

16 March 2020
Centrica plc (the Company)
Annual Report and Accounts 2019

Further to the release of the Company's preliminary results announcement on 13 February 2020, the Company announces that it has today published its Annual Report and Accounts 2019 (Annual Report 2019).

In accordance with Listing Rule 9.6.1, copies of the following documents have been submitted to the UK Listing Authority and will shortly be available for inspection from the National Storage Mechanism at www.morningstar.co.uk/uk/NSM:

- Annual Report 2019; and
- Annual Review 2019.

The above documents are also available at www.centrica.com/ar19.

This information should be read in conjunction with the Company's preliminary results announcement. A condensed set of the Company's financial statements and information on important events that have occurred during the financial year and their impact on the financial statements, were included in the preliminary results announcement released on 13 February 2020. That information, together with the information set out below, which is extracted from the Annual Report 2019, is provided in accordance with the Disclosure and Transparency Rule (DTR) 6.3.5R, which requires it to be communicated to the media in full unedited text through a Regulatory Information Service. This announcement is not a substitute for reading the full Annual Report 2019. Page and note references in the text below refer to page numbers and note numbers in the Annual Report 2019.

Our Principal Risks and Uncertainties

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

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

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

- **Customer Obsession:** It is only through delighting our customers and giving them propositions that they want and are willing to pay for that we will be able to

grow our Group. We have a moderate risk appetite for pursuing innovative opportunities to deliver better service throughout the customer journey.

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

Strengthening our System of Risk Management and Internal Control

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

We categorise our risks as:

- **Risk Requiring Standards (RRS):** Risk with negative impacts that we control through Standards and Management Systems, for example process safety or data security.
- **Risk Requiring Judgement (RRJ):** Risk that we choose to take to execute our business strategy, for example new products or business improvement opportunities.

- **External Risk:** Risk that requires a focus on scenario and contingency planning with little or no ability to reduce likelihood, for example extreme weather or geopolitical turbulence.

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

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

Evaluating risks through our Enterprise Risk Framework

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

Identify

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

Assess & Analyse

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

Design & Implement Controls

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

Manage & Monitor

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

Calibrate & Assure

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

Report, Evaluate & Improve

- Report consolidated risk, assurance and control position to the Group Ethics, Risk, Assurance, Control and Compliance Committee, Audit

Committee and Safety, Health, Environment, Security and Ethics Committee (SHESEC)

- Evaluate priority risks within the Group risk profile to identify any corrective actions
- Evaluate Group-wide severe, but plausible, risks and implications
- Drive continuous improvement through reviewing the Risk Universe and Group risk appetite

Mitigating Risk through our System of Risk Management and Internal Control

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

- **What we stand for:**
 - **Our Purpose:** We are an energy and services company. Everything we do is focused on satisfying the changing needs of our customers and enabling the transition to a lower carbon future.
 - **Our Values:** Our Values of Care, Collaboration, Courage, Delivery and Agility underpin our strategy and Priorities.
 - **Our Code:** This was launched in early 2018 to replace our Business Principles and provides the foundation for how we operate.
- **Our strategic framework:**
 - **Strategy:** This is aligned throughout the organisation by the five Group priorities and underpinning priority of safety, compliance and conduct.
 - **Financial Framework:** Sets out parameters and targets within which we operate to guide our strategic planning and financial decision-making.
 - **Enterprise Risk Framework:** Incorporates the Principal Risks within the Group Risk Universe.
- **Our governance:**
 - **Board and Committees:** Structured to effectively execute required duties and through which our Principal Risks are monitored.
 - **Legal entities:** Subsidiary company legal entities with boards of directors required to meet legal and regulatory obligations.
 - **Delegations of authority:** Accountability is delegated through the organisation to individuals in accordance with risk appetite.
 - **Executive and Committees:** Oversight to ensure appropriate planning and performance management.
- **How we are organised and managed:**
 - **Management Systems:** The detailed policies, standards and processes establishing the mandatory requirements and which are required for the systematic management of related risks.
- **How we provide assurance:**
 - **Second line assurance:** Ensuring policies and standards are complied with through monitoring and testing activities performed by individuals who are not directly responsible for the operation of the controls relating particularly to Finance, Health Safety & Environment (HSES), and Digital Technology Services.
 - **Internal Audit:** Providing confidence to the Board, via the Audit Committee, that the Group has appropriate risk management procedures and effective controls in place.

