

Corporate responsibility report 2009

Introduction and approach



centrica

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Introduction and approach

Chief Executive's introduction

Centrica achieved a great deal in 2009 in what was a very challenging business environment and I am delighted to present this report which describes our corporate responsibility (CR) progress during the year. It highlights how CR is central to our business strategy and demonstrates our ambition for Centrica to be a CR leader.

We made transformational changes to the business in 2009, taking important steps towards our vision of becoming the leading integrated energy company. The acquisition of Venture Production and a 20% stake in British Energy means we have a more robust business model, capable of meeting a greater proportion of our customer's energy needs from our own sources. And the restructuring of British Gas into a single business will enable us to meet the future energy and energy services requirements of our customers.

However, we are conscious that we must continue to transform the business to meet the needs of a low carbon future. Society as a whole must adjust to reduce its impact on the environment and to both mitigate and adapt to climate change. In the UK, environmental initiatives are already leading to reductions in energy consumption.

We aim to lead this transition by providing energy for a low carbon future. We're already making strong inroads with our off take of low carbon nuclear energy and will continue to be a leader in offshore wind generation. But to prosper fully in a low carbon world we need to transform Centrica from an energy supplier to an energy and energy services provider. That is why we have restructured British Gas and are now building our skills and capabilities in energy efficiency, smart metering and microgeneration.

Becoming a low carbon services provider offers opportunities but also new risks, such as whether increased energy services will offset lower energy consumption. To address these issues, we reviewed our CR strategy in 2009, aiming to coordinate our activities across the company to deliver on our goal of energy for a low carbon future.

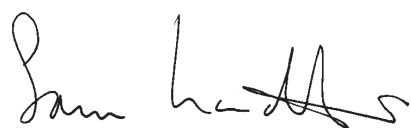
The actions described in this report set us on the right path. Through smart metering, microgeneration and our new insulation business we will be leading the transition in Britain towards low carbon and low energy housing – improving people's homes and helping to reduce their energy bills in the process. Investment in the Lincs wind farm will expand Centrica's existing offshore wind capacity. We also achieved an industry first in refinancing the Lynn, Inner Dowsing and Glens of Foudland wind farms, unlocking capital which can now fund new projects.

We made good progress in other areas such as health and safety, where we are reporting a significant reduction in injuries, and in building trust with customers as reflected in improved customer satisfaction scores. We have also integrated health, safety and environment metrics into annual performance reviews which are linked to our employee bonus scheme.

These are important changes within the business but more is needed and we are seeking to strengthen the foundations of sustainable business practice across the company. For instance, the majority of activity in this report is from the UK and we need to achieve similar progress in North America. The new management team at Direct Energy is seeking to create an integrated energy model in North America, but we must take into account the fact that market conditions present different sustainability challenges.

But we cannot follow our agenda without also continuing to build trust among all our stakeholders as this will empower us to drive change and lead on debates around the future of energy. We earn trust by treating people fairly, being open and transparent and demonstrating commitment to the highest ethical standards. Over the next few months we will be seeking feedback and engaging with stakeholders to define the steps needed to achieve a low carbon future. You can follow our progress on our website at www.centrica.com/views, where you can share your views on our performance and plans.

I do not underestimate the scale of the challenge – for companies like Centrica and for society as a whole – in achieving a low carbon future. Leadership is needed and we are determined to provide that leadership as we pursue our responsible business strategy.



Sam Laidlaw
Chief Executive

Highlights and challenges 2009

We were pleased with our progress across the CR agenda in 2009 and have highlighted below some of our key achievements. However, we cannot be complacent and there is still more to do. So, we have identified those areas that will require particular focus in 2010.

CR strategic review

We conducted a comprehensive review of our corporate responsibility strategy and approach as a result of key transformational changes to our business. The changes include our acquisition of gas producer Venture Production and our purchase of a 20% stake in nuclear generator British Energy. We have also consolidated our British Gas business and shifted its focus from an energy supply to an energy services model.

More to do

Our strategy has been agreed but we must now work to develop and implement our new approach, ensuring consistency across the business. We are aiming for leadership in corporate responsibility, with a focus on where we think that we can have the most impact which is to provide 'energy for a low carbon world'. However, we must ensure that our strategy implementation meets the different needs of both our main markets, UK and North America. The changes to the business also bring specific challenges, for example, we must align Venture's processes and systems with those of the wider Group.

Climate change and the environment

We exceeded all three key targets set for 2009 around the environment: we continued to reduce our carbon intensity below our 2012 target; we provided energy efficient products to customers that are equivalent to lifetime carbon savings of 17.53m tonnes; and we reduced our own office energy usage in the UK by 8.36%. We introduced a new Group Environment policy and we reassessed our key targets to ensure that they continued to challenge us. We also achieved a score of 84% in the Carbon Disclosure Project, ranking us as the top utility in Europe. In early 2010, 'energy for a low carbon world' became the strapline to our new commercial strategic priorities. This and the shift in the British Gas model demonstrate how we are successfully starting to embed the low carbon agenda across our business.

More to do

There is still much more to do to embed and implement our climate change strategy throughout our business. Our focus is now on delivering energy for a low carbon world and on developing a consistent approach for managing and mitigating our environmental impacts across our business. The situation in North America is different to that in the UK, as there is not such a developed regulatory framework to support investment in renewables or the development of markets in microgeneration and energy efficiency. However, we need to work towards a robust Group approach that enables us to monitor, measure and report on progress in accordance with best practice.

Health and safety

We decreased our LTI rate by 50% in 2009, as a result of a significantly renewed focus and effort of health and safety and our performance in this area is closely monitored by our Executive Committee. We have embedded a new management system, set out our roadmap for improvement, and incorporated health, safety and environment objectives into our annual incentive scheme for employees.

More to do

We can never afford to lose our focus on health and safety. We have further to go in embedding a culture where health and safety is a core value of the organisation. We aim to achieve leading standards in all areas of health and safety, ensuring Centrica benchmarks favourably against leading organisations in this area.

Vulnerable customers

We have been delivering on our vulnerable customer strategy in the UK and develop a more strategic approach in North America. In 2009, we supported around 2.2m vulnerable households with discounted fuel, benefits advice, debt assistance and other services provided through our charity partners. Our industry-leading approach aims to target customers with appropriate support, rather than assuming that 'one size fits all'.

More to do

The recent Energy Act 2010 will enable the UK Government to introduce mandated social tariffs in 2011. We must now reassess our approach to take this into account and to ensure that we are still able to meet the needs of our vulnerable and in-need customers in the most appropriate way.

Supply chain

We signed up 101 suppliers to contracts containing responsible procurement clauses in 2009. We are now reporting on this as a key performance indicator for the first time.

More to do

We must now focus on embedding these commitments among our suppliers so that we have confidence in the standards of our supply chain. We also aim to develop processes that enable us to effectively monitor suppliers' compliance to the standards.

Employees

We beat our interim employee engagement target by six percentage points with a score of 66% of employees committed to the company. We also almost halved our employee attrition from 14.6% to 8.8%. Training and skills development remained a top priority for us, spending £26.5m training engineers and apprentices through our network of six British Gas Academies.

More to do

We must continue to create an atmosphere that nurtures our employees as well as attracts and retains the best people. We will continue to provide skills development, promote diversity and equal opportunities and support regular opportunities for engagement.

Internal Engagement

The engagement of our employees in all aspects of the CR agenda is essential if we are to meet our targets and commitments. In 2009, our Green Teams led efforts to disseminate information on the green agenda to employees and we engaged customer-facing employees on issues around vulnerable customers and the role of our charity partners. We have also continued to run our successful Get Involved programme, supporting employees in their volunteering, fundraising and community activities. British Gas's inclusion in the Top 25 Best Big Companies to Work For index was just one reflection of our success in building an engaged workforce.

More to do

We will continue to embed corporate responsibility within our business activities, further developing a sense of ownership and accountability within our operating divisions.

Assurance and scope

Scope of report

This report covers the corporate responsibility (CR) performance of Centrica plc from 1 January 2009 to 31 December 2009. It updates our last CR report to 31 December 2008, published in May 2009. We will publish our next CR report in May 2011.

Our main operations are in the UK and North America. The report focuses on activities in these regions and includes data from all global operations in which we have a controlling share. We describe our approach to significant joint venture partnerships in relevant sections of the report and include data where appropriate and available.

For climate change data, we report on all emissions from sources we operate regardless of ownership with the exception of facilities that we operate or part own but where a third party holds the EU ETS licence (such as the Langeled receiving terminal). For increased transparency we also account for emissions (prorated) from facilities operated by a third party of which we are an equity shareholder, as in our operations in

Belgium. We have not reported on activities where we have an equity share in the business, but that neither we nor the company we have an equity share in, operate.

This is a group report that includes examples of the activities of our individual business units where appropriate. If you would like additional details of initiatives in each business please contact us at responsibility@centrica.com.

Significant changes to our business

During the year, we increased our stake in Belgian energy company SPE to 51% and subsequently sold the company as part of a deal to acquire a 20% stake in British Energy. As a result we have reported 11 months of data from SPE. We have also discontinued our other main European businesses outside the UK.

At the end of 2009, we acquired Venture Production. As the acquisition was not completed until the end of 2009, data from this business is not included in this report. We are integrating our reporting systems and will include data from Venture Productions in our 2010 CR report.

Assurance

For the seventh consecutive year, our report is externally assured by Corporate Citizenship. Corporate Citizenship, a specialist management consultancy, has undertaken the assignment to provide a 'moderate' level of assurance as defined by AA1000AS (2008). Their assurance statement can be downloaded from our website at www.centrica.com/responsibility.

We use external guidelines and frameworks to inform our reporting although we do not explicitly base our report on any individual guidance. We include the following index for easy reference: United Nations Global Compact index

Our approach

We believe that a business must be alert to the impact it has on the society and the physical environment in which it works and that it should do what it can to contribute to the health and sustainability of both. That is what we mean by corporate responsibility (CR).

In 2009, we began a strategic review of our approach to CR to identify how we could further embed it across our operations and align our business activities. The key outcome of the review is our CR vision and strategy that establishes our long-term ambitions and sets out how we will achieve them.

Our CR vision is 'to be the most trusted energy company leading the move to a low carbon future'. Our new strategy describes how we are aligning our business activities to work towards our CR vision.

During the year, we gave highest priority to the seven areas where Centrica is expected to have the greatest long-term

impact and where our stakeholders have the highest expectations of us.

These were:

- to contribute to the transition to a low carbon society
- to invest in secure energy supplies for our customers
- to be trusted by our customers and support the most vulnerable
- to keep our employees safe and healthy at work
- to develop our employees
- to support local communities
- to ensure responsible procurement

The Corporate Responsibility Committee oversees our overall CR strategy and our business units are responsible for its implementation.

See the CR Committee and governance section for more about the role of the CR Committee and its activities in 2009.

Our approach to CR is straightforward and integral to our strategic decision-making and business performance:

- We communicate our position on key issues and, through our business principles, are clear about the standards we expect of ourselves and those we work with
- We consult our employees, customers, investors and wider stakeholder groups to understand the main social and environmental matters affecting our business
- We identify and prioritise the risks we face and opportunities we have and develop distinctive strategies, commitments and targets
- We communicate our performance with openness and transparency, so that our stakeholders understand the progress we're making

A strong reputation for CR can help us win business advantage and contribute to shareholder value. Conversely perceived weakness in CR may damage our reputation and cause financial risks.

Understanding our business

Some issues are small in terms of impact on our commercial operations but have the potential to significantly impact our reputation. The significance of issues can also vary over time and between regions. Our UK and North American markets differ significantly in operational, political, regulatory and consumer characteristics. These may affect how we implement our CR

strategy in each region. Where relevant we report the unique characteristics of each market.

In 2009, we based our materiality assessment on the following information:

- Stakeholder engagement in the UK and North America – especially consumer feedback, employee surveys, internal and external meetings as part of the strategic review process
- SRI engagement – especially CDP, DJSI, FTSE4Good
- Benchmarking against competitors, peers and leaders
- Commercial direction and public policy developments
- Assurance and third party assessments
- Media coverage

We recognise that our approach to materiality assessment can be further developed and formalised. We will be working to improve the process across our business in 2010 to ensure consistency in our approach.

Our vision is to be the leading integrated energy company and we believe that the ability to manage our impacts in a way that minimises the risks and maximises the opportunities is central to this vision.

As an integrated energy company, our impacts are complex and interconnected.

Materiality

It is important to prioritise our activities and resources on areas where we have the most impact, ie those that are material issues for Centrica. This enables us to identify the risks we face and the opportunities we have and to develop distinctive effective strategies, commitments and targets.

Our material issues meet one or more of the following criteria:

- Where there is a serious reputational or financial risk to our business
- Where there are significant commercial opportunities to our business
- Where our business has a significant social impact
- Where our business has a significant environmental impact
- Where there is significant investment involved

We report against seven key impact areas, which are agreed by the Corporate Responsibility Committee. In this report, we explain the importance of each impact area and the main issues for Centrica.

Our CR strategy

The transformation of our business in 2009 increased our sources of gas and power and restructured British Gas into a single business, focused on meeting the energy and energy services requirements of our customers.

As a result of these changes, we conducted a strategic review of our approach to CR to create a programme that addresses our new challenges, risks and opportunities and includes a plan to achieve our long-term CR vision. The pyramid on page 10 illustrates this approach.

Centrica Vision

To be the leading integrated energy company in our chosen markets.

Our corporate vision aims to maximise our ability to provide energy for our customers, reduce our exposure to the volatility of the wholesale energy markets and thereby provide more stable earnings and growth for our stakeholders.

CR Vision

To be the most trusted energy company leading the move to a low carbon future

Our CR vision establishes our long-term ambition to maximise the opportunities available in the transition to a low carbon future, and build trust among our stakeholders, which can empower us to drive change and lead on debates around the future of energy.

Energy for a low carbon world

Our new CR strategy is to deliver energy for a low carbon world. This is an area where we can have a distinctive impact across the whole value chain. We are uniquely placed to deliver energy for a low carbon world through our relationships with over 28m customers, the skills of over 9,000 of our service engineers and our expertise in sourcing energy and generating power.

Focus areas

To deliver on our vision and build trust, we must maintain our focus on the health and safety of our people and customers, providing an environment in which our employees can achieve their potential, delivering high quality customer service and securing energy supplies for our customers. These issues remain central to our activities and our success in them is core to achieving sustainable business practices.

Responsible business practice

Operating in a responsible and sustainable way means addressing our impacts across all our activities to reduce the negative impacts and enhance the benefits. We must engage with our stakeholders to address their concerns, ensure fair and competitive prices on our products and services, provide appropriate support for our vulnerable and in-need customers to help reduce their energy bills and continually aim to reduce our environmental footprint. We must also extend our principles into our supply chain to support the enhancement of responsible business practices among business partners.

Values and behaviours

Corporate responsibility is ultimately based on the culture of an organisation. For Centrica, this is founded on our Business Principles, which set out the standards we expect of our people and business partners. We believe business must be open and transparent, respect human rights and fairness and condemn all forms of bribery and corruption. A strong and ethical culture will enable us to focus on our goals with the confidence that our wider activities and impacts are appropriately managed.

CR Committee and governance

CR Governance

Good governance through clearly defined roles and responsibilities and a framework for discussion and action is essential to deliver stability and growth for shareholders, customers, employees and wider stakeholders.

We seek to meet best practice standards in the way we run our business and in many instances commission independent certification of our performance.

Our Board takes responsibility for CR governance because it believes our CR performance can be material to our financial performance and good reputation. The Centrica Executive Committee (CEC) manages the delivery of our CR strategy and drives action across each of our businesses. We have established management focus groups covering areas such as stakeholder engagement, business ethics, risk management and audit to coordinate the implementation of our new CR strategy.

CR Committee

Our Corporate Responsibility Committee (CRC) oversees our CR strategy and activities on behalf of the Board and is chaired by our Senior Independent Director, Mary Francis CBE. The CRC meets quarterly and the Centrica Board reviews progress and performance of the CRC quarterly.

The Committee's main role is to ensure that our business operations respond to the opportunities and avoid the risks posed by CR issues. See the Risk Management section to find out more about our approach.

The committee challenges management to assess and control risks while encouraging the development of programmes to capitalise on opportunities. The CRC uses key performance indicators (KPIs) and targets to monitor the business' performance in achieving these tasks.

CR Committee Responsibilities

The Corporate Responsibility Committee (CRC) is authorised by the Board to:

- Review the effectiveness of the Group's processes and controls for identifying and managing CR risks and opportunities that could materially affect the Group's business performance and reputation
- Review and challenge the Group's performance on CR matters in line with the Group corporate responsibility strategy, policies and standards
- Maintain oversight of the Group's strategy and key policies on CR matters, noting any recommendations on these from the Executive Committee
- Identify future risks and opportunities through effective engagement with all relevant stakeholder groups
- Monitor the integrity and effectiveness of the non-financial statements of the Group and any other formal communications relating to the Group's CR performance

I am pleased that the CR Committee continues to receive strong commitment from our senior leadership and provides strategic oversight to our CR approach.

Committee objectives

In 2009, we built on the 2008 achievements and, in particular:

- Continued to support global efforts to combat climate change, including updating our environmental policy, delivering on our emissions targets and ensuring the effectiveness of our 'green' consumer initiatives like energy efficiency and microgeneration
- Focused our solutions for those affected by the very difficult economic climate, especially vulnerable customers, our employees, and local communities Increased the oversight of health and safety

- Continued to embed the Executive Committee's ownership of CR in the Group, and further develop a sense of ownership and accountability for CR within the business units
- Started using the full set of KPIs and targets as the basis for the CR Committee's oversight work
- Began a review of the Group's overall communications with a view to integrating CR more fully
- Supported the Group's efforts to shape the public policy agenda, for instance on climate change and vulnerable customers

Governance and management

Following appointment to the Board as Executive Director, Chris Weston was welcomed as a member of the CR Committee in October 2009. Chris replaced Deryk King as President and CEO of Direct Energy and the North American representative on the CR Committee, following Deryk's retirement from the company.

CR Committee Performance 2009

Direct Energy's Corporate Responsibility Committee continued to oversee CR activities in our North America operations. The committee comprises senior executives from Direct Energy and meets quarterly.

The Corporate Governance Report in the 2009 Annual Report and Accounts includes further details.

CR issues review

The Committee's main role is to ensure that Centrica's business operations respond to the opportunities and minimise the risks posed by CR issues. The Committee reviewed a number of issues across the CR priority areas during the year, to ensure that these objectives were being met:

1. Customer fairness and customer service
2. Vulnerable customers
3. Environment
4. Employee engagement and the people agenda
5. Health and safety
6. Responsible procurement
7. 'Speak Up' helpline (whistleblower line)
8. CR communications including the CR Report

Key performance indicators

The CR Committee requested further review of key performance indicators (KPIs) paying particularly close attention the development of effective customer and environmental metrics. KPIs should drive behaviour change, and while some of the existing KPIs achieved this, others were felt by the CR Committee to be insufficiently stretching. For example, one effect of the British Energy deal and the off-take of nuclear-generated electricity will be to cut the company's UK carbon intensity performance to a figure well below our 2020 target. We therefore reset our performance target for 2010, to reflect our stronger position in low carbon energy from nuclear and wind.

CR Strategic Review

A strategic review was initiated to advise the Centrica Executive Committee and the CR Committee on the achievement of the CR strategy and suggested next steps. The review entailed engaging internal and external stakeholders and benchmarking the company against its peers and other CR leaders. The outcome of the review was a strengthened CR vision and strategy, aligned with Centrica's new corporate strategic priorities. Our overriding CR priority is 'to provide energy for a low carbon world'.

Exploring the issue of coal generation

The CR Committee explored the issue of coal-fired electricity generation. Centrica has one of the lowest carbon generating fleet of any of the major suppliers in the UK, and in North America we have to date invested only in gas fired generation and wind power purchase agreements. We remain committed to the low carbon agenda. Going forward, while it is most unlikely that coal would ever play more than a small part in our UK fuel mix, pursuing our integrated energy business model in North America may result in a period where coal fired generation is part of our portfolio due to the significant role coal plays in the current US energy mix. Approximately 50% of the electricity in the US is generated in coal-fired power stations. While we are not currently targeting investment in coal-fired generation, the steps we may take to help us meet our future growth aspirations in North America may require us to consider coal as part of a larger strategic acquisition.

Responsible procurement

In 2009 the CR Committee continued to review progress on the implementation of the responsible procurement programme. A key performance indicator tracked the number of suppliers who signed contracts containing corporate responsibility clauses. We reported this figure publicly for the first time in our 2009 Annual Report and Accounts.

For more information on our responsible procurement programme, read the Supply Chain section.

Looking ahead

During 2009, we have continued to review, understand and manage the social, environmental and economic impact of our operations. In 2010, we will monitor the progress made in implementing the new CR strategy and vision to ensure the company stays focused on delivering energy for a low carbon world.

Business case

Creating sustainable value

Our primary responsibility is to create value for our stakeholders. To meet our goals and deliver sustainable returns over the long term, requires a responsible approach to business. CR often involves making business decisions that are challenging in the short term but that create the basis for future business success through a better understanding of the social and environmental context.

Managing risk

The Combined Code on Corporate Governance requires companies listed in the UK to have processes in place to understand and manage the risks that could affect their business. Our risk management processes capture both the financial and non-financial risks affecting the business and our internal audit programme monitors the effectiveness of our controls.

Identifying opportunities

The Combined Code on Corporate Governance requires companies listed in the UK to have processes in place to understand and manage the risks that could affect their business. Our risk management processes capture both the financial and non-financial risks affecting the business and our internal audit programme monitors the effectiveness of our controls.

Protecting our reputation

Our research demonstrates the high value our CR activities create for our brand and reputation. Meeting our stakeholders' high expectations is vital to building trust and loyalty in the marketplace. We understand the cost of getting it wrong and how this would harm our reputation.

Engaging our employees

CR credentials are becoming an important factor when people select potential employers. Our employees have a vested interest in our approach and an important role to play in helping us to embed our principles and deliver achieve our goals. This goes way beyond their participation in community activities and touches all aspects of their relationship with Centrica, and in turn their relationship with our customers and other stakeholders.

Managing costs

Our focus on environment and society and society enables stimulates us to develop products, services and systems that improve our own efficiency and reduce costs.

Risk management and internal control

The Board regards the identification, assessment and prioritisation of risks, together with the implementation of effective mitigating controls, to be fundamental to achieving the Group's strategic objectives and supporting the creation of long-term, sustainable returns for shareholders.

Our approach

The Board, supported by the Centrica Executive Committee (CEC), sets our strategic direction, which includes objectives, performance targets and policies for the management of material risks and opportunities. The system is intended to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Across the Group, each business has a Risk Management Committee that seeks to identify, assess and advise on material risks to the business and consider the adequacy of controls and the actions planned to mitigate those risks. These assessments are reported to the Group Risk Management Committee to develop the Company's overall risk profile including those risks that might affect the Company at Group level. Where significant risks have been identified, a control infrastructure is present to ensure day-to-day monitoring and management of risks.

The CEC reviews the risks identified by the Group Risk Management Committee at its monthly meetings to assure itself that the significant risks facing the Group are being managed appropriately.

At each of its four meetings in 2009, the Audit Committee of Non-Executive Directors received a Group Risk Report that provided an assessment of the material risks facing the company including the adequacy of the associated controls. The Audit Committee also received the results of internal audit reviews that enabled the Committee to track issues, monitor performance and ensure actions are taken to remedy weaknesses or failings identified in the report. The Chairman of the Audit Committee reported on the issues discussed and conclusions reached at the subsequent Board meeting.

Identifying CR risks

The Corporate Responsibility (CR) Committee is authorised by the Board to review the effectiveness of the Group's internal processes and controls for identifying and managing CR risks and opportunities that could materially affect the Group's business performance. In line with this, the CR Committee sets objectives, performance targets and policies, which are monitored by the Board.

Material CR risks affecting the Group are currently recorded on our risk registers and managed through our Business Risk Management Committees, Group Risk Management Committee and Audit Committee process. Current examples include health, safety and environment; new technologies like smart meters and smart grids; reputation management; and outsourcing.

Business unit managing directors have responsibility for reporting to the CR Committee on CR risks and how they are being addressed. Views on potential risks from external stakeholders are also incorporated at CR Committee meetings. Each risk is assessed against both financial and non-financial criteria, together with the likelihood of the risk materialising. Non-financial risks are assessed according to their impact on:

- Brand and reputation
- Legal and regulatory compliance
- Customers and employees
- Health, safety and security
- The environment

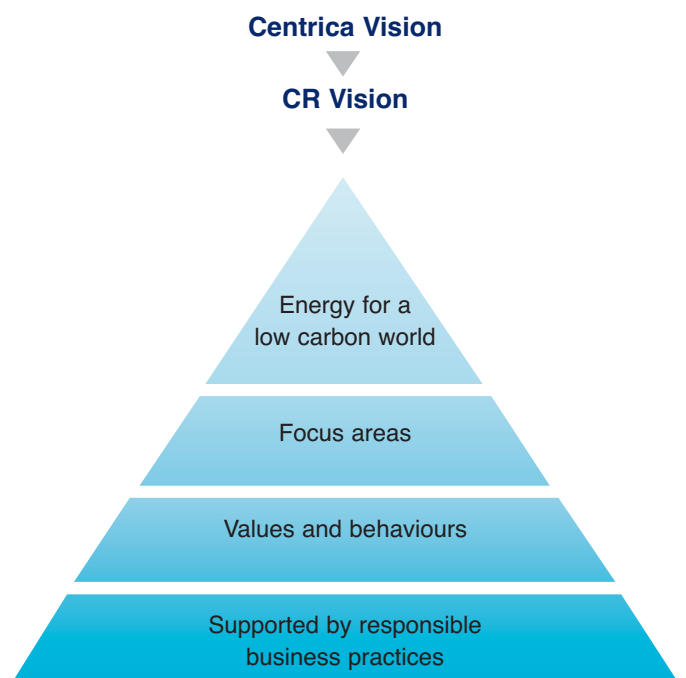
Our assessment method uses a 1-5 rating for impact and likelihood. The overall rating (risk severity definition) is calculated from impact x likelihood and classified from minor to fundamental.

Our annual report describes in detail the Principal Risks and Uncertainties for the business, covering the impact and mitigation for these risks

Internal audit

There is a strong link between our risk management and internal audit processes. Our internal audit programme assesses the effectiveness of management controls in relation to CR risks. Conclusions from the audit process feed back into the risk assessments. In addition, the Audit Committee receives quarterly updates on the material findings and actions from the internal audits.

CR strategy



Business principles

Our business principles set out the standards we expect and to which we must all work.

Introduction

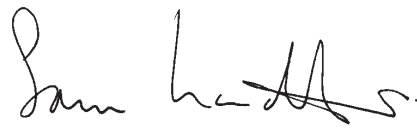
Our continued success depends on our ability, both as a company and as individuals, to establish and maintain positive relationships not only with our customers, colleagues and shareholders but also with our business partners, suppliers and the wider communities in which we work.

Our business principles set out our commitment to operate professionally, fairly and with integrity wherever we work in the world. Furthermore, they help us to protect and enhance our reputation by creating a clear framework to guide our behaviour and decision-making.

We expect the highest levels of ethical conduct and will support those who make decisions based on our business principles. As employees, business partners and suppliers, we have a shared responsibility to make sure we reflect these principles in our behaviour. This guide explains the standards we expect and how

to put our principles into practice in the many situations we encounter every day.

Like you, I want to be proud of what we achieve. Our business principles clearly set out how we want to work but I need your support to make sure that we continue to maintain the highest ethical standards throughout our organisation.



Sam Laidlaw
Chief Executive



1. Demonstrating integrity in corporate conduct

We are committed to working within the laws and regulations of all the countries in which we operate. In the absence of adequate laws and regulations, we will adopt recognised international standards of best practice and promote these in our business operations.

We also support the 10 principles described in the United Nations Global Compact and will seek to address social, ethical or environmental matters that may affect our shareholders, employees, customers and neighbours.

We believe that competitive markets can only flourish where there are sound business ethics. Our businesses are judged by what the outside world thinks of us and the way we conduct ourselves collectively. As such, we will assess the implications of our business decisions for all our stakeholders and manage our social, ethical and environmental impact accordingly.

We will avoid conflicts of interest and implement anti-corruption policies and procedures.

2. Ensuring openness and transparency

Open and transparent communications with our shareholders, employees, customers, local communities and society are important to us, but we also respect commercial confidentiality and the privacy of our employees and customers.

We will provide meaningful and timely communications to stakeholders of our social, ethical and environmental performance, which form part of our business principles, through the annual reporting process and online progress reports.

We will not engage in bribery or any form of unethical inducement or payment, even if this would result in Centrica losing a business opportunity.

3. Respecting human rights

We support all aspects of human rights set out in the Universal Declaration of Human Rights (UDHR), which forms the basis of our respect for the communities and societies in which we operate. Human rights considerations affect many aspects of our business activities, from our employment processes and investment strategies, to the health, safety and security of our people and assets and our goal to contribute positively to communities in which we operate.

4. Enhancing customer experiences and business partnerships

We will treat our customers fairly and professionally to deliver good quality customer service based on trust and credibility. We will also work with our customers to ensure they understand how to use our products and services safely and responsibly.

We will maintain dialogue with regulators, consumer and industry organisations and relevant not-for-profit organisations to inform our decision-making and ensure that we provide innovative products and services that are relevant to the markets in which we operate.

We will disseminate these principles to our business partners – including sub-contractors, suppliers and joint venture partners – and will seek to promote their application throughout our supply chain.

5. Valuing our people

We value our people and are committed to creating a culture of mutual trust and respect. We will recruit people based on the qualifications and abilities needed to do the job, while promoting diversity and development throughout our business.

We will work with our employees to ensure fair consultation and representation in decision-making, and respect employees' rights to freedom of association and collective bargaining. We will not tolerate any form of discrimination, harassment or bullying in the workplace.

6. Focusing on health, safety and security

The health, safety and security of our employees, customers and others who may be affected by our activities are a top priority. We believe that all work-related fatalities, injuries and illnesses can be prevented and we are committed to ensuring that all employees work in a safe and healthy way.

7. Protecting the environment

We are committed to understanding, managing and reducing the environmental impact of our activities. In particular we are committed to playing our full part in the transition to a low-carbon energy future, while ensuring the security of present and future energy supplies. We aim to achieve this by sourcing and producing energy from cleaner sources, reducing wasted energy and developing and deploying new technology.

We aim to maintain our low-carbon position in power generation by developing renewable and low-carbon energy sources that will facilitate the reduction of our carbon footprint. We are also committed to leading the consumer market for low-carbon energy products and services, helping customers to reduce their energy usage.

We recognise that our operations, together with the way we deliver products and services, can have a major impact on the environment – for example, in the way we produce and use energy, manage our local environment and its biodiversity, operate our fleet of vehicles and manage the waste we create. We will work with our employees and suppliers to reduce these impacts. In addition we will quantify, measure and communicate our environmental performance in a rigorous and clear manner.

8. Investing in communities

We recognise that strong relationships and long-term partnerships with local communities are fundamental to our sustained success. Wherever we operate, we seek to develop enduring relationships with our neighbours based on mutual trust, respect and an understanding of our impact.

We are committed to providing additional targeted support for our more vulnerable customers and the promotion of social inclusion. We also promote education, skills development and employability in the communities we serve.

Applying our business principles

Who do our business principles apply to?

- All employees (staff, contract and temporary), officers and directors of Centrica in each of our business units worldwide
- All our majority-owned business dealings and transactions in all countries in which we or our subsidiaries and associates operate
- Where we have a minority interest, we will encourage our business partners to apply our principles.
- We will fully support those who make decisions based on our business principles and treat any infringement with the utmost seriousness, even if this would result in Centrica losing a business opportunity. Those who fail to respect our business principles could face disciplinary action and dismissal.

How will we make sure that all our employees and business partners understand and apply our principles consistently throughout our business?

We will communicate our principles through internal communications channels supported by practical guidance and training.

We are committed to continual improvement through verifiable and systematic monitoring, reporting and reviewing of our performance in accordance with these principles. We will continue to implement an appropriate corporate responsibility strategy including indicators, target-setting, stakeholder engagement and an assurance programme open to independent audit where appropriate.

How can employees raise concerns?

If an employee is concerned about any possible improper, unethical or illegal practice within the organisation, he or she has a responsibility to speak up. We have provided a confidential and independent 'Speak up' helpline.

Calls to this helpline are monitored and reported on a quarterly basis to the General Risk Management Committee

Business principles performance 2009

Ensuring awareness and seeking compliance

We continue to provide an e-learning package to help employees understand how to handle business dilemmas and to gain a complete overview of the business principles. This scenario-based training is aimed at all managerial level employees and the internal audit team checks completion rates of departments as part of their regular auditing process. However, it is challenging to maintain momentum and completion rates for the course are still not as high as we would like. As a result, we have developed a shorter annual declaration of our business principles, which will be launched in 2010. During 2009, we reviewed and updated our business principles handbook, the 'Guide to sound business practice'. We will ensure that all employees receive updated versions to coincide with publicity around the new declaration process. All new starters receive the handbook along with their contract, which also contains clauses specifying commitment to our business principles.

We are implementing a new induction process for new employees. Designed as internet portals, the process aims to be more efficient in introducing employees to important information before and after starting their roles. The business principles are a key element that will be communicated as part of employee induction.

Throughout the year, we have also provided training opportunities on specific topics that are related to our business principles. For example, over 95% of UK employees have now completed data protection training since we launched the programme in 2008.

360 degree feedback

The business principles are a core aspect of the Centrica Leadership Behaviours, against which our managers are assessed. One of the questions in the 360 degree feedback that is being cascaded through our management community asks whether individuals are role models of the business principles. This has helped to maintain awareness and focus on the business principles at a senior level.

Research into business ethics

Our business principles aim to uphold integrity, openness and transparency, which are about building trust in business. To give us greater insights into the levels of trust in business, we worked with the Institute of Business Ethics in 2009 to conduct research among the British public. We found that 76% of respondents believe that most large companies will not be open and honest about their behaviour unless they are forced to be. The most important business ethics issue that the survey respondents thought should be addressed was executive pay (42% – up 5% on 2008).

However, we found that the public were looking for more than just openness with information – they wanted explanation and accountability. Of the respondents, 62% did not think that businesses explain the way they conduct their business clearly enough and 60% thought companies should have to explain how they make and spend money to the general public, not just investors. We are taking these findings and examining our communications and stakeholder engagement programme. The Customer Panel introduced by British Gas in 2009 as part of our 'We're Listening' campaign invites consumer representatives in to the business to understand more about how it works.

Employee research

Following the results of our 2008 survey, we have been working to establish a complex monitoring system to measure awareness, understanding and effectiveness of the business principles across our business. This system is still in development.

We conducted another survey and focus groups among employees in 2009 that aimed to explore whether they felt that the culture of the business reflected our commitments. An encouraging 92% of respondents agreed that they were clear about the standards of appropriate business behaviour expected of them with 72% identifying Centrica as a leader in corporate responsibility (unchanged from 2008). However, although 68% of respondents said that our commitments to responsible behaviour made a positive difference to working at Centrica, only 45% agreed that unethical behaviour is always challenged.

This has given us some clear areas for improvement and we are working to improve both communications and monitoring processes.

Bribery

Our business principles contain a zero tolerance commitment to bribery and corruption. Our main operations are in the UK and North America but we have small operations in countries that are deemed at high risk of corruption, notably Nigeria and Trinidad and Tobago.

In 2009, we began re-examining our anti-corruption policies and procedures to ensure that they continued to meet best practice. With increasing focus being placed on bribery by the UK and US governments, we are coordinating the review of our procedures with these legislative requirements. Throughout 2010 we will continue to strengthen our approach where necessary and ensure we have minimised the risks to our business.

The UK government has introduced a Bribery Act which became law in 2010. The act provides for a new offence of 'corporate failure to prevent bribery' and empowers the Serious Fraud Office (SFO) to prosecute overseas corruption in the UK. Companies can mitigate against the liability of failing to prevent bribery by having in place a set of adequate procedures. The US Foreign Corrupt Practices Act further exposes UK companies with a footprint in US to prosecution.

We have established an Anti-bribery Working Group and identified a senior manager, Director of Group Security, to have overall responsibility for coordinating a Group-wide anti-bribery approach. We are now working to embed anti-bribery systems more firmly throughout the business. This will include raising awareness among employees through our business principles declaration process. We will also provide in-depth training and support to handle difficult situations for those employees working in high risk countries, environments and roles.

Fraud management

Our Group Security Directorate has developed a group-wide framework for identifying and monitoring the risk of fraud and for working with the businesses to conduct investigations of fraud. This has included building capability within the businesses by training key people to conduct fraud investigations.

