.
- Advocating for the policy changes needed to reach net zero on our customers' behalf.

Stakeholder Engagement

Stakeholder expectations are rising. They want a better service and improved solutions, with peace of mind that we're contributing positively to people's lives whilst protecting the planet.

With energy being fundamental to how we all live, work and move, we know that our actions can have a big impact on a broad range of stakeholders. That's why we're fully committed to maintaining constructive relationships with all of our key stakeholder groups who may be impacted by our activities or have responsibility for how the sector operates. And by establishing an open dialogue with these stakeholders and considering their views on an ongoing basis, we can ensure our strategy continuously evolves in line with their expectations. This not only enables us to create better outcomes for society and the environment, but it enables us to grow the success of our business and furthers our ability to deliver on our purpose to help our customers live sustainably, simply and affordably. Whilst our Directors are often responsible for making key decisions as a result of engagement with stakeholders, associated actions are often then delegated to senior leaders who are best placed to ensure the desired outcome is delivered.

Section 172 (1) Companies Act 2006 Statement

The Directors consider that they have performed their fiduciary duty, as stipulated under Section 172 of the Companies Act 2006 (Section 172), in good faith to promote the success of the Company for the benefit of its members as a whole in its decision-making.

These pages set out who our key stakeholders are together with an example of how engagement was vital to navigating one of the most material issues our business and sector faced in 2021.

Read more about how the Board engages with stakeholders and makes decisions on Pages 56 to 57

CENTRICA STORIES

Engagement during an energy crisis

During 2021, the energy market faced unprecedented challenges as global supplies of gas constricted and demand surged. This resulted in higher gas prices and led to over a third of all the UK's energy suppliers going out of business over a short period of time.

Because we manage the risks facing our energy retail business robustly, we were adequately hedged and had sufficient capital to face the challenge. The Directors alongside specialists in Corporate Affairs and Regulatory Affairs worked at pace with the UK Government and Ofgem, to limit the distress to customers by agreeing to take on and pick up the initial cost of onboarding around 700,000 customers from failed energy suppliers. We also engaged parliamentarians across the UK to ensure they were up to date with the situation and provided information leaflets alongside drop-in sessions, to help answer their questions whilst raising awareness of the support available for constituents.

In recognition of household budgets coming increasingly under pressure with the rising cost of energy, we took additional action to support customers. We froze direct debits for customers over the winter, provided extra signposting of support, and launched a £4 million Fuel Fund to specifically target our most vulnerable customers. Moreover, we collaborated with the British Gas Energy Trust, an independent charity funded solely by British Gas, to run a nation-wide marketing campaign that encourages anyone in need of assistance with their energy bills to get in touch. These efforts led to a significant number of people coming forward and receiving the support they needed.

We continue to work with Ofgem and the UK Government to identify ways of improving the robustness of the regulatory framework to ensure the sector is more resilient to similar crises in the future. Towards this, we gave evidence at the House of Lords and discussed the need to introduce more robust controls with Ofgem – from making sure every supplier hedges properly, to ensuring they've the right risk management policy and amount of capital to deliver on their commitments to customers, which includes ensuring customer credit balances are protected. We've also encouraged Ofgem to spread recovery costs over a longer period to reduce the burden on hard-pressed households. Consequently, Ofgem has published an action plan, by which it intends to improve the financial resilience of energy suppliers.

Read more about our Fuel Fund at centrica.com/fuelfund

Our key stakeholders

Customers

To be a truly customer-focused business, it's vital that we listen to our customers and act on their feedback. In doing so, we can understand what they want and what they need across a range of issues such as customer service, energy efficiency and new products, as well as pricing and support with their energy bills. And if we get it right, we'll be able to grow our customer base and fulfil our purpose of helping them live sustainably, simply and affordably. Various engagement methods are used including focus groups and surveys, as well as proposition and usability testing.

Read more about customer engagement on Pages 8, 15, 36 and 56 to 57

Colleagues

Feedback from colleagues is essential for developing a workplace where everyone can be themselves and thrive. This helps us attract, promote and retain diverse talent, which is core to our ability to deliver for customers. Issues raised and discussed include reward, development and inclusion alongside business strategy and transformation. Feedback is sought through channels such as our Shadow Board of diverse colleagues who regularly meet with leaders, townhalls, quarterly engagement surveys, performance reviews and structured engagements with trade unions.

Read more about colleague engagement on Pages 4, 26 to 27, 28 to 31, 36 and 56 to 57

Investors

Shareholders and debt holders provide funds that help us run and grow our business, and they expect a sustainable return. The Directors are conscious of the need to act fairly for different types of investors so we aim to consider and reflect their views when we update on our strategy, financial and operational performance alongside our Environmental, Social and Governance (ESG) considerations. To support this, we regularly engage investors throughout the year via investor roadshows, meetings and the Annual General Meeting (AGM), as well as responding to information requests and assessments from ratings agencies.

Read more about investor engagement on Pages 33, 56 to 57 and 59

Government and Regulators

Government and regulatory policies can have a significant impact on how we do business. The Directors therefore recognise the importance of working together towards ensuring a viable regulatory environment where policy is developed in the interests of consumers, whilst enabling a sustainable and investable market. We share our expertise through extensive participation in consultation processes, meetings and site visits, in order to support effective policy development and reforms on a range of topics – from market design, skills and employability requirements, to the role we can play in supporting decarbonisation.

Read more about government and regulator engagement on Pages 8, 33 and 56 to 57

Suppliers

The Directors fully support collaboration with suppliers. This is because collaboration helps us reduce risk in our supply chain and maintain high standards of business conduct, which in turn brings benefits to communities and the environment. We endeavour to work with like-minded suppliers that are aligned to these ambitions. We interact with suppliers in multiple ways such as tendering, surveys, site inspections and remote worker surveys. Engagement covers topics that include payment practices alongside strengthening social and environmental compliance on issues like human rights.

Read more about supplier engagement on Pages 36 and 56 to 57

Communities and NGOs

Communities expect companies to give back by supporting issues that are important to them. And here at Centrica, we're passionate about sharing our time and money to work alongside charities, non-governmental organisations (NGOs) and community groups, to create stronger and more inclusive communities together. Through meetings and collaborative research projects, the Board is armed with a greater understanding of community issues and has full regard of their views, as well as the likely consequences their decisions will have. Engagement is focused on efforts to tackle urgent social and environmental issues like fuel poverty and climate change.

Read more about community and NGO engagement on Pages 30 to 31 and 56 to 57

Our Strategy

Strategic context

Our strategy is driven by our purpose to help our customers live sustainably, simply and affordably. As the pace of change continues to accelerate, we are responding by focusing colleagues and technology on helping businesses and households to use energy more efficiently and sustainably. We recognise the need to help enable a more flexible energy system and are deploying a range of technologies to help build the grid of the future with both electric and hydrogen technologies. Additionally, in October 2021, we announced the creation of Centrica Energy Assets, to develop low carbon and transition assets to provide clean, flexible power solutions to the grid.

Sustainability

We are committed to making big changes that will create a more inclusive and sustainable future. By cutting both our own and our customers' emissions on a path to net zero, we will help create a new, more sustainable energy, services and solutions landscape.

Simplicity

We are simplifying and modernising our business to allow us to put customers at the heart of everything we do with the aim of making their lives simpler and easier. We recognise that customers need clear simple solutions to help them make the transition to net zero.

Affordability

Being able to reach net zero in an affordable way is core to our customers' futures, so we are striving to provide energy, services and solutions through our trusted brands that deliver value for all.

Market trends

Key market trends and factors affecting our business and potential future development performance and position, bring risks and opportunities for Centrica, steering our strategy.

- Changes in our ways of living and working in response to COVID-19
- Unstable market conditions and rising commodity prices resulting in a changing competitive landscape in the UK retail market
- Increasing price pressures as consumers face challenges of high inflation environment
- Clearer government support and targets for decarbonisation
- Low carbon technology deployment accelerating, system flexibility increasingly important
- High importance of ESG driving corporate decarbonisation targets
- Increased regulator and consumer activism, and high levels of competitive intensity
- Gas continues to become a global market with implications for consumers
- Role of data and automation increasingly important in providing high quality, tailored offerings

Customer needs

- Trusted, credible and sustainable energy suppliers
- Hassle-free, empathetic, personalised and safe service
- Responsible options (including green tariffs) and expert guidance to help customers achieve net zero
- Lower costs, greater efficiency and increased flexibility
- Complete solutions, not just products

Read more about Our Risks and Uncertainties Pages 38 to 43

Our approach

We remain committed to helping our customers on the journey to carbon reduction and ultimately net zero, through providing low carbon energy and services, innovation, increasing energy efficiency and investing directly in renewable energy. Our focus continues to be delivering against our ambitious targets to make Centrica a net zero business by 2045 and help our customers be net zero by 2050 at the latest.

We will:

- Lead by example – have a zero emission fleet of vehicles by 2025.
- Continue to look to reduce our exposure to hydrocarbon production.
- Continue to offer market leading renewable electricity products for our customers.
- Invest directly in developing solar and storage assets
- Support the development of hydrogen as a replacement for natural gas.
- Enable low carbon transportation and heating solutions.
- Continue to find ways to help our customers use less energy and reduce their carbon footprint.
- Create thousands of green skilled jobs to deploy a range of new and emerging technologies including heat pumps and hydrogen ready boilers.

Read more about our Climate Transition Plan ambitions on Pages 32 to 35

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.

- Customer obsession
- Operational excellence
- Most competitive provider
- Cash flow growth
- Empowered colleagues

Our near-term strategic objectives

1. **Simplify the organisation to free up colleagues to focus on customers and to reduce costs.**
2. **Build the workforce and capabilities of the future so we can continue to lead in heating solutions.**
3. **Build out an asset base to support our customers, the grid and the broader energy system through the energy transition across green power and clean gas.**
4. **Maintain a strong balance sheet enabling future net zero investment and returns to shareholders.**

We are focused on turning Centrica around, resulting in a stronger core business with a robust balance sheet enabling us to build on our longer-term growth ambitions in the areas in which we have distinctive capabilities – energy supply, services and solutions, energy trading, optimisation and energy assets. Through careful governance we continue to monitor our progress against key objectives ensuring that we can meet our strategic objectives.

Our People & Planet Plan

We have introduced our People & Planet Plan to create a more inclusive and sustainable future that supports communities, our planet and each other. Our five Group-wide goals accelerate action in areas where we can make a big difference which includes being a net zero business by 2045 and helping our customers be net zero by 2050 at the latest, whilst building the diverse and inclusive team that will help us get there.

Read more about our People & Planet Plan on Pages 28 to 36

People

Supporting every colleague to be themselves to better serve our customers and communities

Planet

Supporting every customer to live more sustainably

Our Business Model

Our business model is designed to allow us to focus on meeting the changing energy supply, services and solutions needs of our customers, helping them transition to a lower carbon future while positioning ourselves to deliver returns for shareholders and meet our broader obligations to society.

Our strategic framework

For consumers

We want to make people's lives simpler, by providing seamless, time-saving services that are affordable and sustainable. Understanding and satisfying consumer needs is critical to our success.

Energy supply

Gas supply Electricity supply

Home services and solutions

- Protection products (central heating, plumbing and drains, home electrical, and kitchen appliance cover).
- On-demand services (service, repair, and home improvements).
- Installation of heating systems and electric vehicle charge points.
- Smart meter installations and delivering energy efficiency through the Energy Company Obligation scheme.
- Smart heating and energy management, remote diagnostics, and monitoring solutions.

For business

As a trusted energy partner for our business customers, we provide the energy and solutions to help them operate more efficiently and sustainably to achieve commercial success.

Energy supply

Gas supply Electricity supply

Energy trading and optimisation

- Aggregation and optimisation of distributed energy resources.
- Access to energy, capacity and flexible markets including demand response.
- Route-to-market and commodity risk management services.

Business services and solutions

- Design, install, maintain and service a wide range of technology solutions.
- Energy resource management and monitoring.
- Operational insights from energy data to help with preventive maintenance.

For assets

With a commitment to helping deliver the energy system of the future we are investing in green and flexible assets while driving exploration of new green solutions.

Asset Investment

- Direct investment in developing low carbon and transition assets.
- Investment in developing new technologies and enabling wider renewable development.

Hydrogen development

- Continued investigation of potential Hydrogen and carbon storage on industrial scale.
- Exploring novel technologies which could enable scale hydrogen adoption.

Group financial framework

In 2019 we set out a financial framework intended to enable us to deliver long-term shareholder value through returns and growth. Since then both our business and the markets we operate in have changed significantly, and as such our intention is to communicate a new financial framework over the course of 2022 that reflects our business as it stands today and enables us to achieve our future aims.

In the immediate term, our core aim is to maintain a strong balance sheet and as such we will target a net debt/EBITDA level that is sustainable and consistent with our investment grade credit ratings. We will also continue to focus on free cash flow generation, underpinned by focused cost management. We will also remain disciplined in the deployment of capital. Maintenance capital expenditure excluding Spirit Energy is expected to remain around its current level of £100 million per annum and we'll also look to invest in growth opportunities in support of the energy transition subject to appropriate returns, for example in gas-peaking plants, solar and battery.

Having taken the decision in 2020 to cancel our 2019 final dividend in response to the COVID-19 pandemic, with the actions we have taken over the past two years and our triennial pension negotiations due to conclude in the first half of 2022, we now have a clear path to restarting the dividend.

In addition, 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 38 to 43

Our Businesses

We have embedded our new structures across the organisation and created a modernised and simplified Centrica, with the heads of each business unit reporting directly to the Group Chief Executive. The disposals of Direct Energy and the announced sale of Spirit Energy's Norwegian E&P assets mean we are more focused on our core UK and Ireland markets and with our ambitions to invest in low carbon and transition assets through Centrica Energy Assets, we are building towards the green Centrica of tomorrow.

The Company operates with five customer-facing businesses, which will continue to focus on the areas in which we have distinctive capabilities – energy supply, services and solutions, energy trading and optimisation.

We also currently have an Upstream division comprised of our oil and gas E&P assets, including the Rough field, and our nuclear power generation business.

Our businesses are listed here

British Gas Energy

Supplies energy to residential and small business customers in England, Scotland and Wales.

Read more about British Gas Energy at centrica.com/british-gas

British Gas Services

Provides services and solutions to residential customers in England, Scotland and Wales.

Read more about British Gas Services at centrica.com/british-gas

Bord Gáis

Provides energy supply, services and solutions to residential and business customers in the Republic of Ireland.

Read more about Bord Gáis at centrica.com/bord-gáis

Centrica Business Solutions

Provides energy supply to larger business customers in England, Scotland and Wales, and low-carbon energy solutions for business customers internationally. Now includes Centrica Energy Assets focused on building out a portfolio of utility scale solar, battery and flexibility assets

Read more about Centrica Business Solutions at centrica.com/cbs

Energy Marketing & Trading

Is the trading and optimisation arm of Centrica, and is also responsible for managing commodity risk and sourcing energy on behalf of the Group's energy supply activities in the UK.

Read more about Energy Marketing & Trading at centrica.com/emt

Upstream

Includes our oil and gas E&P assets, our 20% interest in the UK's nuclear power generation fleet and the Rough field. We have signed an agreement to sell our E&P Norwegian assets and will explore strategies for our remaining portfolio focused on realising value and minimising further investment in exploring for new hydrocarbons.

Read more about Upstream at centrica.com/upstream

Key Performance Indicators

Our Key Performance Indicators (KPIs) help the Board and executive management assess performance against our Group Priorities set out in 2019.

Our Group Priorities

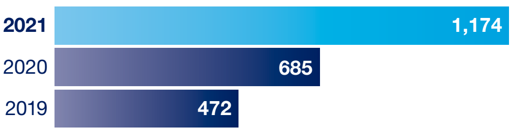
Customer Obsession | Operational Excellence | Most Competitive Provider | Cash flow Growth | Empowered Colleagues | Safety, compliance and conduct foundation

Read more about Our Group Priorities on Page 11 and **Our Strategy** Pages 10 to 11

Read more about Remuneration on Pages 71 to 94

Read more about adjusted performance measures on Pages 238 to 241

Group free cash flow from continuing operations (£m)(1)(2)



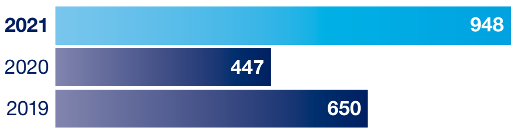
Free cash flow from continuing operations is the Group's primary measure of cash flow. It reflects the cash generation of the business after taking into account the need to continue to invest.

Free cash flow increased by 71% predominantly as a result of the increased operating profit in the Upstream segment.

Link to Remuneration
Short-term incentive

Link to Group Priorities

Group adjusted operating profit from continuing operations (£m)(1)(2)



Group adjusted operating profit from continuing operations is one of our fundamental financial measures.

Group adjusted operating profit was up 112% predominantly reflecting increased profit in Upstream.