Changes in risk climate and emerging risks

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

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

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

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

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

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

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

Principal Risks

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

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

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

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

	Description	Potential impacts	Mitigation
1	<p>Political and Regulatory Intervention</p> <p>Risk of political or regulatory intervention and changes, including those resulting from Brexit, or a failure to influence such changes.</p> <p>External Risk</p> <p>Governance Oversight:</p> <p>Board</p> <p>Priority:</p> <p>Cash flow growth</p> <p>Magnitude:</p>	<p>Brexit continues to pose risks should the UK fail to agree a trade deal with the EU or through macro-economic impacts following the UK's exit from the EU. While the default price cap has now been in force in the UK market for 12 months, there is continued regulatory pressure in the Consumer Energy Supply markets in the UK and North America that could result in the erosion of our profit margins. There is a risk of partial/total regulation of a small number of retail and/or natural gas markets in the</p>	<ul style="list-style-type: none"> • We are committed to an open, transparent and competitive UK energy market which provides choice for consumers. • Executive Directors and senior management actively engage in discussions with political parties, regulatory authorities and other stakeholders. • We have dedicated Corporate Affairs and Regulatory teams which examine upcoming political and regulatory changes and their impact. Our dedicated Brexit project group continues to assess the Brexit-related risks as the UK aims to negotiate a trade deal with the EU during 2020.

	No change	US. Operating costs could also increase in the case of further smart meter and/or energy efficiency obligations. The UK General Election has brought the threat of nationalisation back onto the political agenda.	
2	<p>Financial Market</p> <p>Risk of financial loss due to our exposure to market movements, including commodity prices, inflation, interest rates and currency fluctuations.</p> <p>External Risk with elements that are Risks Requiring Judgement</p> <p>Governance oversight: Board and Audit Committee</p> <p>Priority: Cash flow growth</p> <p>Magnitude: No change</p>	<p>Due to our large upstream and downstream business positions, our exposure to adverse price movements in commodity markets could impact profitability and cash flow generation across the business. While increased volatility in commodity prices could provide more opportunities, it could also give rise to higher collateral costs and/or additional credit risk for both Energy Marketing & Trading (EM&T) and North America Business. Further, it would create volatility in asset and contract valuations. An unseasonably warm autumn/winter in the UK and a cooler summer in the US could reduce customer demand significantly.</p>	<ul style="list-style-type: none"> • Financial risk is reviewed regularly by the Financial Risk, Assurance and Control Committee, and the Group Ethics, Risk, Assurance, Control and Compliance Committee to assess financial exposures and compliance with risk limits. Regular review is also undertaken by the Audit Committee. • Stress testing analysis is presented weekly to the EM&T Risk Committee. • As we move into new trading arrangements, we are focused on ensuring that our financial risk policies remain appropriate to the risks we face. • We have appropriate hedging strategies in place that are regularly updated to mitigate exposure to commodity and financial market volatility. • We continue to invest in our systems to further automate and strengthen our control environment.
3	<p>Health, Safety and Environment (HSE)</p> <p>Risk of failure to protect the health and safety of customers, employees and third parties or to take appropriate measures to protect our environment and in response to climate change.</p> <p>Risk Requiring</p>	<p>Our operations have the potential to result in personal or environmental harm. Significant HSE events could have regulatory, financial and reputational repercussions that would adversely affect some, or all, of our brands and businesses. We recognise and report on incidents that do occur, as described on page 19.</p>	<ul style="list-style-type: none"> • HSE Management Systems are established to include the policies, standards and procedures to protect customers, employees and third parties. • We continue to invest in training to ensure we maintain safe operating practices and require all employees to complete the relevant online HSE courses for their role. • We drive an Incident Free Workplace (IFW) culture across our business.

