---------------------------------------------------------------------------------------------------------Centrica 2012

Thanks to the hard work and dedication of our people we again delivered a solid performance in 2012, making considerable progress towards our strategic goals despite operating in what has continued to be a challenging economic environment.

**Review of 2012**

In the UK, higher commodity and non-commodity costs alongside much colder weather compared to the very mild 2011, contributed to higher bills for our customers. We recognise the real challenges that this presents in an environment where disposable income is flat for many of our customers. Responding to this, although we were obliged to increase bills as a result of higher input prices, our increase was lower than all the other major suppliers. By contrast, gas prices have fallen and bills have reduced in North America, helping customer satisfaction rise for Direct Energy. Our efforts there have focused on expanding into new markets and integrating newly acquired businesses into our operations.

We invested more than £2bn in 2012 to secure new sources of energy for the UK, across both gas and power. Sustained investment in energy projects makes a large contribution to the communities in which we operate: a study by the economic forecasting consultancy, Oxford Economics, calculated that Centrica’s UK activities in 2012 supported 174,000 UK jobs and made a £14.1bn contribution to the UK, equivalent to the size of the economy of Manchester.

We undertook all our activity with a clear focus on safety. There were no significant process safety events\* in our oil, gas and power generation operations, and our overall lost time injury frequency rate declined for the sixth consecutive year, falling to 0.20\* per 100,000 hours worked, beating our target of 0.225 for 2012.

In 2012, we continued to support our most vulnerable customers and spent more than £223m providing assistance such as free debt and payment assistance, discounted tariffs and energy and household grants to more than 2.1m\* households. In North America, we continued to support bill payment assistance programmes for our customers in Texas and contributed more than $534,000 (£336,000) to the programme, assisting more than 2,600 customers.

Customer trust remains a top priority. The changes we have made in 2012 to improve our customers’ experience have helped us achieve increases in customer satisfaction – as measured by our Net Promoter Scores – in both the UK and North America. British Gas took the lead in simplifying energy tariffs and we were awarded five stars by the consumer campaign group Which? for the clarity of our new energy bills that allow customers to ensure they are on the right tariff. We also improved our complaints processes by making it easier for customers to let us know if they have any concerns. Despite these improvements, the tough economic climate and concerns over rising fuel bills have damaged public trust in the energy industry in the UK, and in British Gas in particular, as the nation’s largest energy supplier. We are highly aware of the work that remains to be done in this area.

With energy costs increasing in the UK, keeping energy affordable is paramount as we seek to deliver value for our customers. Rising wholesale energy costs and levies to fund investment in low carbon programmes led to price increases in 2012, but a focus on cost management across our businesses meant British Gas was still able to offer the lowest tariff increase of the six major UK energy providers. In the US, where the proliferation of natural gas from shale has reduced wholesale energy prices, we focused on helping customers manage their energy costs through a number of initiatives, including time-of-use tariffs.

We recognise that this is a tough time for stretched household budgets. Our focus on helping customers cut their energy consumption has helped many to limit the impact of rising prices through measures such as loft and cavity wall insulation. British Gas was the first UK energy company to offer free insulation to all customers, and in 2012 insulated approximately 670,000 homes, which we estimate has had the same impact on CO2 emissions as replacing a coal-fired power station with low carbon generation.

Throughout 2012, we introduced innovations that helped customers to better manage their energy use. In the UK, British Gas launched Remote Heating ControlTM, which enables customers to control their central heating from a smartphone via a broadband connection. Smart meters offer further opportunities for innovation, and British Gas continues to lead their deployment in the UK, having installed more than 800,000\* in customers’ homes and businesses by the end of 2012. In North America, smart meters, which have been fully rolled out in some of our markets, are enabling Direct Energy to provide customers with more flexible electricity plans. These are also helping our customers to cut energy costs and reduce carbon by lowering demand on the grid at peak times.

**Energy challenge**

Consumers must have the energy they need to power and heat their homes and businesses. This energy must be affordable and those who struggle to pay may need support. On top of this, society must move towards a low carbon future.