Link to Remuneration
Short-term incentive

Link to Group Priorities

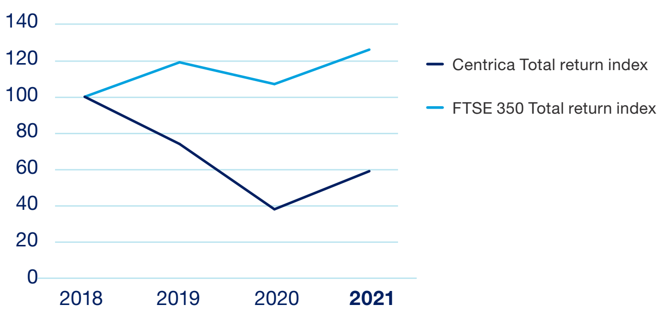
Group adjusted basic earnings per share from continuing operations (EPS)(1)(2)

EPS is a standard measure of corporate profitability. Adjusted EPS is used to measure the Group's underlying performance against its strategic financial framework.

Group adjusted basic EPS was up 46%, reflecting the increased operating profit partly offset by a higher tax rate.

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) Excludes Direct Energy which is now classified as a discontinued operation. See notes 3 and 12 to the Financial Statements for further information.
(2) See notes 2, 4 and 10 to the Financial Statements for definition and reconciliation of these measures.

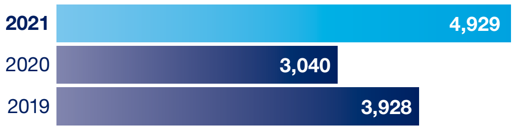
Brand net promoter score (NPS)[1][2]

All of our efforts are focused on helping customers live sustainably, simply and affordably. Following the big impact of COVID-19 on call times in 2020, our aggregated NPS improved by 4.3 points despite the pandemic's continued impact alongside challenges arising from industrial action and reduced engineer capacity.

Link to Remuneration
Long-term incentive

Link to Group Priorities

Complaints[1][3]



We strive to provide an excellent service that satisfies our customers and reduces complaints. However, with reduced appointment availability and higher levels of job rescheduling as a result of challenges faced during the year in British Gas Services and Solutions (see left), customer complaints per 100,000 customers increased by 62%.

Link to Remuneration
Long-term incentive

Link to Group Priorities

Process safety incident frequency rate (Tier 1 and 2)[1]

Process safety enables us to prevent potential incidents where we source, generate and store energy. With three Tier 2 events occurring compared to zero the previous year, our incident frequency rate per 200,000 hours increased.

Link to Remuneration
Long-term incentive

Link to Group Priorities

Total recordable injury frequency rate (TRIFR)[1]

We want to keep our people safe so having a strong safety culture, remains a core foundation. Largely due to the adverse impact of COVID-19 and organisational restructuring on working hours, our TRIFR per 200,000 hours worsened by 3%.

Link to Remuneration
Long-term incentive

Link to Group Priorities

Colleague engagement[1][4]

Our success is reliant on having a motivated and engaged team. Following the completion of business restructuring alongside action to create a more inclusive and supportive workplace, our engagement score improved by 14% to 55% favourable.

Link to Remuneration
Long-term incentive

Link to Group Priorities

The KPI performance outcome associated with executive remuneration is set out on page 76.

(1) Excludes Direct Energy which is now classified as a discontinued operation. Data relating to historical engagement scores may therefore differ elsewhere in the report.
(2) Aggregated scores across across British Gas, Hive and Bord Gáis Energy weighted by customer numbers. This differs to some of the NPS KPIs in the Business Review due to measurement evolving since the remuneration policy was set.
(3) Aggregated scores across British Gas Energy, British Gas Services and Solutions, Bord Gáis Energy and Centrica Business Solutions weighted by customer accounts.
(4) Measured through colleague responses to a survey asking them to rate their level of advocacy, pride, loyalty and satisfaction. The survey moved from annual to quarterly in 2021.

Read more about our Group Priorities on Page 11

Read more about our non-financial performance on Pages 28 to 37 and 242 to 244

Group Chief Financial Officer's Report

"Our 2021 financial performance was resilient against a backdrop of high and volatile commodity prices. Adjusted earnings and free cash flow were both up, helped by our continued focus on cost and capital discipline, while the actions we have taken over the past two years mean the balance sheet is in a much stronger position. Against a continuing challenging external backdrop, our focus remains on managing the company through the current energy crisis while maintaining balance sheet strength and driving cash flow growth across the Group to add value for shareholders."

Kate Ringrose
Group Chief Financial Officer

Revenue

Group statutory revenue from continuing operations increased by 20% to £14.7bn (2020: £12.2bn). Group revenue from continuing operations included in business performance increased by 23% to £18.3bn (2020: £14.9bn).

Gross segment revenue from continuing operations, which includes revenue generated from the sale of products and services between segments, increased by 30% to £20.5bn (2020: £15.7bn). This was driven largely by the impact of higher wholesale commodity prices on Energy Marketing & Trading and Upstream, and the impact of higher wholesale prices on retail tariffs in British Gas Energy, Bord Gáis Energy and Centrica Business Solutions.

A table reconciling different revenue measures is shown in the table below:

		2021			2020 (restated		
Year ended 31 December	Notes	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m
Continuing operations							
British Gas Services & Solutions		**1,513**	**(53)**	**1,460**	1,547	(64)	1,483
British Gas Energy		**7,513**	**–**	**7,513**	7,007	–	7,007
Centrica Business Solutions		**1,981**	**(28)**	**1,953**	1,526	(8)	1,518
Bord Gáis Energy		**1,111**	**–**	**1,111**	820	–	820
Energy Marketing & Trading		**6,082**	**(214)**	**5,868**	2,917	(175)	2,742
Upstream		**2,282**	**(1,887)**	**395**	1,918	(539)	1,379
Group revenue included in business performance		**20,482**	**(2,182)**	**18,300**	15,735	(786)	14,949
Discontinuing operations							
Direct Energy		**–**	**–**	**–**	9,483	–	9,483
Business performance revenue arising from continuing and discontinued operations		**20,482**	**(2,182)**	**18,300**	25,218	(786)	24,432
Less: revenue arising on contracts in scope of IFRS 9 included in business performance				**(3,556)**			(2,700)
Less: Discontinued operations				**–**			(9,483)
Group statutory revenue				**14,744**			12,249

Segmental revenues have been restated to reflect the new operating structure of the Group. As a result of the change in segments, gross segment revenue has been restated to reflect the updated inter-segment trading.

Operating profit/(loss)

Adjusted operating profit from continuing operations increased by 112% to £948m (2020: £447m). The statutory operating profit from continuing operations was £954m (2020: loss of £362m). The difference between the two measures of profit relates to exceptional items and certain remeasurements. A table reconciling the different profit measures is shown below:

		2021			2020		
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
Continuing operations							
British Gas Services & Solutions		**121**			191		
British Gas Energy		**118**			82		
Centrica Business Solutions		**(52)**			(132)		
Bord Gáis Energy		**28**			42		
Energy Marketing & Trading		**70**			174		
Core EM&T		***155***			*232*		
Legacy gas contract		***(85)***			*(58)*		
Upstream		**663**			90		
Spirit Energy		***624***			*84*		
CSL		***77***			*23*		
Nuclear		***(38)***			*(17)*		
Group operating profit/(loss)	5(c)	**948**	**6**	**954**	447	(809)	(362)
Net finance cost	7	**(187)**	**–**	**(187)**	(215)	–	(215)
Taxation	8	**(454)**	**236**	**(218)**	(42)	187	145
Profit/(loss) from continuing operations		**307**	**242**	**549**	190	(622)	(432)
Profit attributable to non-controlling interests		**(70)**	**107**	**37**	(25)	183	158
Adjusted earnings from continuing operations		**237**	**349**	**586**	165	(439)	(274)
Discontinued operations		**–**	**624**	**624**	213	102	315
Adjusted earnings attributable to shareholders		**237**	**973**	**1,210**	378	(337)	41

Group operating profit from business performance (adjusted operating profit)

The combined net negative impact of COVID-19 across the Group and the industrial action in British Gas Services & Solutions was estimated at approximately £60m in 2021. This compares to an estimated net negative impact of £110m in 2020 which included a number of mitigating actions not repeated in 2021, including use of the UK Government's Coronavirus Job Retention Scheme and the decision not to pay senior management bonuses relating to 2019 performance, resulting in the release of an accrual in 2020.

Colder than normal weather in H1 had a positive effect on British Gas Energy and the other supply businesses, partially offset by the impact of buying incremental gas and power volumes at higher prices, and higher balancing costs. The significant increase in wholesale commodity prices in H2 meant that warmer than normal weather in H2 also had a positive effect, with the Group able to sell back gas and power it had already bought as part of its hedging approach at higher than the price at which it was purchased. The combined positive impact year-on-year was estimated at £95m.

Excluding the impacts of weather, the high commodity price environment had a negative impact in British Gas Energy, as existing customers were incentivised to switch to, or remain on, the capped default tariff. Two-year small business contracts were less profitable in 2021, as commodity prices in the year were above the two-year averages used to price the contracts. This will even out across the contracts' remaining duration. The business also bore a share of the mutualised costs of failed suppliers' Renewables Obligation Certificates (ROCs). The total negative impact of these factors was estimated at approximately £75m.

The benefit of cost efficiencies was seen across the Group. However, these were more than offset by higher ECO costs in British Gas Energy, an outage at the Whitegate gas-fired power station in Ireland, margin pressures in British Gas Services & Solutions arising from customer losses and a changed product mix towards lower-priced products and no repeat of an exceptionally strong LNG performance in Energy Marketing & Trading from 2020.

Upstream adjusted operating profit increased by £573m, with the impact of higher gas, oil and power prices more than offsetting the impact of lower gas and oil production and nuclear generation.

More detail on specific business unit adjusted operating profit performance is provided in the Business Review on pages 23 to 25.

Group finance charge and taxation

Finance costs

Net finance costs for continuing operations decreased to £187m (2020: £215m), with a reduced interest costs on bonds, bank loans and overdrafts reflecting our decision to redeem the €750m hybrid bond at its first call date of April 2021.

Taxation

Business performance taxation on profit from continuing operations increased to £454m (2020: £42m). After taking account of tax on joint ventures and associates, the adjusted tax charge was £433m (2020: £67m).

The resultant adjusted effective tax rate for the Group was 59% (2020: 26%), with a significant change in the profit mix towards more highly taxed E&P activities partly offset by the impact of a £22m one-off increase in net deferred tax assets in respect of decommissioning liabilities.

The adjusted effective tax rate calculation is shown below:

Year ended 31 December	2021 £m	2020 £m
Adjusted operating profit from continuing operations before impacts of taxation	948	447
Add: JV/associate taxation included in adjusted operating profit	(21)	25
Net finance cost from continuing operations	(187)	(215)
Adjusted profit before taxation	740	257
Taxation on profit from continuing operations	(454)	(42)
Share of JV/associate taxation	21	(25)
Adjusted tax charge	433	67
Adjusted effective tax rate	59%	26%

Exceptional items and certain re-measurements

The significant increase in forecast commodity prices has led to large but broadly offsetting certain re-measurements and exceptional items from continuing operations.

Total certain re-measurements and exceptional items from continuing operations generated a pre-tax profit of £6m (2020: loss of £809m), made up of a pre-tax loss on certain re-measurements of £1,241m (2020: gain of £784m) and an exceptional pre-tax credit of £1,247m (2020: charge of £1,593m). Total certain re-measurements and exceptional items and from continuing operations generated a tax credit of £236m (2020: £187m), with a credit of £486m (2020: charge of £86m) related to certain-remeasurements and a charge of £250m (2020: credit of £273m) related to exceptional items.

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.

As a result of the significant commodity price movements, the Group has also had to recognise an onerous provision in 2021 for its UK downstream energy supply contract portfolio. Although gains on the commodity derivative hedge trades are already separately recognised in the income statement, the Group must assess whether downstream customer contracts have become onerous taking into account the reversal of these mark to market gains. Movement in the amount provided has also been recognised in certain re-measurements, as the supply contracts are economically related to both the hedges and forecast future profitability of supply and therefore do not reflect underlying performance.

The operating profit in the statutory results includes a net pre-tax loss for continuing operations of £1,241m (2020: gain of £784m) relating to re-measurements, comprising:

- A net gain of £1,289m on the re-measurement of derivative energy contracts. With the Group generally a net purchaser of commodity, the gain was predominantly due to the positive revaluation of UK downstream energy supply contract hedge purchases due for delivery in future periods as commodity prices rose over 2021, less the unwind of their in-the-money positions from December 2020 (totalling £3,917m). This was offset by the negative revaluation predominantly from the Upstream and Energy, Marketing and Trading sell trades due for delivery in future periods, plus the unwind of their out-the-money positions from December 2020 (totalling £2,628m).
- An onerous energy supply contract provision charge of £2,530m. Although the Group has purchased the commodity required for future supply in advance, without these hedges the future costs of fulfilling downstream customer contracts would exceed the fixed/capped charges recovered from customers, due to commodity price increases in 2021. The gain from releasing this provision will offset losses from the unwinding of in-the-money hedge positions, without affecting the ultimate profitability of the underlying transactions.

These re-measurements generated a taxation credit of £486m (2020: charge of £86m). As a result, the total loss from net re-measurements after taxation for continuing operations was £755m (2020: profit of £698m).

The Group recognises the realised gains and losses on commodity derivative and onerous supply 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(a).

Exceptional items

An exceptional pre-tax credit of £1,247m was included within the statutory Group operating profit from continuing operations in 2021 (2020: charge of £1,593m) including:

- A credit of £747m relating to the write-back of the Group's nuclear investment, predominantly due to an increase in near-term liquid commodity prices, partially offset by reduced output assumptions following generation issues at a number of plants during the year. Due to current forecast baseload prices being higher in the near-term, coupled with the requirement for the nuclear fleet depreciation to be calculated on a production/time basis rather than economic value, there is a higher likelihood of an impairment being required in 2022.
- A credit totalling £838m relating to the write-back of E&P assets, of which £774m related to Spirit Energy and £55m related to CSL. This was predominantly due to the increase in near-term liquid commodity prices. It also includes a net credit of £40m due to a reduction in decommissioning provisions related to assets previously impaired through exceptional impairments, and a £31m charge related to the farm down of the Pegasus field and an update to the loss on disposal from the prior year Danish gas and oil asset disposal.
- A charge of £244m related to the Spirit Energy Norwegian E&P and Statfjord disposal and the consequent strategic decision to focus the remaining Spirit Energy business on retained producing fields rather than exploration and evaluation. This included a goodwill impairment of £198m and a write-off of the remaining exploration and evaluation assets of £33m, with the remaining £13m related to an onerous provision for exploration spend and costs incurred for professional assistance relating to the divestment.
- A charge of £123m connected to an impairment of Goodwill and specific assets in Centrica Business Solutions, as the business narrowed its geographical footprint and product offerings following a change in strategic direction.
- A credit of £15m from a fair value uplift on a historic minority investment made by Centrica Innovations in Driivz, which is subject to a signed disposal agreement at the year-end.
- A credit of £14m relating to the reversal of a portion of 2020 restructuring charges relating to pension strain estimates, partially offset by run off costs from the Group's restructuring programme. As stated in the 2020 Preliminary Results, there will be no further material exceptional charge relating to the Group's restructuring programme which was planned to result in £2bn of annualised efficiencies between 2015-22 and has resulted in £1.2bn of exceptional restructuring costs since 2015.

These generated a taxation charge of £250m (2020: credit of £273m), including a £101m credit associated with deferred tax provisions related to E&P tax losses and decommissioning carry-back, due to the increase in forecast prices. As a result, the total post-tax exceptional profit recognised in continuing operations after taxation was £997m (2020: charge of £1,320m).

Further details on exceptional items, including on impairment accounting policy, process and sensitivities can be found in notes 7(b) and 7(c).

Discontinued operations

The sale of Direct Energy was announced on 24 July 2020 and completed on 5 January 2021. As such its activities are treated as a discontinued operation in the financial results.

There was no adjusted operating profit or adjusted earnings from discontinued operations in 2021. Statutory earnings of £624m from discontinued operations are entirely related to the profit on disposal and release of a tax provision related to the disposal of Direct Energy.

Group earnings

Adjusted earnings

Profit for the year from business performance from continuing operations after taxation was £307m (2020: £190m). After adjusting for non-controlling interests relating to Spirit Energy, adjusted earnings were £237m (2020: £165m).

Adjusted basic EPS from continuing operations was 4.1p (2020: 2.8p).

Statutory earnings

After including exceptional items, certain re-measurements and earnings from discontinued operations, the statutory profit attributable to shareholders for the period was £1,210m (2020: £41m).

The Group reported a statutory basic EPS of 20.7p (2020: 0.7p). The statutory basic EPS from continuing operations was 10.0p (2020: loss of 4.7p).

Dividend

The Group is proposing no 2021 final dividend having also paid no 2021 interim dividend.

Group cash flow, net debt and balance sheet

Group cash flow

Free cash flow is the Group's primary measure of cash flow as management believe it provides relevant information to show the cash generation of the business after taking account of the need to maintain its capital asset base. Free cash flow is reconciled to statutory net cash flow from operating and investing activities in the table below. See the explanatory note in note 4(f) for further details.