However, our main focus is to prevent fraud. In 2009 we ran 12 fraud workshops across the business where people looked at the possibilities for fraud within their own roles. This helped them to identify risk areas and put in place processes to reduce that risk.

Responsible procurement

Through our responsible procurement processes, we are ensuring that all our key suppliers are aware of our business principles and that they adhere to minimum standards of responsible business behaviour. For more details see the supply chain section.

Employees 'speaking up'

We launched our 'Speak Up' helpline in April 2007 to provide an independent means for employees to raise concerns. Phone numbers are available for all our businesses including those in Europe. Our third-party agency that provides the helpline, Expolink, has translation services to make it easy for people to report an issue. In 2009 we reviewed and updated our policy, which included making it clear that employees who made a disclosure and provided name and contact details could be accompanied by a work colleague or a trade union representative during the follow up interview.

In 2009, we received 15 calls to the Speak Up helpline

In the 12-month period to 31 December 2009 we received a total of eight cases via the Speak Up process in the UK. Of these, four were reported anonymously and four callers identified themselves. Six of the cases were reported via the confidential independent helpline operated in the UK by Expolink, with the remaining two cases reported directly to members of the Executive. Expolink confirmed that the number of calls received from Centrica employees is on a par with that of other energy companies that Expolink provide a similar service to in the UK and Europe.

In North America, we received seven cases over the year, three through the Speak Up helpline and four that were reported internally via discussion or email to Management. In all cases, the callers identified themselves.

Some of these cases resulted in disciplinary action and dismissal following investigations. In others, we made changes to systems and processes.

In line with best practice outlined in the 2008 Whistleblowing Code of Practice, we continue to promote awareness of the helpline. Our policy on speaking up is available to all employees through internal channels and it is also published

on the centrica.com website. In February 2009 we displayed posters throughout our UK call centres and offices and supported this with an article on the intranet. At Direct Energy, the Speak Up Helpline was relaunched in 2009 with a formal communication plan and improved access to the policy through the intranet. Direct Energy also provided around 700 new employees with an orientation to Speak Up and other relevant policies.

We will continue to review the effectiveness of our arrangements and will carry out a survey in 2010 to assess awareness of and trust and confidence in the whistle blowing procedures.

Categorised breakdown of 'Speak Up' calls received

Category	Number of calls
Company issue	3
Grievance with manager	3
Bullying / victimisation	2
Breach of company policy	3
Suspected fraud	2
Unprofessional behaviour	1
Other	1
Total	15

Corporate responsibility report 2009

Climate change and the environment



Climate change and the environment

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Climate change and the environment

Overview

Climate change presents significant risks to people and the environment which requires sustained global action and urgent cuts in carbon dioxide (CO₂) emissions.

Our business has a substantial environmental impact, especially through CO₂ emissions from the energy we provide, but our size means we can drive significant change in energy markets. The move towards a low carbon economy is an opportunity that we are pursuing vigorously – investing in innovative technologies and developing employees' skills so that we are well-positioned to prosper by selling low carbon and energy efficiency products and services.

In 2009, we were responsible for approximately 11.8m tonnes of CO₂ from the gas we produced, the electricity we generated and the energy we used in our operations and company vehicles. But the biggest positive impact we can make is to help our customers consume less energy and cleaner energy.

Our climate change strategy is to:

- Lead the consumer market for low carbon energy products and services
- Maintain our low carbon position in power generation
- Work with employees and suppliers to engage them in our environmental strategy and reduce the impact of our operations

The UK has a target to cut emissions to 80% of the 1990 level by 2050, which requires the rapid development of low carbon markets. Public policy is crucial and we are strongly supportive of mechanisms such as the Carbon Emissions Reduction Target (CERT) and the Renewables Obligation in the UK. We work closely with policy-makers and legislators to ensure adequate regulatory support, through measures such as feed-in tariffs, for investments in renewable and small-scale (microgeneration) technologies.

In North America, low carbon energy markets are less well developed but Direct Energy is well-positioned to take advantage of opportunities as they arise and we are confident that clear legislation providing certainty will enable us to pursue our climate change agenda in North America.

Leading the consumer market

The move to a low carbon economy gives us an opportunity to build our energy services business as we help people use cleaner energy and less energy. The opportunities are currently greatest in the UK where the market for energy efficiency and low carbon products and services is more developed. However, we are also ensuring that our North American business is positioned to make the most of opportunities and we are trialling partnerships and smart grid technologies.

Energy efficiency and microgeneration

In the UK, we have the scale to deliver energy efficiency and microgeneration nationwide. British Gas has more than 9,000 engineers and a network of training academies, which we are

using to develop the skills required to install and maintain new technologies. This includes the development and roll-out of smart meters, which will play a major role in changing customers' relationship with the energy that they use. Smart meters also have the future capability to provide a two-way flow of electricity for those who have installed microgeneration technologies in their homes and business, supporting their take-up.

British Gas is building capability in a range of microgeneration technologies, from solar panels to fuel cells. In 2009 we invested in Econergy, a leader in biomass heating. We are also investigating innovative financing arrangements to help those interested in small-scale generation but put off by the initial upfront costs. British Gas won a government tender to pilot a 'Pay As You Save' scheme where people pay for the equipment with long-term payment plans through the energy savings on their bill.

While the market in microgeneration is still emerging, the energy efficiency market is more established. In 2009, the energy efficiency products we supplied will save 17.53m tonnes of carbon dioxide over their lifetime. Approximately 270,000 customers had loft and cavity wall insulation from British Gas in 2009, taking the total to more than 1.5m homes in the last five years. To capitalise on this growing market we set up a new insulation business in 2010, creating 1,100 new jobs.

Behaviour change

Low carbon living requires changes in behaviour as well as products and services and we are building on our year-long energy-saving experiment Green Streets. We launched Green Streets 2 in January 2010, with 14 communities competing to become Britain's most innovative green community. The £2m project will provide invaluable insights into which community-based approaches to energy efficiency could work best, helping to shape future national policy as the UK government looks to increase the take up of such measures. It also gives British Gas the opportunity to test the latest in low carbon generation and energy efficiency technologies.

We are helping business customers as well as residential consumers. British Gas provides an Energy360 service to help businesses manage their energy, improve energy efficiency and comply with new legislation, including the Carbon Reduction Commitment.

North America

While not currently leading the consumer market, Direct Energy is building partnerships with technology providers and has joined a home energy management partnership that has developed a blueprint for an energy efficient home. The technology, which features appliances that interact to save energy, will also enable homeowners to control energy usage remotely. We are also working with software developer e3 solutions to distribute software that enables companies to measure, monitor and track their carbon emissions.

In addition, we have been involved in a range of pilot programmes such as the Milton Hydro energy conservation programme and CPL BrightHome – a ground-breaking demand response and energy efficiency programme for residential customers. This pilot involves using internet radio technology for electricity load control.

Low carbon power generation

Managing energy demand will only provide part of the carbon emission reductions required to meet the challenging UK targets. We must also reduce the carbon content of the power customers continue to need and will do that with efficient power stations and an increasing proportion of low carbon generation.

UK

In the UK, we operate efficient gas-fired power stations and wind farms and as a result have one of the lowest carbon intensities of any major UK supplier. In 2009 we reduced the carbon intensity of our electricity generation by 2% to 371g CO₂/kWh. During the year we invested in nuclear power generator British Energy. New nuclear will be an essential component of a low carbon energy mix as it provides reliable baseload power, which wind cannot do.

As a result of our nuclear involvement and following announcements to invest further in offshore wind farm developments, we have reassessed our carbon intensity target and are now aiming to reduce it to 270g CO₂/kWh by 2012.

We are also exploring other low carbon innovations and are planning five biomethane demonstration projects. These are likely to be the first in the UK to inject renewable gas, produced from organic material, into the grid in 2010.

North America

In North America, there is currently less government support for investment in low carbon generation but we are lobbying for urgent action. In 2009, Direct Energy joined a coalition of American corporations and non-governmental organisations in an advertisement demanding a clear US energy policy on emissions reduction. We also lobbied the federal Canadian government for cap-and-trade rules to develop a carbon market. Our current involvement in renewables centres on our existing power purchase agreements for the electricity produced by the Buffalo Gap wind farms in Texas, totalling 813MW. Combining this output with that of our three efficient gas-fired power stations in Texas gives us a carbon intensity for our power generation of 321g CO₂/kWh (compared to 264g CO₂/kWh in 2008). The increase is primarily due to a change in US Government emission factors for natural gas. When normalised, the year-on-year increase is lower at around 10% which can be attributed to a reduction in wind offtake in 2009. This figure remains almost half the Texas average of 601g/kWh.

Reducing the environmental impact of our operations

Although the biggest environmental benefits we can have as an energy company are in helping customers to reduce their carbon emissions and decarbonising electricity generation, it is vital that we also seek to reduce the overall environmental impact of our own operations. This gives us the credibility to lead the

consumer market and it also helps to engage our own employees in understanding environmental issues. We are working to reduce emissions associated with our office energy usage, our company vehicles and business travel, whilst reducing water use and waste and enhancing biodiversity.

Internal footprint¹

One of our key future targets is to reduce the global carbon footprint of our existing offices, company vehicles and travel by 20% by 2015 (baseline year: 2007). We operate robust environmental management systems certified to ISO14001 to help achieve this.

UK

Since 2003, our UK business has achieved a reduction of about 40% in the energy it uses, helping to drive down our UK internal carbon footprint by around 15%. In 2009, we achieved an 8.36% reduction in energy use across our UK properties, exceeding our 5% target.

We also achieved accreditation for our UK properties to the Carbon Trust Standard in 2009, recognising a reduction of around 25% in our office carbon footprint over the previous three years and our commitment to continual improvement.

In 2009, we conducted waste audits for every UK office, which helped us to identify the waste we generate and to set ambitious targets for reductions. We also continued to encourage our employees to choose greener company cars by raising awareness and using financial incentives.

Our global target requires a 25% reduction in the UK internal carbon footprint (offices, company cars and travel) by 2015 and we have launched a 10 point plan to achieve this. The target includes a 10% reduction in our offices during 2010, part of our commitment as a signatory to the 10:10 campaign.

Employee engagement

We engage employees through a network of Green Teams who helped to run a 100-day carbon reduction campaign for a second year in 2009. The campaign raised awareness of environmental responsibility in employees' personal lifestyles as well as in the workplace. The majority of large sites also hosted events for World Environment Day again in 2009 to raise awareness of environmental issues both within and outside the company.

North America

In North America we estimate that we have already exceeded our target to reduce our carbon footprint by 8.5% on 2007 levels. However as most of this reduction is a direct result of reducing operational activity we cannot be complacent and are actively looking for ways to increase efficiencies further to sustain our reduction during the anticipated upturn in economic activity. We have focused on improving data management systems to give greater insight into Direct Energy's emissions. We also launched Climate Change Week and ran a speaker series for employees to coincide with the international Copenhagen climate conference.

¹We use the term 'internal carbon footprint' to describe the emissions associated with our occupations of offices, company vans and cars and the business travel we undertake in planes and trains.

Progress key:

- Achieved
- Partially achieved
- Not achieved

Greenhouse gas emissions

Previous commitments

- Reassess our target to reduce UK power generation carbon intensity to 380g CO₂/kWh by 2012 and to 350g CO₂/kWh by 2020
- Improve our performance in the Carbon Disclosure Leadership Index

Carbon intensity

Carbon intensity measures the efficiency of our power generation and that of our site-specific purchase agreements. In 2009, we continued to have one of the lowest carbon intensities of the major UK suppliers, emitting 371g CO₂/kWh. This is because we do not have any coal-fired generation in our portfolio but focus instead on lower carbon generation, such as highly efficient gas-fired power stations and offshore wind farms. Following our purchase of a 20% stake in British Energy, we have now added nuclear power to our generation mix.

The offtake from British Energy started in April 2010 and will significantly reduce our carbon intensity. As we have also already exceeded our existing 2012 target to achieve 380g CO₂/kWh, we have reassessed our target to ensure it remains challenging. We now aim to reduce our UK power generation carbon intensity to 270g CO₂/kWh by 2012.

Identifying an appropriate target for 2020 is currently very difficult as it is contingent on UK Government support for new nuclear and renewables. There are also considerable uncertainties over closure dates for existing generation facilities. However, we are currently aiming to reduce our UK power generation carbon intensity to 260g CO₂/kWh by 2020.

In line with our new strategy to provide a more consistent global approach to tackling climate change, we are currently exploring the possibility of a Group carbon intensity target. This presents challenges because of the different markets in which we operate. For example, the kind of government support mechanisms for renewables that we have in the UK do not exist in North America.

Absolute carbon emissions

We use the Greenhouse Gas Protocol to calculate our carbon emissions, using the categories of Scope 1, Scope 2 and Scope 3. Total emissions from activities we own or control increased by 6% in 2009 to 11.8m tonnes of carbon dioxide equivalent in

2009. The increase was mainly due to increased power generation as a result of growing our customer numbers, but we continued to reduce the carbon intensity of that power.

Scope 1 emissions

Scope 1 includes the direct emissions from sources Centrica operates or part-owns. This includes emissions from upstream power generation, upstream gas production and storage, commercial fleet (including long-term contractors), cars (business mileage), refrigerant losses and fuel consumed at Centrica buildings.

As an energy intensive industry, our scope 1 emissions are significant at 11.6m tonnes in 2009, having increased by 6% Group-wide since 2008. As we grow our business, these are likely to increase further.

We are addressing the impact of the direct emissions from our vehicle fleet and offices with clear carbon reduction targets but the biggest impact is from our power generation. This is much harder to set absolute reduction targets for as we must continue to meet consumer demand for energy and ensure security of supply. We cannot simply reduce supply in order to cut our carbon emissions. However, by improving the efficiency of our power generation and investing in low carbon energy sources, we are playing a key role in beginning to decarbonise UK electricity generation as a whole.

Scope 2 emissions

Scope 2 includes indirect emissions from purchased electricity consumed by the company, including at our offices, and electricity imported and consumed at our power stations, gas storage and processing plant. In 2009, our Scope 2 emissions increased 0.1% year on year, mainly as a result of increases in electricity use at our power stations which makes up 91% of our overall Scope 2. Our new Langage power station started operations in the second half of the year and contributed to this increase.

Although our Scope 2 emissions are small compared to the footprint of Scope 1 and Scope 3, it is essential that we focus our attention on this area as well. Setting reduction targets and managing our own office energy use gives us the credibility to advise our customers on reducing theirs. It also helps to engage our own employees in our low carbon agenda. Our Green Teams of employee volunteers are important drivers in helping to bring down our Scope 2 emissions.

Scope 3 emissions

Scope 3 covers emissions that occur as a consequence of Centrica's activities but released from sources not owned or controlled by Centrica. These include air travel, rail travel, helicopter and shipping, as well as offshored and outsourced services such as data centres and call centres. In 2009, our reported Scope 3 emissions have increased, partly because we have included additional supplier data for the first time, including the fuel used for third party shipping of liquefied natural gas (LNG). The other main source of the increase is due to a rise in the amount of electricity we purchased on the market in North

Customer energy efficiency

America. This is because we entered the Californian market in June 2008 and we have since been building our customer base in that region.

The vast majority of our reported Scope 3 emissions are due to the power purchased for supply to end users. This is the power that we buy on the market for our customers but do not generate ourselves. As we generate more electricity from our own sources which are less carbon intensive than the market average, we will be able to reduce this aspect of our Scope 3 footprint. We are also working to help consumers manage their demand and the advent of smart meters brings significant future capability in helping to reduce peak energy demand requirements.

We do not yet report on the Scope 3 emissions from the gas that we supply to our customers. However, we are exploring lower carbon alternatives and are participating in five biomethane projects in 2010. We expect to be the first energy company to inject biogas into the grid later this year.

In the UK, the fuel mix that we report annually to Ofgem includes both the power we generate ourselves and the power we buy on the market. In 2009, we continued to have the lowest carbon intensity compared to the other six major suppliers under this definition as well.

We also report on our carbon risks, opportunities and performance through the Carbon Disclosure Project. In 2009, we achieved a score of 84%, placing us in the Carbon Disclosure Leadership Index for the third year running, making us the top utility in the UK and the third globally.

Future commitments

- Reduce our UK power generation carbon intensity to 270g CO₂/kWh by 2012 and 260g CO₂/kWh by 2020
- Reduce our internal carbon footprint (offices, company vehicles, travel) of our existing global business by 20% by 2015 (baseline year: 2007)
- Maintain our leading position in the Carbon Disclosure Leadership Index

Note: We calculate our greenhouse gas emissions in accordance with the WRI GHG Protocol including all sources we operate except facilities where a third party holds the EU ETS licence (such as the Langede Receiving Facility). We include (prorated) facilities operated by a third party of which we are an equity shareholder. We convert emissions to tonnes carbon dioxide equivalent (TCO_{2e}) using recognised and published conversion factors. At the beginning of 2010, we introduced new global environment data software to improve our ability to capture and track data. We have provided training to those around the business responsible for inputting the information and expect this to enhance the quality of the data reported

Previous commitments

- Provide energy efficiency products in 2009 with total lifetime carbon savings of 13.2m tonnes of CO₂ to meet our CERT obligation (this figure is agreed with Ofgem and subject to change depending on our market share)
- Build on the success of Green Streets through launching a new community programme
- Continue to build on Generation Green, with greater employee involvement

Energy efficiency is the cheapest and most environmentally friendly way to reduce energy bills. In North America, we are working to expand our capability in energy services, although we are not yet leading the consumer market. By contrast, the opportunities within the UK market are such that we have developed a new business model for British Gas, focusing on energy services, signalling a major shift for the company. And we are developing the skills required to deliver low carbon products and services.

UK Government programmes

The UK Government sees both domestic and commercial energy efficiency as key to meeting its carbon reduction target of 80% on 1990 levels by 2050. The main domestic energy saving schemes are the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme (CESP).

CERT requires suppliers like British Gas to deliver carbon reductions by providing energy efficiency measures to customers. Such measures include insulation, energy saving devices and ground source heat pumps. The target for each supplier is calculated in terms of market share, which means that British Gas has the highest target. In 2009, the government increased the target for all energy suppliers by 20%, extended the programme from 2011 to 2012 and increased the amount of carbon savings attributable to insulation.

We carried out approximately 270,000 loft and cavity insulations last year, which equates to around £30m in energy savings for our customers. This helped us to exceed our annual target for 2009, delivering energy efficiency products and services that will save an equivalent of 17.53m tonnes of CO₂ over their lifetime. To support our significant role in energy efficiency provision, we announced plans to launch a new insulation business in early 2010, with 1,100 new jobs. We have also explored different ways of delivering energy efficiency measures, such as through our partnership with B&Q.

CESP is a joint initiative between the government, energy suppliers and power generators which will see a total of £350m worth of energy efficiency measures installed over three years. British Gas will be spending approximately £70m as part of the programme. CESP will explore how households, local groups and energy suppliers can work together to deliver energy

efficiency measures across an entire community. The programme targets low income households, helping hard-to-reach people who have typically not benefited from other national energy efficiency initiatives.

Community by community

Discussions are currently underway over what will replace CERT and CESP after 2012 and we are actively involved in exploring new delivery models to meet the Government's new ambition to deliver energy saving measures to more homes more quickly. Future models will need to stimulate customer demand, ensure sufficient capability to deliver energy efficiency measures and provide financing options for customers.

We support a model which uses a community-by-community approach, with suppliers working with local authorities. We are already working in partnership with local authorities and are broadening our capabilities to meet their requirements. Our council tax rebate scheme encourages the take up of loft and cavity wall insulation and solar water heating, by offering our customers who install home insulation a Council Tax discount of up to £125. Since this scheme began, we have worked with 90 local authorities and councils, installing more than 26,000 loft and cavity insulation measures.

There are also considerable opportunities for integrating the delivery of 'whole house' energy efficiency packages with the national roll-out of smart meters, which will begin in 2012. Smart meters provide information to users that can help them to manage and reduce their energy use. British Gas is uniquely positioned to deliver the complete package of energy services given our existing network of over 9,000 engineers. We are developing the skills and capabilities of these engineers to deliver advice, energy efficiency equipment and microgeneration technologies.

We are also working closely with banks to provide affordable financing and we are involved in innovative schemes such as 'Pay As You Save', which enable people to invest in energy efficiency and microgeneration technologies without being deterred by upfront costs. The customer then pays off the loan through long-term payment plans which are financed by energy savings. Other government-supported programmes that are helping to increase demand for new technologies include the boiler scrappage scheme, which included a financial incentive that British Gas matched.

The Government's introduction of a feed-in tariff in April 2010 and a renewable heat incentive in 2011 will also support greater take-up of microgeneration technologies. The feed-in tariff is a payment to those who have invested in small-scale renewable technologies to generate their own electricity.

Supporting businesses

All businesses are under significant pressure to reduce costs, comply with climate legislation, and achieve environmental targets. We are well positioned to support business customers in turning 'energy management' into a commercial opportunity.

In the UK, British Gas developed Energy 360[®], which provides a range of energy services and products to businesses and public sector organisations. Typically, our Energy 360 team finds opportunities to reduce a customer's energy consumption by at least 10% – but sometimes up to 30% – through measures such as improving control systems and installing microgeneration technologies.

Central to our approach are smart meters and Automatic Monitoring and Targeting (aM&T) technology, which give customers access to their energy data in timely and usable form. This helps them understand, reduce and control the energy they use. British Gas installed over 50,000 smart meters in businesses in 2009, with another 110,000 installations planned for 2010.

Green skills

It is essential that we support the development of skills and training to deliver on our energy efficiency and microgeneration programme. In 2009, we announced the UK's first dedicated Green Skills Training Centre, which we opened in partnership with the Welsh Assembly Government. The centre will train over 1,300 people each year, including British Gas employees, and help the Welsh Assembly Government to deliver energy efficiency measures to 40,000 homes as part of its Heads of the Valleys Low Carbon Programme.

Green Streets

To find out what could be achieved within communities at a local level we ran a year-long, independently-monitored experiment in energy saving called Green Streets. The results were published in March 2009 and demonstrated mutual benefits to customers, the environment and our business, with an average 25% reduction in energy use and 23% reduction in carbon emissions. Green Streets 2008 also provided important information on consumer behaviour and the impact of low carbon and energy efficiency technologies.

To build on these findings, we launched a Green Streets 2 community initiative in January 2010, with 14 communities competing to become Britain's most innovative green community by reducing their energy usage and carbon emissions over a year. The £2m project will provide invaluable insights into which community-based approaches to energy efficiency could work best, helping to shape future national policy. It also gives British Gas the opportunity to test the latest in low carbon generation and energy efficiency technologies.

A key message from the Green Streets work so far is that a 'whole house' approach, applying a range of measures relevant to the specific local housing needs, is more effective than applying a single action (such as insulation) across the board. We encourage whole house approaches for individual houses through our Energy Savers Reports. Customers complete a simple questionnaire online and we work out their homes' energy rating and provide personalised advice on reducing their energy consumption. In 2009 we introduced the Energy Planner, setting out a plan of action and tracking progress. Customers have now completed more than 2.6m Energy Savers Reports.

Generation Green

Generation Green, launched in 2008, promotes energy efficiency and understanding among children. The programme enables schools to earn rewards such as bikes and safety equipment by completing a range of green activities in return for 'leaves', which can be exchanged for rewards. More than 10,000 schools are now participating and they have so far collected nearly 40m green leaves, including 4.7m donated by parents and consumers completing the British Gas Energy Savers

Report. As part of the programme, 22 children were selected to take part in the UK's first environmental think tank for 7-14 year olds. They presented their manifesto to the Secretary of State for Energy and Climate Change in February 2010.

North America

Direct Energy is working to build partnerships with technology providers that enable customers to manage their energy more effectively. Our strategy is to identify those households which represent the greatest opportunity for energy conservation and to research consumer behaviour and household type to inform our marketing and sales strategies. The focus is initially in the Ontario market but we aim to apply the learning and capabilities to other markets. Also in Ontario, we source locally generated renewable energy through our agreement with Brookfield Renewable Power to support our low carbon products.

In the US, Direct Energy piloted the Climate Master geothermal heating and cooling systems for residential customers. Climate Master geothermal is a highly efficient system using natural underground heat to cut energy use and carbon emissions. We have also joined a partnership with appliance and technology providers to develop a blueprint for an energy efficient home. This Home Energy Management system features appliances that communicate with each other to save energy and enables homeowners to control devices remotely. Direct Energy is testing this through its energy customer network.

Since 2007, Direct Energy has been working on an energy conservation programme in the Milton area aimed at providing customers with high-tech tools to help them manage their energy use. The pilot has focused on around 200 homes and involved research into consumer attitudes, behaviours and reactions to the programme.

We have also been working with the City of Houston and Centerpoint Energy to deliver a residential energy efficiency programme (REEP) to Houston's low-income citizens. More than 4,000 households have participated in the programme so far, which offers energy efficiency measures such as blown-in attic insulation, duct sealing and water heater wraps. Centerpoint has concluded that the average energy reduction is 19.1%, while City of Houston has estimated that this equates to over \$12m in reduced energy bills.

Future commitments

- Provide energy efficiency products in 2009 with total lifetime carbon savings of 14.6m tonnes of CO₂ to meet our CERT obligation (this figure is agreed with Ofgem and subject to change depending on our market share)
- Launch 16 CESP programmes
- Install 12,000 Energy Display meters in English schools on behalf of the Department for Children, Schools and Families
- Introduce more energy saving rewards into the Generation Green programme

Managing our environmental impact

Previous commitments

- We aim to reduce the internal carbon footprint of our Direct Energy business by 8.5% by 2013 (using a 2007 baseline)
- We will develop and introduce a global environmental reporting system to improve the scope and quality of our environmental performance monitoring and reporting by January 2010
- We aim to increase the visibility and activities of the Green Teams and promote the model across our non-UK activities

Supporting businesses

We intend our own operations to be a demonstration of what is achievable for our customers. Since 2003, our UK business has achieved a reduction of about 40% in the energy it uses, helping to drive down our internal carbon footprint by around 15%. In 2009, we achieved an 8.36% reduction in energy use across our UK properties, exceeding our 5% target.

Group internal footprint

We have set a new Group internal carbon footprint target of a 20% reduction in our existing business by 2015 (baseline: 2007). This challenging target roughly equates to a 25% reduction in the UK footprint and covers our commercial and company car fleet, as well as our offices and business travel by air and rail. The target does not cover emissions from power generation, the reporting and management of which we treat separately. We do this because these emissions are significantly higher and more material than those emissions from the rest of our carbon footprint. Our internal targets concentrate instead on those areas where the majority of our employees have the ability to influence results. This is important for engagement purposes and enables us to benchmark our operational performance against the majority of other businesses.

To support our new target, we introduced a global reporting platform for collecting environmental data in January 2010 and gave all those responsible for submitting data online training. The aim is to improve the data quality and increase our ability to monitor progress against targets Group-wide. The submitted data goes through a quality assessment process. Where data is unavailable, we will continue to estimate in accordance with our recently drafted group procedure for environmental reporting.

We have also embedded environment criteria into the annual incentive scheme. These high level objectives will apply in 2010 and will be built into business objectives and annual incentive plans, affecting the bonus structure for most employees.

Our global target requires a 25% reduction in the UK internal carbon footprint (offices, company cars and travel) by 2015. In order to achieve these cuts, we have launched a 10 point plan, which aims to reduce the carbon footprint of our main offices by 10% and of our fleet by 5% during 2010. We will also start to install renewable generation technologies at some of our UK offices.

Environmental Management System (EMS)

In 2009 we made good progress in implementing our Environmental Management System (EMS) within the gas, power and home and business services divisions of Direct Energy and are on track to gain certification to ISO14001 by the end of 2010. We have also made strong progress in our renewable energy business and are on track to certify the operation and maintenance division during 2010.

In January 2009, Centrica Group Properties were accredited to the Carbon Trust Standard. This will be linked to the UK government's new carbon trading scheme, the Carbon Reduction Commitment, for organisations with more than 6,000MWh of electricity and gas consumption. The scheme is due to start in 2010 and will affect most of our operations that are not already covered under the EU Emissions Trading Scheme. Accreditation to the Carbon Trust Standard will automatically place Centrica higher up the performance league table of companies, as this is one of two 'early action' metrics.

By the end of 2009, around 65% of our operations (based on revenue) were certified under the EMS, although this figure does not include Venture which we acquired towards the end of the year.

The introduction of our new Group Environment Policy at the start of 2010 has reinforced our commitment to implementing EMS certified to ISO14001 across the group in addition to providing a more coherent Group approach across our environmental agenda.

Engaging employees

In the UK we engage employees on environmental issues through our Green Teams, a network of employee champions who lead our campaigns at a local and site level. During the year we provided these volunteers with additional support, video conferences and forums for them to share ideas and challenges. As part of our work to engage employees further on our environmental programme, we ran our 100-day carbon reduction campaign for the second year running. This included PC switch-off competitions between departments. The campaign effectively raised awareness of environmental responsibility not only in the workplace but in employees' personal lifestyles too. It went beyond its original aims by reducing waste as well as energy within British Gas.

The previous year's campaign was recognised in May 2009, when Centrica won the NQA Environmental Leadership Award for Culture Change at the Environment & Energy Awards 2009. This accolade acknowledged the previous commitment partially achieved.

We will implement and certify our environmental management system across Direct Energy, Centrica Energia and Centrica Renewable Energy by end of 2010 'outstanding leadership' demonstrated by the business in raising colleagues' awareness of sustainability and environmental impact and achieving significant tangible benefits as a result.

In North America, we held a climate change week which coincided with Copenhagen to raise awareness of key issues.

We ran a speaker series of leading experts in climate change and environmental management for which hundreds of employees tuned in via webcast. We also introduced a new Environmental Sustainability Award for the individual or team that most successfully achieves Direct Energy's vision of running a sustainable business while keeping climate change and environment top of mind. We aim to renew our focus on environmental awareness in 2010 and our new internal footprint target will help to drive change in Direct Energy.

Future commitments

- Reduce Group internal footprint of existing business by 20% by 2015 (baseline: 2007)
- Reduce UK internal footprint of existing business by 25% by 2015 (baseline: 2007)
- Install renewable generation technologies at selected offices

Power generation

Previous commitments

- Commission fully Lynn and Inner Dowsing wind farm development
- Commission fully Langage CCGT power station
- Invest £1.5bn in renewable energy assets in the period 2008-2013
- Achieve planning consent for Race Bank and Docking Shoal wind farm developments

We must continue to secure energy supplies for our customers to meet demand but we are doing that in a way that aims to minimise our impact on the environment.

In the UK, we operate gas-fired power stations, the most energy efficient of the fossil fuels, and we are investing in renewable and nuclear generation which are both low carbon sources of power generation.

In 2009, the carbon emissions from our power generation totalled 10.5m tonnes, an increase of 9.6% on 2008. Overall the carbon intensity of our power generation fleet has been steadily decreasing as we increase the efficiency of our operations and invest in low carbon sources such as renewables. However, there has been an increase in emissions from power generation in North America which is primarily due to a change in US Government emission factors for natural gas. When normalised, the year-on-year increase is lower at around 10% which can be attributed to a reduction in wind offtake in 2009. This figure remains almost half the Texas average of 601g/kWh.

Renewables

Our commitment to renewables development is a key part of our approach to delivering a lower carbon generation portfolio. Our main focus is on offshore wind development and we are now a leading offshore wind farm operator.

In 2009, we commissioned the Lynn and Inner Dowsing wind farms and announced a £750m commitment to commence construction of the 270MW Lincs offshore wind farm development in 2010. Docking Shoal and Race Bank, our two other Round Two wind farm proposals, which are awaiting consent, could add a further 1.1GW – enough to power 760,000 homes.

In January 2010, we were successful in The Crown Estate's Round Three offshore wind auctioning process, having been awarded exclusive rights to develop the Irish Sea zone. The zone, which is located 15km off the coast of Anglesey, Wales, and covers 2,100km², provides us with the potential to develop up to an additional 4.2GW of renewable energy and increases the geographic diversity of our offshore wind development prospects. It could provide enough power for over 3m British Gas homes.

However, building wind farms offshore is expensive and there are extensive planning requirements. We are working with the UK government to develop the regulatory framework so that it continues to incentivise investments in renewables. We welcomed the introduction of two Renewable Obligation Certificates (ROCs) for offshore wind projects meeting specified criteria in 2009. As a major developer of offshore wind, we are keen to ensure Centrica's projects are eligible and that the criteria are not needlessly restrictive. This change was an important factor in our decision to invest in the Lincs offshore wind project.

The carbon price is also a significant factor when making decisions about low carbon investments and will be crucial in underpinning new nuclear investment. While the EU Emissions Trading System provides a carbon price throughout much of the economy, the UK Government is ensuring renewables and Carbon Capture and Storage have additional support in order to bring forward the necessary investment in time to meet these targets.

The pricing of CO₂ emissions also has a direct impact on the running costs of our power stations and the cost of electricity that we purchase from other generators. We are pursuing a power generation strategy that assumes a long-term trend in decarbonisation of the UK power sector.

Over the past few years, North American energy markets have undergone a very slow evolution that recognises the importance of renewable energy resources, energy efficiency and the very real impact that carbon emissions have on climate change. Until recently, the evolution occurred mostly at the state/provincial and regional level, creating a patchwork of climate change policy and strategy across the US and Canada. The US federal stance on climate change issues has shifted with the election of Barack Obama as US president, although the pace of change is still uncertain.

In April 2009, the US Environmental Protection Agency (EPA) reversed prior determinations to issue a proposed finding that

carbon and other greenhouse gases (GHGs) pose a threat to public health and welfare (this finding was subsequently finalised in December 2009). This step towards some form of carbon regulation was followed by the proposed Waxman-Markey bill which passed the House of Representatives in May 2009. While final passage of this bill is highly unlikely, it provides the first real indication of climate legislation in the US. The proposed bill commits to a 17% reduction in greenhouse gas emissions by 2020 and 80% by 2050 based on 2005 levels. In the absence of legislation, the EPA continues to move forward with the development of regulations on greenhouse gases under the purview of the Clean Air Act.

Direct Energy has power purchase agreements with AES Corporation for the renewable electricity produced by the Buffalo Gap wind farms in Texas, with total operational offtake agreements of 813MW. We are well-positioned to take advantage of further opportunities and we are confident that clear legislation providing certainty will enable us to pursue our climate change agenda in North America.

Gas-fired power stations

The majority of our generation portfolio comprises gas-fired power stations, which have a lower carbon intensity than coal-fired equivalents. During 2009, we commissioned our new Langage generation facility, one of the most efficient gas-fired power stations in the world.

In 2009, we discontinued our European operations so the figures presented above do not reflect our current power portfolio. The amount of power generated in Europe in 2009 roughly doubled as we increased the equity stake we held in Belgian power producer SPE from 25.5% to 51% at the beginning of the year. We sold our entire stake in SPE as part of a deal with EDF towards the end of 2009.

Nuclear

In January 2008, the UK Government gave the go-ahead to a new generation of nuclear plants which would help to meet energy needs from low-carbon sources. We have taken the opportunities provided by government support for nuclear by purchasing a 20% stake in nuclear power generator British Energy. Under the deal, Centrica also has the option to invest in the construction, operation and decommissioning of four new European Pressurised Reactors (EPRs). The offtake from British Energy started in April 2010 and will form part of our generation fuel mix in our 2010 corporate responsibility report.

Carbon dioxide equivalent emissions from nuclear power generation are almost zero and this will be critical in helping the UK meet its climate change targets. Realistically, there is no chance of providing secure energy by renewables alone. We need low carbon baseload power as well. In 2009 we reduced our gas production in the UK, mainly because we decided to shut production at South Morecambe during periods of low gas prices. This was a value maximising decision that resulted in a 51% reduction in Morecambe volumes.

In North America, Direct Energy acquired two additional natural gas fields, along with associated compressor stations. This led

to increases in the amount of energy used and the carbon intensity of our gas production.

At the end of 2009, we purchased Venture Production, which produces oil as well as gas. The addition of Venture's output increases the amount of gas we produce ourselves, which gives us greater control over the emissions in our supply chain. However, the acquisition also brings fresh challenges to the business and we are currently assessing how best to manage them. As the acquisition was not completed until the end of 2009, emissions from this part of the business are not included in the numbers we have reported. We will account for these emissions in our 2010 corporate responsibility report.

Biogas

In February 2010, British Gas announced plans go ahead with five biomethane demonstration projects that are likely to be the first in the UK to inject green gas into the grid later in the year. The announcement follows Government backing for this emerging technology that confirms support for biomethane to the grid from April 2011. Biomethane will make a contribution to decarbonising the gas grid by delivering renewable heat to households through the existing gas network and central heating boilers. According to a study by National Grid, it could account for at least 15% of the domestic gas market by 2020.

Environmental compliance

Compliance relates to the facilities that we operate. We aim to ensure compliance with the vast array of regulations we are subject to and our environmental management systems support continual improvement and the highest levels of compliance. We report in accordance with standard definitions for environmental compliance.