	<p>Standards</p> <p>Governance Oversight:</p> <p>Board and Safety, Health, Environment, Security and Ethics Committee</p> <p>Priority:</p> <p>Safety, compliance and conduct</p> <p>Magnitude:</p> <p>No change</p>		<ul style="list-style-type: none"> • We undertake regular reviews and have assurance processes in place with reporting to the HSE Committee on a quarterly basis. • We engage with regulatory Agencies such as the Environment Agency, Oil and Gas Authority and UK HSE to ensure we comply with legislative/regulatory requirements. • We are restructuring our business to make it less carbon intensive and we engage with climate change bodies and NGOs to offer our perspective, understand the direction of future actions and assess our readiness to respond to change.
4	<p>People</p> <p>Risk that we are unable to attract and retain employees to ensure that the business has the appropriate capabilities to meet our strategic objectives. There is also a potential risk of industrial action as a large proportion of our field and office-based employees are represented by trade unions and works councils.</p> <p>Risk Requiring Judgement with elements that are Risks Requiring Standards.</p> <p>Governance oversight:</p> <p>Board and Safety, Health, Environment,</p>	<p>Failure to attract and retain key capabilities across the business could have a detrimental impact on our ability to meet our strategic objectives.</p> <p>The risk of industrial action in our businesses may have a potential impact on customer service levels and retention. We require the right behaviours from our leaders and employees to deliver our business strategy in line with Our Values and Our Code.</p>	<ul style="list-style-type: none"> • Our Code and Our Values set the behavioural expectations for all employees and protection of human rights. • The Executive Committee has clear oversight through regular discussions of the people-related challenges inherent in our transformation programme. • We have been developing a more strategic relationship with our trade union colleagues and engage with them on restructuring and issues that could impact terms and conditions, with clear and open processes to cultivate an environment of trust and honesty. • We conduct annual employee engagement surveys and results are reviewed and actioned by senior leaders.

	<p>Security and Ethics Committee</p> <p>Priority: Empowered Colleagues</p> <p>Magnitude: Increase</p>		
5	<p>Change Management</p> <p>Risk of failure in the identification, alignment and execution of change programmes and business restructuring.</p> <p>Risk Requiring Judgement with elements that are Risks Requiring Standards.</p> <p>Governance oversight: Board</p> <p>Priority: Most competitive provider</p> <p>Magnitude: Increase</p>	<p>If transformation projects are not aligned to our strategic objectives, or not implemented appropriately, the expected benefits may not be realised and resources for other critical projects may be depleted. There are many transformation initiatives that could be disruptive and/or result in compromise to the control environment if not governed appropriately.</p>	<ul style="list-style-type: none"> • We have a standardised requirement articulated as Our Approach to Managing Change Impacts. • Transformation programmes are approved by the Board via the Group Strategic Planning and capital allocation process. • Investment appraisal criteria are defined in Group Investment Committee Guidance. • Progress on specific projects is consistently monitored through Steering Groups and reported through to the Board. • We have dedicated change capability at Group and business unit level to monitor the realisation of benefits, the prioritisation of efforts and to share best practice. • We have post-merger integration procedures in place to integrate acquired businesses.
6	<p>External Market Environment</p> <p>Risk that events in the external market or environment could hinder the delivery of our strategy.</p> <p>Risk Requiring Judgement</p> <p>Governance oversight: Board</p> <p>Priority: Cash flow growth</p> <p>Magnitude: No change</p>	<p>We operate in highly competitive markets, where customer behaviour, needs and demands are evolving due to digitalisation, energy efficiency, climate change, government initiatives and the general economic outlook. Failure to react appropriately and rapidly to changes in customer behaviour could result in the erosion of our customer base, leading to reduced revenues and associated margins. In addition, we are subject to global market volatility in</p>	<ul style="list-style-type: none"> • We focus on understanding consumer segments and their needs, through products and services that are attractive and competitive. • We undertake regular analysis of commodity price fundamentals and their potential impact on our business plans and forecasts. • Our Market and Competitive Intelligence team monitors movements in markets and provides information to enable appropriate decision-making. • The Group is now equipped and committed to help our customers transition to a lower carbon future.