Year ended 31 December	2021 £m	2020 £m
Statutory cash flow from operating activities	**1,611**	957
Statutory cash flow from investing activities	**(325)**	(263)
Statutory cash flow from continuing operating and investing activities	**1,286**	694
Add back/(deduct):		
Sale and settlement of securities	**3**	(121)
Interest received	**(2)**	(7)
Movements in collateral and margin cash included in net debt	**(481)**	(56)
Defined benefit pension deficit payment	**368**	175
Free cash flow from continuing operations	**1,174**	685
Discontinued operations free cash flow	**2,588**	376
Free cash flow	**3,762**	1,061

Net cash flow from continuing operating activities of £1,611m was up 68% (2020: £957m), reflecting higher EBITDA and margin cash inflows, partly offset by higher pension and tax payments.

Net cash outflow from continuing investing activities increased to £325m (2020: £263m), largely due to a cash inflow from the maturity in 2020 of a gilt investment not recurring.

Group total free cash flow from continuing operations was £1,174m (2020: £685m). When including £2,588m of free cash flow from discontinuing operations which relates to the proceeds from the sale of Direct Energy on 5 January 2021, Group free cash flow was £3,762m (2020: £1,061m).

Net cash outflow from continuing financing activities increased to £938m in 2021 (2020: £466m) reflecting the repayment of the hybrid bond in April 2021.

Net debt/cash

The above resulted in a £2,936m increase in cash and cash equivalents over the year, and when including the impact of reduced gross debt resulting from the hybrid bond repayment, non-cash movements and exchange adjustments, the Group's net cash position at the end of December 2021 was £680m, compared to net debt of £2,998m on 31 December 2020 (restated to remove the adjustment for collateral posted/received, in order to better align to external net debt definitions).

Further details on the Group's sources of finance and net debt are included in note 24.

Pension deficit

The Group had an IAS 19 net pension deficit of £nil at the year-end, compared to a net deficit of £601m on 31 December 2020, due to deficit contributions made during the year and the effect of rising interest rates leading to an increase in the discount rate and decreasing obligations.

Further details on the post-retirement benefits are included in note 22.

Balance sheet

Net assets increased to £2,750m (2020: £1,382m). This reflects the impact of the statutory profit in the year, in particular the write-back of impairments related to Upstream assets, and the decrease in net retirement benefit obligations.

The higher commodity price environment also resulted in a significant increase in trade and other receivables, with a higher level of accrued income in the energy supply businesses and cash collateral posted relating to upstream activities, and derivative financial instrument assets which are used to manage the risk largely arising from fluctuations in the value of assets associated with energy sales and procurement and trading. However, it also resulted in a broadly similar increase in trade and other payables, with a higher level of accrued cost related to future commodity payments and cash collateral received due to downstream activities, and derivative financial instrument liabilities which are used to manage the risk largely arising from fluctuations in the value of liabilities associated with energy sales and procurement and trading.

2021 Acquisitions, disposals and disposal groups classified as held for sale

On 24 July 2020, the Group announced it had agreed to dispose of its North American supply, services and trading business, Direct Energy, to NRG for headline consideration of $3.6 billion (approximately £2.7bn) on a debt free, cash free basis. The transaction received all necessary approvals prior to 31 December 2020 and completed on 5 January 2021. This resulted in a profit on disposal of £0.6bn in 2021.

On 8 December 2021, the Group announced that the Spirit Energy Group, of which the Group owns 69%, had agreed to dispose of its Norwegian oil and gas exploration and production business (excluding interests in the Statfjord field) to Sval Energi, and to dispose of its UK and Norwegian interests in the Statfjord field to Equinor, with a commercial effective date of 1 January 2021. Headline consideration for the transactions was $1,076m (approximately £800m) on a debt-free cash-free basis (which will be reduced for the net post-tax cash flows generated by the sale business and interests after the commercial effective date, less any remaining tax payable on these cash flows), plus a deferred commodity price-linked contingent payment. Spirit Energy will distribute the net cash flow and net consideration to Centrica and its joint venture partners in proportion to their ownership. The transaction was approved by Centrica shareholders at a General Meeting on 13 January 2022.

Further details on assets purchased, acquisitions and disposals are included in notes 4(e) and 12.

Events after balance sheet date

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 broadly unchanged from those set out in its 2020 Annual Report, with Climate Change now added as a Principal Risk to ensure it receives appropriate focus. Per the 2021 Annual Report, our top three Principal Risks are Commodity Risk, Weather Risk and Asset Production.

The Group has also actively responded to those risks heightened by the record levels of global wholesale energy prices. Centrica's approach to risk management has enabled the implementation of agile hedging policies and effective demand forecasting processes. The extent to which the Group may continue to be impacted by the consequences of the current high level of commodity prices, including the onboarding of around 700,000 customers through the SoLR process since the start of 2021 to date, will in part depend on government and regulatory policy, including the setting of future levels of default tariff caps, which could also be a factor in the level of customer bad debt we see.

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(a).

Accounting policies

The Group's accounting policies and specific accounting measures, including changes of accounting presentation and selected key sources of estimation uncertainty, are explained in notes 1, 2 and 3.

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 and Risk Committee.

Our approach

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

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.

Our cross-border pricing reflects the underlying commercial reality of our business.

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.

We do not enter into artificial arrangements in order to avoid taxation nor to defeat the stated purpose of tax legislation.

We seek to 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.

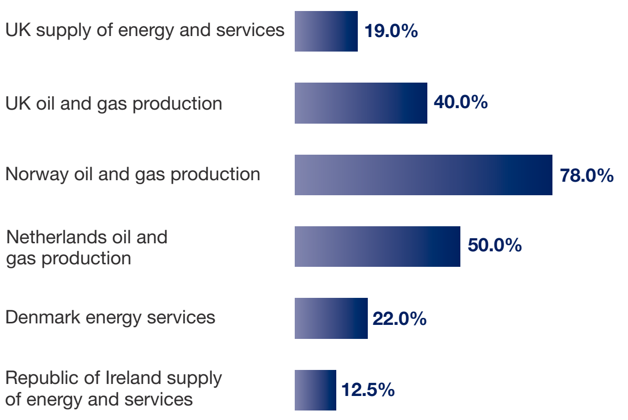
The Group's tax charge, taxes paid and the UK tax charge

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 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)	Cash tax paid/ (received)
UK (including Petroleum Revenue Tax)	30	55
Norway	358	35
Denmark	18	12
Ireland	24	35
Singapore	0	3
Discontinued activities	(10)	9
	420	**149**

Further information on the charges is reported on pages 140 to 142.

Further information on the tax charge is set out in note 9 on Pages 140 to 142

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

Business Review

British Gas Services & Solutions negatively impacted by external factors and industrial action

British Gas Services & Solutions	2021	2020	Change
Services customers ('000) (closing)[1]	**3,428**	3,563	(4%)
Install and on-demand jobs ('000)	**282**	283	(0%)
Services complaints per customer (%)[2]	**12.1%**	5.7%	6.4ppt
Services Engineer NPS[3]	**60**	66	(6pt)
Revenue per services customer (£)	**361**	359	1%
Cost per services customer (£)	**338**	299	13%
Adjusted operating profit (£m)	**121**	191	(37%)

All 2021 metrics and 2020 comparators are for the 12 months ended 31 December unless otherwise stated.

(1) Services customers are defined as single households having a contract with British Gas.
(2) Total complaints, measured as any oral or written expression of dissatisfaction as a percentage of average customers over the year.
(3) Measured independently, through individual questionnaires, the customer's willingness to recommend British Gas following an engineer visit.

Customer retention increased by 1ppt to 82% in 2021, although British Gas Services customers fell by 135,000, or 4%, reflecting reduced sales opportunity. The number of services products per customer improved slightly to 2.23 from 2.22 at the start of the year.

- Customer numbers fell by 144,000 in the first half, as proactive selling and marketing were reduced in Q1 due to the impacts of industrial action and COVID-19.
- Customer numbers increased by 9,000 in the second half, despite the impact of significantly reduced activity on energy supply switching sites, reflecting our decision in Q4 to offer free services to 86,000 targeted energy customers to aid retention.

The total number of installs and on-demand jobs for the year was broadly flat compared to 2020. Boiler installations were up 15%, with the impact of fewer COVID-19 related restrictions more than offsetting supply chain issues affecting boiler availability towards the end of the year. The number of on-demand jobs fell, as we prioritised serving contract customers during periods of constrained capacity.

Service levels were impacted by COVID-19 related absence rates, industrial action and reduced engineer capacity over the year, with reduced appointment availability and higher levels of job rescheduling than in 2020. As a result, customer complaints more than doubled and engineer NPS reduced by 6 points to +60. Customer service improvement is a key focus for 2022.

Revenue per services customer increased by 1% to £361. However, cost per services customer increased by 13% to £338 despite benefits from cost efficiencies, due to additional costs related to COVID-19 and industrial action, increased contractor rates, higher cost of materials and an increased proportion of higher-value boiler installation workload.

British Gas Services & Solutions adjusted operating profit fell by 37% to £121m.

- This reflects a £50m negative impact from the combination of COVID-19 and industrial action in H1 2021, which resulted in additional costs due to the increased use of third-party labour and refunds to some customers for annual service visits not completed. This was broadly similar to the COVID-19 impact in 2020, which also included around £25m of mitigating actions including use of the Government's Coronavirus Job Retention Scheme.
- It also includes the impact of continued higher COVID-19 related absence rates in H2 2021 resulting in a higher number of jobs completed by contractors than in 2020, inflationary pressures on contractor rates and materials and supply chain issues impacting boiler installations. These factors combined negatively impacted us by approximately £25m compared to 2020.
- We were also impacted by lower customer numbers and a change in product mix towards lower-priced products. These negative impacts were partly offset by cost efficiency benefits and lower depreciation following the decision to write down some Home Solutions IT assets at the end of 2020.

Robust British Gas Energy performance against a backdrop of high and volatile prices

British Gas Energy	2021	2020	Change
Residential energy customers ('000) (closing)[1]	**7,260**	6,916	5%
Small business customer sites ('000) (closing)[2]	**455**	450	1%
Energy complaints per customer (%)[3]	**8.5%**	6.1%	2.4ppt
Energy Touchpoint NPS[4]	**14**	9	5pt
Cost per energy customer (£)[5]	**93**	102	(9%)
Adjusted operating profit (£m)	**118**	82	44%

All 2021 metrics and 2020 comparators are for the 12 months ended 31 December unless otherwise stated.

1. Residential energy customers are defined as unique households buying energy from British Gas.
2. 2020 restated to reflect the number of small business customers moved across to British Gas Energy.
3. Total complaints, measured as an expression of dissatisfaction in line with submissions made to Ofgem, as a percentage of average customers over the year.
4. Measured independently, through individual questionnaires, the customer's willingness to recommend British Gas following contact.
5. 2020 restated to reflect the transfer of smart metering to British Gas Services & Solutions

British Gas Energy residential customer numbers increased by 344,000, or 5%, over 2021.

- The first half saw a fall of 114,000 customers, with a significant increase in default tariff price caps resulting in increased levels of market switching across March and April. In addition, the price comparison website market remained fiercely competitive, with some competitors continuing to price at negative gross margins, and as a result we reduced our activity through this channel. This reduction in customer numbers was partially offset by the impact of taking over supply for 53,000 customers from Simplicity Energy through Ofgem's Supplier of Last Resort (SoLR) process and the acquisition of 36,000 customers from Nabuh Energy.
- In the second half, we added 504,000 customers through the SoLR process as a number of competitors ceased trading. Including the impact of a small underlying decline in Q3, total customer numbers overall increased by 458,000.

As of H1 2021, British Gas Energy also serves all of our small business customers, with their profile closely matching those of households. These customers were previously in Centrica Business Solutions. The number of small business customers increased by 1% in 2021.

Energy Touchpoint NPS increased by 5 points to 14 over the year as our new operating model led to improved colleague empowerment and an improved focus on resolving customer issues first time.

Call volumes and complaints increased, following a fall in 2020 during the first phase of the COVID-19 pandemic when we had encouraged customers to interact with us online so we could prioritise calls from more vulnerable customers. The onboarding of SoLR customers also increased operational pressures, while customer concerns over high energy prices impacted call volumes. This impact is likely to continue into 2022.

Cost per customer reduced by £9 to £93, despite a £4 per customer impact from the dual running of IT systems. This reduction predominantly reflects lower overhead costs resulting from the significant Group restructure and a lower bad debt charge.

British Gas Energy adjusted operating profit increased by 44% to £118m.

- This includes the impact of weather, with colder than normal temperatures in H1 2021 resulting in higher energy consumption compared to a warm H1 2020, and warmer than normal temperatures in Q4 allowing a small portion of surplus gas and power to be sold back into a high-priced commodity market.
- These positive impacts were broadly offset by additional costs associated with the commodity environment and the number of supplier failures, including additional balancing costs and the mutualisation of Renewable Obligation Certificate (ROC) costs across the industry. The rise in wholesale prices has also meant that default tariffs have become cheaper than fixed-price tariffs, resulting in an increasing number of customers moving onto default tariffs and requiring us to purchase more commodity from the market. In addition, current prices are higher than forward prices, resulting in a shift in profit towards the back end of fixed-term tariffs.
- We also saw the benefit of cost efficiencies, plus reduced COVID-19 impacts which include a return to historic levels of bad debt provisioning and additional bad debt allowances in the price cap, worth approximately £30m in the year.
- These benefits were largely offset by higher Energy Company Obligation (ECO) costs, the impacts of running two IT systems, and lower underlying consumption.

COVID-19 recovery in Centrica Business Solutions and growth in services order intake

Centrica Business Solutions	2021	2020	Change
Energy supply total gas and electricity volume (TWh)[1]	**22.3**	19.5	14%
Energy supply complaints per customer (%)[2]	**2.1%**	2.1%	0.0ppt
Energy supply Touchpoint NPS[3]	**21**	nm	nm
New Energy Services order intake (£m)	**490**	350	40%
New Energy Services order book (£m)	**820**	697	18%
Adjusted operating (loss) (£m)	**(52)**	(132)	(61%)

All 2021 metrics and 2020 comparators are for the 12 months ended 31 December unless otherwise stated.

(1) 2020 restated to reflect the transfer of small business customers to from Centrica Business Solutions to British Gas Energy

(2) Total complaints, measured as any oral or written expression of dissatisfaction, as a percentage of average customers over the year.

(3) Measured independently, through individual questionnaires and the customer's willingness to recommend. This was measured by CBS for the first time in 2021 to align to British Gas Energy methodology, therefore no comparative data is available for 2020

In Centrica Business Solutions energy supply, which consists of medium-sized entities and Commercial and Industrial (C&I) customers:

- The total amount of energy supplied in the period was 14% higher than in 2020, reflecting a combination of recovery in energy demand due to the reduced impact of COVID-19 restrictions, and underlying volume growth.
- Customer complaints were stable while Touchpoint NPS was positive at +21.

In Centrica Business Solutions New Energy Services:

- Order intake of £490m was 40% higher than in 2020, with reduced Brexit uncertainty and fewer COVID-19 restrictions. The order book of £820m was £123m higher than at the end of 2020.

Centrica Business Solutions reported a reduced adjusted operating loss of £52m (2020: loss of £132m).

- Business energy supply reported an adjusted operating profit of £1m (2020: loss of £47m), with no repeat of having to sell back excess commodity volumes at a loss due to COVID-19 related demand reductions, a lower bad debt charge and efficiency benefits. These benefits were partially offset by impacts of the increase in wholesale commodity prices and higher ROC mutualisation costs driven by supplier failures.
- New Energy Services reported a reduced adjusted operating loss of £53m (2020: loss of £85m), reflecting growth in revenue and gross margin, in particular from increased asset optimisation activity. 2020 also included a £16m provision related to US solar liabilities previously in Direct Energy with no additional provision made in 2021.

Solid performance from Bord Gáis Energy; financial result impacted by Whitegate outage

Bord Gáis Energy	2021	2020	Change
Customers ('000) (closing)[1]	**509**	513	(1%)
Complaints per customer (%)[2]	**1.6%**	1.8%	(0.2ppt)
Journey NPS[3]	**30**	38	(8pt)
Adjusted operating profit (£m)	**28**	42	(33%)

All 2021 metrics and 2020 comparators are for the 12 months ended 31 December unless otherwise stated.

(1) 2020 closing customer numbers have been restated, to reflect the methodology used in other customer-facing business units.

(2) Total complaints, measured as any oral or written expression of dissatisfaction. as a percentage of average customers over the year.

(3) Weighted NPS for the main customer interaction channels.

The number of Bord Gáis Energy customers fell by 4,000 in 2021 in a competitive pricing environment. However, products per customer increased and the number of accounts was broadly stable.

Customer complaints fell slightly, although Journey NPS fell by 8 points over the year, reflecting continued operational challenges caused by COVID-19 and broader customer concerns as retail tariffs increased in a price-sensitive market.

The Whitegate CCGT was out of service for most of the year having gone offline in late 2020, with Bord Gáis capital expenditure £37m higher than 2020 as a result. The plant came back online in December 2021.

Bord Gáis Energy adjusted operating profit reduced by 33% to £28m. This reflects the impact of the Whitegate power station outage, which was partly offset by a strong trading performance, the impacts of weather and an improved result in the B2B segment due to reduced COVID-19 restrictions.