Legal action is the most serious type of compliance issue and covers prosecutions; formal cautions; fines; improvement/enforcement/abatement notices; revocation suspension of licence to operate; and regulator emergency works. It does not include formal or warning letters from regulators.

The majority of our reportable issues come under the category of non-compliances. These include breaches of authorisation (permit, licence, consent, authorisation) and breaches of 'wider' environmental legislation. Non-compliances may be self notified, ie reported by us to the regulator, or regulator notified, ie reported by the regulator to us. This category excludes suspected non-compliances, which are classed as 'incidents'. An incident is defined as an accident resulting in negative environmental impact, which causes pollution to the 'wider environment'. It includes non-reportable suspected non-compliances but excludes near misses where there was no material harm to the environment.

We report complaints that are from external third parties and which relate to Centrica-controlled activity. Each complaint is recorded separately. We do not report on internal complaints or those which are discredited in agreement with the regulator and/or complainant.

We recorded one legal action during the year. On 31 August 2009, we were issued with a Notice of Enforcement against Frontera Energy Center in North America for failure to submit a compliance report on time. We have worked closely with the regulator and agreed to implement a preventative plan centred on monthly internal reviews.

Office energy use

Previous commitments

- Achieve a 5% reduction in UK office energy use in 2009 compared to 2008
- Reduce the internal carbon footprint of our Direct Energy business by 8.5% by 2013 (using a 2007 baseline)

Future commitment

- Reduce UK office energy consumption and carbon footprint by 10% in 2010 compared to 2009

Around 35% of Centrica's internal carbon footprint is office energy usage and reducing it is a focus of our internal carbon reduction programme. We reduced office energy use across the Group in 2009 by 2.5%. The increase under the Rest of World category directly reflects a doubling of our stake in Belgian energy company SPE at the beginning of 2009 from 25.5% to 51%.

Total energy consumption in our main UK offices fell by 8.36% in 2009 despite growth in the business, beating the 5% target and adding up to a 50% reduction in six years. This was achieved by energy saving initiatives in the UK office portfolio, including the closure of inefficient buildings, and the activities of our Green Teams.

For more information see Managing our environmental impact.

Travel

Previous commitment

- Reduce the internal carbon footprint of our Direct Energy business by 8.5% by 2013 (using a 2007 baseline)

In 2009, we increased our rail journeys but we also slightly increased the distance travelled by air. The CO₂e from air and rail is counted as part of our Scope 3 emissions.

Our vehicle fleet contributed 60% of our Group internal footprint in 2009 and it is a clear focus of our commitment to reduce emissions.

We have a strategy to reduce the carbon emissions from our fleet by more than 20% in the UK by 2015 (baseline year: 2007). Our UK programme aims to reduce emissions by 6,300 tonnes of CO₂ by 2015, equivalent to taking over 1,600 average private cars off the road.

We made good progress in 2009 with a cut in total carbon emissions compared to 2008. We also reduced carbon emissions from our vehicle fleet in North America and this will continue to be a focus for our reduction programme in 2010.

Company cars

In the UK, we are aiming for an overall reduction in business mileage and we are also gradually replacing our fleet with cars that have smaller, cleaner engines. In 2007, we restricted the choice of company cars to those that emit a maximum of 200g CO₂/km, helping to lead to a reduction in the average tail-pipe emissions from our company car fleet to 154g CO₂/km from 164g CO₂/km in 2007.

We also updated our company car policy in July 2009 to encourage our staff to choose greener cars through raising awareness and using financial incentives. The changes have impacted our employees' car selection and on average, they are now choosing cars which emit 16g CO₂/km less than our current fleet average.

In addition to influencing the choice of vehicle, we are also addressing driver behaviour. We use a Safe and Fuel Efficient Driving (SAFED) online tool aimed at educating our 15,000 commercial and company car drivers in how to drive in a more environmentally friendly manner. For company car drivers, we are rolling out the fuel efficiency online training through British Gas Business in 2010 and anticipating a 3% improvement in carbon emissions.

We also plan to introduce electric vehicle recharging canopies at our headquarters by June 2010, ready for our first two electric company cars.

Commercial vehicles

Our new metering business will add around 270 vans to our fleet in 2010 and our new insulation business will also increase the number of vehicles on the road. This means we have to work even harder at improving the efficiency of our existing fleet in order to meet our carbon reduction targets, while also employing best practice from the outset in our new vehicles.

As with our company cars, we are gradually replacing our commercial vehicles with more efficient models and aiming to encourage 60% take-up of smaller vehicles. Our new vans will be the efficient Caddy maxi models which operate at around 35mpg when fully loaded. To replace the vans of our front line management we have also sourced 512 Leon Ecomotives, which achieve a fuel consumption rating of 3.8l/100km (61.9mpg), emitting 99g of CO₂ per km. The car employs an auto start/stop function and an energy recovery system to cut emissions and improve fuel economy further. We are the first major operator of these ultra low emission cars, which were specially built for us.

In 2009, we profiled our drivers using a points-based system which identified those with low fuel efficiency. We delivered 805 two-hour sessions for these drivers, as well as 297 SAFED e-learning modules, 37 new induction courses and 415 one-hour driving assessments. In 2010 we will continue to identify high risk van drivers using league tables and provide them with fuel efficiency training.

We first introduced speed limiters in our commercial vehicles in 2008 and completed the programme in 2009. This has been key

in helping to reduce carbon emissions and following successful trials, we are also rolling out GPS to the majority of our vans. GPS helps to calculate the most efficient routes, reducing mileage and fuel used. We anticipate this will reduce carbon emissions by a further 5%.

From 2012 onwards, we are looking to include electric vans in our vehicle replacement programme. We are installing recharging facilities at one of our sites in 2010 with the first electric van to be trialled towards the end of the year. Our strategy for full adoption of electric vehicles depends on the standardisation of electric or electric hybrids by manufacturers. We are working with manufacturers and leasing companies to help develop cost of ownership models and after sales support. Low carbon commuting

We provide travel plan advisers to help employees work out the best ways to reach work and how to reduce the impact of their commute. We have also developed a number of schemes to support low carbon commuting and provide alternatives to driving.

We operate a minibus shuttle service that connects offices and provides transport links to local train stations. The shuttle buses achieve carbon savings of approx 441 tonnes of CO₂ each year and in 2009 the service was awarded the 'Planet Positive' environmental mark in recognition of its contribution to reducing employee car usage.

We partnered with Cyclescheme to support the government-backed Bike4Work initiative which provides bicycles at a reduced cost. We have also teamed up with liftshare.com, the largest implementer of car-sharing in the UK to create the Centrica Carshare scheme. This aims to provide efficient and greener travel solutions to and from work and between offices. We are aiming to implement green travel plans at every major UK site during 2010 to provide a holistic approach to reducing both business travel and commuting. We are also upgrading video-conferencing equipment and promoting remote working technology such as web-conferencing as an alternative to travel.

Future commitments

- Reduce Group internal footprint of existing business by 20% by 2015 (baseline: 2007)
- Reduce the UK commercial and company car fleet CO₂ emissions by 5% in 2010 compared to 2009
- Reduce payloads and downsize the vehicles in our UK commercial fleet
- Implement new technology to support our targets including top speed limiters, telematics, semi auto transmission and stop/start technologies
- Implement further driver training, cleaner vehicles and fuel efficiency training

Waste

Previous commitments

- We aim to achieve a 10% reduction in UK office waste production in 2009 compared to 2008
- Previous commitment partially achieved
- We aim to increase the percentage of UK office waste recycled to 65% and reduce the amount of waste sent to landfill by 15% (two year target using 2007 baseline)

We succeeded in cutting Group-wide waste volumes by almost 7% in 2009.

In the UK we managed to reduce waste production from our main sites by over 13%, against a target of 10%, and reduce our waste to landfill by almost 19%, exceeding our target of 15%. Total waste production figures show less of a reduction because this includes waste from businesses and sites acquired during the year and which were not included in our original target. We almost hit our recycling target of 65% in the UK, but have more work to do here.

We have increased the number of recycling bins available in our offices and labelled them more clearly to prevent waste contamination. Waste was also a key theme during World Environment Day in June 2009, and some of our offices hosted waste installations to demonstrate the amount and types of waste that are thrown away each week at each site. We increased communications around paper usage and reset internal printers so that they default to double-sided printing.

In the UK, British Gas created a waste reduction strategy team, in conjunction with our facilities management company, which aims to improve performance at 23 office sites. We used an independent assessor to conduct waste audits and management at every UK site which has helped us to identify what we produce and to set ambitious targets for reductions.

In order to continue our year-on-year improvements in waste management, we began dry mixed recycling trials at two of our offices and we are looking to commission a compost facility at our headquarters to treat food waste and our compostable coffee cups.

Future commitments

- Reduce total UK office waste by 5%
- Reduce UK office waste sent to landfill by 22%
- Recycle 65% of UK office waste created
- Reduce UK paper use by 10%

Air emissions

We report on our emissions to air in accordance with best practice and for compliance reasons. The reduction in SO₂ and NO_x emissions in 2009 is primarily because one of our power facilities in Europe converted from mainly diesel to mainly biofuel.

Water

Our water use falls into three main categories:

Office water is potable water consumed in our buildings 1.

Cooling water is water that we do not consume but 2. redirect through pipes to cool our power generation or gas processing facilities before returning it to the same water source over a short time period; we source our cooling water from seas, rivers and estuaries

Process water is water that we use and which is then 3. subject to on- or off-site treatment before being used again or returned to a water source

For a company of our size, we actually consume a relatively small amount of water, although we use significantly more that we do not consume, especially for cooling.

Cooling water is not contaminated by our use of it but it is subject to an increase in temperature, which can affect the local environment. At Cavendish Dock, we release water from our Roosecote power station and this has led to a unique underwater climate that we have agreed to maintain at the current temperature.

The significant increase in process water reported for North America is because we are now capturing data on groundwater at our Frontera Energy Center, which was not recorded in 2008. Water is an increasingly important issue and in 2010 we will explore opportunities to get greater visibility of our water footprint.

Future commitment

- Reduce UK office water use by 7.5% in 2010

Biodiversity

Previous commitment

- We will develop a UK national Biodiversity Plan programme for upstream and downstream activities

Biodiversity is not one of our most material issues. However, we believe it is important to manage our impact on ecosystems and we focus our activities at a local level and at facilities where we have the most impact.

Offshore, we have been monitoring the impact of our wind farms on birds to mitigate concerns that the turbines were affecting migration patterns. The results of this research follow earlier studies on the impact of wind farm construction on the underwater marine environment that we reported on in our 2008 CR report. In all cases, we have found that while the turbines have caused some initial disturbance, the balance was quickly restored without evidence of long-term damage.

In Norway, our environmental surveys revealed a high concentration of cold water coral close to where we planned to drill. As a result, we repositioned our drilling and redesigned the path of our planned well to avoid damaging the coral.

Carbon intensity

Carbon intensity of our power generation

	Unit	2009	2008	2007	2006	2009 change (%)
UK	g CO ₂ /kW	371	379	390	394	-2.11
North America	g CO ₂ /kW	321	264	305	n/a	-1.14
Belgium ³	g CO ₂ /kW	245	290	282	n/a	-15.52
Group carbon intensity ^{1,2}	g CO ₂ /kW	348	351	n/a	n/a	-

¹ UK and Belgium figures based on verified emissions data under the requirements of the EU Emissions Trading Scheme.

² Carbon intensity measures the amount of carbon dioxide (CO₂) emitted per unit of electricity generated. Our figures are based on average annual emissions from all wholly-owned power generation assets and all other power generation assets from which Centrica is entitled to output under site-specific contracts.

³ Significant decrease in carbon intensity in Belgium is as a result of an increase in biofuel use at our plants and a significant increase in renewable power acquired through Power Purchasing Agreements.

Carbon footprint – Greenhouse Gas Protocol

	Unit	2009	2008	2007	2006
Scope 1 total ^{1,2}	TCO ₂ e	11,598,816	10,958,720	9,572,002	7,532,811
Scope 2 total ^{1,2}	TCO ₂ e	200,625	200,403	122,713	49,218
Scope 3 total ^{1,2}	TCO ₂ e	38,576,388	26,224,479	28,316,340	2,250,094

¹ Total of data currently available.

² We do not report emissions data from facilities that we operate or part own, where a third party holds the EU ETS Licence (such as the Langede Receiving Facility).

Carbon footprint of electricity purchased for resale

	Unit	2009	2008	2007	2006
Total carbon footprint of electricity purchased for resale	TCO ₂ e	38,133,528	28,189,262	28,292,469	22,231,040

Customer energy efficiency

Lifetime carbon savings from UK household energy efficiency products provided

	Unit	2009	2008
Lifetime carbon savings	Million TCO ₂ e	17.53	17.87

Note: We calculate the total carbon savings using Ofgem's published guide for each energy efficiency measure or by agreement with Ofgem for newer products. The basis on which carbon savings are calculated has changed, making a comparison with 2007 inapplicable.

Power generation

	Unit	2009	2008	2007	2006	2005	2004
Total power generated ^{1,2,3}	GWh	26,246	24,296	21,367	15,519	17,653	17,638
Total power generated by gas	GWh	24,952	23,394	-	-	-	-
Total power generated by renewables	GWh	1,294	902	-	-	-	-
Total energy consumed in power generation ^{2,4}	GWh	56,118	50,932	33,576	23,124	32,242	36,344
Total CO ₂ e emissions from power generation ²	TCO ₂ e	10,447,037	9,531,133	8,499,748	6,507,023	5,869,728	6,958,841

¹ Excludes power purchased from non-Centrica facilities (such as Spalding and from our power purchase agreements). This data was included in previous reports and we have adjusted our historical totals accordingly.

² Total of data currently available

³ Includes self-generated thermal, wind and hydro power generation

⁴ Includes gas, diesel and electricity consumption

Gas production and storage

	Unit	2009	2008	2007	2006	2005	2004
Total gas production and storage volumes ¹	mscm	11,648	13,141	9,610	7,662	14,647	16,982
Total gas production and storage energy use ¹	GWh	3,166	3,591	3,403	3,132	4,460	5,257
Total gas production and storage CO ₂ e emissions ¹	TCO ₂ e	715,416	892,161	768,838	769,294	804,712	n/a
Carbon intensity of our gas production and storage	g CO ₂ /kWh	5.58	6.17	-	-	-	-

¹ Total of data currently available

² These gas production and storage figures include all gas produced, in addition to gas that we store and process on behalf of third parties; note that this is different to the gas volumes reported in Securing Future Energy supplies, which are for gas sales only

Environmental compliance

	Unit	2009	2008	2007	2006	2005
Incidents	9	8	12	14	30	17
Legal Action	1	1	0	0	0	0
Non-compliances	21	18	7	3	6	14
Complaints	5	2	30	13	54	38

Office energy use

	Unit	2009	2008	2007	2006	2005	2004
Total office and building energy consumption	MWh	87,308	89,813	98,885	119,995	123,299	119,955
Total CO ₂ e from office energy consumption	TCO ₂ e	36,151	37,472	42,453	53,387	55,524	52,983

Travel

	Unit	2007	2006
Total distance travelled by air	000 miles	27,280	22,857
Total distance travelled by rail	000 miles	2,140	1,407
Total distance travelled by road	000 miles	171,277	176,301
Total CO ₂ e produced from air travel	tonnes	10,926	9,421
Total CO ₂ e produced from rail travel	tonnes	204	138
Total CO ₂ e produced from road travel	tonnes	68,492	71,777

¹ Reduce the internal carbon footprint of our Direct Energy business by 8.5% by 2013 (using a 2007 baseline)

Waste

	Unit	2009	2008	2007	2006	2005	2004
Office waste							
Total office waste	tonnes	4,293	4,599	4,445	5,839	6,320	7,652
Office waste % recycled/recovered	%	63	59	n/a	n/a	n/a	n/a
Operational waste							
Total operational waste	tonnes	23,019	22,801	16,413	14,238	17,368	21,222
Total operational hazardous waste	tonnes	6,740	5,736	1,897	1,303	2,385	2,696
Operational waste recycled/recovered – Total	%	70	66	64	48	72	68

Air emissions

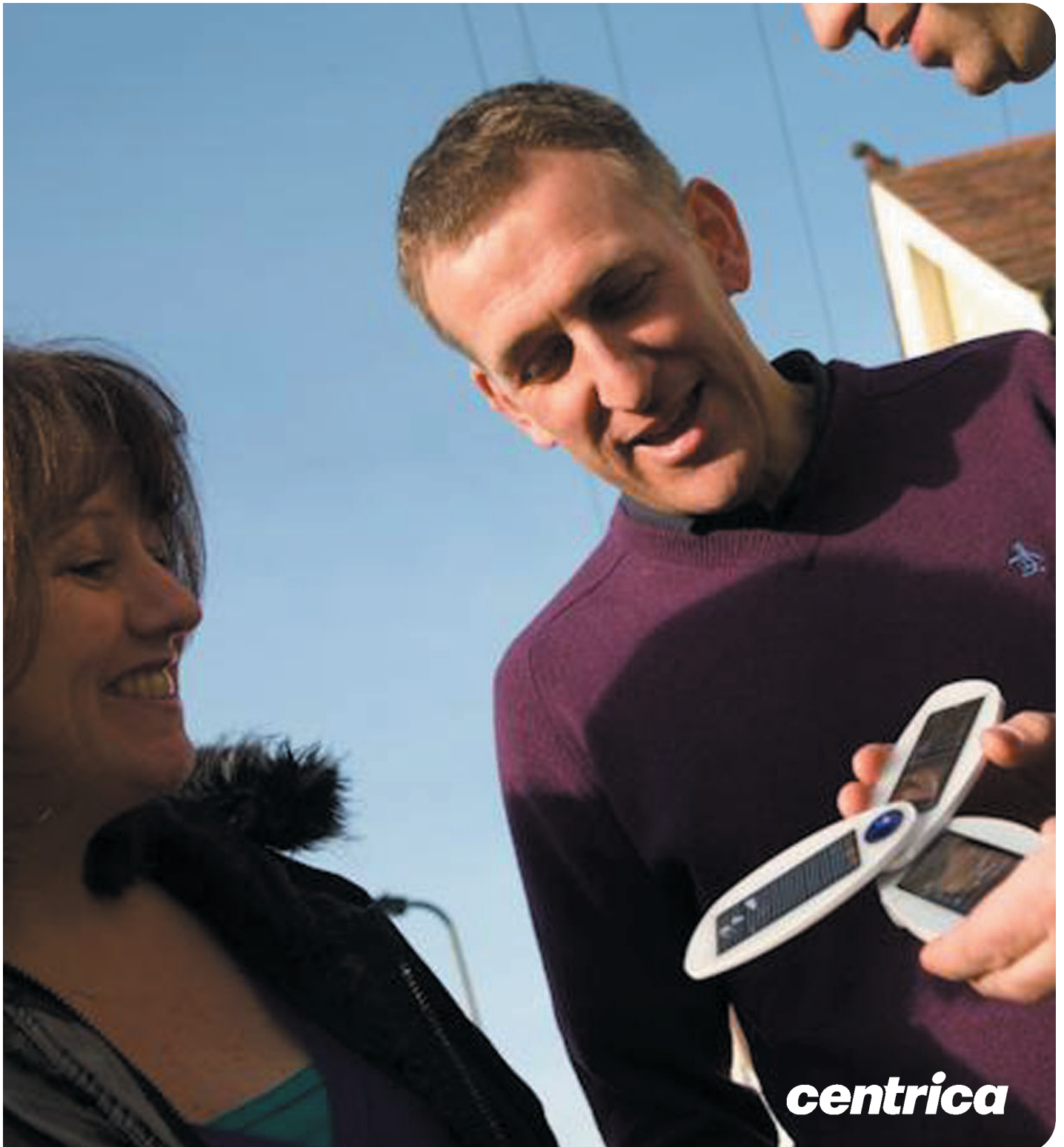
	Unit	2009	2008	2007	2006	2005	2004
Total SO ₂ emissions	tonnes	66	123	28	24	50	19
Total NO _x emissions	tonnes	10,198	11,267	7,240	5,060	7,059	7,768
Total Ozone Depleting Substances (ODS)	CFC-11e	2,543	2,540	1,876	2,041	1,221	963

Water

	Unit	2009	2008
Total cooling water	000 m ³	885,064	814,614
Total office water	m ³	236,456	169,176
Total process water	m ³	1,923,728	1,344,003

Corporate responsibility report 2009

Customers



centrica

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Customers

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Customers

Overview

Our goal is to earn and maintain trust by treating customers fairly and providing the best value in the marketplace, helping to protect our reputation and build brand loyalty.

The key elements for building trust are excellent customer service, fair pricing and support for vulnerable customers. This means we must understand and respond to diverse needs, be honest and clear in our communications and advertisements and transparent about our pricing. We are building the skills of our employees to support our customers' needs and developing innovative products and services.

Customer service

Investment in improved customer service paid off in 2009 with a significant rise in net promoter scores for both British Gas and Direct Energy, a core measure of customer satisfaction. The improvement in British Gas customer satisfaction has been reflected in a number of recent surveys which confirm that our service levels have improved considerably. Just two years ago, we had the lowest customer satisfaction among the major UK energy suppliers when we had to overcome issues with our billing platform, but we now have the most satisfied customers, a significant achievement. However, further improvement is necessary to continue building trust and we are using customer feedback to help us differentiate our services.

Our performance on complaints has also improved. In the UK, we reduced our share of complaints to the Ombudsman by a third to 19%, well below our UK market share of 33%. There is no centralised Ombudsman in North America so Direct Energy has developed a complaints management system, which includes monitoring complaints logged with local regulators, media, Better Business Bureaux and other channels. The level of complaints dropped by 63% in 2009.

British Gas has achieved these significant improvements in the UK by investing in employee skills and systems. Better training and motivation, including a customer satisfaction element in employee performance objectives, and targets on 'getting it right first time', reducing repeat contact, has improved our contact centre service. We also introduced a call-ahead service for engineer visits because this was a significant customer concern. And we now set our engineers a target for completing repairs on the first visit whenever possible. Improvements like this depend on understanding customers' views and we launched a major stakeholder campaign in 2009 to encourage customer feedback called 'We're Listening'.

Direct Energy is also taking steps to improve service. In 2009, we reviewed customer service measures to identify areas for improvement and established a Customer Service Working

Group, chaired by Direct Energy's CEO, Chris Weston. The group identifies those customer interactions that most significantly influence

customer service, develops metrics to assess the interactions and tracks and reports on their progress. This has enabled us to build customer feedback into decisionmaking and we are now looking to increase the visibility of this information to our customer-facing employees.

To build trust with customers from the start, our sales and marketing activity must be clear, accurate and easily understandable. In the UK, British Gas has several codes of practice covering marketing practices and in 2009 we went further by committing to the UK Financial Services Authority's 'Treating Customers Fairly' principles. In North America, Direct Energy has a customer 'bill of rights' for each market and has worked to improve door-to-door sales standards through the year.

Privacy is an increasing concern for customers and in 2009 we signed the Information Commissioner's Personal Information Promise. It aims to improve compliance with the UK Data Protection Act and restore public trust in information security. Around 95% of our UK staff have completed training on data protection.

Transparent and competitive pricing

Energy prices are always contentious, especially in a tough economic environment, and lack of transparency undermines trust. We aim to understand people's concerns and are committed to fair and transparent pricing. We also provide services that help people save money such as energy efficiency measures, which support our low carbon agenda as well.

We have made changes to customer bills to make them easier to understand and issued a 'simple guide' to energy prices. We are determined to offer competitive prices and British Gas was the first supplier to reduce gas prices for residential customers in 2009 (by 10%). We followed this with a 10% reduction in electricity prices. Wholesale price reductions in the fourth quarter of 2009 fed through into a further 7% reduction in gas prices in February 2010, which made British Gas the cheapest supplier in the UK.

Our own research has found that messages around price

movements, and especially the relationship between retail and wholesale prices, are complex and not well understood.

Customers expect to see any fall in wholesale gas prices immediately reflected in their own energy bill, but there is often a lag because we buy much of our gas in advance, sometimes up to two years ahead. Also, the commodity cost is only about half of the customer's bill, with the rest relating to less volatile costs such as transport, distribution, government environmental contributions and customer service.

Following our acquisitions of Venture and a stake in British Energy, we now have a more robust and integrated business model, enabling us to meet a greater proportion of our customers' energy needs from our own sources. This should help protect them from continuing volatility in the wholesale energy markets.

The energy industry is regularly faced with allegations of anti-competitive behaviour but following an Energy Supply Probe launched in 2008, the UK regulator Ofgem confirmed that, on the whole, the energy market is working well for consumers. It concluded that 'retail price rises can be justified by wholesale costs' but it did recommend a series of measures to improve fairness, including a prompt payment discount and reduced prices for pre-payment customers. British Gas was the first to implement these fully in October 2009.

The different market set-ups in North America mean changes in prices do not result in the same public scrutiny as they do in the UK. But we still need to be fair and support customers in managing their energy use. Direct Energy introduced price freezes in 2009 to help customers manage their energy bills during the hot Texas summer. To help combat the cold in northern parts, Direct Energy reduced average gas costs for residential customers in Canada over the 12 months to September 2009 and offered residents in Ohio fixed price gas for six months over the winter.

The most effective way for customers to cut costs is to use less energy and understanding more about their energy use is often the first step. We have made it easier for customers to understand how much energy they are using and how much they are spending, with innovative products such as British Gas's EnergySmart. We also have the largest smart meter trial in the country with more than 50,000 installed in homes and businesses. Smart meters have the potential to revolutionise the way customers use energy and we aim to lead the government's planned roll-out of 47m smart meters nationwide. We are also expanding our capabilities in energy efficiency products and services. Such measures are helping to reduce energy consumption. In 2009, our UK customers consumed 7% less gas on average and just under 2% less electricity.

Businesses and other organisations are as keen as householders to cut energy costs, especially in difficult economic times. Direct Energy worked with the National Federation of Independent Businesses in 2009 to offer its members fixed rate

electricity at prices usually reserved for large energy users. British Gas launched the SAVE (small business advice and value expertise) initiative which provides a flexible approach for businesses managing their costs and debt, as well as advice and practical help to reduce energy costs through efficiency measures. British Gas also introduced a 'Charity Energy Contract' to help small charities with their energy bills through the economic downturn.

Vulnerable customers

Some customers need additional help because they are vulnerable due to their age, health, disability or severe financial insecurity. It is a top priority for us to meet the needs of vulnerable customers who are unable to safeguard their personal welfare or the welfare of other members of their household.

Our strategy in the UK is to provide a targeted approach which ensures that our vulnerable customers receive the assistance most appropriate to their needs. Core to this is our Essentials programme which combines a discounted tariff with different support mechanisms and delivered £77m in energy savings last year. We work with charity partners such as Age UK, RNIB and Scope to help identify customers' requirements and to ensure that they have access to a range of services including energy efficiency, specialised appliances and advice. We also provide assistance with bills, debt advice and a benefits assessment scheme to help people maximise their income.

In the UK, we do more than any other energy company for our vulnerable customers, helping around 2.2m vulnerable households. This is an increase from 1.4m in 2008, correlating with a rise in the numbers of people in financial difficulty as a result of the recession. We also saw a significant increase in late payers and the British Gas Energy Trust received 40% more applications for help with energy bills than in the previous year.

Through contract partnerships with local authorities, we provide a dedicated installation, service and repair service for social housing. In 2009, we installed over 25,000 central heating systems in social housing and low income households. As the managing agent for the Scottish Government's Fuel Poverty Energy Assistance Programme, we have insulated nearly 32,000 homes and installed almost 33,000 heating systems. British Gas was also the first energy supplier in the UK to sign agreements for community-wide energy saving measures under the Community Energy Saving Programme (CESP), which will prioritise vulnerable groups.

In North America we have less flexibility than in the UK and need to respond to differing regulations and definitions.

Progress key:

- Achieved
- Partially achieved
- Not achieved

Customer service

We have made significant improvements to our customer service in 2009 across all our metrics, which has helped to reduce call volumes overall by 40% since 2006. Our performance is demonstrated by the changes we have seen in two of our key indicators, net promoter score and Ombudsman complaints. However, despite these improvements, external perceptions of our customer service remain relatively low.

Previous commitments

- Continue to focus on improving customer service and building our brand reputation through increasingly good customer service
- Improve our Direct Energy NPS score and reverse the trend in British Gas customer satisfaction of vulnerability from region to region. Direct Energy established a Vulnerable Customer Working Group in 2009 to develop a coherent strategy across Canada and the US.
- During the year, we helped over 175,000 customers access approximately US\$22m in bill payment assistance. In Texas, Direct Energy committed US\$300,000 to the Fresh Start programme, which helps customers who do not qualify for existing low-income assistance but are struggling to make their monthly household payments.

Net promoter score (NPS)

We achieved a considerable increase in the NPS for both British Gas and Direct Energy in 2009, from -0.8 to 7.0 and from 6.9 to 9.5, respectively. These increases reflect the improvements we have made to our customer service processes and employee training.

At the end of 2009, we reviewed and improved the methodology used by British Gas to calculate NPS. This will give us a more representative view of customer feedback, provide clearer insights into the drivers of NPS and enable us to compare our performance against competitors. Based on the new methodology, British Gas' NPS at the end of 2009 was -2, placing us equal first in the league table of major UK energy providers with three other suppliers. Our target for 2010 will be to increase this score to +3. We also plan to improve scores and implement an improved NPS methodology for Direct Energy in 2010. At the beginning of the year, we began this process by aligning our data management systems to provide greater insight into and accuracy of our NPS.

Customer complaints

Improvements to our systems and the training have led to a significant reduction in customer complaints. Issues with our billing system led to high levels of complaints from customers in 2007 and 2008 so the progress we made in 2009 represents a substantial shift in performance.

In the UK, complaints that we cannot resolve internally are escalated to the energy Ombudsman, which acts as an independent arbitrator. In 2009, the Ombudsman recorded 1,152 complaints about British Gas for issues such as billing errors and transfers. We have reduced our overall share of these complaints by a third to 19% (from 34% in 2008), well below our UK market share of 33%. This reduction is attributable to greater employee engagement and improvements to other customer service metrics. For example, the amount of time taken to answer customer telephone calls continued to fall as did the percentage of customers abandoning calls before contact with a call centre.

In North America, there is no centralised Ombudsman. Direct Energy has a complaints management system to monitor complaints made to local regulators, media, regional Better Business Bureaux and other channels. In 2009, we focused on improvements to our reporting system for complaints to gain insights which could help to decrease volumes. We also developed a commitment tracking tool, to ensure we deliver on the promises we make to customers in the process of resolving complaints. We have seen fewer complaints re-opened as a result and over the year total complaints dropped 63%. However, there is still more to do and in 2010 we will implement a training programme for agents dealing with the highest level of complaints.

Improvements to our customer service

In both the UK and North America, we have been working to improve customer service and build trust in the business.

British Gas has focused on motivating employees by improving training and career opportunities for our customer-facing employees. We operate a quality assurance process in our customer service centres through a system of training, call recording and one-to-one coaching to ensure that customers receive the best possible service. Customer satisfaction is also a key criterion in our reward programmes for customer-facing employees, with customer survey results used to determine employee bonuses.

We've rolled out extensive debt and energy efficiency training and all our Cardiff-based advisors have now completed training called 'Look Who's Calling', which encourages them to treat customers as individuals. We have introduced a similar course called 'Look Who's Writing' to make our correspondence more straightforward and less formulaic. As a result of this approach, our Cardiff contact centre was recognised as 'Call Centre of the Year' in the 2009 European Call Centre Awards.

British Gas is also strengthening dialogue with customers and making significant changes as a result. For example, in response to feedback about engineers' appointments, we introduced a new 'call-ahead' service whereby engineers phone customers to let them know when they are due to arrive. This avoids customers having to stay at home for the entire allocated time slot for the visit.

Customers can now also book engineer visits online. In November 2009, British Gas launched a major campaign inviting customers to tell us what they think of us. The 'We're Listening' campaign introduced further channels for feedback and suggestions on how we can improve our customer service. As part of this campaign, we created a Customer Panel to allow the people who use our services to come into our business, meet our people and ask questions. The Customer Panel will be independently monitored by Uswitch, and the customers on the panel will report back publicly on what they find.

In North America, customer satisfaction programmes are managed at a regional level, although we are now working to share best practices and align our approach across the business. In Alberta, we introduced a new quality assurance programme for taking calls, which led to an increase in customer satisfaction scores. This included better monitoring, training and linking customer satisfaction measures to individual performance. In the US North East, a new system reduced billing issues which is the main source of complaints.

During the year, there was a significant shift in the volume and nature of calls received by Direct Energy Business. Call volumes increased as a result of changes to our billing, collections and remittance activities. Customers told us that they were dissatisfied with waiting times and the overall quality of service.

As a result, we increased training for our employees to enable quicker responses to enquiries, a better understanding of products and services and increased first call resolution. We established standard key performance indicators to address drivers of customer satisfaction and we monitored these regularly each day. We also addressed some of the root causes of complaints by adding information on early cancellation charges to all bills and providing additional training to our employees on capacity charges, their origin and applicability to affected customers.

Direct Energy is conducting a review of customer service measures across the business to identify the key actions we can take to improve. In 2009, we launched a Customer Service Working Group that includes Direct Energy's CEO and presidents of each business. This replaces the Customer Council. For the residential business, we established a dedicated customer experience team which aims to ensure that customer feedback is built in to strategic decision making and that our employees are fully engaged in providing excellent customer service.

Future commitments

- Achieve a net promoter score of +3 for British Gas in 2010
- Improve Direct Energy's net promoter score using the current methodology and roll out an improved net promoter score methodology for Direct Energy in 2010
- Use recommendations from the Customer Panel to improve British Gas customer service

Innovative products and services

Clearer bills

Ensuring customers understand their bills is an important component of trust. We have been working to make our bills clearer in both the UK and North America. On British Gas bills we have highlighted emergency information, provided a consumption comparison graph and improved the layout of previous payments, meter readings and new charges. In Alberta, Canada, Direct Energy redesigned bills in July 2009 based on customer feedback. The new bills make key information easier to find, such as total amount owed, energy used and the date payment is due.

Online services

British Gas has introduced online services at www.britishgas.co.uk that make it easier for customers to track their spending, update meter readings and make payments. For example, our Energy Savers Report is an online tool for customers to calculate how to reduce their energy usage and customers can now book their engineering appointments online. We also developed an i-Phone application for customers to submit meter readings. In addition, we opened an online Energy Store, hosted on the British Gas website, where customers can purchase energy efficient appliances.

Online transactions have doubled since 2008 to over 4m, with self-serve transactions now accounting for around 38% of all contacts with customers. We increased the number of customers with online accounts to 15% in 2009 from around 8% in 2008 and we used YouTube to provide helpful videos explaining what services are available. We also doubled the number of business customers submitting their meter readings online by making the web tools easier to use and promoting these services more vigorously.

In North America, we made improvements to www.DirectEnergy.com to make it easier for consumers to choose the most appropriate business or service and to contact us through the website. We introduced online billing services for customers in our billed markets and aim to enhance our online account services further during 2010.

We are aiming to become the leading energy and services provider on digital platforms by building our online relationships with customers. As part of this, Direct Energy will launch a social media programme to develop a community of consumer relationships which will help to build awareness and loyalty.

Smarter energy

Previous commitments

- Introduce a new system to enable Pay As You Go users to top up their electricity accounts and monitor their energy use from their homes
- Previous commitment partially achieved Expand uptake of Energy Savers Reports by our business customers

Previous commitments

- Expand uptake of Energy Savers Reports by our business customers with the UK government aiming to install 47m by 2020.

We aim to change the relationship between customers and the energy they use, making usage easier to understand and manage. We are making progress in the UK and trialling new technologies in North America.

In November 2009, British Gas launched EnergySmart, a tariff that aims to reduce estimated quarterly bills. Customers are sent reminders to text or email monthly meter readings enabling more accurate billing. Customers on this tariff also receive a free energy monitor that provides real-time information to help them understand how much energy they are using and how much it is costing them. British Gas is also piloting an AlertMe system that enables customers to monitor energy use of individual appliances via the internet and change settings remotely.

Changing consumer relationships with energy will be underpinned by the nationwide roll out of smart meters, with the UK government aiming to install 47m by 2020.

Smart meters give households and businesses greater control of the energy they use, helping them to consume less, reduce carbon emissions and save money. The meters provide real-time information to both the customer and the energy supplier. British Gas has the largest trial in the country with more than 50,000 installed.

Smart meters are also the cornerstone of potential future developments such as a smart grid, helping to even out energy use nationwide. In North America, Direct Energy is trialling smart grid technology. We are working with partners such as e-Radio to market devices that can help to reduce electricity at times of high demand. E-Radio's technology allows us to send commands to smart grid-enabled devices and consumer appliances to reduce energy consumption at peak times. Consumers can also use technology to switch off appliances remotely and set them to operate only at times when demand and prices are low.