		our upstream businesses in commodity markets.	<ul style="list-style-type: none"> We have developed Centrica Innovations and our Technology & Engineering function to keep abreast of technological advances.
7	<p>Strategy Delivery</p> <p>Risk that our strategy is not appropriate to respond to external issues and/or the risk that the strategy is not deliverable due to insufficient capability.</p> <p>Risk Requiring Judgement</p> <p>Governance oversight: Board</p> <p>Priority: Cashflow growth</p> <p>Magnitude: Decrease</p>	<p>Successful delivery of our strategy requires serving customers in a way that satisfies their changing needs in a competitive marketplace. Failure to identify changing trends in customers' needs, stay ahead of technological and digital advancements, develop appropriate responses to changing markets and competitive environments, and build the necessary capabilities to compete, have the potential to adversely impact our cash flow growth and value goals.</p>	<ul style="list-style-type: none"> The Board sets and reviews the Group's strategy, determining the strategic direction and confirming the strategic choices made by the business. Regular reviews are conducted considering changes in market trends and the competitive environment, social matters and the business response. The Board and Executive Committee regularly review the capabilities required to deliver on the strategy and address issues as they appear. We have a clear financial framework to ensure capital is allocated in accordance with our strategy and that balance sheet strength and return on capital boundary conditions are met. We have dedicated teams to ensure we continue to develop and innovate in new technologies. Our Digital Technology Service function works in partnership with change functions to assure and deliver programmes of change.
8	<p>Brand, Trust and Reputation</p> <p>Risk that our competitive position is compromised by poor standards of fairness and transparency, and by failing to protect our brands.</p> <p>Risk Requiring Judgement</p> <p>Governance oversight:</p>	<p>Failure to appropriately manage brand perception, media attention and lobbying from pressure groups could impact customer sentiment and could ultimately result in a reduction in overall customer numbers. Failure to be fair and transparent could lead to reputational damage, falling share prices and, in the case of very poor standards, legal and regulatory action.</p>	<ul style="list-style-type: none"> We aim to deliver a fair, simplified and transparent offering to all our customers. We engage with NGOs, consumer and customer groups, political parties, regulators, charities and other stakeholders to identify solutions to help reduce bills and improve trust in the industry. We review and monitor changes in our customer brand position through NPS.

	<p>Board</p> <p>Priority: Customer obsession</p> <p>Magnitude: Decrease</p>		<ul style="list-style-type: none"> • We are transforming our complaints process to lower backlogs and resolution times, and to address root causes. • We closely monitor key metrics including broken promises/appointments, grade of service and complaint numbers.
9	<p>Cyber, Security and Resilience Risk of IT system internal misuse, cyber-attack, security of IT systems and resilience and business continuity.</p> <p>Risk Requiring Standards</p> <p>Governance oversight: Board, Audit Committee and Safety, Health, Environment, Security and Ethics Committee</p> <p>Priority: Safety, compliance and conduct</p> <p>Magnitude: New</p>	<p>Our substantial customer base and strategic requirement to be at the forefront of technological development mean that it is critical that our technology is robust, our systems are secure and our data is protected. Sensitive data faces the threat of misappropriation, for example from hackers and viruses, leading to potential financial loss and/or reputational damage.</p>	<ul style="list-style-type: none"> • We operate a combined Global Security function which includes Physical Security and Resilience and Digital Technology Services Information Security. • Our information security strategy seeks to integrate information systems, personnel and physical aspects to prevent, detect and investigate threats and incidents. • We have established governance bodies to oversee compliance with new security requirements. • We regularly evaluate the adequacy of our infrastructure and IT security controls, test our contingency and recovery processes, and undertake employee awareness and training. • Controls testing and security patching around our core systems is performed regularly, and our controls are further tested by outside experts.
10	<p>Balance Sheet Strength and Credit Position Risk that our balance sheet may not be resilient, with implications for our ability to withstand difficult market or trading conditions or financial stresses to the business.</p> <p>Risk Requiring</p>	<p>Failure to operate within the Group's financial framework could result in risk to maintaining our target credit rating, which would impact our access to cost-effective capital and trading arrangements. Long-term financial obligations may increase in value due to factors both inside and outside of our control, such as pension schemes, resulting in</p>	<ul style="list-style-type: none"> • We assess available resources on a regular basis. Significant committed facilities are maintained with sufficient cash held on deposit to meet fluctuations as they arise. • We model the severe but plausible scenarios and consequences of our risks and their potential to impact our net debt position. • The current credit rating position is reported and