Higher legacy gas contract losses and lower LNG contribution in Energy Marketing & Trading

Energy Marketing & Trading (EM&T)	2021	2020	Change
Renewable capacity under management (GW)	**11.7**	10.7	9%
Total EM&T adjusted operating profit (£m)	**70**	174	(60%)

All 2021 metrics and 2020 comparators are for the 12 months ended 31 December unless otherwise stated.

Our core EM&T trading and optimisation activities performed well in the second half of the year, particularly in the fourth quarter during periods of high commodity volatility. This followed a first half where volatile and unpredictable commodity markets had created a challenging environment.

EM&T renewable route-to-market capacity under management increased by 1.0GW to 11.7GW, with the Moray East offshore windfarm in Scotland coming online. Adding to our route-to-market capacity continues to be a focus area for growth as more renewable capacity comes online across Europe.

Losses from the remaining legacy gas contract relating to the Sole Pit gas field, which runs until 2025, increased by £27m to £85m, within the previously guided range for losses from the contract of £50m-£100m.

We also saw a reduced profit from LNG activities, following particularly strong optimisation performance in 2020.

EM&T adjusted operating profit fell to £70m (2020: £174m), reflecting the lower profit from LNG activities and the increased loss on the legacy gas contract. These factors were partially offset by the impact of the strong trading and optimisation result in the second half.

Impact of lower volumes more than offset by higher achieved prices in Upstream

Upstream	2021	2020	Change
E&P total production volumes (mmboe)	**39.7**	48.7	(18%)
Nuclear power generated (GWh)	**8,342**	9,134	(9%)
Adjusted operating profit (£m)	**663**	90	637%

All 2021 metrics and 2020 comparators are for the 12 months ended 31 December.

Total E&P production was down 18% to 39.7mmboe.

- Spirit Energy volumes fell 18% to 36.8mmboe, reflecting natural decline in the portfolio and production issues at a number of fields in H1 2021. This is in line with the guidance given in the Interim Results that production would be 15-20% lower than in 2020. 51% of 2021 production was from the Norway and Statfjord UK assets, currently held for sale; these assets generated 89% of Spirit Energy's 2021 adjusted operating profit.
- Production volumes from CSL's Rough field fell by 26% to 2.9mmboe, reflecting the natural decline in the late-life field and a 19 day unplanned outage at the Easington Terminal in Q4.

Centrica's share of nuclear generation volumes of 8.3TWh was 9% lower than in 2020, reflecting a number of outages across the fleet.

Having been offline since 2018, it was announced in June 2021 that the de-fuelling process would commence immediately at Dungeness B, while Hunterston B entered de-fuelling in January 2022 and Hinkley Point B will follow no later than July 2022. This is expected to result in reduced operating costs for the Nuclear business in 2022.

Upstream adjusted operating profit increased to £663m (2020: £90m).

- Spirit Energy adjusted operating profit increased from £84m to £624m, with the effect of higher wholesale commodity prices flowing through to achieved oil and gas prices. This more than offset the impacts of lower production volumes, an increase in cash lifting costs and higher depreciation rates following impairment write-backs at half year.
- CSL adjusted operating profit was £77m (2020: £23m) with the higher wholesale prices more than offsetting the impact of lower production volumes.
- Nuclear reported an adjusted operating loss of £38m (2020: £17m), reflecting the lower generation volumes, and a reduction in the achieved price versus 2020 as unplanned outages resulted in us having to buy power from the market to fulfil hedge obligations.

E&P free cash flow increased 362% to £786m (2020: £170m), with higher achieved prices resulting in increased EBITDA and lower capital expenditure reflecting continued capital discipline.

Chief People Officer's Report

"Centrica has created progressive and positive ways of working that enable our people to flourish."

Jill Shedden MBE
Chief People Officer

Overview and external winds

In 2021, Centrica reoriented itself towards its people through the strategic lens of colleagues-customers-cash, recognising that our people are central to Centrica's business strategy. Last year we revitalised our collective agreements with our unions, simplifying our contractual landscape. Our unions support over a third of our people, and we are delighted to be forging stronger and more collaborative ways of working to deliver better people and customer outcomes together.

We were very aware of the potentially disruptive people impacts of COVID-19, including impacts on physical health, mental wellbeing, and general working conditions. Since the outbreak we have been regularly speaking with our people, the government, and our regulators. This collaboration has enabled us to change both how and where we work for the better, virtualising the onboarding of almost 3,000 colleagues in 2021 and accelerating our industry-leading 'Flexible First' programme. Centrica has created progressive and positive ways of working that enable our people to flourish.

For our people

Every person that works for Centrica, regardless of seniority, will now receive Centrica shares through participation in our Global Profit Share Award. The value of the award will be based on 2% of our adjusted operating profit, shared amongst all our colleagues and delivered in shares. This new initiative is one of the many ways we are aligning colleague and business incentives.

The everyday experience of working for Centrica is a priority, which is why we have hard-wired colleague experience into Centrica's core performance metrics. Our investment in people insight, like increasing people surveys to quarterly, is enabling us to make better people decisions more quickly.

Sharing the diversity of thinking and leveraging the unique experiences of our people helps our leaders improve. To promote this, last year every senior leader had the opportunity to work with someone from a different part of the business in our reverse mentoring scheme. We combined this with a shadow-board and open-forum 'straight-talking' sessions to create more platforms for our people to make Centrica an exceptional place to work. This is showing in the numbers, as in 2021 our colleague engagment increased by 13 percentage points. Progress against our 'trust in leadership' and 'colleagues believing change will happen' scores are particulary pleasing. We're excited about the further progress we can make here.

Over the past 18 months we have simplified and modernised the terms and conditions across our UK workforce. The changes we needed to make as a business were clear. It was difficult for some of our colleagues and, regrettably, resulted in some colleagues leaving. Overall, whilst difficult, simplifying these terms was the right thing to do for the business. This will enable Centrica to do even more for its people, customers, and shareholders in the longer term.

Our people vision is to prioritise flexibility around what is best for the individual; and this could be at home, in an office, or even outside of core hours. Designed with feedback from more than 5,000 colleagues during a consultation on how we all wanted work together going forward, Flexible First is having a positive impact on our colleagues as well as our business – from boosting colleague wellbeing and engagement, to opening the door for career opportunities that otherwise wouldn't have been possible.

It was refreshing to see that 92% of colleagues say that our Flexible First programme has had a 'positive impact on their work-life balance'. Our industry-leading flexibility programme means Centrica can access talent pools beyond the traditional, delivering access to a greater breadth of talent.

We have taken a good look at how work is done in Centrica through cultural diagnostics. We're using this insight to build the best culture and environment for our people and strategy across each of our businesses. To create this right environment, we are focused on team effectiveness, how we think about performance and career, and strengthening how our teams come together. Everyone in Centrica should understand how important their role is in delivering our strategy.

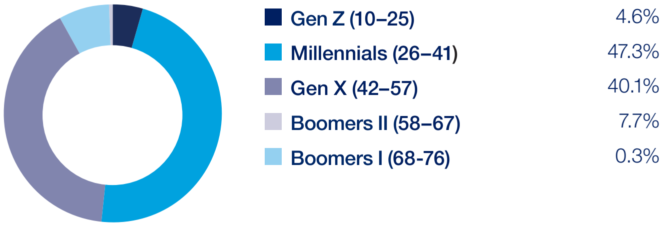
Building our future

Centrica's strategy is enabled by its largest asset – its people. The principles of our people strategy are insight, vision, engagement, creation and optimisation. Centrica is ambitious in its thinking and is creating teams that reflect the diversity of our communities across all levels of our organisation.

Colleague Full Time Equivalent (FTE)

Colleague FTE has reduced year on year, predominantly as a result of the Direct Energy disposal.

Age breakdown by group as at 31 December 2021



Understanding our demographics enables us to tailor the right training, value proposition, and approach based on the individual.

We recruited around 600 new apprentices in 2021, creating new, highly skilled and well-paid British jobs.

By 2030, we expect to recruit 3,500 apprentices, 50% of which will be female and 14% of which will be ethnically diverse. We know that women have traditionally been under-represented in the engineering workforce – and we're working hard to change that. We want to be a leader here.

As we cultivate diversity, developing our talent is a priority. Last year we launched our Group capability framework which defines 15 core capabilities relevant across all roles and is closely aligned with our values, strategy, and purpose. We are equipping people with the training and skills required to fight climate change. In 2021 we launched a fully electric salary sacrifice car lease scheme available to all UK Centrica employees. What's more, colleagues can now even invest in climate aware pension funds, making it easier for our people to make an impact.

As at 31 December 2021, Centrica saw over 500 internal promotions and 100% of our graduate populations receiving promotions into substantive roles after completing the graduate programme. We continued to hire graduates at the same rate, despite a sector recruitment decline of 15%.

Our new Healthcare Plan for all colleagues provides the same level of access to healthcare for every member of the organisation. This supports dependants and pre-existing conditions, giving peace of mind to colleagues and their families. We continue to leverage technology, networks of mental health leaders, and mental health training programmes to support our people. We have also introduced support, education, and guidelines to support colleagues through life-events such as the menopause, fertility treatment and handling caring responsibilities.

92% of colleagues

say that our Flexible First programme has had a 'positive impact on their work-life balance'.

3,500 apprentices

by 2030, 50% of which will be female and 14% of which will be ethnically diverse.

500 internal promotions

in 2021, and 100% of our graduate populations receiving promotions into substantive roles after completing the graduate programme.

People and Planet

2021 has been a challenging year for many and as we look to rebuild from COVID-19 and emerge from years of business transformation, we have a huge opportunity to reshape our future to one that's fairer and protects the environment.

That's why at the start of 2021, we introduced our People & Planet Plan to create a more inclusive and sustainable future that supports communities, our planet and each other. The Plan builds on progress made as part of our outgoing Responsible Business Ambitions and accelerates action through five Group-wide goals that are focused in areas that matter deeply to our business and society, and where we're well-placed to make a world of difference (see framework below).

For example, we:

- Strengthened our people goals to strive for a more engaging and inclusive place to work where every colleague feels supported to be themselves and succeed, whilst backing communities with skills and volunteering opportunities.
- Introduced bolder goals for our planet to fight climate change so that we can support every customer to live more sustainably by providing services and solutions that help them be net zero by 2050 at the latest, as we work to become a net zero business ourselves by 2045 which is five years ahead of the UK target[(1)].

We then built on our People & Planet Plan later in the year, with the launch of our Climate Transition Plan. The Climate Transition Plan sets out how we intend to achieve our net zero goals and how we'll aim to ensure a fair and affordable transition for everyone.

Through these plans and more, sustainability has gradually shifted to the very heart of our business. This not only helps us deliver our purpose of helping our customers live sustainably, simply and affordably, but it'll also enable us to contribute positively to the United Nations Sustainable Development Goals (SDGs) on key issues like promoting gender equality alongside decent work and economic growth, as well as enabling affordable and clean energy.

Achieving our People & Planet Plan goals will undoubtedly be challenging. Over the next decade, we'll therefore continue to harness the collective expertise of our colleagues and collaborate with key stakeholders such as government, partners and local communities, to further evolve our plans and drive forward the necessary action to deliver the change we all want and need together.

"There's nothing more important than looking after people and planet because without this as a priority, we'll fail our customers and our communities. That's why we've set ambitious goals to drive greater action via our People & Planet Plan, and why we're upping our game to overcome big challenges to achieve them. The path forward won't be easy but we're committed to doing all we can today, to create a more inclusive and sustainable tomorrow."

Chris O'Shea, Group Chief Executive

Read more about our People & Planet Plan, Climate Transition Plan, SDGs and SASB disclosure at centrica.com/peopleandplanet

Read more about our non-financial KPIs on Pages 15, 26 to 27 and 242 to 244

(1) Net zero is the point at which there is a balance between human-related carbon dioxide (CO_2) being emitted into the atmosphere and those taken out.

Our People & Planet Plan

Supporting communities, our planet and each other

People

Supporting every colleague to be themselves to better serve our customers and communities

We want to:

- **Create a more engaged and inclusive team that reflects the full diversity of the communities we serve by 2030***
- **Recruit 3,500 apprentices and provide career development opportunities for under-represented groups by 2030** (1,000 apprentices by the end of 2022)

Planet

Supporting every customer to live more sustainably

We want to:

- **Help our customers be net zero by 2050** (28% carbon intensity reduction by the end of 2030)
- **Be a net zero business by 2045** (40% carbon reduction by the end of 2034)

Inspire colleagues to give 100,000 days to build inclusive communities by 2030 (20,000 days by the end of 2022)

Doing business responsibly
Underpinned by strong foundations to ensure we act fairly and ethically – from customer service to human rights

* All company and senior leaders to reflect 2011 Census data for working populations with 47% women, 14% ethnically diverse, 15% disability, 3% LGBTQ+ and 3% ex-service by 2030 (30% women, 13% ethnically diverse, 4% disability, 3% LGBTQ+ and 3% ex-service by the end of 2022).

People

Supporting every colleague to be themselves to better serve our customers and communities

Goal 1

Key: Progress against goals ▲ On track ▼ Behind

By 2030, we want to:

Create an engaged team that reflects the full diversity of the communities we serve – this means all company and senior leaders to be 47% women, 14% ethnically diverse, 15% disability, 3% LGBTQ+ and 3% ex-service[(1)]

2021 Progress

	All company	Senior leaders[(2)]
Women	**28%** ▼	**28%** ▼
Ethnically diverse	**12%** ▼	**9%** ▼
Disability	**1%** ▼	**1%** ▼
LGBTQ+	**2%** ▲	**1%** ▼
Ex-service	**2%** ▲	**2%** ▲

(1) Based on 2011 Census data for working populations. Towards this, we're aiming for 30% women, 13% ethnically diverse, 4% disability, 3% LGBTQ+ and 3% ex-service to be achieved by the end of 2022.
(2) Senior leaders include colleagues above general management and spans senior leaders, the Centrica Leadership Team and the Board.

To build a more sustainable future, we need the best team – a diverse mix of people and skills, where different thoughts and ideas can grow, and where everyone feels motivated and able to be their best selves. That's why in 2021, we co-created an action plan with colleagues to help deliver our goals and published our commitments in an open letter. As part of this, we:

- Introduced ambitious goals to ensure we reflect the full diversity of our customers so that we can serve them better (see goal 1). Whilst positive progress has been made in specific areas like achieving gender parity at a Board level and encouraging a significant increase in women entering engineering (see goal 2), it'll take time to overturn the lack of diversity in our business and sector. Consequently, our representation remained broadly flat against our goals in 2021.
- Focused on providing equal access to opportunities which included strengthening recruitment processes with diverse shortlists and interview panels, as well as inspiring more leaders into reverse mentoring to grow the skills of diverse talent.
- Ensured our culture promotes and values difference by creating a 'Shadow Board' of diverse colleagues to meet with leaders and drive colleague-centric decisions, whilst launching ground-breaking guidelines to improve support for those experiencing the menopause, domestic abuse or transitioning at work.

80%

Proportion of colleagues who feel that people of all backgrounds are accepted for who they are at Centrica, which is better than the 78% external benchmark

These goals are ambitious and boosting the representation of women will be particularly challenging given our large field engineering team is traditionally made up of men, but aiming high is the right approach to ensure we deliver the change that's needed. To ensure we get back on track with our goals and respond to the changing world around us, we've again sharpened our focus with the help of colleagues and data insight. Going forwards, we'll do all we can to create a more inclusive environment and attract, promote and retain diverse talent.

We've received external recognition for our efforts to create a truly inclusive culture during 2021-22. This includes a top 20 ranking in the European Women on Boards' Gender Diversity Index, for our promotion of gender equality at the executive and Board level.

Goal 2

By 2030, we want to:	2021 Progress
Recruit 3,500 apprentices and provide career development opportunities for under-represented groups (1,000 apprentices by the end of 2022)[(3)]	**600 apprentices** ▲

(3) Baseline 2021.

To get to net zero we need to create thousands of high-quality green jobs. We believe there's a huge opportunity to tap into the talent of under-represented groups to not only deliver a greener future, but a more inclusive one. Towards this in 2021, we started to recruit 1,000 apprentices over two years against our 2030 goal of 3,500 apprentices – that's equivalent to hiring one apprentice every day over the next decade – with the ambition that 50% will be women. And following a targeted recruitment campaign, we're on track having onboarded 600 apprentices with 30% being women.

With women making up around 4% of our engineers, getting more women into engineering and keeping them is a big challenge. It'll require us to tackle long standing stereotypes around the types of jobs people typically do and it'll need us to think and do things differently – from rolling-out uniforms that are more comfortable for women, to how we run training so that it's more conducive to balancing family life. Once qualified, our apprentices will become Smart Energy Experts that provide smart meters and energy efficiency advice, with opportunities to upskill in other areas like installing heat pumps (see 'Centrica Stories' overleaf).

Alongside this, we're supporting over 650 schools in under-represented areas via Tech We Can, to inspire more young people into a career in energy.

CENTRICA STORIES

Isaura's apprenticeship journey

"Lockdown put the health and fitness industry in limbo and teaching Pilates online just wasn't the same. I've always enjoyed pushing myself to learn new things and be the best I can be, so I started to think more and more about a shift in career. Then I stumbled across an ad to become a British Gas engineer and it looked like the challenge I'd been waiting to take on.