Direct Energy is also exploring technology for customers to monitor energy usage remotely and introducing a demand-response function for air conditioning units as part of energy efficiency home audits in a programme called CPL BrightHome. In Texas, energy auditors score customers' homes on energy performance and provide recommendations for efficiency measures including their payback period. A competition in Connecticut saw one Direct Energy customer learn how to save more than \$2,500 a year through a home energy makeover.

We also offer a range of other products to help customers improve the energy efficiency of their homes and buildings, reducing their energy bills and cutting carbon emissions. Innovative products and services

Prepayment meters

In the UK, British Gas customers can use prepayment meters

rather than monthly or quarterly bills to help them manage their energy costs by only using what they have paid for in advance. These are often associated with low income and vulnerable customers, partly because we install them as part of our debt recovery programme to avoid disconnection. However, they are also used as a payment option of choice by other customers, such as those living in student residences or those who have second homes.

Prepayment meters have come under public scrutiny because of differences in prices paid by these customers. Prepayment meters are more expensive for energy suppliers to run because there are additional charges from third parties who sell prepayment top up services, such as post offices or newsagents. However, British Gas reduced the price per unit for electricity in December 2008 and gas in February 2010 so that pre-pay customers are now paying, on average, the same for their energy as customers who pay by cash or cheque. This move was well received by stakeholders.

We have a dedicated team for prepayment customers and in 2009, we launched our free Home Energy Top Up service, which allows customers to top up their energy accounts online in the comfort of their own homes, rather than having to go to a shop. British Gas is the only energy company to offer free home top up for both gas and electricity and this meets our target to introduce a home top up system for pay as you go customers, replacing the former EnergyPOINT technology.

Business customers

During the year British Gas focused on two main priorities for the more than 1m businesses we serve: helping our customers during the recession and driving the uptake of energy efficiency measures, services and technologies.

To help customers during the ongoing economic downturn, we launched the SAVE (small business advice and value expertise) initiative which supports small businesses with a more flexible approach to managing their costs and debt. The service also provides advice and practical assistance on how to reduce energy costs through efficiency measures. Our three new BusinessCare products help small businesses avoid potentially large bills from unexpected boiler breakdowns. We have also provided specific assistance to small charities in the UK, launching a new non-profit contract at the start of 2010.

As well as new products, we have developed a 5-step credit rating system that improves our ability to identify companies that are more at risk of defaulting. This means that we do not apply blanket views of particular sectors or geographical regions. It also enables us to direct help and advice to companies in difficulty much earlier than previously.

To drive the uptake of energy efficiency measures, British Gas developed Energy360®, which provides a range of products and services. Typically, our Energy360 team will find an opportunity to reduce a customer's energy consumption by at least 10% – sometimes up to 30% – through measures such as improving control systems and microgeneration technologies. Businesses are already under significant pressure to reduce costs, comply with climate legislation and achieve environmental targets and

we are well-positioned to support their requirements. For more information see climate change and environment.

Direct Energy more than doubled the number of small business customers in 2009 and we have been working with the National Federation of Independent Businesses to enable its members to take advantage of fixed rate electricity prices usually reserved for large electricity users. Direct Energy also began working with software provider e3 Solutions Inc to provide products that will help businesses measure, monitor and verify their carbon footprint and implement energy efficiency and carbon reduction strategies more effectively.

Future commitments

- Introduce a single bill for British Gas dual fuel customers in 2010
- Install 2m smart meters in British Gas customers' homes by the end of 2012
- Launch a prepayment service in Texas through Direct Energy
- Enhance online account services for Direct Energy customers

Vulnerable customers

Previous commitments

- Provide specialist support services to vulnerable customers who are unable to safeguard against their personal welfare due to age, health and disability
- Help to reduce bills for customers on very low incomes through energy efficiency measures
- Provide bill management support and signposting to help maximise income and debt advice
- In 2009, look to build on the help British Gas provided to more than 1.4m vulnerable customers in 2008
- Achieve fuel poverty spending plans as measured through the UK suppliers Voluntary Agreement Commitment (2009/2010 – £41m)
- Continue to work with our charity partners to deliver specific assistance to our vulnerable and in-need customers
- Re-launch the 'here to Help' programme from a social housing programme to a vulnerable customer focused coalition

We define vulnerable customers as those who are unable to safeguard their personal welfare or the personal welfare of other members of the household, for reasons of age, health, disability or severe financial insecurity. With more customers than any other UK energy supplier and over 5m customer accounts in North America, a number of our customers are considered to be

vulnerable. As an energy company we have a responsibility to ensure that these customers are able to access the heat and light they need. This is part of our commitment to treat customers fairly and it helps to build trust in our business.

In the UK, our strategy is to deliver targeted assistance to these customers to ensure that the help they receive is appropriate to their needs. We seek to ensure that we identify these customers and work with other agencies to offer them help that addresses their energy price, payment plan and the energy efficiency of their housing.

In North America, varying government regulations that offer support for vulnerable customers are delivered in a regionally specific manner. The definition of a vulnerable customer also varies regionally, which means that eligibility for programmes is different across our North American markets.

UK

In the UK we spent more than £80m on initiatives to support 2.2m vulnerable households in the UK in 2009.

Essentials

The focus of our approach is our Essentials programme, which offers a range of products, services and advice to our most vulnerable customers, including access to the Essentials tariff. By the end of 2009, there were around 488,000 customer accounts on the Essentials tariff, more than on any of our competitors' social tariffs, delivering total savings of £77m to vulnerable customers. Those with a dual fuel account saved an average of £264 over the year through the tariff.

Access to the programme is means-tested and it is promoted through our charity partners. British Gas call centre staff are trained to identify signs of vulnerability and offer advice about how to access support. Customers are also referred through the industry-funded Home Heat Helpline.

Essentials provides additional services such as a benefits health check to help customers maximise their income, free home energy audits and energy efficiency improvement measures to reduce bills.

We are currently involved in a data-sharing pilot with the Department for Work and Pensions (DWP) and the Department for Energy and Climate Change (DECC) to identify customers aged over 70 who are in receipt of pension credits. Due to be launched in 2010, this pilot will seek to give an automatic credit to these customers on their electricity bill, worth £80. DWP have estimated that there will be 250,000 eligible households. The data-sharing project aims to inform the development of a price support scheme to help more vulnerable customers after the fuel poverty agreement ends in 2011. The scheme will be funded by energy suppliers, including British Gas.

Managing debt

Our vulnerable customer strategy also helps us to improve our management of debt. We aim to help those in debt who would

like to pay but struggle, whilst pursuing those who can pay but choose not to. However, it can be very challenging to identify vulnerable customers, and to distinguish between those who are genuinely disadvantaged in some way from those who are not. Our policy is never to disconnect someone we believe to be vulnerable. All disconnections are signed off by an executive team member and in 2009 we led the industry with only 53 occupied disconnections compared with 6,000 across the industry in 2008 (Ofgem Debt Review).

We provide financial support to the British Gas Energy Trust, an independent charity which provides grants to customers struggling with their bills. In 2009 there was a 40% increase in applications, mainly due to the recession.

Since the Trust was established in 2005, it has awarded more than 22,000 grants, working closely with our debt teams to identify those most in need. In 2009, Oxford University conducted research on behalf of the Trust to investigate the long-term impact of its support. The research found that only 13% of recipients fell back into debt after receiving help, demonstrating that in most cases the grants helped to keep a successful applicant clear of utility debt going forward.

Social housing

We work with local authorities on a range of services to help vulnerable customers in social housing cut energy costs through energy efficiency improvements, solar and microgeneration initiatives and repair services. British Gas was the first energy supplier in the UK to sign agreements with local authorities and charities to introduce community-wide energy saving measures under the Community Energy Saving Programme (CESP). Measures include insulation, draught-proofing and heating schemes, as well as home energy assessments and a range of related services such as benefits assessments.

In Scotland, Scottish Gas launched the Energy Assistance Package, replacing the Scottish Government's Fuel Poverty Central Heating and Warm Deal Programmes that began in 2006. Scottish Gas has committed £44m to the programme. Over 64,000 households benefited in 2009 from new heating systems and insulation under this scheme.

Charity partnerships

We work in partnership with seven charity partners in the UK to identify and support disadvantaged and vulnerable people, and encourage debate on how to support these groups. Our coalition of charity partners under the 'here to HELP' programme aims to help the most vulnerable in society. The programme offers free or subsidised insulation, benefits assessments and other products and services from our charity partners.

In November 2009, we launched our annual winter campaign in partnership with Age UK (formerly Age Concern and Help the Aged). The 'Staying warm in winter' campaign aimed to help older people reduce winter heating costs and take advantage of energy efficiency.

As well as part-funding the campaign, we provided automated

call handling to deal with requests for information packs on how to keep homes warm, how to plan for cold weather and which benefits are available.

We also support Benefits Advice Programmes that help people to identify the benefits to which they are entitled. Throughout 2009 a total of 15 such projects ran throughout England and Wales, advising 11,000 people and helping them to access £7.2m in additional benefits.

Each project also promoted the 'Staying warm in winter' booklet. Throughout November and December 2009 we also held nine winter information events at Benefits Advice project locations. Since it began, the programme has benefited 50,000 people, helping them to access £26m in additional benefits.

We currently work with the following charity partners:

- Save the Children
- National Energy Action
- Money Advice Trust (MAT)
- Royal National Institute for Blind People (RNIB)
- Age UK
- Scope
- Carers UK

North America

In 2009, Direct Energy helped over 175,000 customers in North America access approximately US\$22m in bill payment assistance. We also established a Vulnerable Customer Working Group to develop a coherent vulnerable customer strategy across Canada and the US. However, due to different regulations and definitions of a vulnerable customer across North America, implementation of this strategy must respect regional contexts.

In Ohio we provide funds and employee support for the annual 'Heat the Town' initiative. Companies from around the region join forces to clean and inspect heating systems for more than 250 of Ohio's most vulnerable residents.

In 2009, Direct Energy employees checked the heating systems and conducted carbon monoxide tests for 28 low income households in the run up to winter.

Direct Energy's Fresh Start programme in Texas provides assistance to customers who do not qualify for existing low income assistance funding but are struggling to make their monthly household payments. Direct Energy has committed \$300,000 to the programme, which will also be made available to customers deemed critical care.

In 2009, Direct Energy provided additional support by lowering the age requirement from 65 to 62 years to qualify for its senior deposit waiver.

Fresh Start is one of a range of initiatives in Texas designed to help customers who are experiencing difficulty paying their bills.

We also work with 32 local social agency partners to screen applicants for eligibility and provide bill payment assistance up to \$600 per year per customer through our Neighbor-to-Neighbor programme. And we participate in the LITE-UP Texas programme which offers assistance from the System Benefit Fund of the Public Utility Commission for customers identified as eligible by the Low Income Discount Administrator. This includes deferred payment plans, payment extensions and no late fees.

In Alberta, Direct Energy operates a referral programme, enabling eligible customers to access bill payment assistance through the Department of Employment and Immigration. In June 2009, we met with the Government of Alberta to improve this process and help identify eligible customers without compromising their privacy. As a result we now include a statement on customer bills referring them to a government helpline if they need assistance paying and we have introduced consent forms to enable us to pass on customer information to help them.

Marketing and sales

Clear and accurate marketing is essential to build trust with consumers. We strive to communicate our products and services with accuracy to ensure we are being honest with consumers. We aim for high standards in our sales and marketing practices and measure our success by monitoring the number of complaints received.

Ethical sales practices

In both the UK and North America, we aim to ensure that our sales practices meet the highest standards. In the UK, British Gas sales complaints are monitored by the energy Ombudsman. In 2009, the Ombudsman received 105 complaints about our sales practices, a decrease of 28% from the previous year and reflecting a reduction in all types of complaint across the business. Sales complaints include issues such as inadequate explanation of contracts and payment terms.

We have published our British Gas codes of practice on sales and marketing online and we are committed to supporting the Energysure Code of Practice which provides clear standards of good selling practice including training for field sales advisors, clear information and protection against mis-selling. As part of this, we open up our policies and practices to be audited each year by Deloitte and Touche LLP. We are also a signatory to the Billing Code, which covers industry best practice for billing domestic customers.

Our move into the insurance market in 2009 when the UK Financial Services Authority (FSA) approved British Gas as an authorised insurance services provider means we are subject to new regulations on selling insurance. In August, we began a trial to offer insurance-based products, such as cover for accidental damage or appliance replacement, through our existing HomeCare® service. We trained the call centre agents involved to ensure we comply with FSA regulations by selling insurance products responsibly and ensuring they understand

how to deal with insurance claims and any related complaints. More than 50,000 customers have already taken up our insurance products and the trial will be extended in 2010. British Gas is the first residential energy supplier to comply with the FSA 'Treating Customers Fairly' principles as part of our move to insurance-based products and services.

We are extending these principles across all our British Gas operations as a strong process for ensuring fairness. We are also complying with Ofgem's requirements for best practice, which promote clarity and transparency, and aim to make it easy for customers to switch their energy provider.

In North America, codes on ethical sales practices are specific to each state or province. Direct Energy incorporates the local regulatory requirements into training material for sales agents to ensure that they understand the guidelines. Every sales agent we recruit must pass a criminal background check and drug test, as well as the training course, before being certified to sell on behalf of Direct Energy.

In both the US and Canada, we use third-party verification and strict quality checks on door-to-door sales agents to ensure they use appropriate uniforms and identity cards and that they follow the correct processes. The verification system also serves as a link between the sales agent id, the customer and any issue with the agent. We take swift and firm action if a forgery or related fraudulent activity occurs and can instantly deactivate an agent's ability to complete any future sales.

We also employ a dedicated sales quality team that monitors both door-to-door and telemarketing sales practices. The team uses in-field assessments and listens to sales calls to ensure that customers are not misled and that no fraudulent activity occurs.

Future commitments

- Develop a three year UK charity partner strategy
- Support 2.5m vulnerable households in 2010
- Launch 16 CESP programmes in 2010

Responsible marketing practices

We aim to make our marketing materials clear, accurate and easily understandable for customers. In the US for example, Direct Energy launched a 'Simple Answers' marketing campaign in Pennsylvania in November 2009, emphasising the key message that we offer a simple, friendly, direct way for customers to take control of their energy costs. This is accompanied on the website by a Customer Bill of Rights.

In the UK we aim to comply with applicable laws and regulations including the Committee of Advertising Practice (CAP) Code and the Consumer Protection from Unfair Trading Regulation (CPRs).

Despite our efforts, complaints are occasionally made about our marketing claims. In 2009, the UK Advertising Standards

Authority (ASA) upheld four complaints about British Gas advertisements, although only one of these related to advertising activity that took place in 2009 itself.

These adjudications are publicly available:

- ASA Adjudications 11 March 2009
- ASA Adjudications 1 April 2009
- ASA Adjudications 25 June 2009
- ASA Adjudications 15 December 2009

We treat all queries, requests for clarification and formal notification of investigations from the ASA with the utmost seriousness. As a major advertiser working in a highly competitive market where all marketing material is scrutinised by our peers as well as our customers, our current level of upheld ASA complaints is within reasonable limits. Were we to be persistently or seriously in breach of the CAP Code, we could face sanctions that include a denial of access to media space or even the enforced submission of our non-broadcast advertising for pre-clearance.

We continue to review and strengthen our internal processes by improving our internal communications on issues and sharpening the discipline with which we approach our advertising material. We have a specialist team within our Legal and Regulatory department which collaborates with our marketing teams and their agencies to review and approve all marketing material prior to publication. This enables us to make claims that are as strong as possible but with checks in place to avoid misleading statements.

We continue to offer customers the opportunity to opt out of receiving marketing information from us.

Customer diversity

Our customers have very diverse needs. Making sure we cater for those needs is an important part of our customer service. In addition to our standard paper and online billing in English, we offer bills, terms and conditions and marketing material in a range of formats to help people who speak different languages or who have difficulty reading.

In the UK, British Gas bills are available in bold or large print, Braille and CD through our Home Energy Care Register. We also provide a 'talking bill' service where we telephone customers to explain the bill and help to arrange payments. In 2009, there was a 43% increase in the use of these alternative bill formats, with over 115,000 bills requested.

Language Line continues to offer assistance in understanding bills for British Gas customers whose first language is not English. In 2009, Language Line received around 5,094 calls from customers. Our engineers and sales people also use prompt cards to communicate with customers face to face. We also offer a Welsh language service for customers in Wales.

In the US, Direct Energy offers customers in Texas the option to receive their bills in either English or Spanish. In 2009, over 137,891 customers received bills in Spanish and we recruited 80 bilingual customer service agents in the Rio Grande Valley to support Spanish-speaking customers.

Net promoter score (NPS)

	Unit	2009	2008	2007	2006
British Gas Net Promoter Score ¹ (old methodology)	%	7.0	-0.8	3.1	-
British Gas Net Promoter Score ¹ (new methodology)	-	-2	-	-	-
Direct Energy Net Promoter Score ¹	%	9.5	6.9	5.1	-
British Gas residential customer complaints to Energy Ombudsman as percentage of industry totals	%	15.6	29	-	-
British Gas business customer complaints to Energy Ombudsman as percentage of industry totals	%	36.3	-	-	-

¹The net promoter score measures customers' responses to the question 'How likely would you be to recommend us as an energy supplier to a friend or relative (0-10)?' The score is calculated by the percentage of customers defined as promoters (scoring 9-10) minus the percentage defined as detractors (0-6). Net promoter scores are collected through customer feedback forms and telephone interviews conducted by a third party supplier.

Vulnerable customers

	2009	2008
Total number of vulnerable households impacted by British Gas initiatives ¹	2.18m	1.4m
Total number of vulnerable households impacted by Direct Energy initiatives	185,887	-

¹Defined as the total number of unique households helped through: Essentials; Debt CPS Plans and Debt Meter; grants awarded through BG Energy Trust; CERT & Here to Help insulation; CERT standby savers; Home Energy Care Register; ExtraCare Register; Home Energy Savers Report; and Benefits Health Checks.

	Unit	2009	2008	2007	2006	2005
Customers accounts on British Gas 'Essentials' tariff for vulnerable customers		487,995	526,500	340,000	-	-
Customers on ExtraCare		192,710	190,530	260,000	-	-
Cumulative value of unclaimed benefits identified	£	23.4m	21.4m	14.4m	-	-
Advice packs distributed through the Help the Aged partnership		182,000	82,000	75,728	50,000	-
Thermometers distributed through the Help the Aged partnership		182,000	82,000	146,838	185,000	-
Number of grants awarded by the British Gas Energy Trust		5,085	5,000	6,439	4,000	1,716
Value of grants awarded by the British Gas Energy Trust	£	3.3m	3.3m	3.1m	1.5m	0.6m

Marketing and sales

	2009	2008	2007	2006	2005	2004
Complaints to the Ombudsman about British Gas sales	105	146	238	468	-	-
Advertising Standards Authority complaints upheld against British Gas	4	5	2	3	7	1

Customer diversity¹

	2009	2008 ²	2007	2006
Bold/large print	107,954	72,660	51,328	-
Braille	4,497	3,458	2,369	-
Talking bill service	1,711	2,635	1,933	-
Audio/CD	3,004	1,946	594	-
Total alternative format bills sent	117,166	80,699	55,224	63,000

¹These figures are UK

²We have restated the totals for 2008

Corporate responsibility report 2009

Securing future energy supplies



centrica

Securing future energy supplies

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Securing future energy supplies

Overview

Centrica has a critical role to play in securing future energy supplies for our customers at affordable prices. Energy security is an increasingly important issue for the UK, which is becoming more dependent on imported gas.

The need for energy security must be balanced with the commitments for decarbonisation. The transition to a low carbon society has begun, led by the UK government's ambitious target to cut carbon emissions by 80% by 2050.

Increasing our capacity to generate power from renewable sources such as wind is critical to meeting energy demand as well as tackling climate change. But renewables alone cannot meet the UK's demand for power and must be supported by conventional fuels and nuclear power.

Securing energy supplies while meeting the challenges of climate change must also be balanced with the cost of energy. The competition in the privatised UK market has helped deliver domestic gas prices that are the lowest in Europe – around 36% less than the EU average over the last five years¹.

There is no room for complacency. Since 2004, the UK has been a net importer of gas, and imports accounted for approximately 50% of this past winter's demand. That figure is likely to reach 75% by 2015 and securing affordable, sustainable sources of energy supply for our UK customers is one of our key priorities. The UK energy regulator, Ofgem, calculated that £200bn in investment is needed to maintain the UK's energy security and start to decarbonise the economy. This will inevitably have an impact on the cost of energy for consumers with wholesale energy prices remaining volatile. Continuing to invest in improving the energy efficiency of our homes and businesses is essential to avoid higher bills. Read our Customers section to see more on energy pricing.

¹Department of Energy and Climate Change quarterly energy prices: http://www.decc.gov.uk/media/viewfile.ashx?filepath=statistics/publications/prices/1_20091221163805_e_@@_qepdec09.pdf&filetype=4

A diverse energy mix

We believe that diversity is the key to secure reliable energy supplies. By combining renewable wind power and low carbon nuclear power with more efficient gas-fired power stations and the sourcing of new gas supplies, we are balancing the needs for energy security and carbon reduction.

Centrica invested £4bn in 2009 in securing new supplies and

storage for gas, developing wind farms, gas-fired power stations and moving into nuclear power for the first time. Investing £2.3bn in a 20% equity interest in British Energy gives us access to power from eight existing nuclear power stations in the UK and the right to participate in the UK's new nuclear build programme. We continued to invest in renewables with the launch of the £750m Lincs offshore wind development, which will raise our total renewable energy capacity to 650MW – enough to meet the annual demand of around 450,000 homes. This was partly funded by innovative financing which enabled us to unlock capital tied up in existing wind projects to promote further investment in renewables and help secure future energy supplies. Centrica has also gained exclusive rights to develop offshore wind farms in the Irish Sea Zone with a potential capacity of up to 4.2GW.

Conventional fuels still have a place in the energy fuel mix as the gradual decarbonisation of electricity continues. We focus on combined cycle gas turbines (CCGT) because they offer the cleanest power from fossil fuels. As a result, we have one of the lowest carbon intensities of any major UK supplier at 371g CO₂/kWh in 2009. Our new Langage gas-fired power station, now operational, is one of the most efficient in the UK and generates enough electricity to power 1m homes.

Our upstream businesses give us more control over the cost and source of the energy we sell to consumers through our downstream business, by making us less reliant on volatile wholesale commodity markets. Following the acquisition of Venture and the stake in British Energy, the demand we are able to meet from our own assets in the UK has progressed from 20% in 2006 up to 60% going forward. This aligns us more to our competitors.

Through our downstream business, we are also promoting renewable microgeneration to customers using British Gas' innovative technology and skilled engineers.

Securing gas supplies

Diversity is also important in securing gas supplies, helping to manage political uncertainties and the volatility of wholesale markets. We continued to expand our gas exploration and production activities in 2009 with progress on several projects in the waters around the UK and abroad.

Our acquisition of the oil and gas field developer Venture Production resulted in a year-end increase of our European oil and gas reserves of 60%, and widened the range of geologies we have access to in and around British and Dutch waters. The Venture team has been combined with our existing upstream workforce to form our UK upstream gas and oil business centred in Aberdeen, UK. The skills and expertise of the Venture team combined with our existing people will be invaluable as the business seeks to be a leading consolidator and operator of mature gas assets.

Liquefied natural gas (LNG) is increasingly important for meeting UK gas demand. We are the largest holder of LNG import capacity at the Isle of Grain terminal in the Thames estuary. We continue to explore LNG opportunities globally with 15 cargoes imported in 2009 from a range of countries including Qatar, Norway and Australia. In early 2010 we gained our first LNG producing position with a production-sharing agreement in Trinidad. This provides us with significant development opportunities for future, long-term LNG supplies.

We are shifting our operations in Nigeria away from gas exploration to focus on building an LNG business.

Producing gas and purchasing LNG cargoes for the UK is only one step in securing energy supplies. As the UK's dependence on gas imports increases, gas storage will play an increasingly important role in helping maintain security of supply in the UK. Our Rough storage facility, which accounts for 75% of the UK's gas storage capacity, played a crucial role in meeting record demand for gas during the exceptionally cold winter of 2009/10. We continue to study the potential of gas storage opportunities with plans for three new storage facilities – Caythorpe, Baird and Bains. Together, these would increase our storage capacity in the UK by around 85 billion cubic feet and increase UK storage capacity by around 50%.

The role of government

The UK government has agreed a binding target for 15% of all energy to come from renewable sources by 2020. The power sector will play a major role in delivering the bulk of this commitment. Under current plans and assuming the economics add up, we plan to invest over £3bn on 1.6GW of offshore wind, plus a potential 4.2GW. Total investment may be over £9bn, shared with partners. We plan to invest around £15bn in additional sources of gas, power and storage as part of our commitment to securing future energy supplies. We also have an option to take part in the construction of new nuclear power stations on a 20% basis in each of the four reactors currently planned by EDF.

The government has a vital supporting role to play. We need a stable investment climate, planning regime and market support mechanisms to make these long-term investments viable. That includes clear, long-term policies on the price of carbon and use of the renewables obligation.

We believe a support mechanism will continue to be needed to continue to deliver investment in renewables. The renewables obligation is one such mechanism, which is a requirement to either supply electricity to customers that comes from renewable sources or pay a buyout price. Under this scheme, the Lincs offshore wind farm will receive two Renewable Obligation Certificates (ROCs) for each megawatt hour generated and this was an important factor in our decision to invest in the project. (See more on our engagement with governments in Stakeholder dialogue.)

The UK government also plays an essential role in the development of long term LNG contracts. The UK's foreign policy needs to continue to be aligned to the UK's energy security needs.

North America

Unlike the UK, security of supply is not as crucial an issue in the United States or Canada. This is primarily due to the existing amounts of natural gas in North America and the continued dominance of coal in the energy generation market.

Our North American business, Direct Energy, is nonetheless seeking to expand its own gas and electricity resources to supply its customers. Our strategy is to build Direct Energy into a more vertically integrated energy company, mirroring closely the Centrica model and achieving an energy hedge of 35-40% over time. This will enable better management of volatile wholesale markets and more attractive propositions for customers.

Progress key:

- Achieved
- Partially achieved
- Not achieved

Gas

New acquisitions

Previous commitment

- Invest over £15bn to secure new power and gas by 2020

Our acquisition of the oil and gas field developer Venture in August 2009 significantly increased our gas production assets. We are integrating Venture into the UK upstream gas and oil business. It will give us the technical and operating capability to work across a wide range of geologies and technologies in offshore oil and gas in and around UK, Dutch and Norwegian waters. In particular, the addition of the Venture team gives us the skills and expertise to become a leading consolidator and operator of mature and orphaned gas assets (those sold on by oil and gas companies, with some gas remaining to be extracted).

The addition of Venture's reserves brought our total European gas and oil reserves base to 395 million barrels of oil equivalent by the end of 2009. This was an increase of 60%.

In 2009 we increased our interest in the undeveloped York gas field in the Southern North Sea to 90%. We also signed a production sharing agreement with the Government of Trinidad and Tobago to hold a non-operated equity stake of almost 30% in a gas exploration Block off the east coast of Trinidad.

We continued to develop existing assets in 2009 to increase gas production. Progress includes:

- Completion of the Grove development project under budget, ahead of schedule with excellent HSE performance
- Third development well successfully drilled at Chiswick gas field, with production expected to start in 2010
- Work begun on the F3-FA development in the Dutch North Sea
- Seven Seas well and subsea connection complete in the Southern North Sea, awaiting pipeline tie in to the West Sole Alpha platform
- Progress on joint Eris and Ceres subsea developments with first gas expected in 2010
- Work commenced on the Cygnus development where we will be drilling two appraisal wells in 2010

As part of our exploration, gas was discovered at the Rhyl exploration prospect in the East Irish Sea. However, we also had some disappointing results from appraisal drilling on the Acorn

prospect and Alcyone prospect, and unsuccessful exploration drilling on the Deep Banff, Morpheus and Mon prospects in the North Sea.

In Nigeria we are shifting our focus away from gas exploration to building an LNG business. This move significantly reduces our social and environmental impact in the country. Given our interest in sourcing energy supplies in the country though, we remain committed to developing strong relations with key stakeholders.

Developing existing assets

Previous commitment

- Continue exploration activities in the UK, Norway and Nigeria

We continued to develop existing assets in 2009 to increase gas production. Progress includes:

- Completion of the Grove development project under budget, ahead of schedule with excellent HSE performance
- Third development well successfully drilled at Chiswick gas field, with production expected to start in 2010
- Work begun on the F3-FA development in the Dutch North Sea
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- Progress on joint Eris and Ceres subsea developments with first gas expected in 2010
- Work commenced on the Cygnus development where we will be drilling two appraisal wells in 2010

As part of our exploration, gas was discovered at the Rhyl exploration prospect in the East Irish Sea (see case study from a geologist's perspective). However, we also had some disappointing results from appraisal drilling on the Acorn prospect and Alcyone prospect, and unsuccessful exploration drilling on the Deep Banff, Morpheus and Mon prospects in the North Sea.

In Nigeria we are shifting our focus away from gas exploration to building an LNG business. This move significantly reduces our social and environmental impact in the country. Given our interest in sourcing energy supplies in the country though, we remain committed to developing strong relations with key stakeholders.

Liquefied natural gas (LNG)

Previous commitment

- Continue international dialogue to source gas supplies, including discussion with National Oil Companies

As part of our international dialogue to source gas supplies, we continue to explore LNG opportunities globally. LNG will play an increasingly significant role in UK gas security as local production declines. We imported 15 cargoes of LNG to the UK in 2009 and have a diverse range of supply countries including Qatar, Norway and Australia.

Our production-sharing agreement in Trinidad and Tobago – announced in February 2010 – creates future opportunities to provide LNG supplies from our own production relationships, rather than purchasing it through contracts or on the short term market.

Gas storage facilities

Our Rough storage facility, which accounts for 75% of the UK's gas storage capacity, was critical in meeting record demand for gas during the exceptionally cold winter of 2009/10. It supplied around 10% of UK gas demand on each of the three days in January 2010 when National Grid 'Gas Balancing Alerts' were issued. Reliability of the Rough facility exceeded 98% in 2009.

Work continues on our three potential storage projects Caythorpe, Baird and Bains – which together would increase our gas storage capacity in the UK by around 85 billion cubic feet (BCF). We have now largely completed Front End Engineering Design (FEED) for Caythorpe having previously obtained planning permission, FEED has commenced at Baird, and planning permission has been granted for the Bains onshore facility.

Power generation

Previous commitments

- Commission Langage power station
- Continue to work with the UK government and regulator to support a policy and regulatory framework that incentivises the delivery of new renewables
- Explore access to debt and equity finance to secure funding to develop renewable energy projects
- Plan to invest over £15bn to secure new power and gas by 2020
- Continue to develop our UK renewable generation capacity of 1.6GW over the next few years

We increased our UK power generation capacity from 4.5GW to 7.1GW in 2009. Our total output volume rose to 25.2 terawatt hours (TWh) from 23.4TWh in 2008.

We are investing in new wind power and other renewables essential to secure a low-carbon power supply and meet the UK Government's target for 15% of the nation's energy to come from renewable sources by 2020. However, renewables alone cannot meet the UK's power demand and must be supported by other sources that can provide more consistent and reliable power loads. We therefore continued to invest in efficient gas-fired power stations and entered the UK nuclear industry with a stake in British Energy.

Wind power

We continued to build our wind power capacity, which reached 382MW by the end of 2009. The 270MW Lincs offshore wind farm, which received final investment approval in October, will bring our total renewable energy capacity to 650 megawatts – enough to meet the annual demand of 450,000 homes.

Construction on the £750m Lincs project will begin in 2010 and we expect first power to be generated in 2012. Once operational, the Lincs offshore wind farm will receive two Renewable Obligation Certificates (ROCs) from the UK government for each megawatt hour generated. Achieving this agreement was essential in financing the project and an important element of our work with the Government to establish a regulatory framework that incentivises new renewable developments.

We came up with innovative ways to unlock capital tied up in existing wind projects to fund further wind developments in 2009. For example, finance for the Lincs investment comes partly from the sale of a 50% equity stake in the Lynn, Inner Dowsing and Glens of Foudland wind farms for £84m, together with approximately £340m of project finance facilities from a consortium of banks. Centrica entered into Power Purchase Agreements (PPA) to purchase all the power and 50% of the ROCs generated by the three refinanced wind farms over the next 15 years.

In December 2009, we also announced a deal to sell a 50% stake in the Lincs project to Siemens Project Ventures and Dong Energy which will enable us to use the latest Siemens turbines which offer higher power output.

We made progress towards developing 1.6GW wind power capacity with a planning application for offshore wind developments at Docking Shoal and Race Bank in the Greater Wash area. These could generate a combined 1.1GW – enough to power around 760,000 homes.

We also have the opportunity to further expand wind power with exclusive rights to develop offshore wind farms generating up to 4.2GW in the Irish Sea Zone. We secured this opportunity in January 2010 through The Crown Estate's Round 3 offshore wind tendering process.

Nuclear

Nuclear power provides a large-scale source of reliable, long-lived low-carbon energy generation. Centrica invested £2.3bn to acquire from EDF a 20% equity interest in British Energy, which operates nuclear power stations in the UK.

The joint venture with EDF gives us access to 20% of the uncontracted power from the existing eight nuclear power stations and an additional 18 terawatt hours (TWh) of power from EDF over five years from 2011. It also enables us to further increase our capacity by participating in the programme to build new nuclear power stations in the UK. Centrica has directors on the joint venture boards governing both the existing British Energy fleet and nuclear new builds.

Responsibility for operation of the nuclear facilities remains with EDF. However, we aim to use our position as a partner in the joint venture to ensure responsible practices are maintained and safety remains paramount. For more information on nuclear energy, see our web pages on nuclear power.

Gas-fired power stations

In 2009, we continued to improve the efficiency of our existing gas-fired power stations and our new Langage power station in Devon provided first power to the grid at the end of 2009. The highly efficient combined cycle gas turbine plant at Langage has a thermal efficiency of 53%¹ compared to 45%¹ of most CCGTs. Langage has a capacity of 885MW – enough to power 1m homes – and will reduce the cost of transporting power to the South West of the UK, which has the lowest level of power generation in the country.

Supporting microgeneration

Through British Gas' range of technologies and team of service engineers, we are well positioned to promote renewable microgeneration to residential and business customers.

British Gas acquired a 19% stake in biomass heating provider, Econergy Ltd, in 2009. This adds to existing investments in microgeneration through our Solar Technologies business, and 10% equity stake and distribution agreement with fuel cell business Ceres Power. In February 2010, we announced the launch of five demonstration projects that aim to inject biomethane into national gas supplies, generated from organic material such as cattle slurry, food and household waste.

¹ This is a Higher Heating Value (HHV) figure.

Gas

	Unit	2009	2008	2007	2006	2005
Centrica Energy gas production volumes ¹	mmth	1,708	2,418	2,260	1,916	3,057
Gas storage volumes in the UK ²	BCF	193.3	178.1			
Storage duration at Rough gas field	days	75	75			

¹Represents the amount of energy sold as a result of our hydrocarbon sales, not the physical volume produced.

²Total is calculated based on Centrica equity.

Electricity

	Unit	2009	2008	2007
Exported power ¹	GWh	30,134	28,054	24,898
Power capacity	MW	9,190	6,569	6,219

¹Exported power is the amount of 'power available for sale'. This differs from power generated due to some energy being consumed in the process and different sources being included in the total. This data includes total power produced and power purchased from non-Centrica facilities through power purchase agreements.

Centrica UK fuel mix ¹	Unit	2009	2008	2007	2006	2005
Proportion of coal	%	15	13	18	15	14
Proportion of natural gas	%	62	66	56	58	62
Proportion of nuclear	%	14	13	20	22	16
Proportion of renewables	%	7	6	4	3	5
Proportion of others	%	2	2	2	2	3

Power generation

Centrica North America fuel mix ¹	Unit	2009	2008	2007	2006	2005
Proportion of coal	%	32	25	34	29	-
Proportion of natural gas	%	40	44	35	40	-
Proportion of nuclear	%	16	17	21	1	-
Proportion of renewables	%	11	11	8	20	-
Proportion of others	%	1	3	2	10	-
Centrica Europe fuel mix ²						
Proportion of coal	%	1	2	-	-	-
Proportion of natural gas	%	42	54	-	-	-
Proportion of nuclear	%	45	34	-	-	-
Proportion of renewables	%	6	8	-	-	-
Proportion of others	%	5	2	-	-	-

¹ Data based on fiscal year not calendar year

² This data is based on information from the first quarter of 2009

Corporate responsibility report 2009

Health and safety



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Health and safety

Overview

Our operations supplying gas and electricity are inherently hazardous and we fully recognise our responsibility to protect the health and safety of employees, customers and the wider public.