	<p>Judgement</p> <p>Governance oversight: Board and Audit Committee</p> <p>Priority: Cash flow growth</p> <p>Magnitude: Increase</p>	<p>additional funding required to meet our obligations.</p>	<p>discussed regularly by the Board.</p> <ul style="list-style-type: none"> • We consider accounting assumptions impacting on our balance sheet carefully, including decommissioning and impairment. • Long-term obligation estimates are updated annually. • Counterparty exposures are restricted by setting credit limits for each counterparty, where possible with reference to published credit ratings. • Wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with Group policy.
11	<p>Financial Processing and Reporting</p> <p>Risk of errors or losses arising from the processing and reporting of financial transactions for both internal and external purposes.</p> <p>Risk Requiring Standards</p> <p>Governance oversight: Board and Audit Committee</p> <p>Priority: Safety, compliance and conduct</p> <p>Magnitude: No change</p>	<p>The accounting landscape is evolving with the adoption of IFRS 16 in 2019. During the current transformation of our Finance function the potential for failures in core controls is increased. There is a risk that we fail to comply with relevant tax and regulatory requirements.</p>	<ul style="list-style-type: none"> • The Audit Committee reviews our compliance with both our internal policies and external requirements. • The Audit Committee has regularly reviewed progress with regard to the further strengthening of the control environment. During 2019 Project Link was established to further enhance the financial control environment of the Group. • Our financial control framework incorporates our financial controls and management self-assessment compliance. • We undertake detailed testing and evaluation of the effectiveness of our controls in response to critical financial risks, reporting to the Finance, Risk, Assurance and Control Committee quarterly. • The Group Tax function has a control framework, to ensure compliance with all requirements, which has been globalised to drive consistency and simplification.
12	<p>Customer Service</p> <p>Risk of failure to consistently</p>	<p>The delivery of high-quality customer service is central to our business strategy. With the entry of new</p>	<ul style="list-style-type: none"> • Leadership teams in our frontline businesses establish accountability for specific

	<p>provide good quality customer service through the customer lifecycle, with potential consequences being increased consumer churn and declining gross margin.</p> <p>Risk Requiring Judgement</p> <p>Governance oversight: Board</p> <p>Priority: Customer obsession</p> <p>Magnitude: No change</p>	<p>competitors to the market, customers are increasingly likely to switch if they are unimpressed with their customer experience. Remaining at the forefront of digital developments and innovation is critical as it leads to increased choice and control for our customers.</p> <p>We also face risks regarding our ability to develop and price propositions competitively and profitably, which has increased recently as our business moves into new markets.</p>	<p>aspects of the customer journey and assess performance daily and weekly.</p> <ul style="list-style-type: none"> • We operate an environment of continuous improvement, incorporating an accredited programme (STAR), and use root cause analysis of complaint and NPS insight to continuously improve our service delivery. • Customer and Field Operations teams monitor customer service levels, ensuring enquiries are answered in a timescale and manner acceptable to the customer, complaint levels are minimised, and that customer satisfaction is reviewed at all stages of the customer journey. • Customer service agents are quality assessed for consistency with a rigorous training and performance management programme. • Performance parameters are monitored weekly for all third-party service providers involved in the customer service process.
13	<p>Digital Technology and Information Systems</p> <p>Risk of reduced availability and sustainability, data optimisation and business benefit realisation associated with IT systems and data essential for our operations.</p> <p>Risk Requiring Standards with elements that are Risks Requiring Judgements</p> <p>Governance oversight:</p>	<p>Reliance on our IT infrastructure is significant, and it is therefore key that our systems are available in line with user requirements but balanced with financial resources to ensure sustainability. Our data is a key asset and optimisation of that data is key to delivery of our strategic objectives. Failure to deliver IT solutions in support of the prioritised objectives and change programmes in the business would have consequences both for our organisational transformation and, in some cases, our compliance obligations.</p>	<ul style="list-style-type: none"> • We have a Digital Technology Services Strategy Committee in place to track progress of the strategic priorities for technology, data and digital activities. • We regularly evaluate the adequacy of our infrastructure and IT security controls, test our contingency and recovery processes, and undertake employee awareness and training. • Controls testing and security patching around our core systems is performed regularly and our controls are further tested by outside experts.