No two days are the same which I love and my fear of failing was never able to manifest; it was British Gas who simply eased me in and supported me one step at a time.

It feels great being able to help customers have a smarter and more efficient home, and I'm proud that my apprenticeship is giving me new skills as well as a solid trade. When I've finished my apprenticeship, I'm excited about the potential to get further qualifications in areas like electric vehicle charging and heat pump installation."

Our wider diversity breakdown

	Gender(1)				Ethnically diverse(1)(2)	
	2021		2020		2021	2020
	Female Headcount %	Male Headcount %	Female Headcount %	Male Headcount %	Ethnically diverse Headcount %	Ethnically diverse Headcount %
Board of Directors	**4 (50%)**	**4 (50%)**	4 (44%)	5 (56%)	**1 (13%)**	1 (11%)
Senior executives and direct reports	**29 (32%)**	**61 (68%)**	44 (37%)	75 (63%)	**6 (7%)**	16 (13%)
Senior leaders	**99 (28%)**	**254 (72%)**	164 (28%)	415 (72%)	**31 (9%)**	75 (13%)
All employees	**5,421 (28%)**	**13,832 (72%)**	6,530 (28%)	16,670 (72%)	**2,251 (12%)**	2,987 (13%)

(1) Headcount as at 31 December and based on overall headcount rather than headcount based on their full-time equivalent, to more accurately reflect the full diversity of our workforce. Read more about Board diversity on page 54.
(2) Based on 65% of colleagues in 2020 and 2021, who voluntarily disclosed that they were from a Black, Asian, Mixed/Multiple or other ethnic group across the UK and North America.

Goal 3

Key: Progress against goals ▲ On track ▼ Behind

By 2030, we want to:	2021 Progress
Inspire colleagues to give 100,000 days to build inclusive communities (20,000 days by the end of 2022)(3)	**10,889 days ▼**

(3) Baseline 2019.

We're harnessing the passion of our people to build inclusive communities through volunteering because strong communities are central to a more sustainable future. It's also a great way to help colleagues develop their skills and improve engagement. Following an all-time high of volunteering days in 2020 when we launched our new partnership with the Trussell Trust to meet the urgent demand for food at the outbreak of COVID-19, our volunteering days reduced by 96% in 2021 which brings our cumulative volunteering days to 10,889 since 2019. This was primarily due to the changing nature of COVID-19 restrictions limiting the availability of wider volunteering opportunities as well as our focus on customer service – particularly during the urgent and unprecedented need to support customers during the energy crisis which resulted in us rapidly taking on around 700,000 customers from failed energy suppliers (see page 8).

Colleagues have told us they want to do more to support their local communities in 2022. We've exciting plans to help them use their two-day volunteering allowance, including new opportunities to make a difference at their local Trussell Trust food bank amongst other initiatives. We hope this re-energised approach will help us get back on track with our goal and see us progress towards our ambition of having 1 in 3 colleagues volunteering by 2030.

Overall in 2021, we gave £306 million(4) in mandatory, voluntary and charitable contributions to support customers and communities.

(4) Comprises £305 million in mandatory and £1 million in voluntary contributions and charitable donations.

How we're helping to build more inclusive and sustainable communities

For the last three years, we've worked together to improve the lives of unpaid carers across the UK. And whilst our partnership concluded at the end of 2021, we'll continue to further the cause and advocate for every carer to receive the help they need. Our partnership highlights include:

- £1.5 million donated.
- Over £255,000 fundraised by colleagues.
- Statutory carers leave due to be introduced by the UK Government following our successful joint campaign.

Realising our scale and passion could help the Trussell Trust meet the unprecedented demand for food banks at the start of the pandemic in 2020, we've continued to combine forces to fight food and fuel poverty. So far:

- 2,000 colleagues have been inspired to help their local food bank.
- Over 400 food banks have received our support.
- £125,000 has been donated to help people in hardship, and further the ultimate aim of eliminating the need for food banks.

Funded solely by British Gas, the independent charity plays a key role supporting customers and non-customers alike with their energy bills and household debt. The Trust is one of the largest sources of financial help for vulnerable households outside of Government funding and over the last 17 years, we've enabled:

- Over £130 million in mandatory and voluntary contributions to the Trust.
- More than 500,000 people to benefit from debt advice and grants, with over 88,200 interventions during 2021-22.
- Funding of nearly 50 grassroot charities, empowering over 120 expert advisers to support communities of heightened need.

For over a decade, our impact fund has provided grants and expert advice for community initiatives that deliver affordable and sustainable energy solutions for the UK. With money generated from solar panels we installed at nearly 270 schools, the fund now focuses on regional campaigns targeted to help communities transition to net zero. The fund has:

- £600,000 to spend annually with grants up to £100,000 available.
- Supported more than 20 community initiatives so far, including five new ones in 2021 following our first regional campaign which took place in Scotland during COP26.

Partnered with Focus Ireland for the last six years to help prevent family homelessness and alleviate the distress of homelessness. We've now extended the partnership for another five years to build off progress already made, such as:

- €2.4 million donated.
- Over €200,000 via colleague fundraising.
- More than 7,000 vulnerable families supported, including directly preventing 460 families from becoming homeless.

"The ongoing impact of the COVID-19 pandemic and continued lack of access to support means many carers are at breaking point. But together, we have helped make life better for carers by bringing about a step change in the way that society recognises, values and supports the millions of unpaid carers in the UK."

Helen Walker, Chief Executive of Carers UK

A winning partnership

Our partnership with Carers UK won the 'Best Partnership with a National Charity' at the Better Society Awards

Planet

Supporting every customer to live more sustainably

Goal 4

Key: Progress against goals ▲ On track ▼ Behind

By 2050, we want to:	2021 Progress
Help our customers be net zero (28% reduction by the end of 2030)[(1)]	**18% reduction† ▲**

(1) Net zero goal measures the carbon intensity of our customers' energy use including electricity and gas with a 2019 baseline of $183gCO_2e/kWh$, normalised to reflect acquisitions and divestments in line with changes in Group structure and therefore excludes Direct Energy. Target aligned to the Paris Accord and based on science, corresponding to a well below 2°C pathway initially and 1.5°C by mid-century.

† Included in DNV Business Assurance Services UK Limited (DNV)'s independent limited assurance engagement using the International Standard on Assurance Engagements (ISAE) 3000 (Revised): 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information'. See page 242 or centrica.com/assurance for more.

Around 90% of our total carbon emissions (scope 1, 2 and 3), come from the sale of gas and electricity to customers (scope 3). So the biggest thing we can do to fight climate change, is to help them use energy more sustainably. Towards this in 2021, we provided services and solutions that enabled the carbon intensity of our customers' energy use to remain strong at an 18% reduction against our 2019 baseline, which is similar to last year. This is equivalent to our customers saving the annual emissions of 1.6 million homes in 2021, and was largely due to renewable and low carbon energy tariffs alongside energy efficiency and optimisation solutions.

In 2021, we helped our customers advance towards net zero by supporting them with measures to decarbonise power, heat and transport having:

- Maintained a leadership position in driving electric vehicle (EV) take-up with over 20,000 charge points installed since 2013, whilst integrating EV charging into our Hive smart home platform.
- Launched a new air source heat pump business to accelerate delivery beyond the 1,900 already installed across social housing.
- Expanded customers on our Green Future tariff which is one of the greenest on the market and we were one of only two companies awarded the Uswitch Gold Standard for renewable tariffs.
- Provided a route-to-market for renewables with 11.7GW under management, which can power around 10 million homes.

Goal 5

By 2045, we want to:	2021 Progress
Be a net zero business (40% reduction by the end of 2034)[(2)]	**82% reduction ▲**

(2) Net zero goal measures scope 1 (direct) and 2 (indirect) greenhouse gas emissions based on operator boundary which excludes Spirit Energy and Nuclear emissions, and is normalised to reflect acquisitions and divestments in line with changes in Group structure and therefore excludes Direct Energy, against a 2019 baseline of $1,146,601mtCO_2e$. Target aligned to the Paris Accord and based on science.

As part of our strategic transformation, we produce over 90% less carbon than we did a decade ago having moved away from the majority of our carbon intensive energy assets and businesses, to focus on providing energy services and solutions for our customers. As part of this, we continued to make progress against our net zero target in 2021, with our total carbon emissions decreasing by 78% from 2020 and 82% from the 2019 baseline. Whilst the main driver of emissions reduction related to a temporary outage at Whitegate power station in Ireland, sustainable savings were also achieved through low carbon fleet initiatives like rolling out EVs and green tariffs, delivering property efficiencies across lighting, heating and cooling systems, alongside savings arising from the restructuring of our business. In 2022, we expect our emissions to rebound as Whitegate resumes normal operations to play its important role in ensuring the security of supply in Ireland.

3,000

Our order for commercial EVs during 2020-21, the largest made in the UK

CENTRICA STORIES

Launching our Climate Transition Plan

In 2021, we set out how we plan to deliver our net zero targets whilst ensuring a fair and affordable transition for all.

- For customers, we'll accelerate the delivery of energy efficiency and optimisation services, low carbon technologies and cleaner energy. This includes 2025 aspirations to double the number of Hive customers to 2.5 million, achieve annual installs of up to 100,000 EV charge points and 20,000 heat pumps, whilst remaining a leader in the supply of zero carbon electricity for homes and investing up to £100 million in low carbon and transition assets each year.
- Within our business, our ambition is to build a zero emission fleet in the UK by 2025 and cut our UK property emissions by a further 50% by 2030. At the same time, we plan to progress our strategic transformation to exit our remaining activities in oil and gas exploration and production and redirect investment into assets that drive the transition forward – from securing up to 800MW of low carbon and transition assets including solar and battery storage by 2025, to exploring the conversion of our Rough gas storage facility to store hydrogen.

These aspirations provide great opportunities for us and our customers, but they will be challenging and require customers, government and others to play their part as we play ours.

And for it to be a success, we'll also need to ensure we don't leave anyone behind. So we'll endeavour to champion the needs of our customers and support those who struggle with their energy bills, create thousands of high quality inclusive green jobs, back sustainable initiatives in communities and collaborate for a low carbon supply chain.

The Climate Transition Plan will go for shareholder advisory vote at the AGM in 2022.

Read more at
centrica.com/climatetransition

Task Force on Climate-related Financial Disclosures

Climate change is one of the greatest challenges facing society. And as an energy company, we'll play an increasingly pivotal role in helping our customers and our business transition to net zero. It's therefore important that we share our action and plans on climate-related matters in a transparent and robust way.

Listing Rule Compliance

We've complied with the requirements of LR 9.8.6R, by including climate-related financial disclosures that are consistent with the TCFD recommendations and recommended disclosures across the four pillars.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Signatories of the Task Force on Climate-related Financial Disclosures since 2020

CDP DISCLOSURE INSIGHT ACTION

'A-' leadership rating for action and disclosure on climate change by CDP

Governance

Our Group Chief Executive has overall accountability for climate change and ensures the issue is consistently discussed at the highest levels of the Company. As part of this, the Board has direct oversight over climate change and reviews related issues through a regular flow of information from its Committees. The Board is principally supported by the Safety, Environment and Sustainability Committee (SESC), which is chaired by an independent non-executive director, and typically reviews climate change information three times a year. This allows the SESC to maintain oversight over climate-related content raised and discussed as frequently as required at Centrica Leadership Team (CLT) meetings, which are held monthly. The Board is further aided by the Audit and Risk Committee in reviewing stated matters quarterly whilst also overseeing audit and risk matters at CLT meetings. Meanwhile, the Remuneration Committee ensures climate change is considered in remuneration arrangements and in 2022, climate transition KPIs were incorporated into incentive plans for Executive Directors and other key colleagues across the Group (see page 72).

Climate change is an increasingly important issue for the Board and our business. In 2021, members of the Board regularly engaged investors, government and regulators on climate change and attended COP26 events. We therefore continuously review capabilities to ensure the Board has a wide range of skills relevant to climate change across energy, regulation, geopolitics and technology. In 2021, we further developed Board capabilities by running a deep-dive session on climate change and the energy transition with internal and external experts. Best practice in climate governance for Boards was also reviewed, covering topics such as strategic planning, climate risk and opportunities alongside Board capability and emerging issues, from which we've identified areas for continual improvement. These improvements include further embedding climate risk and opportunities into strategic planning processes as well as incorporating KPIs within the remuneration scheme for Executives which was progressed in 2022.

The Board and its Committees work closely with senior managers in Group Strategy and Environment who collaborate with business unit leaders to develop our climate strategy. Group Strategy and Environment additionally co-ordinate members of the TCFD Working Group, which includes Group Enterprise Risk and Control who manage the integration of climate risk into the Enterprise Risk Management (ERM) Framework and Group Finance who support the businesses to understand the financial impacts of net zero. Group HR then integrate ESG targets into remuneration frameworks.

The Board

Remuneration Committee	Safety, Environment and Sustainability Committee	Audit and Risk Committee

Centrica Leadership Team

Remuneration Committee	Safety, Environment and Sustainability Committee	Audit and Risk Committee
• Agrees climate-related KPIs that apply to executive remuneration and wider bonuses paid.	• Reviews and approves proposals for climate-related targets. • Reviews and approves Climate Transition Plan (CTP) and TCFD analysis. • Reviews performance against climate targets and CTP ambitions. • Receives updates on stakeholder ESG expectations.	• Reviews climate-related risks. • Reviews integration of climate-related factors into Financial Statements.

Working groups

Strategy

To assess our resilience to climate change, we chose several independent climate scenarios that are most relevant to our business and to national climate targets set by government across our key markets of the UK and Ireland. The scenarios allow us to test the implications of various plausible pathways relating to global warming of 1.5°C to 4°C[1]. Using our in-house scenario analysis model, we then assessed the potential negative and positive implications of each climate scenario on our gross margin (GM) for key services and solutions alongside asset valuations over the short, medium and long term which correspond to 2025, 2035 and 2050.

The scenario analysis in 2021 showed that based on our strategic plans and capabilities, we're well-positioned to mitigate the risks and seize the opportunities related to climate change. Whilst some areas of our business will inevitably face bigger challenges than others as the world increasingly decarbonises, our modelling suggests an overall net financial benefit for the Group as we evolve in line with the needs of the energy transition and deliver on our purpose of helping our customers live sustainably, simply and affordably (see page 32 for a summary of our Climate Transition Plan).

In particular, the analysis showed that we're potentially exposed to transitional risks and opportunities such as policy and regulatory changes that could range from 'low to high' in significance over the longer term. The risks primarily relate to the gradual phase-out of natural gas in heating, which although an essential transition fuel in the mid-term, could require a shift in the range of products and services we offer our customers in the future. Decarbonisation also presents significant opportunities for the Group including low carbon heating, energy optimisation and EV charging as well as the development of new assets like solar and battery storage.

Meanwhile physical risks such as those associated with extreme weather and rising mean temperatures, have been identified as 'low' in significance over the near and longer term. This is because we're transitioning away from being an asset-heavy business, and whilst the potential to impact on energy supply chains as well as customer supply and demand remain, these risks are expected to be lower with increased levels of decarbonisation and are effectively managed through defined hedging strategies and collaboration with counterparties. As with all risks identified, we'll continue to monitor these risks so that we can act if the level of anticipated impact rises.

Summary of our most material risks and opportunities[2]

Impact on gross margin (GM)

Low	Medium	High

TFCD category	Climate related trend	Potential financial impact		Potential materiality 2025 {short term}	2035 {medium term}	2050 {long term}	Strategic response and resilience
Transition: Policy, Markets and Technology	Transition away from fossil fuelled heating	**Risk 1**: Reduced GM from the sale and servicing of natural gas residential boilers and commercial Combined Heat and Power (CHP)	>2°C	Low	Low	Low	• Ambition to remain a market leader in heating solutions in the UK and Ireland, growing market share in heating installs. • Expanding roll out of hydrogen ready boilers.
			1.5°C	Low	Medium	High	
Transition: Policy, Markets and Technology	Growth in low carbon heating market	**Opportunity 1**: Increased sales and servicing of electric and hydrogen fuelled heating systems, alongside associated opportunities in fabric upgrade including insulation	>2°C	Low	Medium	Medium	• Heat pump business launched with material growth plans, aiming for 20,000 installs a year by 2025 and build from there. • Partnering in hydrogen use trials and technology as well as research and development into low carbon CHP to grow adoption and capability.
			1.5°C	Medium	High	High	
Transition: Policy, Markets and Technology	Transition away from natural gas	**Risk 2**: Reduced GM from the sale of natural gas	>2°C	Low	Low	Low	• Ambition to grow customer numbers in UK energy supply.
			1.5°C	Medium	High	High	
Transition: Policy, Markets and Technology	Growth in low carbon heating market	**Opportunity 2**: Increased sales of electricity and green/low carbon hydrogen	>2°C	Medium	Medium	Medium	• Strategic aim to grow customer numbers in UK energy supply. • Partnering in hydrogen production and use trials to grow capability and adoption. • Capability to pursue hydrogen trading.
			1.5°C	Medium	Medium	High	
Transition: Markets	Growth of EV transport market	**Opportunity 3**: Access to new and growing value pools related to EV charger installs, operation and maintenance (O&M), and energy supply	>2°C	Low	Low	Medium	• Aim to become a leader in EV charging infrastructure install and O&M. • Ambition to install up to 100,000 EV charge points a year by 2025 and continue to grow from there.
			1.5°C	Low	Medium	Medium	
Transition: Energy Source	Growth in demand for renewable energy	**Opportunity 4**: Strong growth in solar and battery markets driven by decarbonisation	>2°C	Low	Low	Low	• Strategy to invest up to £100 million a year by 2025, to secure up to 800MW of low carbon and transition assets like solar and battery. • Value derived from install, O&M and asset ownership.
			1.5°C	Low	Low	Medium	

(1) Transitional impacts are assessed using the National Grid Future Energy Scenarios comprising four different pathways for the future of energy out to 2050, where assumptions on energy demand, production and use cases are adjusted. This allows detailed modelling of the potential impacts of the energy transition in the UK and Ireland at the individual product and commodity level, such as the demand for natural gas, electricity, hydrogen and the adoption of technologies like heat pumps, EV's and insulation. Physical impacts are assessed using the Intergovernmental Panel on Climate Change Representative Concentration Pathways as they allow physical climate attributes to be modelled such as temperature and sea level rise, flooding and extreme weather, across differing average temperature rises resulting from varying radiative forces. To assess asset impairment, we use the International Energy Agency Net Zero Emissions scenario and Aurora Net Zero Mixed & High RES scenarios, which model 1.5°C pathways to net zero for the energy sector and allows us to model the potential impact on global and regional demand for different energy sources responding to drivers such as carbon pricing. This in turn affects commodity prices and the potential implications for the valuation of oil, gas and power assets.