This is a top priority for Centrica and is high on the agenda of the executive committee. Our determination to keep employees safe and healthy is part of our ambition to have a committed, skilled workforce. We recognise that this requires cultural change and a more proactive approach to find solutions to potential problems rather than just dealing with problems after they arise.

An increased emphasis on safety, especially in our UK service and repair businesses, has paid off with a dramatic improvement in performance in 2009. We halved lost time injuries to 0.49 per 100,000 hours worked across the Group. But we believe that all work-related injuries and occupational illnesses can be prevented and we are not satisfied with this level of injuries. Our target for 2010 is to reduce lost time injuries by at least a further 12.5%.

In 2009 we developed a new Group-wide health and safety strategy to build a culture that supports our vision to put safety, health and wellbeing at the heart of everything we do. The strategy has four elements: a robust management system, effective leadership behaviours, a common roadmap for improvement and clear performance metrics, including leading indicators.

Our Group management system now includes an updated Safety, Health and Wellbeing Policy as well as a 'Setting the Standards' document, which defines our minimum expectations and provides supporting guidance for achieving behavioural change. This includes specific expectations for process safety and occupational health.

We produced a roadmap in 2009 which maps out the journey to a leading performance in health and safety. The roadmap enables businesses to assess their status and then develop improvement plans within a consistent Group approach. Individual businesses face different challenges and very different risks and the roadmap is to help them share best practice and learning across the Group. Four roadmap assessments were successfully completed during the year.

Building a leading health and safety culture requires the right leadership behaviours. We ran a leadership event for business leaders in Centrica Energy focused on the critical behaviours and we will deploy the same session for the Group's 200 top managers in 2010. To support this, we have embedded health

and safety criteria into the annual incentive scheme. These high level objectives will apply in 2010 and will be built into business objectives and annual incentive plans, affecting the bonus structure for most employees.

Safety

Our diverse activities expose our employees to a range of different safety risks, from a major incident such as a fire at a gas processing plant to road traffic accidents and slips and falls when engineers visit customers' homes. Our approach aims to manage each of these risks in the most appropriate way and to develop a culture where these are all addressed with the same determination to improve performance.

Personal security is also an important consideration and in early 2010 we launched a security emergency helpline, which is particularly for use by employees working overseas.

Safety at our assets and operations

In operations such as power stations and gas platforms, incidents are rare but the potential consequences of a serious accident such as a fire or explosion are greater than elsewhere in the Group. A major incident at one of our large sites such as a processing plant could also impact the local community.

Our safety record in these businesses is excellent and there were no major incidents in 2009. We maintain our focus through training and ensuring competency of our staff.

For example, we deliver a safety induction workshop for new starters where they can experience demonstrations of hazards at the Spadeadam RAF base in Cumbria.

Several sites achieved record-breaking injury-free periods, including more than two years without a lost time injury at the Morecambe Area Operations. But we remain vigilant and learn from near misses. The Centrica Executive Committee reviews any 'high-potential events' and ensures lessons on precautions and procedures are shared throughout the business. There were four such events in 2009. In one case, there was an unexpected gas release from a well. In another, a heavy piece of equipment

was dropped from a height, hitting an employee who sustained injuries, which were fortunately not life-threatening.

Our entry into the nuclear industry through the acquisition of a 20% stake in British Energy brings specific challenges as the radioactivity associated with nuclear power generation introduces different safety risks relative to conventional sources of power generation. Radiation is emitted and radioactive waste is produced during power generation which must be contained and handled in a safe way.

While we do not operate any of the nuclear facilities, we want to make certain that nuclear energy is safe and that the risks are effectively managed. As a minority shareholder, we are represented on British Energy's board and have established a nuclear team to manage our role, which includes monitoring and challenging safety standards. British Energy has an excellent safety record, vast experience and a record for being open and transparent.

See www.centrica.com/nuclear for more information.

Safety in our customer-facing businesses

The majority of our employees work in British Gas and Direct Energy, where there are different safety challenges. The risks in the service and repair businesses are centred on personal safety rather than process safety but, given the number of employees in these businesses, the health and safety risks remain significant. Employees cover many miles in their daily work, facing the constant threat of traffic accidents. Their work in customers' premises can involve strenuous and difficult activities in unfamiliar surroundings, where it is more difficult to control the workplace. Call centre work is different again, carrying the ergonomic risks common to all office-based activity.

We have put considerable effort into improving the safety record of these employees and this has paid off with much lower injury rates and a stronger safety culture. Direct Energy reduced its recordable injury rate by 13% overall while lost time injuries in the British Gas service and repair business fell by almost two-thirds. This followed an award-winning campaign in the UK called 'What If?'. The campaign had a real impact on frontline staff, changing behaviours by making a personal and emotional connection to what could happen in their jobs. The results were well beyond our expectations, but while we are delighted with the improvement we still have a long way to go. In 2010 we are increasing our focus on road risks.

Customers

Customer safety is also critical. We are responsible for the safety of gas supplies and equipment in millions of homes. While gas leaks are a constant threat, carbon monoxide (CO) poisoning from poorly fitted or maintained equipment is just as dangerous. The number of recorded CO incidents remains rare and in 2009 the total number of incidents across all suppliers fell slightly to 36. In eight of these cases, there was a British Gas service history.

The reduction is due to increased awareness thanks to industry-wide publicity campaigns under the auspices of the Carbon Monoxide Consumer Awareness Alliance (COCAA), of which Centrica is a member. We continue to distribute CO alarms and make sure service engineers are highly skilled in protecting customer safety.

Health and wellbeing

Our commitment to employees goes beyond safety and we aim to have a long-term impact by helping people to stay healthy. This helps to reduce absenteeism, increase productivity and promote Centrica as a great place to work. The main work-related illnesses that affect our employees are musculoskeletal problems and mental health issues. We provide advice and treatment for physical problems such as knee and back conditions and run programmes to improve understanding and management of mental health issues.

We also continue to run an Employee Assistance Programme (EAP), a confidential service which helps employees with a wide range of life management and personal issues, as well as wellbeing issues. In 2009, there were 2,502 new cases in the UK, slightly more than in 2008 (2,422 cases). Direct Energy mounted a mental health campaign in 2009, including guides for all employees and workshops in Houston, Pittsburg, Calgary and Toronto.

Our activities have contributed to a fall in absence rates to 7.7 days per employee in 2009 from 8.8 in 2008. To maintain this progress, we are continuing to expand training and information, including 'Building confidence' workshops for managers to learn better how to deal with health issues. In 2009, we also launched a series of face-to-face health assessments for British Gas customer service advisers and field engineers. We are exploring how this programme could be extended across the Group.

In 2009, we continued our strategic review of occupational health provision across the UK, which will help us control occupational health risks better in future. Following the review we have increased resources and created a new IT platform to improve key information.

Performance

Progress key:

- Achieved
- Partially achieved
- Not achieved

Employee safety

Safety performance

Previous commitments

- Target a 20% reduction in lost-time injuries to 0.8 per 100,000 hours worked
- Achieve further reduction in the inherent risk associated with our upstream operations

Increased attention to health and safety leadership from the top of the company has helped us beat our lost time injury target by a wide margin. But there is no room for complacency and we are targeting a further 12.5% reduction in lost time injuries in 2010.

The Group lost time injury rate per 100,000 hours fell by more than 50% to 0.49, significantly ahead of the 2009 target to achieve a 20% reduction on 2008 performance.

The main reason is significant progress in the service and repair part of the British Gas business, where 60% of injuries are from slips, trips and manual handling. We achieved a reduction in lost time injury rates in this area of the business from 2.07 to 0.74 per 100,000 hours worked due to an increased focus across the whole business and a successful safety campaign called 'What if'. The campaign is helping to drive cultural change and it won the 2009 campaign of the year award from the Institute of Occupational Health and Safety (IOSH). We believe the 0.74 figure is still too high and are targeting further reductions in 2010.

Direct Energy Canadian Homes Services identified slips and trips as a key problem in 2008 and so formed a partnership with Marks Work Warehouse in 2009 to develop a safety boot with improved grip, particularly on snow and ice.

Our upstream business, which includes power generation, gas processing and offshore operations, focuses on different types of risk and continues to achieve industry-leading results. For example, in 2009 Morecambe Area Operations celebrated more than two years without a lost time injury. Brigg power station near Scunthorpe, UK and Centrica Energy's Renewables division achieved 12 consecutive months with no lost time injuries. Centrica Storage, which operates terminals and the Rough storage facility in the North Sea, achieved top quartile performance in several assessments of the oil and gas industry by the Health and Safety Executive.

Our upstream operations expanded significantly in 2009 with the acquisition of Venture Production plc, and through 2010 we will align their operations with the new group health and safety strategy and seek to integrate examples of best practice. We carried out significant asset integrity audits on the Venture assets and on the safety rules at our UK portfolio of gas-fired power stations. These highlighted good practice as well as important learnings, such as strengthening the role of individuals who are technical authorities.

Outside the company, we are playing an active role in industry bodies such as the Energy Institute (EI) and the Engineering, Equipment and Materials Users' Association (EEMUA).

Leadership

Previous commitments

- Strengthen engagement with key stakeholders within and outside the company
- Undertake a formal policy review in the second half of 2009
- Provide training to Centrica and business unit executive teams in health and safety leadership
- Link individual employee performance on health, safety and environment to their overall performance rating and the Annual Incentive Scheme

At the end of 2009, Chief Executive Sam Laidlaw signed the Health and Safety Executive (HSE) pledge, a UK-wide initiative to bring organisations from all sectors together to commit to make them as safe and healthy as possible. This coincided with the launch of our new Safety, Health and Wellbeing policy, developed through consultation in Centrica and external organisations. The policy reinforces our belief that all work-related injuries and occupational illnesses can be prevented.

In North America, safety is the first of four priorities established for Direct Energy in 2009. We also created a health, safety and environment advisory council consisting of senior managers from the business lines to advise the senior management team on policy and risk. The management team has begun conducting health and safety reviews on both a weekly and monthly basis. Direct Energy has also carried out nine risk-based audits looking in detail at the thoroughness and quality of controls on key risks such as road risk, working at height and hazardous energy.

Within Centrica Energy, health, safety and environment objectives have already been included in individual performance contracts. For 2010, they will be rolled out Group-wide through the annual incentive scheme which has a direct impact on all business unit performance assessments. This in turn affects the bonuses of all senior executives and employees throughout the

business. To support this change, we have introduced health and safety leadership training for the top 200 managers in the business, providing workshops with external speakers and impactful cases studies.

We consult with employees at every location throughout the business via health and safety committees. Centrica Storage has undertaken a project to improve training for safety representatives on these committees. Direct Energy has implemented a programme for recognising individuals who have demonstrated concern for their team in a manner befitting a leading safety culture. Nominees and their families receive personal thank you notes from a member of the management team.

Road safety

Road safety is a high priority because of the scale of the van and car fleet in the UK and North America. In the UK, we have reduced vehicle incidents by more than 24% since 2005 through measures such as incident analysis and maximum speed limitation in the commercial fleet.

In 2009, Direct Energy introduced a road risk policy, establishing the minimum level of control to reduce the risk of injury from vehicle collisions. One of the visible impacts is the use of traffic cones while vehicles are parked on a call to enhance the safety of technicians, pedestrians and other drivers. Direct Energy also provided an online tool to help manage road risk by tracking corrective actions arising from vehicle incidents and third party feedback on the operation of company-branded vehicles.

In the UK, we signed up to the European Road Safety Charter and have run several campaigns, including a partnership with the UK Highways Agency on driving in severe weather conditions. In 2010 we will introduce a new key performance indicator on road safety – the number of incidents that cause damage to property or people per million km.

Managing safety risks

Previous commitments

- Strengthen performance assurance processes for process safety
- Introduce a health and safety audit process to enable a more rigorous means of providing assurance to the Board
- Continue to implement myHSE incident reporting to improve the quality of management information

We are targeting continued safety improvement throughout the group, supported by improved management information from the myHSE system that provides a software package for reporting health and safety incidents.

Centrica Storage and Centrica Energy introduced myHSE in 2009 and British Gas will implement the system in full in 2010. Data acquired by Direct Energy's Analytix incident management application introduced in 2006 will be merged with myHSE in 2010.

Direct Energy created Risk Registers in 2009 to promote a continual reduction in risk to personal safety. The registers detail action plans designed to reduce the risk of injury arising from hazards inherent in each business.

We are developing a formalised health and safety audit programme, using ERM, an independent third party. The aim is to provide assurance to the Centrica Executive Committee and Board that the key risks are being adequately managed. We have already conducted a gap assessment of Direct Energy processes against our new standards and identified areas for improvement. Plans to address these gaps are now being developed.

We maintain a strong focus on process safety, which concerns the prevention of harm to people and the environment from major incidents such as fire, explosion or release of hazardous substances. We implemented a system of process safety performance reporting during the year, which is providing greater visibility of process safety incidents and their precursor events. In 2009 we also made considerable progress in identifying, assessing and reducing major accident risk and in reducing the inherent risk associated with our upstream operations. This has included improvements in safety hardware, such as a new emergency shutdown system at our North Morecambe Terminal, and initiatives to address human factors.

We keep awareness high through extensive training programmes, including process safety inductions at the specialist Spadeadam facility. In 2009, we also developed training on the fundamentals of process safety, which will fulfil the ongoing needs of engineers, operations personnel, graduates and others within the company who have a key role to play. This training will be delivered from 2010 onwards.

Direct Energy completed process hazard analyses for three power plants and also in the upstream gas business. The analyses are a systematic approach to identifying risks and controls necessary to prevent major incidents. Activities to reduce risks include establishing key performance indicators, contractor management and change management. Independent consultants completed an asset integrity audit of Direct Energy as we began to develop a more formalised audit system. We also completed reviews into the control of major accident hazards at three UK power stations.

In 2010, we will implement a hazard tool to identify unsafe acts or conditions before an incident happens. This follows an initial pilot at South Humber Bank power station in 2009 and the use of the tool will now extend to the whole power business during 2010. This will help drive improvement in our upstream businesses where numbers of incidents are low but risks are high.

Personal safety and security

Previous commitments

- Launch a 24-hour security helpline for employees travelling on business
- Deliver a personal safety awareness campaign for employees through the Suzy Lamplugh Trust
- Introduce personal safety training for all British Gas Services employees

We met our commitment in early 2010 to launch a security emergency helpline for employees and a business travel locator system to track employees in the event of an incident. Following our purchase of a 20% stake in British Energy, we are working with key personnel to ensure that they understand the risks and emergency programmes in that business. British Gas is also providing personal security presentations and has established a working group to look at protection for lone workers.

We held seminars at a number of sites on personal safety in conjunction with the Suzy Lamplugh Trust but we did not roll out a wider campaign through the charity. Instead we focused on building greater internal capability around security and personal safety.

Future commitments

- Reduce lost time injuries by 12.5% to 0.43 per 100,000 hours worked in 2010
- Implement a hazard tool to track unsafe acts or conditions in relevant operations
- Develop a road safety key performance indicator
- All top 200 managers to attend a health and safety workshop in 2010
- Conduct health and safety audits concentrating on management systems of each business unit in 2010
- Conduct risk-based audits of each business unit, focused on the top health and safety risks and audit controls in 2011, covering occupational health, personal safety and process safety
- Implement the Group process safety training initiative
- Implement improvements to process safety performance monitoring and incident learning
- Develop corporate governance auditing

Occupational health

In 2009, there has been significant work to improve the integrity of our work-related ill health data. Our increased focus has identified where sickness absence has been incorrectly reported as 'work-related'. We have also excluded injuries from the data for the first time as these are captured separately (see employee safety). As we move to a more robust system, the 2009 data is showing a lower prevalence of work-related ill health.

Managing absence

Previous commitments

- Reduce the average annual absence to 8.8 days per full time employee
- Track our key performance indicators on work-related illnesses and durations of absence to measure our progress
- Deliver the 'Building confidence' programme to management
- Implement a new absence entry tool to administer planned and unplanned absence
- Deliver a wellbeing campaign to tackle the top three causes of absence
- Investigate developing a career / life planning tool for employees of all ages undergoing career changes during key life changing events

In 2009, there has been significant work to improve the integrity of our work-related ill health data. Our increased focus has identified where sickness absence has been incorrectly reported as 'work-related'. We have also excluded injuries from the data for the first time as these are captured separately (see employee safety). As we move to a more robust system, the 2009 data is showing a lower prevalence of work-related ill health.

Our action to improve health and wellbeing contributed to a fall in the absence rate in 2009, beating our target by 12%. This was also better than the electricity, gas and water sector average and well below the average for call centres. The improvement in 2009 amounted to 43,389 days of sickness absence which is equivalent to 198 full time employees.

Much of the improvement is as a result of changes to our occupational health management and provision. Our Review 100 programme is a mechanism to maintain visibility of all absent employees until they return to work. This has contributed to a decrease in the number of employees defined as long-term sick (more than 20 days). In 2009, we provided more than 300 Building Confidence workshops for managers to support them in managing ill-health in their teams. These included understanding common conditions, relevant law, occupational health and managing difficult situations.

In April 2010, the UK Government introduced 'fit notes', replacing 'sick certificates' (Fmed 3 certificates). We have been trialling a process by which workplace advice is sought from the occupational health team instead of requesting a 'sick certificate' from the employee. This scheme has been broadly adopted by our Scottish Gas Service and Repair business. Although not significantly affecting our absence rates, it has helped position the responsibility and control for absence with the employee. In 2010 we will also be providing alerts to managers reporting work-related ill health to refer the case to the occupational health team. Previously, if someone went off sick with work-related ill health, there was no trigger to investigate this. The new approach will ensure that all absence attributed to work is explored, whereas at present it is discretionary. We also plan to implement an absence tool later in 2010.

Others may not be absent from work but may be suffering ill-health. We are planning to deliver more training for managers so that if someone thinks they are ill due to work factors, then managers have a duty of care to report this to the occupational health team. We have also researched life planning tools for employees and we are in the process of assessing practical next steps for developing these. In 2009, we continued a strategic review of occupational health provision across the Group, which in 2010 will help us identify how to control occupational health risks at Group level.

Benchmarking our performance

Previous commitments

- Benchmark our key performance indicators externally to evaluate our business performance in this area
- Strengthen engagement with key stakeholders within and outside the company

We have looked to benchmark our occupational health data but we are faced with challenges because many companies do not collate the information and there are no standard definitions of work-related illness and ill health. In North America there are additional privacy issues that prevent us collecting data comparable to our UK operations. We have worked with a group of industry competitors to start comparing data on work-related injuries but we are still looking for ways to compare illness as more absence and lost productivity is due to illness than injury.

We are also building occupational health relationships through representation on industry-bodies such as the Association of Electricity Producers and the Energy Institute to bring external best practice into Centrica.

Offshore workers

Regulations require that we ensure all offshore workers have the necessary 'fitness for purpose' and that we have health surveillance programmes and emergency response teams in

place. We aim to use this experience throughout the group, sharing best practices with all locations and business units to develop a more strategic, Group-wide approach.

Musculoskeletal problems

The physical nature of many of our employees' work can expose them to musculoskeletal problems so managing these is a priority for us. We continue to offer back care and knee care workshops and in 2009 we introduced a new workshop for upper limb disorders. In total 450 people accessed these workshops in 2009.

The total number of musculoskeletal referrals in the UK has risen mainly due to a change in the absence reporting process for our engineering population, although we also saw a significant number of falls due to snow and ice. Absence due to musculoskeletal conditions is now referred to our triage physiotherapy team on day one, with engineers able to call a physiotherapist for advice on self management. This has significantly reduced lost working days and improves life-long learning for employees to manage future symptoms relating to such conditions. We also offer regular face-to-face physiotherapy if required. Most of the musculoskeletal referrals in 2009 were not work-related.

Direct Energy piloted an online e-learning and ergonomic self-assessment for office-based employees. This application will be rolled out across North America in 2010. We also participated in a project with Business in the Community (BITC) to develop a toolkit on musculoskeletal health, including 'five a day' actions for employees and employers. The toolkit provides a framework for the businesses to shape programmes to reduce musculoskeletal ill health.

Mental health

Mental health is a key focus for us Group-wide. Alongside our occupational health provision, we run an Employee Assistance Programme (EAP), a service which helps employees and their families with a wide range of personal problems and life management issues.

In particular, we have worked with our EAP to develop the wellbeing agenda and employees now have access to an extensive range of health information and resources. As part of this, we launched a Group Wellbeing intranet portal in November 2009 to provide employees with health information. It includes access to an online health assessment for all employees and family members and a confidential Employee Wellbeing Programme that includes practical advice for any part of an employee's or their family's lives.

We also tested an innovative workshop called Thriving Workplaces with 30 managers to help them better understand how their behaviours influenced their teams' wellbeing. This is one of the behavioural shifts that form part of the wider health and safety programme to bring about cultural change in 2010. The workshop is being written as an e-learning package for future use.

In Direct Energy, 33% of cases reported to the Employee Assistance Programme in 2009 were mental health issues. And in 2009, usage of the system reached 14.4%, compared to an average of 8.2% for companies served by the same provider. This demonstrates high awareness of the service among our employees and provides an opportunity to deal with issues and pre-empt absence. In the UK, there were 2,502 new cases, compared to 2,422 in 2008, with stress and anxiety the most common concerns. Recognising current economic pressures, parts of British Gas invited the Financial Services Authority to provide free financial advice in workshops at their offices.

Direct Energy conducted Mental Health Awareness seminars in Houston, Pittsburg, Calgary and Toronto and distributed two booklets on mental health for employees and managers to raise awareness of the issues and how to manage them. These explain the context, how to recognise and understand illnesses and how to take action to improve mental health.

In 2010 we will pilot a Group-wide stress management e-learning programme: 'It could happen to anyone.'

Preventing ill-health

Previous commitments

- Deliver a healthy eating campaign across British Gas Promote active participation in the Global Corporate Challenge
- Develop a group-wide approach to managing obesity and an ageing workforce

Taking a more proactive approach to wellbeing, we launched a series of face-to-face health assessments for UK customer service advisers and field engineers in 2009. These aimed to identify potential future health problems and we are exploring how we might extend these assessments throughout the Group in 2010.

In North America, 760 Direct Energy employees (15% of the workforce) were screened for health risks as part of the 'Know-Your-Numbers' pilot programme. The most prevalent health risks were found to be obesity, hypertension, lack of exercise and cholesterol. Of the screening participants, 30% had three or four health risks, while 11% had five or more. Many of these risks can be reduced through healthier lifestyles and we are exploring ways to promote healthier choices and reduce issues related to obesity. Obesity is a serious societal issue that increases the chance of illness by 2.5 times and has many short and long-term consequences. We are looking to collect baseline data in 2010 to help us set targets on this issue in future.

In 2009, we participated in the Global Corporate Challenge

health initiative. More than 9,800 employees took part, including 3,200 from Direct Energy, the largest participant in North America. Over four months, these employees kept track of the steps they took every day and British Gas won a silver award for the 'world's most active company'. In the UK, we are working with the East Midlands Regional Public Health body to share best practice with other organisations. We are offering more healthy options at staff restaurants and encouraging our caterers to use alternative ingredients and healthier cooking methods.

Centrica is also involved in an industry-wide discussion on approaches to drugs and alcohol and in 2010 will review the Group policy on drugs and alcohol.

Future commitments

- Reduce the absence rate to no more than 7.5 days per full time employee
- Ensure that employees who are sick are referred to the occupational health team on day 8 of their absence, replacing the requirement for a GP 'fit note'
- Explore the possibility of extending health assessments throughout the Group
- Develop an effective Health Management Strategy
- Strengthen business assurance of occupational health provision
- Encourage 10,000 employees to participate in the Global Corporate Challenge 2010
- Conduct fitness assessments with a focus on obesity and related health risks

Customer safety

Previous commitments

- Distribute carbon monoxide safety leaflets to every gas and electricity customer as part of our licence obligation
- Work to increase awareness of carbon monoxide poisoning among the medical profession through our representative on Department of Health medical panels

Carbon monoxide

The number of UK carbon monoxide (CO) incidents in 2009 fell back after a high in 2008 but there was another slight increase in incidents with a British Gas service history.

Awareness of CO risk is still low, with 80% of UK households not having an audible alarm. British Gas continues to raise awareness with its own communications and through participation in the Carbon Monoxide Consumer Awareness Alliance. The Alliance launched its annual 'Be Alarmed' campaign in 2009 featuring the TV presenter Kirstie Allsopp.

British Gas continues to promote carbon monoxide alarms and sales rose to a new high, 45% above the level in 2006 when we first reported this number. In 2009, British Gas Business launched three new products under the umbrella name BusinessCare to help employers make sure their gas supplies are safe.

Customer accidents

The safety of our customers when we are undertaking work on their behalf in their premises is extremely important to us. In British Gas, there were 83 customer accidents in 2009, the highest proportion being slips and trips. We are renewing our focus on reducing these incidents and treating them as a high

priority for 2010. This will include communicating best practice to all our technicians, improving standard procedures and reinforcing consistent reporting for all customer accidents.

In North America, Direct Energy launched two key initiatives in 2009 that have contributed to safety improvements. Technicians now complete a safe work permit prior to the start of each job in order to promote a focus on hazards associated with the work site and the task itself. In addition, we have reduced the risk of injury associated with accessing equipment installed in customers' attics. Technicians are now equipped with folding aluminium ladders that provide them with access independent of the customer's installed ladder, which may not meet safety standards and can be defective.

Future commitments

- Classify the severity of customer accidents

Employee safety

	2009	2008	2007	2006	2005	2004
Lost time injuries/100,000 hours worked ¹	0.49	1.00	1.05	0.80	0.73	1.10
Total fatalities	0	1	0	7 ²	1	1

¹ Scope includes contractors who work on our premises or under our management systems, where we have management control of activities

² Morecambe Bay helicopter accident: four employees and three contractors were killed

Carbon monoxide

Customer safety	2009	2008	2007	2006	2005	2004
Carbon monoxide incidents (energy supplied by British Gas)	17	28	20	19	18	25
Carbon monoxide incidents (British Gas Service History)	8	7	5	4	4	5
Total carbon monoxide incidents (all suppliers)	36	43	29	29	35	37
Number of CO alarms provided by British Gas	340,164	303,327	268,515	233,307	-	-

Occupational health

Occupational health referrals	2009	2008	2007
Total occupational health referrals ^{1,2}	8,9271	8,3201	5,908 ¹
Musculoskeletal referrals (including those not work-related)	3,905	2,514	2,947
Mental health referrals (including those not work-related)	1,615	1,266	1,434
Other referrals (including those not work-related)	3,407	4,540	1,527
Estimated prevalence per 100,000 employees of all work-related illnesses at Centrica ²	600	3,787	-
UK plc estimated prevalence per 100,000 employees of all work-related illnesses ³	3,890	4,170	4,740
Work-related musculoskeletal disorders²			
Total work-related cases	39 ¹	736 ¹	-
Prevalence per 100,000 employees at Centrica	141	2,789	-
UK plc estimated prevalence per 100,000 employees of work-related musculoskeletal disorders ³	630	1,780	2,200
Work-related mental health issues²			
Total work-related cases	127 ¹	272 ¹	-
Prevalence per 100,000 employees at Centrica	459	998	-
UK plc estimated prevalence per 100,000 employees of work-related mental health cases ³	1,370	1,460	1,560

¹ Data may not be comparable due to improved collection and changed practices – 2009 excludes work-related injuries and only counts new cases

² These figures are UK only

³ Comparative figures from the Health and Safety Executive (HSE) of self-reported cases, ie where there is no professional opinion as to whether an illness is work-related; we are working with a group of industry competitors to identify more meaningful comparisons

Absence	2009	2008	2007
Average days absent per full time employee ¹	7.7	8.8	9.3
Average number of calendar days absent per work-related musculoskeletal disorder case	25	37	-
Average number of calendar days absent per work-related mental health case	20	57	-

¹ The FTE is based on the average over a 13 month period: December 2006 - December 2007 for 2007's average FTE and December 2007 = December 2008 for 2008's average FTE etc

Corporate responsibility report 2009

Employees



centrica

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Employees

Overview

A committed and skilled workforce is essential to the future success of any company, particularly for one with as many customer interactions as ours. We aim to foster a skilled, productive, motivated and diverse workforce by supporting skills development, promoting diversity and equal opportunities and providing regular opportunities for engagement.

We employ over 34,000 people, mainly in the UK and North America. Their roles range from offshore platform engineers to call centre agents and office workers. Providing them with an environment in which they can maximise their potential and flourish is a business imperative for Centrica.

Training and skills

We want to attract, recruit and retain the best people, and develop their skills and leadership potential. Maximising our peoples' capabilities will deliver our business strategies, provide the best service to customers and deliver value for stakeholders.

Ensuring our workforce has the right skills helps to ensure we are well-positioned to lead on market opportunities, particularly in a low carbon economy. We have developed a new business model for British Gas with energy services forming a core part of the business. We are committed to building the capabilities of our engineers so we can deliver great service to our customers and provide low carbon and energy efficiency products and services.

We are starting from a strong base in the UK where we employ over 9,000 engineers and are the largest single trainer and employer of domestic gas engineers. We spend £26.5m on training through our network of six British Gas Academies. We plan to spend another £60m at our Academies over the next two years and are creating 2,500 new jobs by 2012 to support the roll out of smart meters.

Outstanding customer service is vital to maintain the reputation of our well known British Gas and Direct Energy brands and to meet the expectations of over 20m customers globally. We provide comprehensive training to help our customer service agents understand and meet customers' needs. Our Customer Service Agent Development Journey and Potential Leader Programme provide opportunities for British Gas employees to seek targeted and flexible training opportunities to help advance their performance and careers.

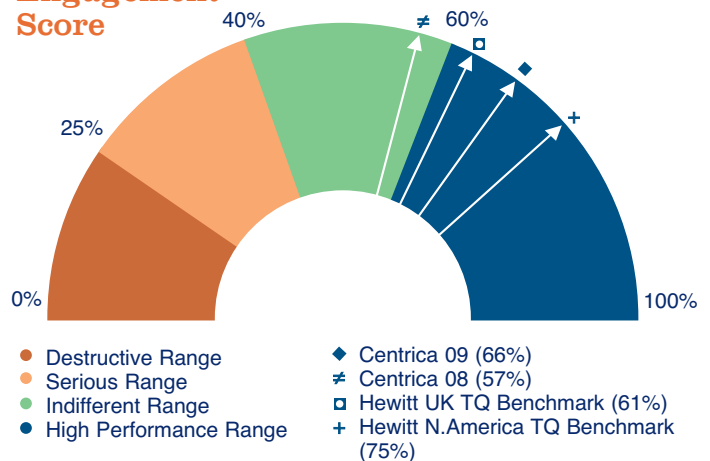
For senior managers, the emphasis is on leadership development and improving their ability to recognise and develop their people. We encourage employees to think about their career development path, how they may progress and raise awareness of the development opportunities available to them. Building leadership and management skills supports higher engagement levels and lower attrition rates.

In the UK and North America we are helping to create a pipeline of talented and skilled employees by contributing to the wider skills agenda. Centrica's Chief Executive, Sam Laidlaw, chairs the UK's CBI Higher Education Taskforce looking at how the private sector can support science, technology, engineering and mathematics education. Our partnerships with educational NGOs and universities provide valuable training opportunities for young people.

Our award winning graduate and summer placement programmes offer university graduates training and job opportunities in business, IT, engineering and finance disciplines.

Engagement

Engagement Score



Engaging employees in the business and ensuring they are motivated and committed to Centrica is critical to retaining employees with the skills and experience we need to deliver our business objectives. We can also achieve cost savings as good employee engagement reduces employee turnover, cutting recruitment and training costs.

Our employee engagement score rose by nine points in 2009 based on a Group-wide interim survey to 66%. This puts Centrica in the 'high performance range' in the external Hewitt Global Engagement Survey. In the UK, British Gas was rated in the 2009 and 2010 Sunday Times Best Big Companies to Work For list, based on an independent survey of our employees.

Our continuing focus on engaging and investing in our employees contributed to almost halving our Group attrition rates from 14.6% to 8.8% in 2009. This resulted in savings of over £41m as we had to hire fewer people to fill vacancies.

We are dedicated to creating an environment where employees are engaged and can prosper in their roles and careers while delivering on our business objectives. We aim to create this environment through competitive reward packages, learning and development programmes and measures such as flexible working. Community programmes providing opportunities to volunteer and fundraise can enhance employee engagement further as well as providing opportunities for team building and skills development. Grievance and whistle-blower mechanisms help employees with concerns about their work.

An important element of engagement is keeping our employees informed of our business activities. We regularly communicate and consult with employees through our internal communication channels as well as annual roadshows with senior management. Read more on employee engagement in the Stakeholder dialogue section.

Diversity and inclusion

“Centrica...has carried out a very impressive commitment to age diversity in the workforce”

Thomas C. Nelson,
Chief Operating Officer, AARP

We aim to create an environment in which employees from all backgrounds can flourish. Recruiting more older workers and

people from ethnic minorities helps us to better reflect the diverse customers and communities we serve. In 2009 our age-friendly employment practices received awards in both the UK and the US.

We audited our processes and activities to determine their impact on diversity and to feed into our 2010 Diversity Agenda. Women remain under-represented in our workforce largely due to the high proportion of engineers we employ. Improving female representation at all levels is a key objective. In 2009, we commissioned research to explore why we have relatively few women in management roles and are currently working through a number of actions to help to increase the numbers. We are making progress and British Gas received the 25th Anniversary Women in Science & Engineering Award for recruiting, training and developing female engineers. In 2009, 17% of our engineering employees were women.

Strategy

Our People Plan was developed to support the delivery of our business strategy and is reviewed on an annual basis. It outlines key themes which support our commitment to “Grow our people to grow our business” including developing great leaders, building technical excellence, valuing contribution, inspiring commitment and creating a community.

* As stated during a London award ceremony on 21 September 2009 recognising Centrica as one of three UK winners of the 2009 AARP International Innovative Employer Award.

Performance

Progress key:

- Achieved
- Partially achieved
- Not achieved

Employee numbers

In 2009 we employed 34,125 employees, the great majority being in the UK but more than 5,000 in North America and more than 1,400 in the rest of the world.

Employee numbers in the UK and US remained largely consistent. In our rest of world operations, however, they rose from 317 to 1409 due to the acquisition of a majority stake in SPE in January 2009. However, we sold SPE in November 2009 as part of our purchase of a 20% stake in British Energy from EDF, meaning rest of the world employee numbers will return to historical norms.

We also started to employ our own employees in India as we manage the performance and develop our relationships with our service providers in India.

Restructuring and global operations

The financial crisis and ensuing economic recession has placed companies under increasing pressure. Businesses in all sectors have had to make tough choices to remain competitive and profitable, often taking the difficult decision to cut their workforce or restructure their organisations. We recognise our responsibility to engage openly with employees affected by redundancies and reorganisation, treating them with respect and providing support to help them manage the impact. Where our employees are members of unions we work with their representatives.

Business reorganisation

Our business is continually evolving to respond to changing circumstances. In some cases we need to move operations to new locations or merge functions to improve efficiency. This can have a significant impact on employees.

In 2009 just over 1,000 employees were made redundant. This followed the reorganisation of British Gas into a single business, the merger of our upstream operations with Venture Production and a restructuring of some call centres in North America. In all cases we engaged with affected employees either individually or in groups depending on the size of the changes. We work with our recognised trade unions where appropriate, and employees select representatives to meet with management and discuss options.

We have a dedicated intranet site to keep employees informed and updated on plans. We provide employees with information packs and offer outplacement provisions for all levels tailored to specific roles.

Our decision to shift our focus in Nigeria from gas exploration to building an LNG business affected our small group of employees in the region. We are engaging with the team and are putting together a redundancy package. While no legal requirements exist for such packages in Nigeria, we are working on providing fair and respectable terms with the employees.

Offshoring and outsourcing

Outsourcing or moving support and back office functions overseas has been a growing trend in recent years. It can deliver significant business benefits through lower labour costs, as well as maintaining high levels of productivity.

During 2008 we started operations in Johannesburg, South Africa, working with a local service provider to offer additional call centre support for British Gas. The initial pilot went well with equivalent performance between our operations in South Africa and the UK. The operation has now grown to 187 people supporting our British Gas operations and it was extended at the end of 2009 with a further 25 people to support our Dyno business.

As we move business activities to new regions we provide training to ensure our managers understand and respect local cultures, and understand the need to uphold our business principles in countries where standards of labour conditions, human rights, security and health and safety may vary considerably.

In India, for example, employment policies and practices at our subsidiary, Centrica India Operations, are based on Centrica Group policies but adapted to meet local legal requirements. Raising health and safety awareness among local employees is an important focus, supported by our Group health, safety and environment teams and regular audit process.