	<p>Board, Audit Committee and Safety, Health, Environment, Security and Ethics Committee</p> <p>Priority: Operational Excellence</p> <p>Magnitude: New</p>		
14	<p>Business Planning, Forecasting and Performance Management</p> <p>Risk that plans and forecasts may not be deliverable or may fail to drive efficient and effective performance, and the risk of failures in performance reporting.</p> <p>Risk Requiring Judgement with elements that are Risks Requiring Standards</p> <p>Governance oversight: Board</p> <p>Priority: Safety, compliance and conduct</p> <p>Magnitude: No change</p>	<p>We prioritise how we allocate resources according to our business plans and forecasts. Failure to accurately plan and forecast, accounting for the evolving business environment, could result in sub-optimal decisions and failure to realise anticipated benefits.</p>	<ul style="list-style-type: none"> • Annual planning processes are subject to scrutiny from the Executive Committee and the Board with respect to underlying market trends, competitive threats, organisational capability and delivery. Central contingencies are considered in response to the aggregated risk position. • Group functions utilise standard planning processes in support of business unit priorities, driving improved integration of plans. • The performance of each business unit is reviewed against their plan throughout the year so that any indications of plans not being delivered can be understood and any required actions can be undertaken. • Quarterly performance review meetings involving the Group CEO and CFO enable the review of plans and forecasts, with revisions identified as necessary. • Post Investment Reviews are conducted to assess investment performance, whether benefits were fully realised and lessons that can be applied for future investment.
15	<p>Asset Development, Availability and Performance</p> <p>Risk that failures in</p>	<p>Failure to invest in the maintenance and development of our assets could result in significant safety issues or asset</p>	<ul style="list-style-type: none"> • Capital allocation and investment decisions are governed through the Investment Committee.

	<p>the development or integrity of our investments in operated and non-operated assets could compromise performance delivery</p> <p>Risk Requiring Judgement</p> <p>Governance oversight: Board</p> <p>Priority: Operational excellence</p> <p>Magnitude: Decrease</p>	<p>underperformance through unplanned outages. Operational integrity is vital to our ability to deliver projects in line with the strategic objectives. During 2019 we experienced asset outages across our Nuclear fleet as reported on page 8.</p>	<ul style="list-style-type: none"> • Group-wide minimum standards are applied to all assets, whether operated or non-operated. • Maintenance activity and improvement programmes are conducted across the asset base to optimise effectiveness and maximise production levels.
16	<p>Legal, Regulatory and Ethical Standards Compliance</p> <p>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.</p> <p>Risk Requiring Standards</p> <p>Governance oversight: Board and Safety, Health, Environment, Security and Ethics Committee and Audit Committee</p> <p>Priority: Safety, compliance and conduct</p> <p>Magnitude: Decrease</p>	<p>Any real or perceived failure to follow Our Code or comply with legal or regulatory obligations would undermine trust in our business. Non-compliance could lead to financial penalties, reputational damage, customer churn and/or legal and/or regulatory action.</p>	<ul style="list-style-type: none"> • Regulatory compliance monitoring activities are performed by a single function to drive Group-wide consistency and quality. • Control frameworks are in place to deliver customer experience in line with requirements over sales compliance, billing, retentions, customer correspondence and complaints handling. These are regularly reviewed by relevant leadership teams through KPIs. • Our Financial Crime team monitors threats throughout the business and adequacy of response to the threat of anti-bribery and corruption. • A global 'Speak Up' helpline exists to provide a consistent Group-wide approach and reinforce the importance of this channel as a means to flag unethical behaviour.
17	<p>Regulated Insurance and Services</p>	<p>There is a significant increase in the number of customer claims as a</p>	<ul style="list-style-type: none"> • We utilise risk models and demand data to understand the cold weather risks with the