(2) A well-below and well-above 2°C scenario for global warming is used to best demonstrate the spectrum of proactive and inactive progress on climate change in our key markets and the impact this may have on our business.

We also assessed the risk of asset impairment on price forecasts, whereby our most exposed assets were our exploration and production (E&P) fields alongside our investment in Nuclear. We found that the impact on the value of our E&P assets were relatively 'low' due to existing impairment headroom, whilst our investment in Nuclear saw a positive increase given baseload power price scenarios are higher under net zero price forecasts (see note 7).

All modelled scenarios contain significant opportunities for capital investment into new and existing assets and technologies required by decarbonisation. The requirement for capital expenditure to manage potential risks and substitution opportunities has been assessed as being in line with current plans.

Our identification and assessment of how climate-related issues might affect our business serves as an input into our annual strategic and financial planning process. In 2021 we explicitly addressed net zero and the energy transition in all business unit strategic plans, which underpins how we are pivoting our organisation towards a lower carbon future and shapes our decisions on assets, supply, services and solutions. In 2021 we provided a coherent description of the resulting strategy in our first ever Climate Transition Plan.

Risk management

In 2021, transitional and physical climate risks were predominantly managed via our ERM Framework. This enabled us to effectively identify, assess and manage risks in a consistent way Group-wide. Our ERM Framework uses a time horizon of 1–3 years to assess Principal Risks alongside a longer timeframe of 3–20 years to assess Emerging Risks. Following this process, climate change has been made a Principal Risk which applies to the 2021 reporting period.

As part of our wider strategic planning process, Group Strategy and Environment run the climate scenario analysis to identify and assess risks and opportunities across a range of plausible future scenarios. They then work closely with the Group Enterprise Risk and Control team to ensure full consideration of potential financial impacts across time horizons and integration within the ERM Framework and Principal Risks register. Together, they ensure climate-related risks and opportunities are shared with the CLT, Group Audit and Risk Committee, SESC and the Board.

Going forwards, we'll continue to embed and enhance understanding and controls related to climate change risks and opportunities so that we're effectively managing the issue.

Metrics and targets

We were early adopters of best practice reporting of greenhouse gas emissions and have a strong track record in setting and achieving climate-related targets. We therefore have metrics and targets in place to help us manage our impact on climate change which includes monitoring and reporting our global scope 1, 2 and 3 emissions (see table below), which we've achieved limited external assurance† over alongside others, every year since 2012. In 2021, we also strengthened our existing net zero targets by committing to be a net zero business by 2045 and to help our customers be net zero by 2050 (see page 32). These targets are aligned to the Paris Accord and in 2021, we committed to have them validated by the Science Based Target initiative (SBTi) which we're aiming to do within the two-year window SBTi provides. And off the back of our Climate Transition Plan launched earlier in 2021, we recently developed a Climate Transition Dashboard which the CLT and Board will use to track progress on our strategic response to climate-related risks and opportunities, and includes our ambition to ramp up key services and solutions for a more sustainable future such as EVs, heat pumps and solar (see page 32). All of these stated metrics and targets are the primary way in which we currently measure and manage our impact on climate change, but we expect this set of metrics and targets to evolve as we keep pace with best practice and respond to the changing world around us.

We recognise, however, that delivering our targets and reducing our impact on climate change is in part dependent on having a policy and regulatory environment that supports our net zero objectives. So we have continued to advocate for positive policy development relating to issues like the decarbonisation of heat, transport and increased system flexibility.

In 2022, climate transition KPIs were further elevated as a key focus for the business with the link to incentive plans for Executive Directors and other key colleagues.

Read more about governance on Pages 48 to 73

Read more about our strategy on Pages 7 and 10 to 11

Read more about Principal Risks and Uncertainties on Pages 38 to 43

Read more about metrics and targets on Pages 32 and 242 to 244

Our energy and carbon emissions

	2021	2020
Total carbon emissions (scope 1 and 2)	**226,904tCO_2e†(1)**	989,546CO_2e(2)(3)
Scope 1 emissions	**222,064tCO_2e†**	982,469tCO_2e(3)
Scope 2 emissions	**4,840tCO_2e†(4)**	7,077tCO_2e(3)(5)
Scope 3 emissions(6)	**23,097,452tCO_2e**	116,947,439tCO_2e(3)
Total carbon intensity by revenue(7)	**15tCO_2e/£m(8)**	41tCO_2e/£m(3)(9)
Total energy use	**1,142,249,379kWh†(10)**	5,165,166,409kWh(3)(11)

Our energy and carbon emissions set out above and on page 32, constitute our most material areas of environmental impact. Further metrics on energy and carbon as well as our wider environmental metrics, can be found on pages 36 and 244, with additional metrics available at centrica.com/datacentre. Our reporting practices are drawn from the WRI/WBCSD Greenhouse Gas Protocol and Defra's Environmental Reporting Guidelines.

† Included in DNV's independent limited assurance report. See page 242 or centrica.com/assurance for more. (1) Comprises UK 162,460tCO_2e and non-UK 64,444tCO_2e. (2) Comprises UK 203,955tCO_2e and non-UK 785,590tCO_2e. (3) Restated due to changes in methodology following a move from equity to operational control to align with the more commonly used organisational boundary approach set out by the WRI/WBCSD Greenhouse Gas Protocol and means that Spirit Energy and Nuclear are not included, whilst scope 2 and 3 have moved to a market-based approach to better reflect our decisions on where we source imported power. (4) Location-based 10,352tCO_2e. (5) Location-based 13,687tCO_2e. (6) Includes emissions from the following scope 3 categories defined by the Greenhouse Gas Protocol: purchased goods and services, capital goods, fuel and energy related activities, waste generated in operations, business travel, employee commuting, upstream and downstream transportation and distribution, use of sold product and investments. All emissions are calculated in line with the methodologies set out by the Greenhouse Gas Protocol's technical guidance, apart from working from home emissions which are based on methodology set out in EcoAct's homeworking emissions whitepaper. (7) Carbon intensity of revenue is employed as our intensity measure because it is the most meaningful intensity measure for our diverse business and is the most widely used and understood measure for climate-related stakeholders such as CDP. Based on statutory revenue. (8) Comprises UK 15tCO_2e/£m and non-UK 17tCO_2e/£m. (9) Comprises UK 21tCO_2e/£m and non-UK 54tCO_2e/£m. (10) Comprises UK & Offshore 739,687,327kWh and non-UK energy use 402,562,052kWh. (11) Comprises UK & Offshore 866,199,955kWh and non-UK energy use 4,298,966,454kWh.

Our foundations

Our People & Planet Plan is underpinned by strong foundations that ensure we act fairly and ethically.

Customers

2021 was another challenging year for customers and we wanted to be there for them. We spent £304.86 million in mandatory and voluntary contributions to help those who struggled with their energy bills. For example, nearly 535,900 customers were helped via the UK's Warm Home Discount scheme whilst additional assistance was prioritised for those impacted by the pandemic and energy market crisis which included our new £4 million Fuel Fund to help our most financially vulnerable customers (see page 8). On top of this, we provided energy advice and grants for customers and non-customers alike via the British Gas Energy Trust (see page 31) which helped around 31,600 people during the period.

With our net promoter score and complaints impacted by COVID-19 and industrial action alongside reduced engineer capacity, we'll endeavour to improve service levels in 2022 (see pages 23 to 24).

Colleagues

We want our people to feel safe, engaged and rewarded. To protect our people from COVID-19 during 2021, we ensured all field workers were provided with personal protective equipment and operated in line with government guidance to keep themselves and our customers safe. Our Tier 1 and 2 process safety incident frequency rate did, however, worsen following three Tier 2 events compared to zero in 2020. The events related to Centrica Storage Limited and resulted in remedial action including enhanced inspection regimes across piping systems and switching to a new asset integrity inspection company. Our total recordable injury frequency rate also worsened slightly by 3% to 1.07 per 200,000 hours, largely due to the impact of COVID-19 and organisational restructuring on working hours. We've since seen improvements in safety performance and hope to continue this by ensuring safety remains front-of-mind, whilst reinforcing a strong safety culture and advancing controls and monitoring. Alongside physical health, we were mindful of the impact COVID-19 coupled with changes to our business, could have on mental health. We helped provide peace of mind by ensuring everyone had the flexibility to adjust working hours to accommodate caring responsibilities and temporarily amended policies to ensure COVID-related absence wouldn't impact pay. In addition, we ran campaigns that talked about the importance of being open about mental health and encouraged use of our mental health suite which includes our 130-strong mental health first aiders and the 'Unmind' wellbeing app. Our Flexible First approach to working also supports wellbeing as it empowers colleagues to choose when to work from home or go into the office to connect and collaborate, enabling them to better balance work alongside personal commitments.

Improvements like these have helped our engagement score improve by 13% to 55% favourable in 2021, which is key to productivity. We've a big opportunity to build on this by continuing to create a more inclusive and supportive place to work.

As a responsible employer, we also reward our people fairly. This includes paying at least the Living Wage in the UK and upholding equal pay. In 2021, our gender pay gap improved by 5% to 30% median and continues to be driven by more men working in higher paid roles like engineering coupled with more women in lower paid customer service and administration roles. We're one of few companies to have voluntarily published our ethnicity pay gap which is driven by similar factors to our gender pay gap, and improved by 1% to 13% median. Tackling the pay gap will not be quick or easy, but we hope to continue to transform our business and sector as our People & Planet Plan gets fully underway (see pages 29 to 30).

Communities and ethics

Our Code and Our Values help us operate in a way that's beneficial to communities by setting out the high standards we expect and ensuring we embrace them. For example, Our Code includes our commitment to uphold and protect human rights. We therefore take action to ensure colleagues and workers in our supply chain are safeguarded from abuses through activities like risk-based training, due diligence and monitoring of supplier selection and renewal, as well as conducting audits across our supply chain. And to date, we've found no instances of modern slavery. We also have clear guidance on bribery and corruption. We prohibit any improper payments, including facilitation payments regardless of value or jurisdiction, and exchange gifts and hospitality responsibly through a register. Anti-bribery training is also provided for higher risk roles and our Financial Crime team run third-party risk management screening. Due diligence and monitoring is additionally undertaken across supplier selection and contract renewals, whilst a register is used to record and manage potential or actual conflicts of interest.

During 2021, 98% of colleagues completed refresher training on Our Code and confirmed they would uphold its principles. And if anyone has concerns about Our Code not being upheld, they can raise them via our confidential Speak Up helpline. In 2021, we had 1.3 reports per 100 employees which largely aligns with the external benchmark of 1.4, and demonstrates that colleagues feel safe to speak up. Reports are investigated by the Ethics and Compliance team, with quarterly monitoring via SESC and the Audit and Risk Committee, with matters brought to the attention of the Board as appropriate.

We also strive to use our purchasing power to contribute positively to workers in our supply chain. So in 2021, we continued to assess suppliers on their social and environmental standards. Overall, our sustainability score remained strong at 68 (low risk), which is better than the multi-industry average of 51 (medium risk). If suppliers receive a high-risk rating, we consider appropriate action, which may involve conducting a site audit to better understand the level of risk on issues like human rights, or ending our relationship and reporting the abuse. During 2021, we were unable to conduct on-the-ground site audits due to COVID-19, so we deployed remote worker surveys to nearly 7,000 workers in higher risk countries like China, Bangladesh and Pakistan. Whilst no material issues were identified, insight enabled a supplier to subsequently provide training to help workers manage their personal finances better.

Environment

We closely monitor and manage our wider environmental impact. During 2021, our water consumption dropped by 62% to 66,762m^3 and waste declined by 12% to 12,756 tonnes. This was largely due to lower power station activity and reduced site occupancy as colleagues increasingly worked from home.

"Flexible First has transformed my ability to balance work and caring. I'm now able to work without the stress of being away from home too much and can really focus on work as well as access development opportunities that would've been extremely difficult before."

Marie McCann, Customer Service Adviser

Non-Financial Information 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.

This includes an explanation of the relevant Group policies which relate to the below matters and an overall summary of their effectiveness, including specific examples of how these policies are implemented, any due diligence processes conducted and outcomes.

Reporting requirement	Section
Business model	Our Business Model – Pages 12 to 13

Reporting requirement and policy position Our Code sets out our position on key issues by providing a high-level summary of key policies that form the foundation for how we do business. **Read more at** centrica.com/ourcode	Due diligence and outcome	Impact of COVID-19
Colleagues Our policy states that we work collaboratively to create a workplace that has a respectful and inclusive culture whilst offering fair reward and recognition. We're also committed to working safely and provide proactive support to ensure colleagues' health and wellbeing.	• Group Chief Executive's Statement – Page 4 • Stakeholder Engagement – Page 9 • Chief People Officer's Report – Pages 26 to 27 • People and Planet – Pages 29 to 31 and 36 • Principal Risks and Uncertainties: Capability of People, Highly Competitive Markets, Legal, Regulatory & Ethical Compliance, Health, Safety, Environment: Process Loss and Containment and Asset Production – Pages 39 and 40 to 43 • Key Performance Indicators (KPIs) – Pages 15, 26 to 27, 29 to 31, 36 and 242 to 243	• Chairman's Statement – Page 2 • Group Chief Executive's Statement – Page 6 • KPIs – Page 15 • Chief People Officer's Report – Page 26 • People and Planet – Pages 30 and 36 • Principal Risks and Uncertainties: COVID-19, Health, Safety, Environment: Process Loss and Containment – Pages 39 and 43
Environmental matters This policy sets out that we endeavour to understand, manage and reduce our environmental impact. Towards this, we will play our part in the transition to net zero.	• Chairman's Statement – Page 3 • Group Chief Executive's Statement – Pages 5 to 6 • Marco Trends – Page 7 • Stakeholder Engagement – Page 9 • Principal Risks and Uncertainties: Climate Change, Health, Safety, Environment: Process Loss and Containment, Political and Regulatory Intervention, Asset Production, Highly Competitive Markets and Weather Risk – Pages 39 to 43 • People and Planet – Pages 32 to 36 • KPIs – Pages 32, 35 to 36, 242 and 244	• People and Planet – Page 36
Social matters Our policy states that we will treat all of our customers fairly. As part of this, we strive to provide services and solutions that meet their needs as well as care for customers who need extra support. We also want to make a difference and help create more inclusive communities. We partner with community and charity organisations on key issues and inspire colleagues to volunteer and fundraise.	• Stakeholder Engagement – Pages 8 to 9 • People and Planet – Pages 30 to 31 and 36 • Principal Risks and Uncertainties: Weather Risk, Political and Regulatory Intervention, Highly Competitive Markets, Cyber Risk and Legal, Regulatory & Ethical Compliance – Pages 39 to 43 • KPIs – Pages 23 to 25, 30 to 31, 36 and 242 to 244	• KPIs – Page 15 • Business Review – Pages 23 to 25 • People and Planet – Pages 30 to 31 and 36 • Principal Risks and Uncertainties: COVID-19 and Legal, Regulatory & Ethical Compliance, Health, Safety and Environment; Process Loss and Containment – Pages 39, 43 and 46
Human rights This policy commits that wherever we work in the world, we respect and uphold the fundamental human rights and freedoms of everyone who works for us or with us.	• Stakeholder Engagement – Page 9 • People and Planet – Page 36 • Principal Risks and Uncertainties: Legal, Regulatory & Ethical Compliance – Page 43 • KPIs – Pages 36 and 244	• People and Planet – Page 36
Anti-bribery and corruption Our policy commits us to working with integrity, within the laws and regulations of all the countries in which we operate and in accordance with recognised international standards. This includes not offering or accepting bribes or other corrupt practices. We will not tolerate any form of bribery or corruption from suppliers.	• People and Planet – Page 36 • Principal Risks and Uncertainties: Legal, Regulatory & Ethical Compliance – Page 43 • Based on materiality, KPIs specific to anti-bribery and corruption are not reported externally.	• No material impact.