Training and skills

Previous commitment

- Invest in new online learning management systems to build our e-learning capability

We offer employees a wide range of learning and development opportunities from bespoke training programmes to on-the-job experiences. Development is tailored to employees' varied needs, roles, responsibilities and learning styles.

Some training is designed to complement employees' wider ambitions. In North America and the UK, for example, we provide financial support and time off for employees who want to study for professional accreditations or post-graduate qualifications. This allows them to build skills that are relevant to the business whilst also improving engagement and retention. Company-specific training aims to raise general standards across the workforce. For example, we have created 'Performance – The Centrica Way', designed to provide consistency across the business and improve the quality of our performance management process. To support the 2009 year-end reviews, over 300 managers attended an 'Honest Conversations' workshop designed to improve their skills to hold constructive conversations about performance with employees.

Other development programmes are specific to employees' roles, reflecting the very different training needs of engineers and customer service advisors, for example.

In 2009, we redeveloped our online learning centre, introducing a new Learning Management System (LMS). It is a more powerful training suite that is easier to use and includes a variety of e-learning courses, tracking tools, learning records and other elements. Launched in April 2009, LMS has already seen more than 40,500 individual courses completed and supported 72,000 hours of training.

Engineers

Previous commitment

- Open two new Academy Centres in 2009 to modernise facilities and provide better working environment for new recruits

Centrica is the largest single trainer and employer of domestic gas engineers in the UK. In 2009 we recruited 250 apprentices and spent £26.5m on training for engineers and apprentices. We will continue to invest a further £60m in training engineers over the next two years.

A network of British Gas Training Academy centres carries out training. In 2009 we opened two new centres in Leicester and Hamilton, bringing the total to six.

Around 96% of Academy engineering recruits complete their training – the highest success rate in the industry – and 90% of apprentices are still with the company after five years.

The British Gas Academy works closely with the Duke of Edinburgh's Awards Scheme to build apprentices' skills. In 2009, just under 700 British Gas apprentices volunteered almost 21,000 hours on community projects through the Scheme. This helps them develop problem-solving, communication, team working and business skills.

Our Centrica Storage business operates an apprentice programme in Hull to train new technicians and engineers for onshore and offshore roles. The apprentices work on a four year programme that includes university training towards a Higher National Certificate (HNC).

Customer service advisers

Previous commitment

- Deploy a suite of 'Green' modules to our customer service advisers

Training for customer service advisers covers issues such as diversity, age awareness, vulnerable customers and data protection. Offering continual learning opportunities and a structured career progression framework boosts advisers' motivation and improves the quality of customer service.

We had aimed to provide a suite of green training modules for customer service advisers to inform them on climate change issues. However, the focus on creating green jobs and providing training for the new roles to deliver smart metering and energy efficient solutions replaced this initiative.

British Gas launched a Customer Service Agent Development Journey in 2009 to provide a flexible set of training and development courses that help people identify their strengths and weaknesses. Over 1,700 British Gas customer service advisers completed over 12,000 training hours in 2009. Post-training evaluations showed employees' communication and interpersonal skills moved from 'good' to 'high' and 'exceptional'. Improved skills translate into better customer service as agents improve their engagement with customers.

In 2009 we launched 'My World – My Development', a personal development guide to encourage employees to think about how they want to progress and raise awareness of the opportunities available.

Launched as a pilot in 2008, the Potential Leadership Programme aims to develop the leadership and management skills of customer service advisers. By the end of 2009, 19 of the 72 participating candidates had either been promoted permanently or on secondment.

Leadership development

We continued to invest in leadership development in 2009 with programmes aimed at different groups of leaders and potential leaders. The Leaders Journey, for example, is our development programme that aims to build the skills and behaviours of senior management. The programme addresses key capability gaps and gives our senior leaders the opportunity to learn together in their teams. This helps them to develop personally while building high performing teams. All 200 of the leaders who have started the Journey said they would recommend it to others.

Our Group-wide General Management Programme completed its third year in 2009. Based on feedback from participants, we enhanced the programme to increase focus on building leadership, strategy and coaching skills. The programme runs in conjunction with the Said Business School at the University of Oxford. Feedback has been consistently positive with 75% of the previous participants being promoted or taking on new roles since completing it. Twelve new participants will join the programme in 2010.

In 2009 we worked to embed the talent board framework across the business. The framework aims to establish a consistent approach to identifying and nurturing talent, enabling us to build our talent pipeline to meet future business objectives. Over the last year the talent board process has enabled the business to make some key role changes at senior levels across the company and reduced the need for external recruitment.

Centrica's top 200 leaders took part in a personal leadership review and completed a 360 degree assessment against the standards and behaviours we expect of them. We have used the results to create more robust and goal orientated development plans.

In North America, we continue our senior management performance assessment and talent reviews to map individuals' abilities against business objectives and identify high performers to improve succession planning.

Future commitments

- Invest £60m in training our engineers by the end of 2012
- Continue to expand the use of the Learning Management System
- Continue to develop our peoples' capabilities and career potentials

Engagement and retention

Previous commitments

- Run an interim survey covering a sample of the employee population in 2009 and track improvement towards the 2010 commitment score by setting ourselves an interim target for Centrica overall of 60%
- Following 2008 survey results, focus on areas that scored less well including the involvement of senior leadership, the provision of career opportunities and reward and recognition
- Connect our offline communities, most notably our service engineers, to myHR
- Continue to look at ways of exploiting the myHR platform to improve other less automated processes and to improve the employee/line manager user experience

In North America, we continue our senior management performance assessment and talent reviews to map individuals' abilities against business objectives and identify high performers to improve succession planning.

We monitor employee engagement annually through an employee survey, which is a confidential process administered by an independent third party. We benchmark our performance against peer companies in the UK, Europe and North America.

Close to 33,000 employees across Centrica completed the 2009 interim survey, a 90% response rate. Group-wide commitment scores increased by nine points to 66%. This significant improvement puts us in the High Performance Range of an external measurement of employee engagement performance conducted by Hewitt Associates, an international human resources advisory and consulting company.

The score improved in each of our businesses with British Gas posting the highest scores. Our upstream business had the lowest scores and has responded with new programmes. The next full survey is scheduled for 2010 and we are targeting an engagement score of 67%.

We continue to expand the use of the myHR system to improve accuracy of information and empower managers and employees to use its 'self-service' facility. myHR is an intranet tool for UK employees and line managers to view and manage their personal details, payslips and expenses. Last year we stopped posting payslips to employees with access to the myHR system, encouraging them to access the information electronically instead.

myHR now covers all UK employees except for service engineers who will gain access later in 2010. We will continue to increase usage as systems become available that enable all employees to log onto the intranet.

Employee turnover

Previous commitment

- Manage attrition at below 12% for Centrica as a whole

In 2009 employee attrition rates almost halved from 14.6% to 8.8%, exceeding our commitment to keep rates below 12%. The number of employees leaving Centrica after less than one year also fell to 11%.

The fall in attrition rates was due to improvements in employee engagement, external recruitment process and an ongoing focus on improving retention rates in our UK call centres – which have increased from 57% to 78%. While action on work-life balance, rewards, recognition and development opportunities also contributed to improved retention rates, the current economic environment will undoubtedly have also played a part in increased retention.

In North America we took steps to strengthen succession planning and improve retention rates. We identified key positions and high potential employees and focused on improving internal communications. Attrition rates at Direct Energy dropped to 9.7% in 2009.

Work-life balance

Helping employees juggle work and personal commitments through flexible working arrangements has a positive impact on engagement and retention levels. Work:Wise is our flexible working programme designed to help employees manage work and personal commitments. The project is seen as a great success in driving a culture of empowerment and greater accountability for work outcomes, which enables employees to work effectively and efficiently wherever they happen to be. Currently, over 60% of UK employees have some form of flexible working arrangements in place.

In 2009 Centrica won the UK Employers Forum on Age award for Innovation in Flexible Working and won the Employee benefits award for the most effective benefits strategy for working parents and carers. We were highly commended for our approach to workplace flexibility at the HR Excellence Awards 2008.

For more information on our measures to improve employee wellbeing and work life balance, see Health and Safety.

Future commitments

- Retain 89% of our workforce in 2010
- Achieve 67% employee engagement

Rewards and remuneration

Remuneration

Previous commitment

- Broaden our programme of FSA seminars across the Centrica Group

Employee Remuneration (UK only)

In 2009 our average salary increased by 5.8% to £25,913, compared to £24,484 in 2008. This reflects changes to the employee population as well as salary increases. All Centrica employees are paid more than the national minimum wage.

Executive remuneration

For a breakdown of our executive compensation see our Annual Report and Accounts.

Equal pay

In 2009 we again conducted an Equal Pay Review across the whole of Centrica to test pay differences between men and women. The review found no gender bias in our remuneration structures and confirmed that our approach is aligned to FTSE 100 best practice.

Employee benefits

Previous commitment

- Focus on helping employees better understand the value of their reward package

We offer a range of core and optional benefits for employees across the Group, which vary according to local needs.

In the UK, we work with the Financial Services Authority (FSA) to provide free financial education for employees. The sessions cover a wide range of issues including basic financial planning and budgeting, advice on borrowing, insurance, savings and investments and retirement planning. We also run tax-efficient benefit schemes such as childcare vouchers and a cycle-to-work scheme.

More than 12,000 UK employees made use of the flexible benefits spending account (FlexSA) in 2009. Employees' accounts are credited with a percentage of their base salary which can be spent on a range of benefits from additional holidays, shopping, medical cover, legal support and voluntary pension contributions. Employees can also donate to charity through this account. UK employees also benefit from a range of High Street discounted services and products through the Perkz voluntary discount scheme (www.perkz.com), including 25% off our own British Gas and Dyno products and services.

In Canada, employees can select various benefits ranging from health, dental and life insurance to additional holiday allowance through the 'Flex Benefits' system. They also have the option to add family members to their insurance policies. In the US, we operate a similar system offering a choice of benefits from medical and dental insurance plans to supplemental life insurance and up to five additional days of annual leave.

While we aim to provide North American employees with a consistent benefits programme, differences in healthcare provision between the US and Canada prevent complete alignment.

Pensions

All employees have access to pension schemes that we benchmark against market rates. We are committed to ensuring that our employees receive the pension benefits that they expect and to which they are entitled. This requires careful monitoring and balancing of the costs and risks associated with the provision of defined benefit schemes.

During the year we completed our triennial actuarial valuations for each of our defined benefit schemes. The results of these demonstrate that adverse investment market conditions have had a significant impact on pension funding levels, leading to the aggregate deficit across all three of our defined benefit schemes increasing to more than £1bn. Fortunately we have a strong financial base, and in recognition of our commitment to funding our pension schemes responsibly, we agreed to pay an additional £500m into the schemes over the next two years cutting the deficits by 50%. We paid £206m of this during 2009. The company and scheme trustees have agreed a future funding plan that will return the schemes to a fully funded position within the next eight years.

In 2009 Direct Energy began consolidating its retirement plans in the US to one provider to ensure the most efficient handling and management of the fund.

Employee share scheme

Participation in the Centrica Sharesave and Share Incentive Plan remained largely constant in 2009. Participation in the Direct Energy Employee Share Purchase Plan decreased from 37 to 35%. The Group has a number of employee share schemes under which it makes equity-settled share-based payments to certain employees. More information on employee share schemes is available in the Annual Report and Accounts.

Future commitments

- Continue to engage with employees to develop their understanding of the benefits and share plans available to them to encourage participation

Diversity and inclusion

Previous commitment

- We believe our policies, procedures and data monitoring are well established and that our range of existing initiatives address our main areas of impact. We will conduct a diversity benchmarking exercise to identify areas of opportunity on which we can capitalise.

Encouraging a diverse workforce ensures we are able to compete for the best talent and understand the communities we serve better. This helps us to provide products and services that best meet the needs of our customers. Each business unit monitors and manages diversity, and the Centrica Executive Committee reviews data quarterly.

In 2009 we assessed the impact that internal processes and activities have on diversity. The self assessment covered management involvement, employee engagement, equal pay, suppliers and customers. It highlighted our training academy diversity teams and Group age policies and practices as examples of best practice.

The outcome of the self assessment fed into our 2010 Diversity Agenda, which aims to ensure consistent standards and drive improvements in our UK businesses. The agenda includes improving the collection and monitoring of data and further diversity engagement. These items will coincide with the Equality Act.

We established a North American Diversity Council to oversee regional diversity councils in the US and Canada. It is responsible for developing our diversity strategy and ensuring specific regional targets are met.

Age

We encourage the recruitment of older people in all positions. In 2009 just under 7% of our workforce was over 55. The largest age band was the 25-34 range at 36%.

In 2009 we received awards from the Employers Forum on Age (EFA) for Innovation in Flexible Working and Innovation in Attracting Baby Boomers for our age policies and practices. We have been commended by the UK's Age and Employment Network (TAEN) for our age-friendly employment practices, and in 2009 we participated in a conference on Age Diversity in the Downturn organised by TAEN for the Equality and Human Rights Commission.

For the second year running, we won the American Association of Retired Persons International Innovative Employer Award, which awards non-US based employers whose practices address issues relevant to workers over the age of 50. It recognises our age-friendly HR policies and practices for the recruitment, retention, training and promotion of older workers in the UK.

We removed upper age limits for our British Gas apprenticeship schemes in 2007 and over a third of our

apprentice engineers are over the age of 25 when they join. Sixteen percent of our graduate in-take are mature students.

Gender

Women comprise 30% of our total workforce. We have a high proportion of men in engineering positions, which represent a significant proportion of Centrica's UK workforce. While we have a lower than average percentage of women employees when compared to other industries, the figure is consistent with the UK utility sector average.

Our British Gas Academy has a dedicated diversity and inclusion team to improve the representation of female engineering recruits and those from ethnic minorities. Currently, 17% of engineering employees are female. Of this, 21% are operators or assemblers, 71% are in clerical or administration roles, and only 7% are professional engineers. Nevertheless, British Gas received the 25th Anniversary Women in Science & Engineering Award for recruiting, training and developing female engineers.

In 2009 we commissioned research by the UK's Institute for Employment Studies to explore the reasons why there are relatively few women in senior management roles. The research included an analysis of our HR and employment practices, coupled with interviews and focus groups with senior women employees and a survey of male and female middle and senior management. The report made several recommendations including:

- a more structured approach for employees returning from maternity leave
- more diverse recruitment at senior levels
- adopting more innovative approaches to enable women to fill senior positions
- the introduction and support of women's networking.

We are committed to maximising the opportunities for women to progress to senior management positions and have undertaken a number of actions to address the research results covering recruitment practices and job specifications, flexible working and employee network groups.

We have also established a working group to look at ways of helping women develop their career at Centrica. The next step is to conduct an international review of where we are at on our diversity journey and formulate a plan for the next couple of years.

Recruitment

Centrica Recruitment Team

Previous commitment

- Increase the amount of external hires handled by the Centrica Recruitment Team (CRT) from 50% to 75% in 2009

The Centrica Recruitment Team (CRT) handled 60% of our external hiring in the UK, making good progress towards the aspirational target of 75%. Recruiting this way saved £3m in 2009 by avoiding the use of external agencies, as well as improving our engagement with new employees right from the start of their relationship with us. Our research shows that candidates joining us through the CRT are 50% more likely to stay and build their careers at Centrica than employees joining through other channels.

The CRT is increasingly using social media and networking to increase the number and diversity of the candidates we can reach. As our social media presence grows, we will increase engagement with potential candidates and position the company as an innovative employer.

Graduate programme and university engagement

Previous commitments

- Aim to enter The Times Top 100 Graduate Recruiters list
- Work with each area of the business to define talent gaps that the graduate programme can support

Recruitment Partnerships

We work with partner organisations to raise young people's awareness of careers at Centrica through mentoring, internships

and work placements. Partners in the UK include the Social Mobility Foundation, the Engineering Development Trust's Year In Industry and Headstart initiatives and Students in Free Enterprise (SIFE). In 2009 we supported students participating in a SIFE competition designed to develop team working and business skills through community projects.

In the UK, we continued our work with Job Centre Plus (JCP) and the Local Employment Partnership (LEP) to provide job training for the long-term unemployed. In 2009 we employed in the region of 150 new recruits through JCP, 55 of which as Customer Service Advisors in British Gas Services Leicester, and received the 'Unlocking Talent Award' and 'Outstanding LEP Achievement Award' at the East Midlands LEP Awards.

Future commitments

- Strive for 75% of external hires to be handled by the Centrica Recruitment Team (CRT) in 2010
- Continue our two-year plan to gain a place in The Times Top 100 Graduate

Consultation

Forty six percent of Centrica employees are members of a trade union. We aim to maintain positive and constructive relationships with employee unions and engage with them on changes to the business that may result in restructuring.

See Stakeholder Dialogue for more information on our consultation with unions in 2009.

Employees

	2009	2008	2007	2006	2005	2004
Total	34,125	32,727	33,908	33,718	35,718	43,414
UK	27,674	27,413	28,829	28,489	28,489	28,489
North America	5,042	4,987	4,839	5,032	5,032	5,032
Rest of the world	1,409	1,409	240	197	197	197

Employee engagement

	Unit	2009	2008	2007
Percentage of employees engaged	%	66	57	53 ¹

Employee turnover

	Unit	2009	2008	2007	2006	2005	2004
Redundancies		1,009	399	1,381	1,300	-	-
Employee retention	%	91.2	85.4	84.1	81.5	87.0	88.0
Employee attrition	%	8.8	14.6	15.9	18.5	13.0	12.0

Employee tenure

Less than one year (11.3%)	1-2 years (17.8%)	2-5 years (23.2%)	5-10 years (25.2%)	10-20 years (10.4%)	More than 20 years (12.1%)
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Rewards and remuneration

Employee remuneration ¹	Unit	2009	2008	2007	2006	2005	2004
Average employee salary ²	£	25,913	24,484	23,693	22,965	22,364	22,752
Average employee salary including benefits package ³	£	37,791	35,768	33,879	32,967	-	-

¹ This data is UK only

² This data measures actual salary rather than the full time equivalent (ie it is not pro-rated)

³ This measure uses the PwC Saratoga definition and is calculated using the actual payroll cost (including salary, bonus, annual incentive scheme, pensions and other benefits) divided by total full time equivalent

Diversity and Inclusion

	Unit	2009	2008	2007	2006	2005	2004
Ethnicity Percentage of employees from ethnic minority group	%	15.5 ¹	15.3 ²	15.2	15.9	17.2	16.6
Age range Average age range of employee		25-34	25-34	25-34	25-34	25-34	25-34
Disability Percentage of employees with a disability	%	n/a ³	n/a ³	3.2	2.7	2.5	2.4
Gender Percentage of males	%	70.0	70.0	69.8	70.1	69.67	
Percentage of females	%	30.0	30.0	30.2	29.9	31.33	
Percentage of female senior managers ⁴	%	20	21				
Percentage of male part-time employees	%	5	n/a				
Percentage of female part-time employees	%	27	n/a				

¹ 1,634 headcount in Centrica UK and 146 in Direct Energy are not included in the ethnicity analysis because there was no information available

² 1,779 headcount in Centrica UK and 155 in Direct Energy are not included in the ethnicity analysis because there was no information available

³ No disability statistics were collected in 2008 and 2009

⁴ Figure for 2007 restated as we cannot corroborate the historical data; 'Senior managers' are defined as all those at level 4 and above .

Consultation

Employee Trade Union Membership	Unit	2009	2008	2007
Group	%	46		
North America	%	16	14	16
UK	%	54	54	52

Return on investment

	2009	2008	2007	2006	2005	2004
Human Capital ROI ratio ¹	2.25	2.45	2.47	2.1	2.1	1.9

¹ Human capital return on investment (HCROI) measures the financial return from employees' contribution to the business compared to our investment in remuneration, benefits and training. A higher number indicates a higher return. HCROI is a useful metric for the company to benchmark itself against peers. We can compare the two key elements of the metric – employee costs and financial performance – to analyse how and where improvements could be made to achieve greater value. In 2009 our HCROI decreased by 8% from 2.45 to 2.25. This was primarily due to an increase in Group revenue and employee costs.

Corporate responsibility report 2009

Supply chain



centrica

Supply chain

3 **Overview**

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4 Risk and compliance

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Supply chain

Overview

The impacts of a company extend further than its direct operations. We indirectly impact stakeholders or the environment through the business we conduct with our suppliers.

We must consider the wider implications when procuring goods and services to manage these impacts. We can also earn business benefits through responsible procurement. It can help minimise supply shortages which can lead to business interruptions and can enhance our relationships with suppliers by aligning business standards.

Through the billions of pounds we spend with thousands of suppliers, we have the opportunity to influence responsible business standards in our supply chain. To focus our approach and set out the expectations we have of our business partners, we created a responsible procurement (RP) programme. In the short-term, managing these issues may result in a cost increase, but we believe this is a necessary step to manage risks and can foster benefits through greater supplier engagement.

This started at the end of 2007 with the introduction of our Group Responsible Procurement and Supplier Management Policy. Since then we have been developing the RP programme and in 2009 we began including CR clauses in contracts and tested our CR audit approach. We want the process to be collaborative and mutually beneficial so we hold annual workshops with key suppliers to explain our expectations and share ideas on how to tackle the challenges of responsible procurement.

We also recognise that we must treat our suppliers responsibly, for example, by paying them on time. That is why Centrica is a signatory to The Prompt Payment Code in the UK and the UK Oil and Gas Supply Chain Code of Practice. In certain circumstances, we have sought to reduce payment times for a number of suppliers to aid their cash flow during the economic downturn.

Buying responsibly

We aim to manage the impacts of our supply chain by changing the way we procure goods and services. We do this by buying from the suppliers who meet the standards we set out for them. We expect suppliers to have a robust environmental management system, procedures to address health and safety risks, and policies to prevent discrimination, bribery and corruption.

Our expectations are grounded in our business principles and set out in supplier contracts through corporate responsibility clauses (CR clauses) and a supplier-facing Procurement and Corporate Responsibility Policy (RP policy). In 2009, more than 100 suppliers from across our businesses signed contracts that included the CR clauses and RP policy. The clauses enable us to monitor supplier and their suppliers' compliance. Our procurement teams monitor performance through regular meetings with suppliers as part of our supplier management programme.

We want to help improve standards in our supply chain, so when we find suppliers not in compliance with our clauses, we agree remediation plans and work with them to improve performance. However, we do reserve the right to terminate a contract should suppliers fail to implement the remediation plan.

Identifying the risks

Immediately rolling out our responsible procurement programme across our whole supply base isn't possible or practical. Instead, we identify and assess the risks in our supply chain to help us concentrate our resources on high-risk areas. This also enables us to engage with suppliers more effectively.

Procurement managers use a risk matrix to undertake risk assessments of individual suppliers. The matrix considers annual spend with each supplier, the type of goods or services they provide, their impact with our customers, and the geographic regions in which they operate. We are developing a new comprehensive online risk assessment tool to improve supply chain risk assessment.

Utilising such tools help us manage our very diverse supply chain. Our suppliers provide us products ranging from central heating boilers to large-scale equipment for gas exploration and production. We also buy services ranging from outsourced call centres and cleaning to catering and security. The risks associated with these different types of suppliers are also diverse, and vary considerably depending where they are based.

The majority of our major suppliers are based in Europe and North America, which we consider to be low-risk regions. Companies further down the supply chain are based in regions which pose higher risks. For example, we buy all our boilers (including British Gas own-brand boilers) from major European manufacturers, but many of the components that go into them are made in Asia. All the strategic boiler manufacturers we work with have signed up to CR clauses in their contracts and we engage with them at executive level to identify and minimise potential risks in their supply chain. We also have some key service contracts in India, providing back office call centres and information systems support.

It is a challenge to implement our global responsible procurement programme consistently across such a diverse Centrica plc Corporate responsibility report 2009.

Monitoring

Monitoring compliance with our responsible procurement requirements is an essential part of managing the risks. We use a supplier assessment questionnaire and are exploring options for a more robust and efficient audit process. We conducted five trial audits in 2009 as part of this development work and aim to have a robust supplier audit programme established for our UK businesses by 2011.

Implementing our responsible procurement programme

As our main contact with suppliers, procurement teams are central to making our responsible procurement policies work. We provide training to the teams on corporate responsibility issues and responsible procurement toolkits. The majority of our British Gas and Group procurement team received training in 2009 and we are establishing a programme to ensure new procurement employees receive training.

To further embed the responsible procurement programme into business as usual, we have combined the Responsible Procurement Steering Group with a wider supplier governance group. Chaired by the Head of Group Procurement and Supplier Management, this group meets quarterly to review supplier management and includes members of group and business unit procurement teams as well as legal, business continuity and CR representatives

Performance

Progress key:

- Achieved
- Partially achieved
- Not achieved

CR clauses

Implementing our responsible procurement programme

Previous commitments

- Continue to embed CR clauses and the supplier CR policy into contracts with business partners

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By the end of 2009, 101 suppliers across the Group had signed up to the CR clauses. Of these, 70 are strategic suppliers to the Group and British Gas, 24 supply Direct Energy and 7 supply Centrica Energy. We have also approached and are in ongoing negotiations with an additional 22 suppliers to sign up to the clauses.

We approached our top strategic suppliers first – based on spend, type of product or service provided, impact on our customers and criticality to the business. We started introducing the CR clauses to suppliers in March 2009. Our approach is to focus on new suppliers and those whose contracts are up for renewal. This is because it is not practical to renegotiate with all our suppliers mid-contract. However, if a breach by an existing supplier comes to our attention, we will renegotiate mid-contract to include the CR clauses.

The detailed CR clauses apply to suppliers with whom we spend over £250,000 annually. To reduce the burden on smaller suppliers, we have introduced an abridged version of the clauses into our terms and conditions for contracts worth less than £250,000 annually. This abridged version also refers to compliance with the Procurement and Corporate Responsibility Policy.

As we introduce CR clauses into contracts, some suppliers have challenged parts of the clauses. It is essential for our procurement team to be aware of the issues so they are able to engage and respond effectively.

To support them, we created a Group-level escalation committee, comprising lead procurement managers and representatives from our CR and legal teams. The committee

reviews progress and supports procurement managers in responding to challenges.

We created a toolkit to guide procurement managers, which highlights some of the main challenges we have received from suppliers to date and how we have managed these. For example, in cases where suppliers already have their own CR policy in place, we conduct a gap analysis to check that it is consistent with our own.

The escalation committee covers Group and British Gas procurement only. However, the toolkit has been shared with Centrica Energy and Direct Energy procurement teams to help ensure we adopt a consistent approach when implementing the clauses across the business.

We monitored the number of suppliers signed up to the CR clauses manually in 2009. In 2010, we plan to introduce an online tool that will track this data automatically through our supplier management processes to facilitate improved reporting on our progress.

CR clauses in supplier contracts 2009

Number of suppliers signed up to CR clauses ¹	101
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¹ Rollout of the CR clauses began in March 2009 supply chain. Initially, we are concentrating on the suppliers that are most critical to our business. In 2009, the responsible procurement programme focused mainly on the UK business, although more than twenty suppliers to Direct Energy within North America have also signed up to the CR clauses.

Future commitment

- Sign up an additional 150 suppliers to the CR clauses in 2010

Risk and compliance

Previous commitments

- Map out the CR risks within the end-to-end lifecycle of our supply chain
- Roll out prequalification for First Point Assessment

Risk assessment

We are working with an external service provider to develop a tool that will enable us to effectively assess CR risks among our suppliers. To ensure CR risks are considered in all procurement decisions, our long-term goal is to integrate CR and financial risk analysis into our overall supplier management tool.

Centrica Energy Upstream assesses supplier risk using the First Point Assessment Ltd (FPAL) tool, designed specifically for procurement related to the upstream oil and gas industry. This assessment has previously included health, safety and environmental criteria, and Centrica Energy Upstream is participating in a joint pilot with FPAL of a revised version which has been extended to include wider CR issues. Of the seventeen suppliers invited to take part in the pilot, eight have submitted responses. These ranged from almost full compliance with the FPAL questionnaire to those who have just embarked on a CR programme. Responses to this questionnaire form part of our overall evaluation process for qualification of new suppliers, and we will work with existing suppliers in areas identified for improvement.

Monitoring compliance

Previous commitments

- Implement an audit process with our suppliers to enable us to monitor non-financial risks present in our supply chain and ensure CR policies are being adhered to

Audits are a central part of monitoring suppliers' compliance with the standards set out in the CR clauses and the Procurement and Corporate Responsibility Policy included in their contracts. However, developing an audit programme able to respond to the needs of a diverse supply base without unnecessarily draining resources takes time to implement.

In 2009, we conducted five trial CR audits of suppliers in India, South Africa and the UK. These were designed to test a supplier assessment questionnaire. The findings of these audits and supplier feedback informed further refinements to make the questionnaire easier for suppliers to complete and ensure it effectively captures the information we need.

The pilot audits also gave insights to how audits should be completed and who should conduct them. During 2010, we will continue to explore how best to establish a supplier audit programme that monitors compliance effectively and efficiently.

Future commitment

- Explore supplier audit programmes and introduce one for Group and British Gas suppliers by 2011
- Complete and roll out a non-financial risk tool
- Integrate non-financial risk tool into supplier management processes to link to financial risk assessments

Communication and engagement training for procurement teams

Previous commitments

- Deliver further UK supplier workshops
- Enhance the communication of our responsible procurement activities
- Introduce an online portal to communicate our key policies to suppliers and business partners
- Provide ongoing training to ensure procurement, supplier and contract managers are familiar with best practice in responsible procurement
- Increase engagement with North American procurement colleagues to build on the initial UK experiences

Through our dialogue on the CR clauses, trial audits and regular supplier management, we are working with suppliers to improve their CR policies, business principles and management of CR risks in their own supply chain.

We engaged with our suppliers and peers about the responsible procurement programme in a number of ways. For more information on these activities see stakeholder dialogue.

We continue to share our experiences and learn from others on implementing a responsible procurement programme through presenting and participating at conferences and seminars and contributing to journals.

Plans to establish an online portal for suppliers have been extended to explore the best way to provide the information suppliers need to achieve the standards required to work with us.

Our procurement teams form our main contact with suppliers and are central to the implementation of our responsible procurement policies. Ensuring they have the capabilities and resources they need is an important element to having a successful responsible procurement programme.

We provide training sessions and toolkits to ensure they are able to identify non-financial risks in our supply chain, understand CR issues and feel confident raising these with suppliers.

In 2009, we trained 70% of the group and downstream procurement team in the UK. By the end of 2010, we aim to have trained all existing members of the team and establish a programme to ensure new members and employees who return from extended leave also receive training. We also plan to provide further training to procurement teams on the use of the new non-financial risk assessment tool.

Initial work on responsible procurement has focused on our UK business. In 2009, the UK procurement teams engaged with colleagues in North America to share their experience and build capacity to continue implementing responsible procurement policies there. Head of Group Procurement and Supplier Management, Heather Rodgers visited North American colleagues in July 2009 to present our approach at Group-level. Direct Energy held discussions with three of its key suppliers in 2009 to share ideas and approaches on CR.

Future commitment

- Hold a forum upstream supplier workshop in the UK
- Train 100% of the UK group and downstream procurement team by the end of 2010
- Establish a programme to ensure new procurement staff and employees who return from extended leave receive training

Corporate responsibility report 2009

Local impact



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Local impact

Overview

We have an impact on people and communities wherever we operate, from our interaction with customers and our contribution to skills development, to the location of wind turbines, production sites and gas exploration activities.

Our aim is to make a positive contribution through the way we operate and by investing in, and engaging with, communities where we work in the UK, North America, and other parts of the world.

Communities benefit from our contribution to local and national economies through the wages and taxes we pay, and the goods and services we buy. Our role as an integrated energy company is to be a major employer and provider of essential energy services. However, we can also help tackle the challenges and limitations many communities face, such as poverty, social exclusion and lack of access to opportunities for education and skills.

Engaging with people in our communities gives us a better understanding of their concerns and needs and helps us to take the most appropriate action in line with our core business activities – as set out in our Group community and local impact policy.

Charity partnerships

Collaboration is essential to fully understand the complexities behind challenging issues like fuel poverty, and how they can be effectively addressed. We work with a number of charities and other organisations whose skills and experience help us tackle the root causes of such issues and better serve our customers.

In the UK we have strategic relationships with seven charities which we work with to identify and support disadvantaged and vulnerable groups.

In North America, we principally support charities that focus on climate change and the environment, vulnerable customers and homelessness. To help ensure our contributions have the greatest possible positive social impact, Direct Energy has set up regional community investment councils which encourage employees to get in charity partnerships through volunteering and fundraising.

Young people can be particularly vulnerable with as many as four million children living in poverty* in the UK alone.

Our work with charity partners supports young people and their families from deprived communities, and improves their access to skills training and employment opportunities. For example, we

work with Save the Children and our employees to help identify those most in need to receive grants from the charity's Family Crisis Fund. In India, we partner with local organisations to improve education for children near our operations.

We also work with other organisations, including the Social Mobility Foundation and Local Employment Partnerships in the UK, to build skills and improve career prospects for young people from deprived areas (please see the Employees section for further information on our work to address skills and improve employment opportunities).

*www.endchildpoverty.org/why-end-child-poverty/key-facts

Supporting communities

We provide support in many ways, from cash and in-kind donations and support schemes for vulnerable customers, to time volunteered by our employees. The total value of our community investment in 2009 was £77.01m, up from £52.9m in 2008. A significant proportion of the overall total relates to the support provided through the British Gas Essentials social programme for vulnerable customers.

Starting in 2009, Direct Energy is investing \$2.5 million in the US state of Pennsylvania on urban social and environmental issues. This commitment will continue over the next five years and ties in with Direct Energy's wider community investment areas of homelessness, vulnerable customers, and environmental issues.

As well as supporting vulnerable groups, we want to spread environmental awareness and action among young people. In 2009, Generation Green continued its work with schools to increase awareness of environmental impact and encourage energy efficient behaviours.

We also seek to support other issues that are important to our communities. For example, through our partnership with British Swimming, launched in 2009, we aim to improve access to one of the UK's most popular sports.

Our corporate contribution is enhanced when we stimulate employee involvement. We encourage personal donations of time and money, and have made it easier for employees to do this through the relaunch of our Get involved programme in the

UK and our 'direct in the community' programme in North America. Employees can now donate through payroll giving, apply for matched funding and use other giving services directly through our intranet. We also provide time off for volunteering to support employees to develop their skills and apply their expertise.

Managing the local impact of our infrastructure

Managing the expectations and concerns of communities is an operational imperative as our energy sourcing and generation activities have an effect on those living near our operations.

Wind power has expanded rapidly in the UK in recent years as the government seeks to increase the proportion of energy from renewable sources. We recognise that the development of certain sites can lead to concerns and we have a responsibility to balance these with the need to expand renewable energy generation. Our approach to development ensures that we

discuss our proposals with a wide range of stakeholder groups to understand potential concerns and how these can be overcome. We also aim to raise awareness of the need for renewable energy. We run exhibitions about all our wind farm developments to give communities the opportunity to see our proposals and to tell us their views.

In Nigeria, we continued to engage with host communities, NGOs and the Mbo regional government to support our Skills Acquisition Programme. In 2009, 25 young people enrolled in the programme to learn the skills that will help them make a sustainable contribution to their communities. However, in Nigeria we are shifting our focus away from gas exploration to building an LNG business. This move significantly reduces our social and environmental impact in the country. Given our continued presence in the country though, we remain committed to developing strong relations with key stakeholders.

Our Human Rights Policy and Security Policy outline our commitment to protect the rights of local communities in all regions wherever we operate.

Performance

Progress key: ● Achieved ● Partially achieved ● Not achieved

Community investment

In 2009, our total community contributions amounted to £77.01m, a 45% increase from 2008. We measure our community contributions using the London Benchmarking Group (LBG) methodology, which provides assurance as well as opportunities to benchmark against other companies.

Our total community contributions also include voluntary social contributions. This comprises our support for vulnerable customers through, for example, our Essentials programme, which combines a discounted tariff with other support mechanisms. Combining our voluntary and LBG contributions provide a wider measure of our community investments and reflect the continuing growth in support for our vulnerable customers, to whom we have a particular responsibility.

Working with charity partners

In the UK, we support disadvantaged and vulnerable groups through our strategic partnerships with seven charity partners

- Carers UK
- Age UK¹
- Money Advice Trust
- National Energy Action
- Royal National Institute for the Blind
- Save the Children
- Scope

¹Age Concern and Help the Aged have merged to become Age UK. Our relationship in 2009 was with Help the Aged and in 2010 continues with Age UK.

Our long-term relationship with these charity partners helps us develop our strategy and target our support for vulnerable customers. We also encourage our employees to get involved to enhance our relationship with these partners through volunteering initiatives (see employee volunteering).