Being a responsible energy company is about balancing these three, often conflicting, demands: what we call the energy trilemma. Centrica has a vital role to play in this.

Increasing supplies of gas will help us offer affordable energy. Through our exploration, production and trading capabilities, we are securing the gas our customers need, helping to achieve energy security. And we are contributing towards a low carbon future by applying our expertise in energy efficiency and smart energy management to help our customers reduce their energy consumption, as well as working to minimise the impact from our upstream generation activities.

**The future landscape**

The energy challenge changes as the energy landscape shifts. The UK now imports the majority of its gas, and while residential gas consumption is declining year-on-year due to energy efficiency programmes, the dependence on this form of energy will continue for many years ahead. Gas heats more than 80% of UK homes at half the cost of electricity, and contributes more overall energy than other fuels combined when industrial processes are included. In North America, an increasingly abundant and reliable supply of natural gas from shale creates potential for the region to export gas to the rest of the world including the UK.

Renewable energy such as offshore wind offers good alternatives for meeting low carbon targets. However, costs have not decreased to the levels many hoped they would and projects continue to get larger and more complex. Combined with regulatory uncertainty and financial constraints, the reality with renewable generation is a much different one than we were looking at three years ago. While renewable power will fill some of the gaps left by the closure of coal-fired power stations in the UK over the next decade, gas-fired power generation will become an increasingly important part of the fuel mix.

We must evolve with the changing energy landscape if we are to be a sustainable company able to address the challenges of the energy trilemma. Therefore, in February 2013 we refreshed our corporate strategy, setting out three key aims:

* Innovating to drive growth and service excellence
* Integrating our natural gas business, linked to our core markets
* Increasing our returns through efficiency and capital discipline

You can find out more about the strategy in our 2012 Annual Report and Accounts.

We are now reviewing and adapting our corporate responsibility approach to further strengthen our new strategic framework’s ability to balance the demands of the energy trilemma.

We will update you on our new corporate responsibility strategy in the coming months via our website and social media. I welcome your thoughts. Please get in touch at [responsibility@centrica.com](mailto:responsibility@centrica.com)

---------------------------------------------------------------------------------------------------------Centrica 2013

**At end of 2013, the UK was witness to the most heated political debate about energy since privatisation. Customers are struggling with their energy costs as household incomes remain under pressure and the UK recovers from the worst recession in decades. At the same time, higher wholesale commodity prices, transportation charges and environmental and social obligations are increasing the cost of energy. The debate has further eroded trust in the energy sector.**

Energy prices are understandably a key concern, and we are working hard to keep energy affordable. Affordability, though, must be addressed alongside other pressing matters. Energy security is essential because the UK is no longer energy independent and needs to secure its energy supplies by competing on the global market. Climate change is a real threat and must be mitigated by staying on course to meet the UK’s carbon targets. The intense scrutiny faced by the energy sector hinges on the interaction of these issues. Balancing these priorities is at the heart of what we do and can impact our ability to earn the trust of our stakeholders.

**Working to make energy affordable**

We took steps in 2013 to limit the impact of rising costs on our customers. Higher consumption as a result of a cold winter in late 2012 and early 2013 allowed us to shield our customers from increases in wholesale energy costs but by October 2013, we unfortunately had to raise residential energy prices by an average of 9.2% to remain profitable. However, with changes the UK Government proposed to the Energy Company Obligation (ECO), we were able to be the first supplier to reduce prices for all customers by an average of 3.2%, effective from 1 January 2014. Including the £12 rebate relating to the Government’s Warm Home Discount, the average customer bill reduced by £53, or 4.1%.

The need to increase prices was driven by factors largely external to the company. Our post-tax profit margin for British Gas Residential made up less than 5% of the bill last year – a level we feel is fair considering the commodity and weather risks we take. It is essential Centrica makes a reasonable profit enabling us to secure the gas and electricity supplies our customers need.