Our Principal Risks and Uncertainties

We manage risks to support our Group strategy

Risk management

In the following pages we set out an overview of Centrica's risk management framework. 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.

Risk management and internal control

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

The most significant Principal Risks to the Group are set out on pages 40 to 43, in order of magnitude to the Group.

The annual risk management process is summarised in the diagram below.

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 the categories of Strategic, Operational, Financial and Compliance, and the key risks within Centrica's Risk Universe have been mapped into these categories.

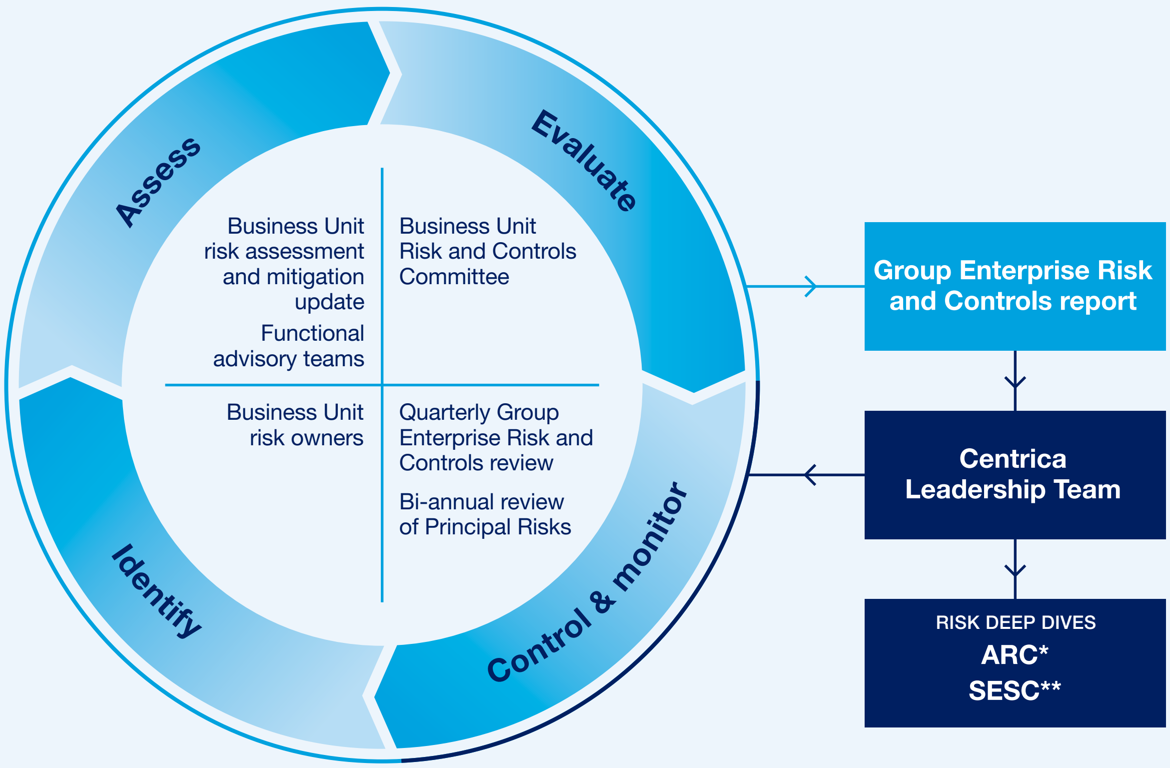
Due to the industry and the nature of some of the markets in which the Group operates, we have high to moderate risk appetites for our strategic and operational risks. However, we have a minimal risk appetite for operational safety risks and we continue to strive for an incident free workplace. For financial 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. We are committed to operating our businesses in compliance with relevant laws and regulations.

Risks are assessed at a Business Unit (BU) level to determine impact and likelihood. During the BU and Group level risk reviews the adequacy of mitigating actions is 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 (CLT) to whom the Board has delegated principal responsibility for risk oversight. The Group Principal Risks are those which could potentially impact delivery of our strategic objectives over the medium to long term, where medium term is up to three years, as determined through our strategic planning process.

Centrica Group's Annual Risk Management Process



*Audit and Risk Committee (ARC)
**Safety, Environment and Sustainability Committee (SESC)

Quarterly Business Unit risk reviews

- Each 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 BU 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. The meetings were chaired by the Group CFO until November, and then by the Director of Risk and Internal Audit.
- 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 Board Committee reviews

- Bi-annually the Group Principal Risks are presented to the CLT 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 CLT, is presented to the ARC for review.
- Internal Audit presents quarterly to the ARC on any material findings as a result of independent assurance work.
- Risk deep dives are 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 40 to 43. The annual Viability Assessment has been presented to and approved by the ARC.

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 matters

BUs and Functions review their risks and report key changes as part of their Business Performance and Risk Reviews. Major emerging risks and issues are escalated immediately.

During 2021 a number of Group level areas of risk were closely monitored, and actions taken to mitigate their impact on the Group.

Energy market

Current global wholesale energy prices are putting pressure on the energy market, with gas and electricity prices reaching record levels. Some smaller suppliers have ceased trading, leaving them unable to fulfil their commitments to supply gas and electricity to their customers. Centrica has stepped in as the Supplier of Last Resort (SoLR) for some of these energy suppliers, taking on around 700,000 residential and 6,600 business customers by the start of 2022.

It is anticipated there will be increased customer contact due to increased prices along with an increased risk of customer bad debt.

Price levels and volatility have severely increased the commodity and weather risks, alongside potential unstable customer churn through Winter 21/22 and the increase in the price cap in April 22. The Group is addressing this by implementing agile hedging policies/risk management and effective demand forecasting processes.

COVID-19

COVID-19 continues to pose significant challenges to the risk management and resilience of businesses globally. Centrica has a robust approach to risk management which enables rapid mobilisation of resources to react and mitigate the ongoing impacts of the pandemic, and working practices continue to be monitored and modified as required. Changes in operational processes and working practices were adopted to minimise the impact of COVID-related absences. We are actively sourcing alternative parts and accelerating stock through the supply chain to mitigate the risk of shortages of parts and components, but there are no specific changes to any Principal Risks.

Legal, Regulatory or Ethical Compliance

During the year the Skilled Persons Review under s166 of the Financial Services and Markets Act 2000 was successfully closed and the legal challenge to the Belgian regulator imposing a fine on CBS for its bid pricing on the flexible reserve market upheld. While the risk climate remains stable, compliance continues to be an important area of focus.

Customer Service

A key area of focus in the UK is the expansion of field engineer capacity following attrition in 2021 to enhance customer service levels. Centrica faces constraints in its efforts because of the shortage of skilled labour in the wider economy affecting many sectors and the time taken to train new apprentice engineers. Whilst temporary resources are actively being recruited, this labour shortage, combined with a programme to change systems and processes, creates a short term risk in some parts of the country to the consistency in the level of service provided to customers.

Industrial Action

Contingency plans were implemented to manage the impact of industrial action in Q1 2021 on our customers, colleagues and our business. New employee terms and conditions were introduced in April 2021 and new collective agreements signed with Trade Unions. These set out new ways of working with the Trade Union and the introduction of a Centrica-wide set of policies and procedures. We continue our dialogue with our Trade Union representatives and work towards building positive relationships. We will continue to monitor this risk closely through 2022.

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, but this has not led to any specific changes in Principal Risks.

Supply Chain

Supply chain issues with boiler and part supply are being closely monitored as a forward-looking risk, driven largely by microchip shortages. Measures have been taken to minimise the short-term impact, including securing alternative supply routes and working closely with our suppliers. Group Procurement have developed an impact assessment of potential financial and operational impacts of current supply chain issues on the 2022 forecast. We are actively monitoring the situation closely with our suppliers but at present this is not leading to a change to the Principal Risks.

Principal Risks

The following Principal Risks were adopted by the Board in 2021 and reflect the position of the 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. The Risk Climate is the expected change in the risk landscape from the previous risk review, based on the environment and controls in place.

	Commodity Risk	Weather Risk
	Risk Category: Financial Group Priority: Cash Flow Growth Risk Climate: Deteriorated	**Risk Category:** Financial Group Priority: Cash Flow Growth Risk Climate: Deteriorated
Overview	Risk of financial loss due to our exposure to market, credit and operational risk. • Material downward movements in commodity prices can impact in-year P&L through impact on sale of asset production, and impact on the long-term valuation of asset portfolios. • Commodity exposure arises within the trading businesses, which provide a route to market for Centrica's upstream and power generation operations, source electricity and gas for the Group's energy supply businesses and trade on a proprietary basis. We also have commodity exposures within our LNG portfolio and, in particular, the Cheniere, Shenergy and Mozambique contracts. • Changes in our customer demand requirements can result in a commodity exposure as we balance our established hedges at market prices. • Hedging commodity price risk in the markets exposes Centrica to credit risk (and supply shock), which is the risk of a loss if a counterparty fails to perform on its obligations. Trending directional price moves leads to a build-up of mark to market which is a component of credit risk. • Volatile commodity markets can also increase cash and working capital requirements for both ourselves and our counterparties (with the latter increasing credit risk and the risk of contagion).	The impact on present or future profitability resulting from volume impacts as a result of deviation to normal weather. • The impact is compounded by the application of the price cap which limits recovery for unseen demand. • In normal conditions, downstream is exposed to revenue loss in warm weather which may be compounded by selling hedges at a loss. • When commodity prices are higher than the cap allowance, as is the case for Winter 21/22, the risk exposure is primarily to cold weather when additional volumes may be required for downstream customers at a cost higher than can be recharged.
Mitigations	• Review of hedging policies in bi-annual Group Committee. • Financial risks reviewed regularly in dedicated Risk Committee forums within trading entities. • The monthly Downstream Energy Margin Meeting is a forum for all relevant parties to review demand forecasting performance, hedge positions, risk and P&L, with actions recorded and tracked to completion. • Increased credit risk exposure review and mitigation actions taken, both within the individual BUs and at a Group level. • Updated exploration & production (E&P) hedging policy to help mitigate risk of commodity fluctuations.	• The monthly Downstream Energy Margin Meeting is a forum for all relevant parties to review weather impact and hedging proposals and performance, with actions recorded and tracked to completion. • Options to mitigate weather risk in British Gas, to narrow the range of gross margin outcomes, are reviewed ahead of winter seasons with decision rights held by the CEO. • Ensure adequate access to liquidity in stressed scenario.
Developments	• Implementation of bi-annual Group Risk Hedging Policy Committee. • Trading positions have been scaled down to align with risk appetite given that high market prices in a high volatility environment have driven increased market risk. • Teams more actively managing credit exposures, which have increased to very high levels, through triangulations and other risk reducing trades. Teams are also actively monitoring counterparty liquidity stresses. • Daily cash movements on margined counterparties have been significant, driven by the high price and high volatility commodity price environment seen in 2021. Positions have been flattened with the highest risk counterparties to minimise exposures to daily cash movement. • Increased outage risk of aging assets leads to greater volume uncertainty.	• Increased frequency of updated demand curves which capture changes in demand driven by deviations from seasonal normal weather. • Group strategic hedge approved to reduce the exposure to high price and cold weather risk across Centrica business units.

Our Group Priorities

Customer Obsession
Operational Excellence
Most Competitive Provider
Cash Flow Growth
Empowered Colleagues
Safety, Compliance and Conduct Foundation

Asset Production

Risk Category: Operational

Group Priority Risk Climate

Stable

Risk that failures in the development or integrity of our investments in operated and non-operated assets could compromise asset production or the long-term viability of our assets.

- Failure to invest in the maintenance and development of our assets could result in significant safety issues or asset underperformance through unplanned outages.
- Failure to capture adequate return on our 20% nuclear investment due to operational issues suppressing earnings and cash flows or increased decommissioning costs.

- Group annual plan includes contingencies to cover events such as unexpected outages from assets.
- Group-wide minimum operational and safety standards are applied to all assets, whether operated or non-operated, and adherence against them is monitored and reported.
- 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 E&P 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, and the risk will be reassessed following the completion of the sale of the Norway assets.

- We experienced nuclear plant availability issues throughout 2021. We are waiting for the outcome of an investigation into corrosion on a reactor at Hartlepool to determine whether there will be further outages at the Hartlepool and Heysham 1 nuclear stations. The closure of Dungeness and Hunterston nuclear stations has reduced the risk.
- During 2021, despite the continuing impact of the pandemic, Spirit Energy maintained all activity and programmes critical to the safe operation of assets.
- In December 2020 an outage occurred at Whitegate power station in Ireland. Repairs were completed and the asset returned to service in December 2021.
- The Rough field returned to service in November and is performing in line with planned levels. Discussions are continuing about options for the future of this asset.

Cyber Risk

Risk Category: Operational

Group Priority Risk Climate

Stable

Risk of failure to prevent impacts from the denial of service, cyber espionage and the related theft/disclosure of confidential/customer data leading to reputational, regulatory and financial impacts.

A cyber attack presents a risk to Centrica operations in the following ways:

- Confidentiality: leakage of customer or company confidential data by threat actor, third party, staff or system error, either maliciously or by accident.
- Integrity: accuracy of Centrica's data due to malicious or accidental alteration by internal or external parties, or malicious actor.
- Availability: loss of assets, including data, due to cyber compromise.

Due to the diversity of Centrica's technology, the Company could suffer any or all of the above which could lead to:

- Regulatory compliance impact or fines, including but not limited to, General Data Protection Regulations (GDPR), Payment Card Industry-Data Security Standard (PCI), Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA).
- Financial impact of investigating and recovering from a cyber attack.
- Reputational impact of negative media coverage.

- Ongoing collaboration and information sharing with industry peers and National Cyber Security Centre.
- The Cyber Security Change Programme focuses on improvements to controls that increase the difficulty of targeting Centrica and being able to exploit weaknesses.
- Information Security tooling deployment across the Group, that detects and prevents advanced attack techniques.
- Training and awareness campaigns and simulated Phishing attacks throughout 2021 to raise awareness and highlight responsibilities in protecting data.
- Cyber attack simulations to identify control gaps and undertake remediation activity.

- The external Cyber threat landscape has seen a significant shift in the use of targeted Ransomware campaigns against corporations, utilising Ransomware as a service. The sophistication of attacks has increased, with data removed, and backups disabled to increase the pressure to pay.
- The increased connectivity of Industrial Automated Controls Systems used to manage domestic, commercial and national infrastructure increases their vulnerability to a cyber attack.
- As a power utility operator, Centrica will be of interest to Nation State for commercial data and potential disruption.
- Beyond ransomware, Centrica's business will be a target for activities such as mandate fraud and fake invoicing.
- The Cyber risk climate is continually evolving and has the potential to deteriorate with increased breadth and volume of attacks. A deterioration has not yet crystallised but the Group remains on high alert.

Political and Regulatory Intervention

Risk Category: Strategic

Group Priority Risk Climate

Stable

Risk of political or regulatory intervention and changes, or a failure to influence such changes.

- The Group faces uncertainty as to whether the Government will influence the price cap mechanism or impose a windfall tax to respond to soaring wholesale energy prices. This could result in profit margin erosion and/or damage to our reputation.
- There is uncertainty as to the timing and application of the SoLR levy process and the Special Administration Regime.
- Risk of further government intervention to support vulnerable customers that may not be funded through the price cap mechanism.
- Continuing focus on ESG interventions and impact on investor confidence in our responses.
- The Group faces potential erosion of profit margins through potential further FCA interventions on pricing impacting our UK Services business.

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

- Ongoing continuous engagement 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 and report to the Leadership Team via the monthly External Affairs meeting.
- Understanding the expectations of stakeholders through reputational surveys and review of media sentiment.

- The planned regulatory reform through the impending 'Energy Bill' will present significant medium-term opportunities and challenges for the Group.
- The Group is actively engaged and committed to influencing the shaping of the approach to the Green transition in the UK and responds to Government consultations on related policy.
- We will engage in further Government and regulator consultation on the future of the UK retail energy market.

Capability of People

Risk Category: Operational

FY 20: Capability of People, Process and Systems

Group Priority

Risk Climate: Stable

Overview

Risk of failure to attract and retain key talent. Deterioration to health and wellbeing of workforce.

- Failure to attract and retain key capabilities, and safeguard the health and wellbeing of the workforce across the business could have a detrimental impact on our ability to meet our strategic objectives.

Mitigations

- Extensive focus on rebuilding capabilities and providing targeted learning and development opportunities, improving capacity and implementing retention enhancement strategies.
- Talent management and planning forums reinstated.
- Continuous focus on our values and culture aligned to our purpose.
- Greater focus on diversity and inclusion at all levels of the organisation, and open access to colleague-led employee networks.