Centrica Storage has developed a strategic partnership with the RNLI as the organisation provides crucial rescue services in and around our Easington gas processing terminal. In 2009 they supported the local branch by raising funds and giving time with events such as the Humber Half Marathon and a charity fun run.

In 2009 charity partnerships in North America included Raising the Roof, the Ontario Association of Food Banks, Scientists in Schools, the Alberta Council for Environmental Education, the Boys and Girls Clubs of America, Coalition on Housing and Homelessness in Ohio, and the Western Pennsylvania Conservancy. We also support a range of other charities in North America selected through our regional community investment councils.

In the US state of Texas, we work with local community action agencies to provide assistance for low income households in paying their energy bills through the Neighbour-to-Neighbour programme. For more information on this and the services we provide with our charity partners, see the vulnerable customers section.

Local employment partnerships (LEP) in the UK aim to support disadvantaged jobseekers getting back into the workplace. Our partnership in Leicester is designed to prepare people for work through pre-employment training, providing a clear career progression path. In 2009 we extended permanent placements to 55 LEP participants to work with us as customer service advisors.

Our partnership with the Social Mobility Foundation also helps bright young students from disadvantaged backgrounds through mentoring and work experience placements (see employee volunteering).

Responding to local needs

We aim to respond to local needs through community investment, support for vulnerable groups, education and skills training.

In North America, homelessness is a key community concern. Direct Energy is a leading partner in Raising the Roof's Youthworks initiative to tackle youth homelessness in Canada through education, skills training, employment opportunities and mentoring for young people at risk. In 2009 we contributed to the development of a research report 'Youth homelessness in Canada: The Road to Solutions' that aims to lead thinking on ways to tackle youth homelessness. We also supported action on homelessness in the US through our work with the Coalition on Housing and Homelessness in Ohio and the Housing Crisis Centre in Texas.

Direct Energy has committed to invest up to \$2.5 million over five years in community investment programmes across Pennsylvania, following the acquisition of Strategic Energy in 2008. Individual programmes will help conserve energy, promote alternative energy use, reclaim and green urban areas, support community organizations and combat homelessness.

In the UK we are promoting opportunities for people to swim. Through our partnership with British Swimming we are investing £15 million up to 2015 to support swimming in schools and the community.

We are working with the British Swimming team to inspire participation among school children through Pools 4 Schools, which provides temporary pools in areas with little access to swimming facilities and helps teach vital skills, improve fitness and provide fun for local children.

From 2009 up to April 2010, Pools 4 Schools introduced 11,000 people to swimming.

In India, we worked with local NGO, the OM Foundation, and business partners Hewitt and EXL to construct a secondary school in Noida, Delhi. The school opened in 2009 with an initial intake of 40 students. This will rise to 280 over a seven year period as a new intake joins each year. We are also working with the school to explore ways it can benefit the wider community by providing adult education. We have also committed to support the development of another school and community centre in Pune, India, with construction due to begin in April 2010.

Future commitments

- To teach 10,000 more children to swim in disadvantaged areas through the Pools 4 Schools programme in 2010

Employee involvement

Employee volunteering

Previous commitment

- Continue to increase employee community involvement in the UK and North America
- Invest in North America to help support employees to get involved in volunteer initiatives

In 2009 employees volunteered a total of 37,000 hours of their time to support charity and community programmes, an increase of 64% from 2008. Direct Energy employees increased their volunteering hours from 500 hours in 2008 to 6200 hours in 2009, which is an increase of over 1,000%.

Beyond achieving our 2009 target for hours, volunteering is increasingly seen as a way to deliver skills development and enhance employee engagement. For example, our apprentice engineers enhance their training experience by interacting with communities through the Duke of Edinburgh award. The activities that have been introduced through our charity partner relationships engage employees in volunteering activities that help boost motivation and commitment to the company.

We continue to work with our charity partners to create new opportunities for employees to get involved. We are also exploring how employee volunteering can support our Generation Green schools programme.

Enabling employee involvement

In 2009, we made improvements to our UK charitable giving and volunteering intranet site, Get Involved, to make it easier for employees to access and to streamline its operation. Employees can now use the site to set up and change donations through payroll giving, apply for matched funding, get tips on fundraising and play the monthly employee lottery which donates half its proceeds to charity. Through the matched funding programme, employees are able to receive up to £300 a year for eligible activities.

The Get Involved intranet site also enables employees to search for volunteering opportunities in the National Volunteering Database thanks to our partnership with YouthNet. Over 4,000 searches were made in the site's first year.

We continue to expand access to the Get Involved site and are aiming to make it available to all engineers by the end of 2010.

In North America, we revised our 'direct in the community' programme to encourage more employees to participate and improve the accuracy of reporting. We offer employees one day of paid leave and match funds up to \$200 for individuals or \$2,500 for teams of five or more through our matching grants programme. In 2009 Direct Energy employees raised US\$325,000 for our charity partners, a 60% increase from 2008. The number of charities benefiting from our activities also rose, from 20 in 2008 to over 500.

Volunteering initiatives

Employees are encouraged to volunteer their time to support our charity partners and contribute to projects that develop their skills and build capacity in our communities.

For example, UK employees on our graduate scheme are expected to spend two days each year volunteering with one of our key charity partners. Activities in 2009 included supporting the blind with RNIB and helping Age UK with business development ideas to help them through the recession. Nine finance employees also mentored students from disadvantaged backgrounds for six months in 2009 through our partnership with the Social Mobility Foundation, providing careers advice, networking sessions, work placement opportunities and coaching to improve their interview skills. In the US, Direct Energy graduates in Texas spent 'apprentice days' at local charities using their business skills to develop fundraising activities and operations.

Volunteering campaigns provide an opportunity for employees to support a wider range of local charities that help meet our goals of supporting vulnerable groups and raising environmental awareness.

Over 1,250 British Gas employees spent nearly 11,000 hours on projects ranging from installing new boilers to gardening for our older and more vulnerable customers as part of two employee 'Giving Weekends' in 2009. British Gas apprentice engineers also volunteered almost 21,000 hours to community causes through their participation in the Duke of Edinburgh Awards Scheme.

In the US, more than 600 employees (representing 12% of the Direct Energy workforce) and their families participated in the 2009 National Week of the Volunteer.

They volunteered over 1,600 hours across four states in the US and two provinces in Canada to support community activities including tree planting and working with children from disadvantaged backgrounds and homeless people.

Direct Energy employees also volunteered in the run up to Thanksgiving by for example, distributing food baskets to 400 families in Texas with Habitat for Humanity and collecting vegetables left in fields after harvest for the Ontario Association of Food Banks to distribute to local families in need.

In 2009, we also launched our Corporate Citizen of the Year award to recognise individual employees who have made a significant contribution to communities.

Previous commitment

- Develop a volunteering programme for Generation Green

Fundraising

We encourage employees to support local initiatives as well as our national charity partners through fundraising activities. We provide opportunities to contribute to causes they care about in their own communities and back the creation of charity of the year schemes across our local sites and organise national campaigns.

Our employees' participation in the UK's Children in Need appeal was a highlight in 2009, with British Gas matching employee donations of more than £70,000 and 500 call centre employees volunteering 2,000 hours to take donations over the phone. Over £8,000 was raised for our charity partners through employee fundraising efforts.

Future commitments

- Continue to support employees getting involved in 2010 by supporting employee fundraising and developing volunteering programmes with our strategic charity partners and with Generation Green
- Enable all engineers to access our Get Involved intranet site by the end of 2010

Engaging with communities

We engage with people near our operations, including our upstream storage facilities and wind farms, to understand their expectations, minimise the potential impacts of our business activities and find the best ways to invest in their communities. For people living near wind farm sites in the UK, an important part of this engagement is to raise awareness about the need for renewable energy to tackle climate change and meet government targets on the use of renewable energy.

Managing upstream impacts

Renewables

In 2009, we continued to engage with local communities near existing wind farm sites in the UK, including the recently approved Lincs wind farm off the coast of Lincolnshire and other wind farm projects at Race Bank, Docking Shoal and the Irish Sea Zone.

We integrated our exhibition and educational materials on the renewables pages of our Centrica Energy website to make them more accessible and encourage more people to visit the site. The site had over 46,000 visits in 2009, a rise from 26,400 in 2008.

We published a booklet called 'Responsible Renewables' about our work with local people to raise awareness and share information on our community investment projects.

The booklet will be published regularly to encourage community interaction. Examples include:

- Working with Walney School in Barrow, UK, a partnership that has been running since 2006 when the Barrow offshore wind farm opened. We attend school events and organise visits for students to experience our operations.
- In 2009, contributed £25,000 to the school's successful campaign to win special engineering status.
- Supporting local projects near our onshore wind farms through our Community Trust arrangements. For example, our ongoing involvement with the communities close to our Glens of Foudland and Braes of Doune wind farms has supported a wide range of community projects.
- Funding the redevelopment of the visitor centre at the Gibraltar Point National Nature Reserve and sponsoring the Skegness Standard Community awards, following the opening of the Lynn and Inner Dowsing wind farms.

Gas storage

In 2009 Centrica Storage worked with local schools at industry days to promote awareness of gas storage and engineering apprenticeships. These opportunities were aimed at offering local students an understanding of the sorts of roles available to them in the future as well as building an awareness of the impact Centrica Storage has within the local community.

Building capacity

Previous commitment

- Continue to support our host communities in our international operations

Building on our work in 2008, we have continued to engage with our host communities to build trust and mutual understanding. Our Skills Acquisition Programme in Nigeria's Mbo region supports communities near our gas exploration activities through education and capacity building. In 2009, the first 25 students graduated from the Maritime Academy of Nigeria in welding and fabrication, automobile engineering, industrial safety and computer appreciation. A second intake of 25 students enrolled at the Maritime Academy in September.

Greening the next generation

Future commitments

- Continue to expand resources and lesson plans available to Generation Green schools and update them monthly

Generation Green aims to help children and their families in the UK understand and act on environmental issues.

Nearly 10,000 schools are signed up to the programme. In 2009 we worked on strengthening our relationship with member schools. We produced materials around the United Nations' Climate Change summit in Copenhagen and 3,000 schools in London took part in a sustainable travel initiative in partnership with Transport for London.

In 2010 we plan to launch new lesson plans and resources that are updated each month. In North America, Direct Energy runs an initiative to help school children learn about energy and the environment.

In Ohio, for example, employees worked with students from Gables Elementary school to build a greenhouse that they will use to study plants, grow vegetables and conduct solar energy experiments.

Community investment

	Unit	2009	2008	2007	2006	2005	2004
Total community contributions							
Total community contributions ¹	£m	77	59.9	30.2	-	-	-
Voluntary contributions ²	£m	73.2	45.9	25	-	-	-
London Benchmarking Group ³	£m	3.8	74.5	25	7.4	8.2	7.4

¹ Total combines voluntary and LBG contributions

² Cost of voluntary programmes to support vulnerable customers in the UK

³ Calculated using London Benchmarking Group methodology

⁴ Includes £3.6m donation to the British Gas Energy Trust, which supports vulnerable customers

⁵ Includes £1.1m donation to the British Gas Energy Trust, which supports vulnerable customers

Type of support¹

Commercial initiatives	£0.26m
Community investments	£2.5m
Charitable gifts	£0.4m
How we provide support ¹	
Cash donations	£1.94m
Cost of volunteering time	£0.2m
In-kind donations	£1m
¹ Calculated using London Benchmarking Group methodology	
In addition we donated:	
£2,000 to economic development and £30 to emergency relief	
What we support ¹	
Education and young people	£284,000
Health	£1,122,000
Environment	£56,000
Arts and culture	£24,000
Social welfare	£1,200,000
Other	£454,000

Employee volunteering

	Unit	2009	2008	2007
Employee volunteering hours ¹	hours	37,062	22,637	18,106

¹Volunteering hours are those conducted during business hours or sponsored by the business

Corporate responsibility report 2009

Stakeholder dialogue



centrica

Stakeholder dialogue

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Stakeholder dialogue

Overview

Structured engagement with all relevant stakeholders is fundamental to the way we do business. It helps to build trust, demonstrate transparency and identify risks and opportunities.

We conduct regular dialogue with all our key stakeholders through a range of direct and indirect channels. We use feedback from these engagements to help us identify material issues, risks and opportunities. Key feedback is fed into decision-making at different levels and, where most relevant, it is reported to the CR Committee and the Executive Committee. The main objectives of our stakeholder dialogue and our key stakeholders are summarised below. Explore our stakeholder matrix for further information and to find out details of our engagements in 2009.

Customers

We aim to build trust among our customers by listening to their concerns and using feedback to improve our customer services and our product offerings.

Investors

We engage with investors to ensure that they understand the commercial rationale for our low carbon agenda and to meet their priorities through our approach to corporate responsibility.

Employees

We engage with our employees in order to create a working environment in which everyone can flourish.

Suppliers and business partners

We engage with our suppliers and business partners to ensure they manage their operations in line with our business principles.

Governments and regulators

We engage with political and regulatory stakeholders to increase their understanding of our business and to shape the policy environment in which we operate.

Communities

We actively consult with local communities to understand and manage the social, economic and environmental impact of our operations.

NGOs

We work with NGOs, charities and consumer organisations to inform and communicate our position on a range of social and environmental matters.

Media

We engage with the media to ensure that the public perception of us is as closely aligned to reality as possible.

Trade unions

We work closely with trade unions to manage changes and to help avoid disputes.

Shaping the policy environment

We operate in highly regulated markets around the world where public policy decisions can affect all aspects of our operations, including investment decisions, consumer protection and employment relations. We do not favour any one political party and work closely with political stakeholders to inform policy formation on important issues such as energy, environment, consumers and employment relations.

As a leading integrated energy company, policy-makers are particularly keen to understand our perspectives on securing energy supplies, carbon emissions reduction strategies, competitive pricing and protecting vulnerable customers.

We have specific employees within the Group Corporate Affairs Department to engage in and coordinate planned lobbying

activity. In North America we have four dedicated Government and Regulatory Affairs teams set across our four operating regions: Canada East, Canada West, US North and US South.

Lobbying

Lobbying is a normal, accepted and important part of the legislative process, but must be carried out transparently as well as in compliance with all applicable legal requirements. Laws and regulations governing the activities of public affairs practitioners or attempts to influence the policy environment vary around the world. We are committed to upholding the spirit and letter of all relevant laws.

Our Group policy on political involvement sets out the responsibilities of all our employees. The policy prohibits direct or indirect contributions or any form of inducement to political parties, individual politicians or government employees while representing Centrica. We do not make any political contributions and fully comply with the UK Political Parties, Elections and Referendum Act 2000.

Key political stakeholders

Our key political stakeholders include the UK Government, EU Commission, UK and EU politicians and their advisers, Scottish Parliamentarians, Welsh and London Assembly members, civil servants, and trade associations. In North America we engage with regulators on federal, national, state and provincial levels, as well as a wide variety of other public officials and stakeholders.

Engagement

We respond to formal consultations by Government, opposition parties, select committees and others and often join forces with other organisations to raise awareness of key issues. We arrange for officials to visit our sites to gain first-hand experience of our business. We also work closely with the UK Foreign and Commonwealth Office to support our international gas exploration and procurement activities.

Our engagement with government and regulators mainly focuses on the following issues relevant to our industry:

- Regulatory frameworks
- Energy market competition
- Fuel poverty
- Pricing and customer rights
- Support for energy efficiency and low carbon technologies
- Security of supply
- Low carbon generation
- Smart metering
- Carbon markets
- Skills.

For more detail on specific engagements, please explore our stakeholder matrix.

We publish our consultation responses and position statements on issues from climate science to fuel poverty on our website at Centrica Views. This information provides a deeper understanding of our role within the energy debate.

In 2009, we responded to UK consultations on:

- The future of Britain's electricity networks
- A framework for developing clean coal
- Adaptation Reporting Power in the Climate Change Act 2008
- Pricing and communications to customers
- Greenhouse gas emissions reporting
- Renewable electricity financial incentives consultation
- The role of carbon markets in preventing dangerous climate change.

See Centrica Views to read our consultation responses.

Memberships

Centrica is a member of a select number of organisations actively involved in shaping the policy environment in our markets. For example, we are members of the UK Business Council for Sustainable Energy, which provides a forum for dialogue between the energy industry, government and other stakeholders on key issues shaping the deployment of sustainable energy.

Stakeholder matrix

We communicate with our stakeholders on a wide range of issues.

The table below, which is not exhaustive, indicates highlights of our stakeholder engagements in 2009. These engagements are explored further in the following pages.

Issues Stakeholders	Business ethics	Health and safety	Customer relations	Market-place	Work-place	Climate change and the environment	Nuclear	Local impact
Customers	●	●	●	●		●		
Investors				●			●	
Employees	●	●	●	●	●	●	●	●
NGOs	●		●					
Government and regulators		●	●	●	●	●	●	
Trade Unions					●			
Media				●				
Communities						●		●
Business partners	●			●			●	

Stakeholder: Customers

Issue: Business ethics

Public attitudes

In 2009, we worked with Ipsos MORI to understand the attitudes of the British public towards business ethics and corporate responsibility issues in general and in relation to British Gas in particular. The findings showed the recessionary economic climate has led to a sharp decline in the importance of 'responsibility' to purchasing decisions. The public is also more critical of many companies' corporate responsibility, including leading retailers.

We also conducted research in partnership with the Institute of Business Ethics on public trust in business. We are using the results of these surveys to help us understand long-term trends in consumer attitudes, shape our strategy and messaging.

Issue: Health and safety

Carbon monoxide

In the UK we engage customers on carbon monoxide safety through our membership of the Carbon Monoxide Consumer Awareness Alliance (COCAA). COCAA conducted research in December 2008 that showed only 25% of homes in the UK have audible carbon monoxide alarms. In 2009, we supported the Alliance's annual campaign to raise awareness and increased our efforts to promote greater uptake of detectors. All British Gas engineers carry carbon monoxide alarms in their vans and they are trained to set them up and explain them to customers. In 2009, we provided over 340,000 carbon monoxide alarms.

Issue: Customer relations

Customer insights – British Gas

We use a combination of focus groups, workshops interviews and larger-scale telephone, postal and online surveys to gain insight into customers' perceptions, identify the needs of specific groups and tailor our products and services accordingly.

Our customer service advisers, technicians and engineers talk to thousands of customers every day. We encourage them to capture feedback on concerns and opinions that will help us to improve our service. We also encourage customers to give direct feedback via our websites and call centres and have introduced an automated system in some of our call centres enabling customers to leave feedback immediately after a call.

We launched EnergySmart following feedback from customers that they disliked estimated bills. The tariff enables customers to receive accurate bills and provides them with information and help to control their energy usage. Customers also told us that when they are waiting for an engineer to call, they want to know when he or she will arrive. In response, we introduced a new call ahead service and our engineers now let customers know they are on their way.

We also engage with our business customers. In 2009, we listened to over 11,000 of these customers through surveys, focus groups, in-depth interviews and immediate feedback following a call to understand what our customers value and what can still be improved. We also undertake automatic surveying at a rate of at least 15,000 surveys each month. At the start of each year, we identify priority projects based on the insights gained through customer feedback.

We're Listening campaign

British Gas launched a 'We're Listening' campaign towards the end of 2009 giving customers the opportunity to input into our business more directly. We launched the campaign with an open letter in national newspapers and senior executives participated in a number of web chats in public forums, including Mumsnet. We toured with a mock-up of a British Gas Living Room, visiting shopping centres and other public places to give people a chance to talk to us directly. British Gas Managing Director Phil Bentley was directly involved in these events.

The open letter invited people to join a Customer Panel which has unprecedented access to explore our business and is being monitored by USwitch. Members of the panel have visited power stations, call centres, head office and energy academies. The panel will be reporting back publicly on its findings and making recommendations for improvements. This engagement continues in 2010 and we will report on the outcomes in our next CR report.

Product and service innovation

We recently established a British Gas Ideas Factory, an online forum where customers can give us their views on ideas for new products and services and this is likely to be a development area for us in 2010.

We have a 'Voice of the Customer' team to understand how business customers feel about new products and services. For example, following the launch of our Energy360 product in 2009, we asked corporate customers for their reaction and they suggested that Energy360 needs to be tailored for different customer groups. As a result, we have refined the Energy360 services to ensure they add value for the customer, reducing 20 possible propositions to just six. This has allowed the team to target their efforts and resources.

British Gas Business also listened to the needs of its 1 million small and medium enterprise customers to support them through the recession by introducing the SAVE (small business advice and value expertise) initiative in 2009 which provides these customers with a single point of contact for help and advice on managing their energy costs.

Customer insights – Direct Energy

In 2009, we conducted over 15,500 surveys of our residential energy customers, which identified customer concerns on pricing, sales and renewal processes. In response to this feedback, we have developed pricing and sales strategies to address the unique challenges in each market and redesigned bills to make key information easier to find.

We also improved our understanding of our home services customers in Canada through 20,600 surveys. Customers identified issues of concern to them that included first time completions and suitability of appointments. As a result, we increased our management focus in these areas during 2009 and this will remain a focal point for 2010.

Vulnerable customers

We communicate regularly with our more vulnerable customers, sometimes directly and sometimes through our charity partners. For example, in December 2009 we sent letters to all customers on our Essentials tariff to explain our commitments to Essentials customers. To support this, we trained a team of customer service advisors to respond to the specific needs of vulnerable customers when they called for advice or with queries.

Issue: Marketplace

Transparency

We work hard to ensure that our communications with customers are open and credible, and that the right procedures are in place to deal with any concerns.

We work closely with, and commit to follow, the code of conduct of the main trade associations, which include:

- Ofgem
- Ofcom
- Advertising Standards Authority (ASA)
- Committee of Advertising Practice (CAP)
- Broadcast Advertising Clearance Centre (BACC)
- Radio Advertising Clearance Centre (RACC)
- ISBA
- Direct Marketing Association (DMA)
- Association of Productivity and Quality Control (APQC).

This helps us to ensure that all our communications, from advertising to telesales, are conducted in accordance with relevant industry standards. In addition, we help to shape industry best practice through our representation at board level within ISBA and The Marketing Society.

Pricing

Pricing is a particularly sensitive issue for our customers and we have worked hard to make our communications as clear as possible. Our 2008 MORI research found that those surveyed wanted us to focus more on pricing. As a result, in 2009 we significantly increased the volume of pricing information. For example, we produced a 'simple guide' to pricing and understanding what makes up an energy bill. We sent this to all customers. In addition, when we announced our price cut in February 2010, we coordinated all our external communications and then measured on a regular basis how clearly our messages were being understood through customer surveys.

Issue: Climate change and the environment

Energy efficiency and microgeneration

Our dialogue with customers on climate change and environmental issues has increased significantly in recent years across all of our markets.

We are focusing our efforts on new markets in energy efficiency and small-scale renewable technologies. To do this effectively, we are engaging with customers to understand their needs and opinions and to ensure that they are aware of the options available. For example, our British Gas service and repair business includes energy efficiency information on the customer checklist left after each visit and advice on energy efficiency is becoming a standard part of our customer interactions. Our Direct Energy service customers are provided with energy audit information detailing available options for improving efficiency.

We are also using learning from our Green Streets project in the UK and Milton Energy Management System project in North America to understand consumer behaviour and to showcase new technologies. Our involvement with different communities is providing opportunities for dialogue with both customers and non-customers. We are using their feedback to develop new ideas, delivery mechanisms and products and services.

Brand

In 2009, we surveyed members of the public on their opinions of our corporate responsibility approach, identifying whether they were British Gas customers or not in the process. While 51% of our customers felt that we were helping them to be more energy efficient, 36% thought we should be doing more for the environment and society. Respondents continued to view protecting the environment in general as the top priority for energy companies, followed by climate change specifically. Our challenge is to ensure that customer perceptions of our brand increase to match the recognition that we are receiving from other stakeholders for our activities.

Stakeholder: Investors

Issue: Marketplace

Corporate responsibility

We engage regularly with both mainstream investors and the socially responsible investment (SRI) community. In 2009, we conducted research among both sets of investors to understand how long-term sustainability affected their investment decisions and what non-financial information they wanted from companies like ours. We found that although it was the SRIs that were more interested in non-financial information, mainstream investors are increasingly interested in companies' long-term sustainability. Unsurprisingly, carbon and environmental management is a key issue for many of our investors because of the potential financial implications for us.

We are addressing carbon emissions in our communications with investors, as seen in the 2009 Annual Report and Accounts and analyst presentations. This is also an underlying theme in our new corporate strategic priorities.

Socially responsible investing

We participate in a range of benchmarking initiatives by the SRI community. Centrica is included in the Dow Jones Sustainability Indexes and FTSE4Good.

FTSE4Good originally excluded companies that operated or had major stakes in nuclear power generation and in 2009 we discussed with them our desire to invest in the nuclear power market. We participated in discussions FTSE4Good were holding on a set of criteria that would allow nuclear energy companies to join their indices and agreed procedures that will allow our inclusion.

Strategy

We held an analyst day in December, which was also webcast through our website, to discuss strategy. Other communications with mainstream investment analysts are often one-to-one, especially with our Investor Relations team.

During the year, senior management held 127 one-to-one meetings and 18 group briefing sessions with institutional investors. Corporate responsibility issues featured in these discussions.

Reporting corporate responsibility performance is now a key feature of all our results announcements and financial reporting. This is the main way we communicate with shareholders who have smaller holdings, especially through the annual report and the annual general meeting. We send a postcard encouraging shareholders to access the annual report online at www.centrica.com/report2009 and let us know what they think. Some shareholders prefer to receive hard copy reports and in March 2010, we sent out approximately 100,000 Annual Reviews and 5,000 full Annual Reports

Issue: Climate change and the environment

Carbon Disclosure Project

We participate in the Carbon Disclosure Project, providing transparency on emissions for the investment community. In 2009, we increased our disclosure score by 10 percentage points to 84%, achieving a place in the Carbon Disclosure Leadership Index for the third consecutive year. We were the highest performing utility in Europe and continue to see this as an important means of communicating our climate change performance to investors and responding to their requests for information.

Adaptation

During the year we took part in SRI research on climate change adaptation, sharing our experiences and challenges. The results of this research were published by Acclimatise and demonstrated widespread uncertainty on how business should be adapting. As a result of this increasing investor interest in adaptation, we have been mapping our risks and exploring how to report more fully on adaptation in future.

Issue: Nuclear

Nuclear strategy

Prior to our investment in British Energy, we held a nuclear power presentation for analysts to explain our strategy. The size of the investment also required an Extraordinary General Meeting giving all shareholders the chance to question our Board on the decision. Investors overwhelmingly supported the investment.

Stakeholder: Employees

Issue: Business ethics

Employee attitudes

To understand our employees' views on business ethics at Centrica, we asked whether they thought our business principles are adhered to throughout the company and whether they perceive our working culture as ethical. Through an online survey and a series of focus groups in 2009, we found that understanding of our ethical standards is high across the business.

Of those surveyed, 92% agreed that they clearly understood the standards of appropriate business behaviour expected of them at Centrica. However, only 60% agreed that people at Centrica act in accordance with high ethical standards, and just 45% agreed that unethical behaviour is always challenged at Centrica. This has helped us identify clear areas to focus on and we used this feedback in the development of a Group-wide business ethics strategy for implementation in 2010.

Fraud

Our main focus around fraud is on prevention. We have run 12 fraud workshops across the business where employees think through how their roles give them the opportunity to commit fraud. This has helped to identify risk areas and gaps, raised awareness among key employees and given them a channel through which to highlight fraud concerns. We have also trained a nucleus of people who sit within the business units to act as a focus point for fraud issues.

Speak Up helpline

Employees can raise any concerns related to business ethics through our confidential 'Speak Up' helpline. Use of information provided via the helpline is governed by our Group public disclosure interest ('whistleblower') policy. All concerns raised are treated extremely seriously. See 'Business principles performance' for more information.

Issue: Health and safety

Workplace safety

We have health, safety and environment forums at all locations across the business where employees can make suggestions, raise concerns and discuss issues. For example, Centrica Storage runs a monthly newsletter for safety representatives and holds regular events for them to meet with managers as part of the STEP Change in Safety network. In response to feedback from safety representatives, Centrica Storage has also introduced a three-day bespoke training course that focuses on their role in communicating with their peers and investigating incidents.

Within Centrica Energy, we have also implemented a number of ideas from employees, including new rubber mats for boiler gratings at South Humber Bank power station and formalised monthly routine checks of rescue equipment at our Roosecote facility.

In North America, we convene an annual health, safety and environment conference for the gas production part of the business, which involves management, field staff and consultants. Attendees participate in seminars and workshops to discuss ideas and issues. In Canada, our services businesses run quarterly Master Health and Safety Committee meetings with senior leadership and management and employee representatives. These meetings serve as a forum for best practice sharing, problem solving, programme evaluation and planning.

Issue: Customer relations

Customer service

Our employees have direct contact with customers and their feedback and experience can help us improve customer service. A feedback tool for British Gas customer service advisers, launched in July 2008, received more than 90,000 entries in its first year. We have implemented a number of improvements based on this feedback, which have led to a reduction in the number of incorrectly raised appointments and a saving of £192,000.

Our frontline debt collectors for business customers told us that many customers needed longer term payment arrangements to help their cash flows. As a result, we established an 'Expert Credit Solutions' team to support small and medium-sized businesses with a package of measures to support customers through difficult economic times.

We also ensure that employees have the opportunity to access feedback from customers. For example, in 2009, we launched a Customer Comment hotline where employees can listen to verbatim comments from recent customer surveys. We have also launched a dedicated 'Our Customers' page in our North American employee magazine, Spark, where employees can read customer feedback and gain insight into our performance.

Vulnerable customers

Our employees have been involved in assisting our vulnerable customers by sitting on a panel reviewing applications for grants requested through The Family Crisis Fund. The panel recognised when families were struggling to pay energy bills and wanted to be able to help them more effectively. British Gas then arranged for one of our charity partners, National Energy Action, to provide the panel with one day's training on energy awareness. Our employees spent over 30 hours in total on the panel gaining an in-depth understanding of our partnership as well as the impact the grants panel had on the local community.

Issue: Marketplace

Business awareness

We aim to keep our employees informed and engaged with our company objectives. We communicated our new corporate strategic priorities, updated in February 2010, through a dedicated intranet portal. Employees had an opportunity to review and discuss the priorities through online forums and a series of interactive presentations with senior managers at selected office sites.

Issue: Workplace

Employee engagement

Dialogue with employees is critical to their engagement in the business and is essential in the context of restructuring. We engaged with all employees affected by restructuring in 2009, which resulted in some

redundancies. As well as communicating directly with those affected to provide information and offer redeployment and outplacement assistance, we also worked with recognised trade unions and outplacement assistance, we also worked with recognised trade unions and employee representatives to discuss plans.

We use the survey to measure employee engagement and commitment to the company in a comprehensive and consistent way. Almost 33,000 people – 90% of our employees – completed the survey in 2009 and group-wide employee engagement scores increased by nine points to 66%.

In 2009, the survey found that engagement scores increased across the company and that there are few employees who are actively disengaged. However, some businesses experience lower

levels of engagement than others and have enacted wide-ranging initiatives to strengthen employee commitment, for example, providing greater levels of support for career opportunities.

Restructuring

Dialogue with employees is critical to their engagement in the business and is essential in the context of restructuring. We engaged with all employees affected by restructuring in 2009, which resulted in around 1,000 redundancies. As well as communicating directly with those affected to provide information and offer redeployment and outplacement assistance, we also worked with recognised trade unions and employee representatives to discuss plans. A dedicated intranet site provides employees with updates on restructuring plans.

Continual communication with employees was also essential to the integration of our new acquisition, Venture, in 2009. We used regular communications, meetings and an online portal called 'the Bridge' to provide information to existing Centrica employees and Venture staff. The portal also provided an opportunity for employees to give feedback and question senior managers about forthcoming changes.

Attracting prospective employees

The Centrica Recruitment Team is making use of social media and networking to increase the number and diversity of candidates we can reach. As our social media presence grows, we aim to increase engagement with prospective employees and position the company as an innovative employer.

In 2009 we ran live web chats for those interested in applying to join our graduate recruitment scheme. Some of our existing graduates also write blogs about what it is like to work for us, giving prospective applicants the chance to comment and ask questions.

Issue: Climate change and the environment

Green teams

Employees play a critical role in helping us meet our targets to reduce environmental impacts from our operations. Our network of 'green teams' help us engage with employees about our environmental footprint and work towards targets to reduce energy, waste, water and paper use. We use an online newsletter, 'The Green Grapevine', to communicate with our green teams who act as a local point of contact for employees on environmental issues.

Leadership

We conducted a survey of 500 employees in 2009 to gauge their attitudes to the environment and how they feel Centrica is doing on this issue. The results showed our environmental communications and internal campaigns have successfully engaged employees, with 92% of respondents aware of our targets on office energy use, waste and recycling. We also found

that 91% of respondents are concerned about climate change and 94% would like to see Centrica demonstrate leadership in tackling this issue.

The survey also provided an opportunity for employees to give us feedback and suggest ideas about how we could do more to reduce our and their environmental impacts. We have used their ideas to inform our communications and activities and we are acting on their most popular suggestion with plans to install microgeneration equipment at our offices.

Issue: Nuclear

Nuclear strategy

In 2009, we invested in a 20% stake in British Energy, which operates eight nuclear power stations in the UK. We recognise that nuclear energy can be controversial to some people and we set out to communicate with employees, who are key stakeholders, about the reasons we chose to pursue this investment to secure low carbon future energy supplies. To do this, we created a dedicated portal on nuclear energy on both our intranet and internet, which includes a video on the subject.

Issue: Local impact

Employee involvement

Employees participating in Direct Energy's 2008 opinion survey on community investment were able to see the impact of their feedback in our refreshed approach and over 80% of those surveyed in 2009 said Direct Energy's community programme gives them pride in the company.

We set up regional Community Investment Councils in North America in response to feedback from employees to give them a greater say in what charities to support and in response to local market issues and needs. This has helped us increase the impact of the community investments we make in addition to increasing employee volunteering by nearly 250%.

See Local impact section for more on employee volunteering and community investment.

Stakeholder: NGOs

Issue: Business ethics

Trust

Centrica is a member of the Institute of Business Ethics (IBE) and we engage with them regularly to understand best practice and to benchmark our approach against other companies. In 2009, we collaborated on research into consumer trust in business, confirming that the banking crisis has negatively

impacted trust in all businesses. Respondents to the research wanted greater transparency and openness from companies and we have sought to improve the information available on our website.

Issue: Customer relations

Consumer issues

We engage regularly on energy industry issues with the consumer watchdog Consumer Focus – the statutory body that campaigns for a fair deal for consumers. In 2009, examples of specific requests from Consumer Focus that we responded to included:

- Protection from disconnection for vulnerable customers
- Opening times
- Tariff structures
- Consumer Focus Confidence Code for Switching Sites
- Customer redress
- Vulnerable customers

We work closely with charity partners to help us reach vulnerable customers effectively and understand their needs. For example, in 2009 British Gas set up a think tank project with National Energy Action (NEA) to facilitate discussion and debate between NEA and British Gas policy-makers on fuel poverty. These workshops focused on payment methods, new technologies and arrangements after 2012, when the Community Energy Savings Programme (CESP) is due to end. We have used the outputs of this project to develop our vulnerable customer strategy and to inform continual improvements.

See our vulnerable customers section for more information on our work with charity partners in 2009.

Stakeholder: Government and regulators

Issue: Health and safety

Workplace safety

We work closely with the UK Health and Safety Executive (HSE) and in 2009 we signed the HSE pledge – a UK-wide initiative which aims to bring organisations from all sectors together to commit to making their workplaces as safe and healthy as possible. The pledge is a way for organisations to show their support for HSE's new strategy, based on strong leadership and a practical approach to improve health and safety performance and bring about real business benefits. We have committed to continue working closely with the HSE and its partners.

We also engage with regional public bodies on health and safety issues. For example, in 2009 we joined an East Midlands Regional Public Health body project on reducing obesity. We

contributed information on our experiences as an employer and on the issues we face. Recommendations from this project were presented to the government in March 2010.

In Ontario, Canada, Direct Energy has taken a leadership role in chairing a new industry Services Sector Labour Management Health and Safety Committee. The aim is to educate residential, industrial, commercial and institutional property owners about their role and responsibilities in helping ensure the safety of tradespeople who service their premises. Specific issues being addressed by this group include safe access to equipment and provisions for fall protection on multi-storey buildings.

Issue: Customer relations

Consumer issues

We hold regular discussions with the UK energy regulator Ofgem and the North American regulators across our markets. The wide range of energy-related issues covered in 2009 included debt and disconnection, consumer representation and complaint handling standards, as well as fuel poverty and consumer policies.

In 2009, we implemented the recommendations from Ofgem's Energy Supply Probe. This included improving the information provided to customers on their bills and helping small business consumers with better information on the terms and conditions of their contracts.