Installing insulation and other energy efficiency measures is an important part of our efforts to help customers manage energy costs. We installed more than 236,000 energy efficiency measures in 2013 to our customers’ homes in the UK. A third of these installations were for the elderly, disabled or those on low incomes, and will help them save more than £950m in heating costs over the lifetime of those measures. Overall, we supported more than 1.8m\* vulnerable households in the UK as well as helping customers in Texas through the bill assistance programme, Neighbor-to-Neighbor.

**Helping to reduce carbon emissions**

We are committed to supporting UK carbon reduction targets and believe energy efficiency is vital to cut emissions. Reducing our customers’ energy consumption decreases carbon produced in homes and means burning fewer fossil fuels to generate electricity. Since 2010, the measures we have installed in UK homes and businesses have saved a total of over 9.8m tonnes of CO2e, equivalent to taking more than 668,000 cars off the road.

However, only a fraction of savings available through greater energy efficiency has yet been realised. The UK needs to pursue cost-effective energy efficiency measures with greater urgency and zeal.

Putting people in control of their energy use can also help them manage consumption, leading to lower costs and carbon emissions. We are leading the rollout of smart meters, having installed nearly 1.3m in UK homes and business by the end of 2013. In a survey of our customers with smart meters, nine out of 10 are now taking simple steps to reduce energy use in the home. We have also introduced new products and services such as remote heating control and time-of-use plans. For example, customers using our ‘Free Power Saturdays’ offering in North America can save approximately 16% on their energy bills on average, while easing strain on the grid and reducing emissions from peaking power plants.

With our focus on gas, nuclear and renewables, we have one of the lowest carbon intensities of the major UK energy generators. We completed our Lincs offshore windfarm in 2013 which is capable of producing enough energy for more than 200,000 homes. However, to enable us to make further long-term investments in large scale offshore wind and renewables, the UK needs political consensus and legal and regulatory certainty concerning the investment and return framework.

**Securing energy supplies**

Alongside affordability and decarbonisation, we continue our work to secure energy supplies. We focus on gas because we believe it delivers on all three priorities. Gas is transportable and remains widely available, enabling us to secure future supplies and bring them to the UK at affordable prices. Gas also has the lowest carbon intensity of fossil fuels, and because of its flexibility, plays an important backup role to renewable power in a low carbon future.

Centrica has continued to make good progress in accessing new markets and securing new sources of gas in 2013. Our total commitments to purchase gas and power for our customers is now more than £60bn. We have also taken a 25% non-operating stake in the Bowland shale exploration licence in Lancashire in the UK, which could be a valuable addition to the UK’s future supply mix. We are confident that natural gas from shale can be extracted safely. We place a high priority on sensitively managing the potential local community and environmental impact whilst we explore such opportunities.

**Earning trust**

As the UK’s largest energy supplier we recognise the responsibility we have to help keep people’s homes and businesses warm and well lit. We must do this in a way that earns the trust of our customers and the wider stakeholder community. Despite our efforts, we, and the industry as a whole, have not been successful in doing this. Trust in the energy sector is at a low level, amplified by political positioning which has led the important debate about balancing affordability, climate change and energy security to be side-lined.

We want to earn the trust of our customers and other stakeholders and we know we must work even harder to achieve this through action, not words. That is why we introduced Tariff Check to help all our customers determine whether they are on the best deal, announced our plans to stop auto-renewal of contracts for business customers, and are committed to delivering best in class service levels. It is also why I welcome the competition assessment of the UK energy sector being conducted by Ofgem, the Office of Fair Trading and the Competition and Markets Authority, and why British Gas has embraced Ofgem’s Standards of Conduct and is making fundamental reforms such as setting up our independent Customer Fairness Committee (see page 8).

**Our approach to corporate responsibility**

I am convinced that the way we do business is critical to earning the trust we have lost. Our approach to corporate responsibility reinforces our focus on how we do business through four core themes which shape our organisational behaviour (see graphic). It supports our strategic priorities and gives our businesses as well as our people a clear framework for how to operate responsibly.

The four themes of our approach are treating customers fairly, safeguarding the environment, caring for our people and communities, and working with our partners.