Developments

- BUs 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 have been increased direct employee communications from the CLT, with continued emphasis on wellbeing, mental health and ways of working, and the introduction of Flexible First to combine working at home with time on site. Pulse surveys are regularly completed to gauge employee sentiment and address concerns.
- Regular 'Straight Talking' sessions are conducted by senior management to identify the root causes of colleague engagement issues and rebuild trust.

Highly Competitive Markets

Risk Category: Strategic

Group Priority

Risk Climate: Stable

Overview

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

- Successful delivery of our strategy requires helping our customers live sustainably, simply and affordably in a competitive marketplace, with 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 right-size the cost base and take advantage of market opportunities.
- Driving transformation at pace creates additional delivery and technology risk through investment in markets which may not become material (i.e through uncertainty of net zero pathway).
- Increasing competition for sites for renewable development could prevent Centrica Energy Assets from establishing a foothold in the market.

Mitigations

- Significant focus on profitable growth and innovation across all BUs 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.
- Transition to a lower cost platform is a significant step in addressing the challenge from rapidly scaling lower cost players.
- Regular review of skills and capability to sustain a strong ethically-minded and performance-focused culture.
- New asset strategy communicated with clear targets, close review of market fundamentals, competition and expected returns.

Developments

- Core markets continue to be highly competitive. Our response is to focus colleagues and technology on helping businesses and households to use energy more efficiently and sustainably.
- Continued disruption in the Energy supply market with potential further rationalisation of suppliers.
- Embedding the restructuring of our business allowing us to respond to our customers' needs more easily.
- Focus on becoming the most competitive supplier delivering cost efficiency through an agile new system.
- Training the next generation of apprentices to deliver low carbon technologies e.g. heat pumps and electric vehicle chargers, while exploring the future of hydrogen.
- Renewables market highly attractive, given increasing focus of governments and businesses in meeting net zero targets, level of competition rising to meet demand.

Climate Change

Risk Category: Strategic

Group Priority

Risk Climate: New Risk

Overview

Impact of Market, Regulatory and Policy changes affecting the Group.

- Increased pressure from Government, investors and customers to commit to meaningful carbon reduction targets.
- Execution of Centrica Business Solutions strategy to realise opportunities from the electrification of Energy and Transport industries.
- Timing and execution of British Gas pivot to decarbonised heating and power products and services.
- Increased focus on 'greenwashing' and greater rigour on Renewables Guarantee of Origin, impacting renewable products and propositions.

Mitigations

- People & Planet targets published in early 2021 include net zero targets for Centrica and our customers.
- Centrica's Climate Transition Plan published in October 2021 outlines our plans to move to a low carbon future.
- The SESC, which is chaired by an independent non-executive director, typically reviews climate change information three times a year. The SESC additionally maintains oversight over climate-related content and discuss as frequently as required at CLT meetings which are held monthly.
- We have committed to compliance with TCFD requirements, including climate change scenario analysis providing insight into the risks, opportunities and timing of change (see pages 33 to 35).

Developments

- COP 26 and focus on Corporate response to Climate Change.
- Sale of Spirit Energy Norway assets to decarbonise our asset strategy.
- UK 6th carbon budget adopted.
- UK government heat & buildings, Hydrogen and net zero strategies.
- Potential repurposing of Rough for hydrogen storage.
- Electrification of transport and new heating technologies, reallocating capital investment to realise opportunities from moving to a low carbon economy.

Legal, Regulatory & Ethical Compliance

Risk Category: Compliance

FY 20: Legal, Regulatory and Ethical Standards Compliance

Group Priority	Risk Climate
	Stable

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 material real or perceived failure to follow Our Code or comply with legal or regulatory obligations would undermine trust in our business.
- Material or sustained non-compliance could lead to financial penalties, reputational damage, customer churn and/or legal and/or regulatory action.

- The Board sets the tone from the top through Our Code and leadership behaviours.
- Regulatory compliance monitoring activities performed by dedicated teams to drive Group-wide consistency and quality.
- Control frameworks 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 to influence the regulatory environment.

- 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.
- The Our Code employee annual training for 2021 included expense fraud and information security dilemmas as part of a campaign to raise awareness of increased fraud risks.

Health, Safety, Environment: Process Loss of Containment

Risk Category: Operational

FY 20: Health, Safety, Environment: Process Containment

Group Priority	Risk Climate
	Stable

Risk of an unplanned or uncontrolled release of any material from primary containment that could result in fatalities, injury and/or environmental damage resulting in legal claims, reputational and financial impacts.

- 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.

- Minimum manning levels continue to be 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.
- The HSE Function works with the business to ensure effective HSE resources and competency operate consistently and effectively across the business.

Assessment of Viability Disclosure

Requirement

In accordance with provision 31 of the 2018 UK Corporate Governance 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 12 to 13), current position in the context of liquidity and credit metrics of the Group, and principal risks.

Assessment of prospects

The assessment considers the current position of the Group, the Group's strategy, longer-term market trends and customer needs, and the Group's principal risks as well as forecast cash generation against long-term obligations to repay debt and fund the defined benefit pension schemes.

Our business model is designed to allow us to focus on meeting the changing energy supply, services and solutions needs of our customers, helping them transition to a lower carbon future while positioning ourselves to deliver returns for shareholders and meet our broader obligations to society over the long-term.

Key factors in assessing the long term prospects of the Group include the following:

1. The Group's competitive position today

Centrica has strong brands with large customer bases as the number one supplier in many of the markets in which it operates. In its core markets: British Gas Energy and British Gas Services are the largest residential energy supplier and home services provider in the UK; Bord Gáis is the second largest residential energy supplier in Ireland; and Centrica's Energy Marketing & Trading business is a leading route to market services provider across Europe. Centrica also has the largest heating engineering workforce in the country who are highly trusted by our customers, and are well-positioned to continue to support new fuels and technologies

In assessing our prospects beyond the strategic planning period, the Board considers how these strengths position the company to grow long-term shareholder value.

2. Market trends affecting future prospects

- The current commodity price volatility and its impact on the UK energy supply market.
- Increasing progress and Government support for net zero, corporates committing to clear net zero targets.
- Despite recent competitor supplier failures, competition may remain intense with margins under pressure, and we expect that to remain the case as the market emerges from the current crisis. However, due to the way Centrica forward hedges its commodity requirements we are not as exposed to volatile market prices as other recently failed suppliers.
- Falling costs for battery, solar and wind, electric vehicles deployment accelerates, growing need for flexibility.
- Role of data analytics, artificial Intelligence and automation increasingly important.

3. Customer needs

- Hassle-free, empathetic, personalised and safe service. Offering solutions, not just products.
- Responsible options (including green tariffs) and expert guidance to help them achieve their net zero goals.
- Trusted and credible counterparty.
- Lower costs and greater efficiency.

We put customers' needs at the centre of everything we do and this is the core part of our strategy, as set out in the People and Planet and Strategic Report sections of this Annual Report on pages 7, 10 to 12 and 36 respectively.

4. The Group's strategic objectives

The Group's strategic purpose include sustainability, simplicity and affordability, as set out on page 6 of this Annual Report. These support the assessment of the Group's prospects.

5. Principal risks facing the Group, as set out on pages 38 to 43

The risks we consider to be of greatest significance in assessing our prospects include:

- Further political or regulatory intervention, including increased focus on Environment, Social and Governance interventions, responding to climate change and uncertainty as to whether the Government will influence the price cap mechanism to respond to soaring wholesale energy prices;
- External risks associated with COVID-19, weather and commodity price movements;
- Highly competitive markets;
- Compromised asset production and HSE impacts of process loss of containment; and
- Risks associated with the effectiveness of our internal control environment in relation to cyber risk, data protection and customer conduct.

A more detailed summary of the business strategy is provided in the Strategic report on pages 10 to 11 and more detail on the principal risks facing the Group on pages 38 to 43.

Climate change is the most important driver guiding Centrica's prospects today and is a core part of our purpose as reflected by the actions we've taken, which include:

- We've outlined our plans for how we intend to decarbonise power, heat and transport through our Climate Transition Plan published in October 2021.
- We will continue to build out our green supply and solutions offerings for customers.
- We're training the next generation of apprentices to deliver low carbon technologies like heat pumps and electric vehicle chargers while exploring the future of hydrogen.
- We're committed to creating additional green and transition generation with up to £500 million to deploy through Centrica Energy Assets in renewable and flexible assets by 2025.

Good progress has been made on managing the prospects of the Group during 2021, including the completion of the Direct Energy sale in January, the announced sale of Spirit Norway and the delivery of the Group restructuring activity, which has simplified our management structure, reduced management layers and increased the proportion of our colleagues who interact directly with customers enabling us to put customers at the heart of everything we do. In addition, our balance sheet is now much stronger, with a net cash position as of 31 December 2021.

The Board has confidence in the long-term prospects of the business. The Board believe that the strategic steps taken in 2021, and the Group's strategy and purpose will set the Group up to be successful in the long term as market trends continue to evolve and key risks are managed.

Viability Sensitivity Tests Assessed	Links to Principal Risks	Risk >5% of opening headroom(1)?
A. External risks associated with a reduction in commodity price down to historic price levels	• Financial Markets Commodity Risk • Highly Competitive Markets	Yes
B. Risk of higher bad debt due to the large increase in the UK price cap in 2022 and from further economic disruption to customers from COVID-19, and the operational impact of further COVID restrictions	• Political and Regulatory Intervention • Highly Competitive Markets	No
C. Regulatory risks in relation to loss of sensitive data, and the operational impact of sustained employee industrial action.	• Legal, Regulatory & Ethical Compliance • Political and Regulatory Intervention • Highly Competitive Markets • Cyber Risk • Capability of People,	No
D. Significant disruption to the asset-based business leading to loss of production and/or earnings	• Asset Production • Health, Safety, Environment: Process Containment Event	Yes
E. The risk of significant adverse weather	• Financial Markets Weather Risk	No
F. Increased margin cash requirements arising from adverse market conditions	• Financial Markets Commodity Risk	No
G. Removal of 25% of drawn uncommitted Letters of Credit	• Financial Markets Weather Risk • Financial Markets Commodity Risk • Asset Production • Cyber Risk • Political and Regulatory Intervention • Highly Competitive Markets	No
H. Increased collateral requirements arising from a single-notch credit rating downgrade	• Financial Markets Weather Risk • Financial Markets Commodity Risk • Asset Production • Cyber Risk • Political and Regulatory Intervention • Highly Competitive Markets	Yes

(1) Headroom is calculated as undrawn committed facilities plus total liquid resources.

Assessment of viability

The assessment is based upon the Group Annual Plan for 2022 and the longer-term strategic forecast for 2023 and 2024 which are approved annually by the Board. The Board continues to believe that a three-year time horizon is the appropriate timeframe to assess viability, and is also consistent with the Group's planning cycle and the period of reasonable visibility in the energy markets. The Group's focus on the energy supply and services businesses means the most significant risks continue to be shorter-term in nature including asset performance, commodity prices, weather and competitive pressures creating disruption in our customer-facing markets.

Important context to 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 which support the Group's planned financial commitments. As at 31 December 2021, the Group had total committed credit facilities of £4.8 billion, of which £0.4 billion expires in 2024 and the remaining £4.4 billion expire in 2025. The undrawn committed facilities as at 31 December 2021 were £3.0 billion in addition to total liquid resources of £3.6 billion.

On 8 December 2021, the sale of Spirit Norway (including Statfjord UK) was announced. This transaction will improve the Group viability assessment through removal of the risks associated with this part of the business, and is factored in to the viability assessment conducted.

The viability assessment identifies eight sensitivities (A to H) shown in the table above, which incorporate the impact of our principal risks as set out on pages 40 to 43. These risks were selected as they have the most material impact on cash flow and liquidity. These sensitivities were applied to the baseline financial forecast which uses the Group Annual Plan for 2022 and the longer-term strategic forecast for 2023 and 2024.

The key assumptions made in the specific sensitivities include:

- Historical evidence and the evaluation of similar events observed in the market have been used to inform the potential impact of modelled scenarios;
- The recent increase in gas and power prices has also been reflected in the commodity price sensitivity. In previous years a 30% reduction to the base forecast has been used, but to reflect the particularly high price curve in 2022 we have modelled a 60% stress to 2022 (which equates to gas at 52p/th and power at £55/MWh). We have retained a 30% stress to 2023/24 as those prices have not increased as much as the nearer time period (equating to gas at 44p/th in 2023 and 37p/th in 2024, and power at £46/MWh in 2023 and £43/MWh in 2024). Oil prices have not been as volatile, therefore the 30% reduction has been retained (equating to $55/bbl, $45/bbl and $43/bbl in 2022, 2023 and 2024 respectively) (Sensitivity A);
- A sustained loss of production from one of the highest producing oil and gas fields (Sensitivity D);
- A repeat of historically seen adverse UK weather resulting in the need to purchase additional power and gas at higher prices which cannot be fully recovered through customer billing (Sensitivity E);
- There would be some offset between Sensitivity A and Sensitivity E, because in a low price environment weather would have a smaller impact.

Further Group-wide assumptions include:

- No material acquisitions or disposals of Group business areas, other than the disposal of Spirit Norway which was announced on 8 December 2021.
- No new debt funding within the three-year period of the assessment.
- The Group retains its existing credit ratings (BBB/Baa2) during the three-year period of the assessment, although the impact of a one-notch reduction is modelled in our sensitivity tests.

The risk of further impacts of COVID-19 has been modelled, due to the ongoing uncertainty over new variants of the virus. An impact similar to that seen in the first wave of the pandemic in H1 2020 has been modelled, where lockdown restrictions impacted our services and solutions activity. This risk models the impact of engineer absence through either sickness or self-isolation and reduced customer appetite for in-home visits which would result in a drop in services and solutions activity to the same extent as seen in 2020.

In Sensitivity B, in addition to the COVID-19 economic impact, we have also considered the impact of the expected price cap increase, which raises the risk of many more customers falling into fuel poverty, which in turn could lead to higher levels of customer bad debt, which has been modelled to be the same impact as seen in 2020.

The eight sensitivities have been grouped into three scenarios as set out in the table below. It is not plausible that all eight sensitivities would occur at the same time, and therefore each of the three scenarios is considered as a plausible combination of the above sensitivities. Within these scenarios, commodity (sensitivity A), bad debt and operational COVID-19 risks (sensitivity B), and risks relating to credit rating, collateral and liquidity (sensitivities F, G and H) were selected as constant events in all three scenarios.

Sensitivities grouped into three scenarios	
Scenario 1: A significant external event outside the Group's control such as a significant and sustained reduction in commodity price, increased bad debt, continuation of COVID-19 restrictions throughout 2022, along with a regulatory/industrial event and additional debt and liquidity risks	A + B + C + F + G + H
Scenario 2: A significant external event outside the Group's control such as a significant and sustained reduction in commodity price, increased bad debt, continuation of COVID-19 restrictions throughout 2022, along with a significant disruption to the asset-based businesses, and additional debt and liquidity risks	A + B + D + F + G + H
Scenario 3: A significant external event outside the Group's control such as a significant and sustained reduction in commodity price, increased bad debt, continuation of COVID-19 restrictions throughout 2022, along with adverse weather impacts affecting the energy supply businesses, and additional debt and liquidity risks	A + B + E + F + G + H

The scenarios have been assessed to confirm whether the Group would have sufficient liquidity available to meet its future planned financial commitments against its existing undrawn committed credit facilities of £3.0 billion, and that the credit metrics calculated would not imply a sustained fall to below investment grade (S&P BB and Moody's Ba1 NP).

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

- The Directors considered whether any of the scenarios breached the available headroom in the three-year period and concluded that sufficient headroom was available in all scenarios.
- The Directors considered whether any of the scenarios indicated a deterioration in the credit rating metrics which would lead to a two notch downgrade to sub-investment grade. They concluded that the Group has a reasonable expectation that its net debt ratios would continue to sustainably support investment grade ratings (at least BBB- for S&P, and at least Baa3 for Moody's) for all scenarios.

While mitigations were not required in any of the above scenarios to ensure the Group was viable, additional mitigations could be deployed to increase headroom and reduce the risk of a credit downgrade, including reductions in operational and capital expenditure.

Reverse stress testing has also been performed to identify and analyse the circumstances under which the Group's business model would no longer be viable. Examples considered, all occurring simultaneously, included further sustained low commodity prices significantly beyond the level assumed in the severe but plausible viability scenario, a two notch credit rating downgrade to sub investment levels, business underperformance, further upstream asset production issues, a GDPR fine levied at 2% of global annual revenue and liquidity funding events.

The reverse stress test models all of these scenarios occurring to an extreme extent and at the same time. Even after applying these additional stresses, there was still headroom available in 2022 and 2023. Should all modelled events occur at maximum foreseeable severity, the headroom would then be fully utilised in 2024. However, the combined severity and extent of these modelled events far exceeds any impacts that have historically been experienced by the Group. In addition, the exposure related to a double notch credit rating downgrade has been modelled on the current high price environment. If prices were to drop significantly, the exposure would be much lower. As such, the likelihood of all events occurring concurrently, and at the severity modelled, is judged to be very remote.

Conclusion

The Directors have considered all the above factors in their assessment of viability, 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 of the Group's ability to continue to operate and meet its liabilities, as they fall due, over a period of at least three years.

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:

Raj Roy
Group General Counsel & Company Secretary
23 February 2022