	<p>Risk of loss/adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning, resulting from premium and reserve risk, catastrophe risk and other non-life underwriting risks.</p> <p>Risk Requiring Standards</p> <p>Governance oversight: Regulated Entity Boards, Board, Audit Committee and Safety, Health, Environment, Security and Ethics Committee</p> <p>Priority: Safety, compliance and conduct</p> <p>Magnitude: New</p>	<p>result of extreme cold conditions. Gross Premium Rate is significantly overpriced leading to low volume sales or Net Premium Rate is significantly underpriced, resulting in inadequate cash flow and/or leading to a high loss ratio, and adversely affecting profitability and solvency. Claims made by customers are not adequately validated, leading to the completion of work which is not underwritten by the insurer, which adversely impacts the loss ratio BGI is exposed to, or an unintended liability as a result of imperfectly or ambiguously worded policies and/or terms & conditions.</p>	<p>data and corresponding actions overseen by the Quarterly Insurance Risk Committee.</p> <ul style="list-style-type: none"> • Pricing of premiums is closely monitored and reviewed. • Anti-fraud controls have been designed and implemented to mitigate the risk of fraudulent claims. • Insurance policy documentation is subject to review and approval at the Joint Insurance Meeting.
18	<p>Procurement and Supplier Management</p> <p>Risk of failure to source effectively and to co-ordinate and collaborate with the supply chain to ensure value delivery and continuity.</p> <p>Risk Requiring Judgement with elements that are Risks Requiring Standards</p> <p>Governance oversight: Board and Safety, Health, Environment,</p>	<p>Our business operations rely on products and services provided through third parties, including outsourced activities, infrastructure and operating responsibility for some assets. We rely on these parties to comply with contractual terms in addition to legal, regulatory and ethical business requirements. Failure to comply with the Group policy and standards when procuring goods and services or to manage key suppliers and contracts effectively could inhibit the ability of the business to maintain competitive products and services or expose the</p>	<ul style="list-style-type: none"> • We operate an end-to-end category management process to maximise value capture throughout the procurement lifecycle, from market analysis through to ongoing contract management and monitoring. • All suppliers are required to sign up to our 'Ethical Procurement' policies and procedures. • We review the ethical conduct of our suppliers, including a programme of supplier visits to provide additional assurance over practices employed. • Financial health, human rights risk and anti-bribery and corruption due diligence and monitoring are implemented in supplier selection and contract renewal processes.

<p>Security and Ethics Committee</p> <p>Priority: Most Competitive Provider</p> <p>Magnitude: No change</p>	<p>Group to a range of regulatory or legal risks.</p>	<ul style="list-style-type: none"> Audits are conducted in relation to third-party operation of jointly operated Exploration & Production assets.
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Related Party Transactions

The Group's principal related party is its investment in Lake Acquisitions Limited, which owns the existing EDF UK nuclear fleet. The disclosures below, including comparatives, only refer to related parties that were related in the current reporting period.

During the year, the Group entered into the following arm's length transactions with related parties who are not members of the Group, and had the following associated balances:

	2019		2018	
	Purchase of goods and services £m	Amounts owed from £m	Purchase of goods and services £m	Amounts owed to £m
Associates:				
Nuclear	(454)	(51)	(476)	(42)
Joint Ventures	(16)	(1)	(17)	(2)
	(470)	(52)	(493)	(44)

During the year, there were no material changes to commitments in relation to joint ventures and associates.

At the balance sheet date, the Group committed facilities to the Lake Acquisition Group totalling £120 million, although nothing has been drawn at 31 December 2019.

Key management personnel comprise members of the Board and Executive Committee, a total of 17 individuals at 31 December 2019 (2018: 18).

Remuneration of key management personnel	2019	2018
Year ended 31 December	£m	£m
Short-term benefits	7.9	10.1
Post employment benefits	1.0	1.2
Share-based payments	4.1	1.6
	13.0	12.9

Remuneration of the Directors of Centrica plc	2019	2018
Year ended 31 December	£m	(restated) (i) £m
Total emoluments (ii)	4.0	6.0
Amounts receivable under long-term incentive schemes	-	0.7
Contributions into pension schemes	0.5	0.8

(i) Comparatives have been restated. Further detail is provided in the Remuneration Report on pages 82 to 93.

(ii) These emoluments were paid for services performed on behalf of the Group. No emoluments related specifically to services performed for the Company.

Directors' responsibilities statement

In compliance with DTR 4.1.12R, the Annual Report 2019 contains a Directors' responsibilities statement. This is reproduced below, in line with DTR 6.3.5R. The statement relates to and is extracted from the Annual Report 2019 and does not attach to the extracted information presented in this announcement or the preliminary results announcement released on 13 February 2020.

The Directors, who are named on pages 58 to 61, are responsible for preparing the Annual Report, the Remuneration Report, the Strategic Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Accordingly, the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and have elected to prepare the Company Financial Statements in accordance with UK Generally Accepted Accounting Practice including FRS 101 'Reduced Disclosure Framework' (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Company Financial Statements respectively; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the rest of the Group and enable them to ensure that the Financial Statements and the Remuneration Report comply with the Act and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Furthermore, the Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts 2019, when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Each of the Directors confirms that to the best of their knowledge:

- the Group Financial Statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group;
- the Strategic Report contained on pages 2 to 54, together with the Directors' and Corporate Governance Report on pages 55 to 102, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces;
- there is no relevant audit information of which Deloitte LLP are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

ENDS

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