In practice, this approach means providing products and services that customers think are fair and striving to treat them in a way that will gain their respect and trust. It ensures we work to extract gas or build energy infrastructure in a way that protects the local environment. It reinforces our drive to develop our people while treating their safety as paramount. It compels us to engage with communities around our operations to manage our impacts and optimise our positive contribution. And finally, it emphasises our belief that while we have an important role to play, we need to work together with partners in industry, NGOs and other stakeholders to deliver effective solutions to energy challenges.

Centrica has performed strongly in taking a responsible approach during 2013, despite a challenging environment. We have more to do to gain the respect of our stakeholders and achieve the right balance between affordability, reducing carbon emissions and securing energy supplies. I am confident that by focusing on how we do business and through the continued hard work and dedication of our people, we can earn the trust we need to deliver our strategy and achieve our purpose to help people today and to secure energy for tomorrow.

---------------------------------------------------------------------------------------------------------Centrica 2014

2014 was a challenging year for the energy industry. Public trust in our sector continues to be low. We are a customer-facing company, and we must serve our customers competitively and with integrity. Safety, compliance and our conduct – the way in which we go about our business – is front of mind for everyone in the company.

Concerns about pricing and competition remained in the spotlight throughout the year. The Competition and Markets Authority launched an investigation into the energy market in the UK. I believe the energy market is competitive but it is beneficial to have a full analysis to help restore consumer trust.

Across our company, we will work to rebuild trust by helping people today and securing energy for tomorrow. That means helping our customers, supporting our people and communities, while delivering reliable and competitive future energy supplies and services, in a safe and responsible way.

**Helping people today**

The safety of our people, customers and communities is my highest priority. As a company, we have robust safety systems in place and I am committed to equipping our people with the skills and tools to keep themselves, each other and our customers safe. Our rate of total recordable injuries improved by 34% in 2014, to 0.50 per 100,000 hours worked compared with 0.76 in 2013. However, our lost time injury frequency rate increased by 27% to 0.14 per 100,000 hours, up from 0.11 in 2013. This was mainly due to improved rigour in reporting.

We are listening to our customers and focusing on delivering a strong service at competitive prices. We know we have further to go to improve customer service and we are committed to ensuring we have the right capabilities and systems to do this. Since 2009, we have invested over £230m to upgrade our customer service systems in the UK. We are developing new ways for our customers to interact with energy through innovative technologies, such as Hive Active HeatingTM, which gives households greater control over their heating and energy bills. For customers who struggle to pay for energy, we provide energy assistance and financial support. In 2014, we helped nearly 1.8m vulnerable customers in the UK.

We also bring benefits to our local communities throughout the UK, North America and Republic of Ireland. For example, during the five-year construction of our Cygnus North Sea gas project, 4,820 skilled jobs will be created and we expect it to contribute £1.3bn to the UK economy.

**Securing energy for tomorrow**

As well as directly serving customers and communities, we play a vital role in securing the energy they need. One of Centrica’s strengths comes from its diverse energy portfolio. We cover oil and gas exploration and production, power generation, gas storage and energy trading. We are able to manage weather, commodity and market risk for our customers, so they can have secure and reliable energy supplies. We must also secure energy in a way that is efficient and competitive, and which minimises adverse social and environmental impacts.

In addition to fulfilling an important role today, I also believe Centrica is well positioned for the future. We have a focus on gas, which will continue to be an important part of the energy mix in the coming decades. It is cheaper than any other energy source apart from coal, is more reliable than wind and is the lowest carbon fossil fuel. This focus, alongside investments in energy efficiency, low carbon nuclear and renewables and our leadership in the installation of smart meters, means we are well placed to be at the forefront of the longer term trends in the global energy market and the transition to a lower carbon economy. In so doing, we are capable of supplying and serving the needs of our customers and other stakeholders.

**Looking ahead**

It is my belief that Centrica has a vital role in society; what we do is central to people’s energy needs. But I know there is more to be done. Our priorities are safety, compliance and conduct, serving our customers competitively and with integrity, developing new offers and services while providing secure and reliable energy supplies. We are undertaking a strategic review, which will report back in the summer, to ensure Centrica is on the best footing to fulfil these priorities for the long term.