We have also responded to specific requests for information on prepayment meters, energy efficiency advice, consumer protection and the application of VAT.

Vulnerable customers

In 2009, we worked closely with the UK government's Department for Work and Pensions (DWP) to develop a pilot data-sharing scheme that will help to identify people in need of more support. Together with the other main energy suppliers, we will use DWP information to provide cash rebates to all customers who are pensioners receiving pension credit. We have been involved throughout the development of this pilot and helped to shape the final project plan, which is due to be implemented in 2010.

British Gas also continues to be represented on the Fuel Poverty Advisory Group, which exists primarily to report on the delivery of the Government's Fuel Poverty Strategy in England.

In Alberta, Canada, Direct Energy worked closely with the Alberta Ministry of Employment and Immigration to help improve access to bill payment assistance for vulnerable customers. We streamlined our bill payment assistance referral programme as a result and will continue to work closely with the Ministry.

Issue: Marketplace

We respond to formal consultations by Government, opposition parties, select committees and others and often join with other

organisations to raise awareness of key issues. We meet regularly with policymakers and arrange for officials to visit our sites to gain first-hand experience of our business.

Competition

In 2009, we responded to consultations on the future of Britain's electricity networks and on pricing and communication to customers. We provided evidence to all parties of competition in the marketplace. We believe that the market is working effectively and that further regulation is unnecessary. We responded to similar consultations in North America where we believe that the competitive market model should be embraced further.

Security of supply

We engage policymakers on security of energy supplies and the policy frameworks required to encourage investment. We also work closely with the UK Foreign and Commonwealth Office to support our international gas exploration and procurement activities.

In 2009, this included arranging a visit for four MPs from different parties to see our Centrica Storage terminal at Easington. The purpose was to show the MPs, all members of the Commons Energy and Climate Change Select Committee, the major investment Centrica is making in storage facilities and to see a storage site in action. It was also an opportunity to set out the company's position on how the upstream tax regime could be improved to encourage future investment.

Issue: Workplace

Skills

We engage with the UK government and other bodies on the skills agenda to help ensure that the country's workforce has the right capabilities to develop and deliver new technologies. Specialist skills are an essential component of our involvement in the installation of 47m smart meters and the building of new nuclear power plants.

The UK government has sought to work with business on a wide range of skills development, from basic literacy, numeracy and employability to advanced qualifications and training for high-technology and environmental industries.

We support the government's focus on skills, especially through our British Gas Energy Academies, providing opportunities for apprenticeships to tackle the shortfall of domestic gas engineers. The prime minister, Gordon Brown, opened our new facility in Leicester, and Scottish First Minister, Alex Salmond opened our academy in Hamilton, Scotland.

Our chief executive Sam Laidlaw has personally contributed to the debate on the role of business in supporting higher education by heading the Confederation of British Industry (CBI)'s Higher Education Taskforce. The taskforce explores how business, government and universities can partner to develop the UK's skills base.

We also work directly with universities to improve education standards and build students' skills through internships and providing access to real-life projects. Centrica executive sponsors participate on department advisory boards and contribute to course content.

Issue: Climate change and the environment

We respond to formal consultations by Government, opposition parties, select committees and others and often work with other organisations to raise awareness of key issues. We meet policymakers regularly and arrange for officials to visit our sites to gain first-hand experience of our business.

Environment policy – UK

In 2009, we responded to consultations on financial incentives for renewable electricity, the role of carbon markets in preventing dangerous climate change, reporting greenhouse gas emissions and a framework for developing clean coal.

We were pleased when the government boosted support for renewables by doubling the allocation of Renewables Obligation Certificates (ROCs) to offshore wind farms. This led directly to our decision to go ahead with the 250MW Lincs offshore wind project. We also lobbied in favour of the introduction of a feed-in tariff and renewable heat incentive, which the government announced in early 2010, as these will support the take-up of microgeneration. During the year, we supported the government's increase to the Carbon Emissions Reduction Target (CERT) obligation by 20% and we strongly supported the uplift in support for insulation. This has helped to increase the viability of our new insulation business.

Centrica is a member of organisations involved in shaping the policy environment in our markets. For example, we are members of the UK Business Council for Sustainable Energy, which provides a forum for dialogue between the energy industry, government and other stakeholders on key issues shaping the deployment of sustainable energy.

Environment policy – North America

The policy environment in North America is particularly challenging with regional, state, provincial and national-level regulators. Yet, through our affiliations with the Alliance to Save Energy and the Business Council for Sustainable Energy (BCSE) as well as direct engagement with government, Direct Energy participates in discussions on a variety of climate change, carbon and energy efficiency issues, helping to shape the policy agenda.

For example, results of preliminary and on-going discussions have demonstrated progress with comprehensive national energy efficiency legislation in development in the United States. As a board member of the BCSE, Direct Energy moved the discussion to competitive market delivery of energy efficiency. This supports both our business model and belief that

competitive markets are the best way to achieve real reductions in carbon emissions at the lowest costs.

In California, Direct Energy played a significant role in the Renewable Energy Certificate (REC) legislation recently passed by the California Energy Commission. The decision, which allows retailers to import out-of-state RECs to meet Renewable Portfolio Obligations, has helped protect Direct Energy's retailing business.

Through BCSE, we voiced support for comprehensive climate and energy legislation and we produced a consensus paper supporting carbon pricing via mechanisms such as cap and trade.

Adaptation

In 2009, the UK government's Department for Food and Rural Affairs (DEFRA) confirmed that we would be required to report on climate change adaptation for our power business in 2011. We are still working to understand the implications of this direction and the detail that will be required. As part of this, we have met with the Association of Electricity Producers to discuss opportunities to work together as a sector, consulted with DEFRA and attended seminars on prediction modelling.

In North America, we are also acutely aware of the physical implications of climate change and in 2009 Direct Energy expanded relationships in the academic community to further work in this area. We maintain an active relationship with the Sustainability Practices Centre at the Faculty of Environment of the University of Waterloo on issues related to climate change adaptation strategy and sustainability.

Issue: Nuclear

As a new participant in the UK's nuclear industry, we held a number of discussions with government agencies and regulators including the Nuclear Installations Inspectorate (NII), the Environment Agency and the Office for Nuclear Development at the Department of Energy and Climate Change (DECC). Topics ranged from our anticipated role in new nuclear plant projects to nuclear licensee regulatory requirements.

We participated in consultations with the Office for Nuclear Development on decommissioning and waste management, which addressed funding arrangements to support these issues in new nuclear plant projects. We also submitted comments on the draft National Policy Statements relating to planning policy for new nuclear plant projects and major infrastructure.

Stakeholder: Trade unions

Issue: Workplace

Around 46% of Centrica employees are members of a trade union, covering issues such as recognition, membership and procedural and substantive items such as pay.

Relationships

Our trade union relationships in the UK fall into three main areas:

- British Gas engineers (GMB)
- British Gas office and field debt staff (Unison and GMB)
- Centrica Energy Power Stations (Amicus and Prospect)

In North America our trade union relationships fall into two categories:

- Direct Energy Services Technicians (CEP, USWA, UA, IBEW, VA, CCQ)
- Direct Energy Home Services clerical staff (CEP)

We communicate through sharing information, consultation and negotiation, which occurs at national and local meetings. For employees not represented by a union, we put in place consultation arrangements as the situation requires, e.g. for change programmes and redundancies.

Stakeholder: Media

Issue: Marketplace

Brand and strategy

After every major media campaign we assess the effectiveness of our engagement with media.

We also conduct annual research on the impact of Centrica and British Gas media activity, measuring ourselves against three criteria:

- Journalists' perceptions of Centrica/British Gas – benchmarked against sector and FTSE 100 peers
- Impact of key communications campaigns over the year – in terms of favourability of coverage and penetration of key messages
- Journalists' views of effectiveness of media relations team – benchmarked against sector and FTSE 100 peers

In 2009, the audit rated Centrica highest of 42 major UK companies. Media stakeholders' favourability towards Centrica and British Gas increased significantly compared to a year earlier. They said Centrica took strong steps forward in establishing itself as a leading integrated energy company.

Journalists said they expected North America to be more of a focus in 2010 and requested further disclosure on our strategy. We are aiming to improve our communications to all stakeholders on this issue.

Stakeholder: Communities

Issue: Climate change and the environment

Energy efficiency and carbon reduction

We are engaging with communities in the UK on climate change through our Green Streets initiative. In 2008, we worked with 64 households across eight communities to reduce energy use and carbon emissions. In 2009 we invited applications from community projects for the next phase of the competition and hosted 'Dragons' Den' style roadshows across the country to shortlist the projects. We selected 14 ideas and in 2010 launched Green Streets 2, a year-long project during which we will work closely with the participants. We are already learning important lessons about community-based carbon reduction, such as the role that seed-funding can play in providing a kick-start to motivated communities.

British Gas is also working with schools in UK communities to encourage children and their families to save energy through Generation Green. As part of this programme, we supported the formation of the UK's first environmental think tank for children aged seven to 14. The think tank brought 20 young people together to develop a Green Manifesto which they then presented to the government.

Direct Energy held a series of energy efficiency education sessions in Alberta and Ontario in Canada, and Pittsburgh and Texas in the United States, to advance the conversation in North American schools and communities. This included an ideas exchange around energy efficiency and greenhouse gas emission reduction, as well as broader education around the link between the environment and energy. We also made contributions to not-for-profit organisations such as Scientists in Schools and Alberta Education and Environment.

Issue: Local impact

Renewables in the UK

We engage in dialogue with communities near our existing and proposed wind farm sites to keep them informed and enable them to raise any issues about these projects.

We also redeveloped our web pages on renewables in 2009, with additional information on our community approach. Downloads from the refreshed site rose from 1,600 in 2008 to 2,500. These included a Responsible Renewables newsletter designed to inform communities near our renewables projects about our activities in the area.

Nigeria

We consult with communities near our gas exploration operations in Nigeria through a Project Advisory Committee (PAC), drawn from each of the five communities in the Mbo Local Government Authority, the Mbo Local Government and the Akwa Ibom State Government, as well as Centrica Resources Nigeria Limited. The PAC provides a forum for community engagement, enabling its members to exchange information and

ideas to promote a sustained mutually beneficial relationship between Centrica and host communities. North America Through our social media platform we were able to track online conversations about our efforts for National Week of the Volunteer, and heard commendation of our efforts from the online news portal, Canadian Business Online, and other individual stakeholders.

India

We work with the OM Foundation and agency partners (Hewitt and EXL) on an ongoing basis, with regular meetings and informal discussions to gain feedback and ensure we are providing maximum benefits to communities near our operations in India.

Our continued relationship with our agency partners has led to a collaborative of volunteering effort, with 100 employees from Hewitt, EXL and Centrica participating in activities to improve the projects.

Swimming partnership

As part of our community investment programme, we are helping to provide swimming facilities around the UK. Our Founding Partner Panel, made up of the top 25 pool operators that we partner with and British Gas employees, meets at a summit twice a year to discuss how best to use the resources British Gas has committed to increase participation in swimming.

Stakeholder: Business partners

Issue: Business ethics

Procurement

We regularly engage with our suppliers on topics within our business principles as we implement the responsible procurement programme implementation. We discuss business ethics and corporate responsibility (CR) issues including health and safety and environmental impacts as we introduce CR clauses into supplier contracts.

Issue: Marketplace

Workshops

In May 2009, 30 key suppliers attended our second workshop on responsible procurement in the UK. The workshop introduced and sought feedback on Centrica's CR strategy and CR Policy for suppliers. It also addressed some of the challenges of implementing responsible procurement standards and shared solutions.

The discussion highlighted the need for a standard process to

assess suppliers' CR management systems and conduct audits. Feedback from workshop participants indicated that Centrica is a leader in the UK's energy industry on responsible procurement by including CR clauses in contracts and proactively engaging with suppliers on this issue.

Issue: Nuclear

Working relationships

Following our purchase of a 20% stake in British Energy, we established effective working relationships with EDF Energy to support the management of our joint ventures on the existing power stations and new nuclear projects. We have positions on boards governing both the existing British Energy fleet and the nuclear new build joint venture. We work with EDF Energy to ensure information flows between the companies are sufficient to enable us to execute our governance responsibilities.

Previous commitments

- Encourage support for a regulatory, policy and fiscal framework in the UK that will deliver a significant increase in investment in renewable generation, non-renewable low-carbon investment including carbon capture and storage and nuclear generation
- Encourage a policy framework to allow for a significant increase in installed capacity of microgeneration technologies and to encourage energy saving in the most effective way

Progress against targets

Centrica corporate responsibility report 2009

centrica

Climate change and environment

What we said we would do	What we did	What we plan to do next
Lead the consumer market		
Energy efficiency and microgeneration		
<ul style="list-style-type: none"> • Provide energy efficiency products in 2009 with total lifetime carbon savings of 13.2m tonnes of CO₂ to meet our CERT obligation. • Look at further acquisition opportunities to increase our range of low carbon products and services. • Expand uptake of Energy Savers Reports by our business customers. • Support a policy framework to allow for a significant increase in installed capacity of microgeneration technologies, both heat and power. • Support a policy framework to encourage energy saving in the most effective way. 	<ul style="list-style-type: none"> • Provided energy efficiency products which will save 17.53m tonnes of carbon dioxide over their lifetime. • Installed loft and cavity wall insulation for approximately 270,000 British Gas customers. • Set up a new insulation installations business in 2010, creating 1,100 new jobs. • Invested in Econergy, a leader in biomass heating. • Installed more than 50,000 in homes and businesses by the end of 2009. • Won a government tender to pilot a 'Pay As You Save' scheme for microgeneration technologies. • Developed an Energy360 service to help businesses manage their energy and improve energy efficiency. • Continued to promote our Energy Savers Report - more than 2.6m customers have now completed one. • Announced 10 CESP projects, the first energy supplier to do so. • Built partnerships with technology providers in North America and joined a home energy management partnership to develop a blueprint for an energy efficient home. • Developed Climate Master geothermal heating and cooling systems for North American residential customers. • Responded to consultations on financial incentives for renewable electricity, the role of carbon markets in preventing dangerous climate change, reporting greenhouse gas emissions and a framework for developing clean coal. • Joined a coalition of American corporations and non-governmental organisations in an advertisement demanding a clear US energy policy on emissions reduction. • Lobbied the federal Canadian government for cap-and-trade rules to develop a carbon market. 	<ul style="list-style-type: none"> • Provide energy efficiency products in 2009 with total lifetime carbon savings of 14.6m tonnes of CO₂ to meet our CERT obligation (this figure is agreed with Ofgem and subject to change depending on our market share) • Launch 16 CESP programmes

Investing in behavioural change		
<ul style="list-style-type: none"> • Deliver a range of brand marketing activities to support low carbon positioning. • Build on the success of Green Streets through launching a new community programme • Continue to build on Generation Green, involving employees to a greater extent. • Maintain constructive relationships with NGOs and other opinion formers. 	<ul style="list-style-type: none"> • Launched Green Streets 2 in January 2010, with 14 communities competing to become Britain's most innovative green community. • Built on Generation Green success with more than 10,000 schools now participating in the programme. • Established UK's first environmental think tank for 7-14 year olds. • Announced the UK's first dedicated Green Skills Training Centre, opened in partnership with the Welsh Assembly Government. 	<ul style="list-style-type: none"> • Introduce more energy saving rewards into the Generation Green programme • Install 12,000 Energy Display meters in English schools on behalf of the Department for Children, Schools and Families
Maintain our low carbon position		
<ul style="list-style-type: none"> • Reduce power generation carbon intensity[^] to 380g CO₂/kWh by 2012 and to 350g CO₂/kWh by 2020. • Reduce power generation carbon intensity[^] to 380g CO₂/kWh by 2012 and to 350g CO₂/kWh by 2020. • Reassess carbon intensity target in 2009. • Invest £1.5bn in renewable energy assets in the period 2008-2013. • Commission fully Lynn and Inner Dowsing wind farm development. • Achieve planning consent for Race Bank and Docking Shoal wind farm developments. • Commission fully Langage CCGT power station. • Achieve a regulatory, policy and fiscal framework that will deliver a significant increase in renewable generation investment in the UK. • Aim to improve our performance in the Carbon Disclosure Leadership index. 	<ul style="list-style-type: none"> • Reduced the carbon intensity of our electricity generation by 13.9% to 371g CO₂/kWh. • Invested in nuclear power generator British Energy. New nuclear will be an essential component of a low carbon energy mix. • Commissioned the Lynn and Inner Dowsing wind farms. • Announced a £750m commitment to commence construction of the 270MW Lincs offshore wind farm development in 2010. • Proved successful in The Crown Estate's Round Three offshore wind auctioning process, having been awarded exclusive rights to develop the Irish Sea zone. • Commissioned Langage power station, which is one of the most efficient in the UK. • Achieved a score of 84% in the CDP, placing us in the Carbon Disclosure Leadership Index for the third year running, making us the top utility in the UK and the third globally. 	<ul style="list-style-type: none"> • Reduce our UK power generation carbon intensity to 270g CO₂/kWh by 2012 and 260g CO₂/kWh by 2020 • Maintain our leading position in the Carbon Disclosure Leadership Index
Reducing our operational footprint		
Internal footprint		
<ul style="list-style-type: none"> • Develop and introduce a global environmental reporting system to improve the scope and quality of our environmental performance monitoring and reporting by January 2010. • Achieve 5% year-on-year reduction in UK office energy use. • Achieve 10% reduction in UK office water 	<ul style="list-style-type: none"> • Introduced a global reporting platform for collecting environmental data and gave all those responsible for submitting data online training. • Achieved an 8.36% reduction in energy use across our UK properties, exceeding our 5% target. • Achieved accreditation for our UK properties to the Carbon Trust Standard in 2009, recognising a reduction of around 25% in our office carbon footprint over the previous three years. • Increased support for Green Teams. 	<ul style="list-style-type: none"> • Reduce Group internal footprint of existing business by 20% by 2015 (baseline: 2007) • Reduce UK internal footprint of existing business by 25% by 2015 (baseline: 2007) • Reduce UK office energy consumption and carbon footprint by

<p>usage in 2009.</p> <ul style="list-style-type: none"> • Increase the visibility and activities of the Green Teams and promote the model across our non-UK activities. • A policy framework to encourage the deployment of non-renewable low-carbon investment including carbon capture and storage and nuclear generation. • Implement and certify our environmental management system (EMS) across Direct Energy by 2010, Centrica Energía and Centrica Renewable Energy Ltd by 2009. • Reduce the internal carbon footprint of our Direct Energy business by 8.5% by 2013 (using a 2007 baseline). • Develop UK national Biodiversity Plan programme for upstream and downstream activities. 	<ul style="list-style-type: none"> • Ran 100-day carbon reduction campaign to raise awareness of environmental responsibility in employees' personal lifestyles as well as in the workplace. • Hosted events for World Environment Day • Launched Climate Change Week and ran a speaker series for employees to coincide with the international Copenhagen climate conference. • Made progress in implementing our EMS within Direct Energy and our renewable energy business. • Introduced a new Group Environment Policy • Improved data management systems to give greater insight into Direct Energy's emissions. • Estimated that we have already exceeded our Direct Energy internal carbon footprint target. 	<p>10% in 2010 compared to 2009</p> <ul style="list-style-type: none"> • Install renewable generation technologies at selected offices
<p>Waste</p>		
<ul style="list-style-type: none"> • Achieve 10% reduction in UK office waste production. • Increase percentage of UK office waste recycled to 65% / Reduce amount of waste sent to landfill by 15% (two year target using 2007 baseline). 	<ul style="list-style-type: none"> • Reduced waste production from our main UK sites by over 13%. • Reduced our UK waste to landfill by almost 19%. • Almost hit our recycling target but there is more to do here. • Conducted waste audits for every UK office to help produce ambitious targets for reduction. 	<ul style="list-style-type: none"> • Reduce total UK office waste by 5% • Reduce UK office waste sent to landfill by 22%. • Recycle 65% of UK office waste created. • Reduce UK paper use by 10% • Reduce UK office water use by 7.5% in 2010.
<p>Travel</p>		
	<ul style="list-style-type: none"> • Encouraged employees to choose greener company cars by raising awareness and using financial incentives. • Continued to replace our commercial vehicles with more efficient models. • Provided travel plan advisers to help employees reduce the impact of their commute • Introduced carshare scheme • Supported Bike4Work scheme • Provided Safe and Fuel Efficient Driving (SAFED) training for commercial and company car drivers 	<ul style="list-style-type: none"> • Reduce the UK commercial and company car fleet CO2 emissions by 5% in 2010 compared to 2009 • Reduce payloads and downsize the vehicles in our UK commercial fleet • Implement new technology to support our targets including top speed limiters, telematics, semi auto transmission and stop/start technologies • Implement further driver training, cleaner vehicles and fuel efficiency training

Health and Safety

What we said we would do	What we did	What we plan to do next
Employee safety		
<ul style="list-style-type: none"> • Target a 20% reduction in lost-time injuries to 0.8 per 100,000 hours worked. • Link individual employee performance on health, safety and environment to their overall performance rating and Annual Incentive Scheme. • Provide training to Centrica and business unit executives teams in health and safety leadership. • Introduce a health and safety audit process to enable a more rigorous means of providing assurance to the Board. • Undertake a formal policy review in the second half of 2009. • Continue to implement my HSE incident reporting to improve the quality of management and information. • Strengthen engagement with key stakeholders within and outside the company. 	<ul style="list-style-type: none"> • Halved lost time injuries to 0.49 per 100,000 hours worked across the Group. • Introduced health and safety performance targets into the annual incentive scheme. • Introduced health and safety leadership training for the top 200 managers in the business, providing workshops with external speakers and impactful cases studies. • Began developing a formalised health and safety audit programme. • Developed a roadmap which enables businesses to assess their status and develop improvement plans within a consistent Group approach. • Updated our Safety, Health and Wellbeing Policy. • Implemented myHSE in Centrica Storage and Centrica Energy. • Created a health, safety and environment advisory council in Direct Energy to advise the senior management team on policy and risk. • Signed the Health and Safety Executive (HSE) pledge, a UK-wide initiative. 	<ul style="list-style-type: none"> • Reduce lost time injuries by 12.5% to 0.43 per 100,000 hours worked in 2010 • All top 200 managers to attend a health and safety workshop in 2010 • Develop a road safety key performance indicator • Conduct health and safety audits concentrating on management systems of each business unit in 2010 • Conduct risk-based audits of each business unit, focused on the top health and safety risks and audit controls in 2011, covering occupational health, personal safety and process safety
Personal safety		
<ul style="list-style-type: none"> • Launch a 24-hour security helpline for employees travelling on business. • Deliver a personal safety awareness campaign for employees. • Introduce personal safety training for all British Gas Services employees through the Suzy Lamplugh Trust. 	<ul style="list-style-type: none"> • Launched a security emergency helpline for employees and a business travel locator system to track employees in the event of an incident. • Held seminars on personal safety in conjunction with the Suzy Lamplugh Trust. 	
Process safety		
<ul style="list-style-type: none"> • Strengthen the performance assurance processes for process safety. • Aim to achieve further reduction in the inherit risk associated with our upstream operations. 	<ul style="list-style-type: none"> • Developed training on the fundamentals of process safety, which will fulfil the ongoing needs of engineers, operations personnel, graduates and others within the company who have a key role to play. • Carried out significant asset integrity audits on the Venture assets and on the safety rules at our UK portfolio of gas-fired power stations. • Completed reviews into the control of major accident hazards at three UK power stations. • Completed process hazard analyses for three Direct Energy power plants and the upstream gas business. 	<ul style="list-style-type: none"> • Implement the Group process safety training initiative. • Implement improvements to process safety performance monitoring and incident learning • Develop corporate governance auditing arrangements for process safety. • Implement a hazard tool to track

	<ul style="list-style-type: none"> Tasked independent consultants to complete an asset integrity audit of Direct Energy as we began to develop a more formalised audit system. 	unsafe acts or conditions in relevant operations.
Occupational health		
<ul style="list-style-type: none"> Target to reduce the average annual absence of 8.8 days per full time employee. Deliver a wellbeing campaign to tackle the top three causes of absence. Implement a new absence entry tool to administer planned and unplanned absence. Broaden our programme on helping employees better understand the value of their reward package. Track our key performance indicators on work related illnesses and durations of absence to measure our progress. Benchmark our key performance indicators externally to evaluate our business performance in this area. Promote active participation in the Global Corporate Challenge. Deliver the 'Building confidence' programme to management. Develop a group-wide approach to managing obesity and an ageing workforce. Deliver a healthy eating campaign across British Gas. 	<ul style="list-style-type: none"> Achieved a fall in absence rates to 7.7 days per full time employee. Improved the integrity of our work-related ill health data. Worked with a group of industry competitors to start comparing data on work-related injuries but we are still looking for ways to compare illness. Continued to run an Employee Assistance Programme to help employees with a wide range of life management and personal issues, as well as wellbeing issues. Launched a Group Wellbeing intranet portal to provide employees with health information. Participated in the Global Corporate Challenge health initiative - more than 9,800 employees took part. Delivered 300 'Building confidence' workshops for managers to learn better how to deal with health issues. Launched a series of face-to-face health assessments for British Gas customer service advisers and field engineers. Offered healthier options at staff restaurants and worked with our caterers to use alternative ingredients and healthier cooking methods. Piloted an online e-learning and ergonomic self-assessment for office-based employees in Direct Energy. Screened 760 Direct Energy employees (15% of the workforce) for health risks as part of the 'Know-Your-Numbers' pilot programme. 	<ul style="list-style-type: none"> Strengthen business assurance of occupational health provision Explore the possibility of extending health assessments throughout the Group Develop an effective Health Management Strategy Encourage 10,000 employees to participate in the Global Corporate Challenge 2010 Conduct fitness assessments with a focus on obesity and related health risks Reduce the absence rate to no more than 7.5 days per full time employee Ensure that employees who are sick are referred to the occupational health team on day 8 of their absence, replacing the requirement for a GP 'fit note'.
Customer safety		
<ul style="list-style-type: none"> Distribute carbon monoxide safety leaflets to every gas and electricity customer as part of our licence obligation. Work to increase awareness of carbon monoxide poisoning among the medical profession through our representative on Department of Health medical panels. 	<ul style="list-style-type: none"> Participated in industry-wide publicity campaigns under the auspices of the Carbon Monoxide Consumer Awareness Alliance (COCAA). Continued to distribute CO alarms. Launched three new products under BusinessCare to help employers ensure their gas supplies are safe. Launched a formal carbon monoxide testing programme in North America to improve the service offered to customers. 	<ul style="list-style-type: none"> Use myHSE to classify the severity of customer accidents

Securing future energy supplies

What we said we would do	What we did	What we plan to do next
Power Generation		
<ul style="list-style-type: none"> • Commission fully Llangage power station • Expect to invest over £15bn to secure new power and gas by 2020. 	<ul style="list-style-type: none"> • Invested £4bn in 2009 in securing new supplies and storage for gas, developing wind farms, gas-fired power stations and moving into nuclear power for the first time. • Our new Llangage power station in Devon provided first power to the grid at the end of 2009. • Invested £2.3bn in a 20% equity interest in British Energy to give us access to power from eight existing nuclear power stations in the UK and the right to participate in the UK's new nuclear build programme. • Increased our ability to meet demand from our own assets to 60%, following the Venture acquisition and our stake in British Energy. 	
Renewables		
<ul style="list-style-type: none"> • Continue to work within the UK government and regulator to support a policy and regulatory framework that incentivises the delivery of new renewables. • Explore access to debt and equity finance to secure funding to develop renewable energy projects. • Continue to develop our UK generation capacity of 1.6GW over the next few years. 	<ul style="list-style-type: none"> • In 2009, we responded to consultations on financial incentives for renewable electricity, the role of carbon markets in preventing dangerous climate change, reporting greenhouse gas emissions and a framework for developing clean coal. • We refinanced three wind farms by selling 50% equity stake in the Lynn, Inner Dowsing and Glens of Foudland wind farms for £84m. • Announced decision to proceed with the £750m Lincs offshore wind development, which will raise our total renewable energy capacity to 650MW. • Gained exclusive rights to develop offshore wind farms in the Irish Sea Zone with a potential capacity of up to 4.2GW. 	
Securing gas supplies		
<ul style="list-style-type: none"> • Continue international dialogue to source gas supplies, including discussion with National Oil Companies. • Continue exploration activities in the UK, Norway and Nigeria. 	<ul style="list-style-type: none"> • We continued to explore LNG opportunities globally with 15 cargoes imported in 2009 from a range of countries including Qatar, Norway and Australia. • Acquired Venture Production. • We chose to shift our operations in Nigeria away from gas exploration to building an LNG business. • Gained our first LNG producing position with a production-sharing agreement in Trinidad. • Continue to study the potential of gas storage opportunities with plans for three new storage facilities – Caythorpe, Baird and Bains. 	

Customers

What we said we would do	What we did	What we plan to do next
Customer service		
<ul style="list-style-type: none"> Continue to focus on improving customer service and building our brand reputation through increasingly good customer service. 	<ul style="list-style-type: none"> Achieved significant improvements to our customer service across all our metrics, which has helped to reduce call volumes overall by 40% since 2006. Reduced our share of complaints to the UK energy Ombudsman by a third to 19%. Launched 'We're Listening' campaign to Included a customer satisfaction element in employee performance objectives, and targets on 'getting it right first time'. Rolled out extensive debt and energy efficiency training. Committed to the UK Financial Services Authority's 'Treating Customers Fairly' principles. Introduced a call-ahead service for engineer visits because in response to customer feedback. Achieved a drop in levels of complaints to Direct Energy of 63%. Reviewed Direct Energy customer service measures to identify areas for improvement and established a Customer Service Working Group. 	<ul style="list-style-type: none"> Use recommendations from the Customer Panel to improve British Gas customer service.
Net Promoter Score NPS		
<ul style="list-style-type: none"> Improve our Direct Energy NPS score and to reverse the trend in British Gas customer satisfaction. 	<ul style="list-style-type: none"> Achieved a significant rise in net promoter scores for both British Gas and Direct Energy, from -0.8 to 7.0 and from 6.9 to 9.5, respectively. Reviewed and improved the methodology used by British Gas to calculate NPS to give us a more representative view of customer feedback, provide clearer insights into the drivers of NPS and enable us to compare our performance against competitors. 	<ul style="list-style-type: none"> Achieve a net promoter score of +3 for British Gas in 2010 under the new methodology. Improve Direct Energy's net promoter score using the current methodology and roll out an improved net promoter score methodology for Direct Energy in 2010.
Innovative products and services		
<ul style="list-style-type: none"> Introduce new system to enable Pay As You Go users to top-up their electricity accounts and monitor their energy use. Expand uptake of Energy Savers Reports by our business customers. 	<ul style="list-style-type: none"> Launched free Home Energy Top Up service, enabling customers to top up their energy accounts online from their own homes, rather than having to go to a shop. Reduced prices to become the cheapest supplier in the UK. Made it easier for customers to understand how much energy they are using and how much they are spending, with innovative products such as British Gas's EnergySmart. Made bills clearer by highlighting emergency information, providing a consumption comparison graph and improving the layout of previous payments, meter readings and new charges. Introduced online services for customers to track their spending, update meter readings and make payments. Launched an online Energy Savers Store. 	<ul style="list-style-type: none"> Introduce a single bill for British Gas dual fuel customers in 2010. Launch a prepayment service in Texas through Direct Energy. Enhance online account services for Direct Energy customers. Install 2m smart meters in British Gas customers' homes by the end of 2012.

	<ul style="list-style-type: none"> • Introduced an 'Energy Planner' into the Energy Savers report. • Continued to promote our Energy Savers Report - more than 2.6m customers have now completed one. • Launched the largest smart meter trial in the UK, installing more than 50,000 smart meters in homes and businesses. • Launched the SAVE initiative which provides a flexible approach for businesses' managing their costs and debt as well as advice and practical help to reduce energy costs. 	
Vulnerable customers		
<ul style="list-style-type: none"> • Provide specialist support services to vulnerable customers who are unable to safeguard against their personal welfare due to age, health and disability. • Continue to work with our charity partners to deliver specific assistance to our vulnerable and in-need customers. • Provide bill management support, signposting to help maximise income and debt advice and help to reduce their bills long term through energy efficiency measures to very low income customers will receive. • Offer our Essentials tariff and bill management support to vulnerable customers who receive financial benefits to supplement their very low incomes. • Build on in 2009 the help British Gas provided to more than 1.4 million vulnerable customers in 2008. • Achieve fuel poverty spending plans as measured through the UK suppliers Voluntary Agreement Commitment (2009/2010 - £41m). • Re-launch the here to Help programme. 	<ul style="list-style-type: none"> • Provided assistance with bills, debt advice and a benefits assessment scheme to help people maximise their income. • Delivered £77m in energy savings through the Essentials programme. • Worked with our coalition of charity partners under the 'here to HELP' programme to help the most vulnerable in society. • Worked in partnership with seven charity partners in the UK to help identify customers' requirements and to ensure that they have access to a range of services including energy efficiency, specialised appliances and advice. • Launched our annual winter campaign in partnership with Age UK The 'Staying warm in winter' campaign aimed to help older people reduce winter heating costs. • Supported 15 Benefits Advice Programmes, advising 11,000 people and helping them to access £7.2m in additional benefits. • Held nine winter information events at Benefits Advice project locations. • Provided a dedicated installation, service and repair service for social housing. • Installed over 25,000 central heating systems in social housing and low income households. • Became the first energy supplier in the UK to sign agreements for community-wide energy saving measures under the Community Energy Saving Programme (CESP), which will prioritise vulnerable groups. • Insulated nearly 32,000 homes and installed almost 33,000 heating systems through the Scottish Government's Fuel Poverty Energy Assistance Programme. • Provided financial support to the British Gas Energy Trust. • Established a Vulnerable Customer Working Group in Direct Energy to develop a coherent strategy across Canada and the US. • Helped over 175,000 Direct Energy customers access approximately US\$22m in bill payment assistance. 	<ul style="list-style-type: none"> • Develop a three year UK charity partner strategy. • Support 2.5m vulnerable households in 2010. • Launch 16 CESP programmes in 2010.

Employees

What we said we would do	What we did	What we plan to do next
Engagement and retention		
<ul style="list-style-type: none"> • Achieve a commitment score for Centrica of 62% through our employee engagement survey by 2010 • Run an interim survey covering a sample of the employee population in 2009 and track improvement towards the 2010 commitment score by setting ourselves an interim target for Centrica overall of 60%. • Following 2008 survey results, focus on areas that scored less well including the involvement of senior leadership, the provision of career opportunities and reward and recognition. • Connect our offline communities, most notably our service engineers, to my HR. • Continue to look at ways of exploiting the myHR platform to improve other less automated processes and to improve the employee/line manager user experience. • Aim to manage attrition at below 12% for Centrica as a whole. 	<ul style="list-style-type: none"> • Achieved a rise in our employee engagement of nine percentage points to 66%. • Provided community programmes with opportunities to volunteer and fundraise to enhance employee engagement further as well as providing opportunities for team building and skills development. • Launched 'My World – My Development', a personal development guide to encourage employees to think about how they want to progress and raise awareness of the opportunities available. • Connected all UK employees to myHR, except for service engineers who will gain access later in 2010. • Expanded the use of myHR to improve accuracy of information, including a move to electronic payslips. • Provided a dedicated intranet site to keep employees informed and updated on employee plans and benefits. • Provided employees with information packs and offered outplacement provisions for all levels tailored to specific roles. • Reduced our Group attrition rates from 14.6% to 8.8%. • Focused on work/life balance initiatives such as Work:Wise, our flexible working programme designed to help employees manage work and personal commitments. 	<ul style="list-style-type: none"> • Achieve 67% employee engagement • Continue to engage with employees to develop their understanding of the benefits and share plans available to them to encourage participation. • Retain 89% of our workforce in 2010.
Training and skills		
<ul style="list-style-type: none"> • Invest in new online learning management systems to build our e-learning capability. • Open two new Academy Centres in 2009 to modernise facilities and provide better working environment for new recruits. • Deploy a suite of 'Green' modules to our customer services advisors. • Broaden our programme of FSA seminars across the Centrica group. 	<ul style="list-style-type: none"> • Redeveloped our online learning centre, introducing a new Learning Management System (LMS), which has supported 72,000 hours of training and enabled individuals to complete more than 40,500 courses. • Recruited 250 apprentices and spent £26.5m on training for engineers and apprentices. • Opened two new centres in Leicester and Hamilton, bringing the total to six. Around 96% of Academy engineering recruits complete their training. • Focused on creating green jobs and providing training for new roles to deliver smart metering and energy efficient solutions instead of deploying a suite of green modules. • Provided comprehensive training to help our customer service agents understand and meet customers' needs, including the Customer Service Agent Development Journey and Potential Leader Programme. • We worked with the Financial Services Authority (FSA) to provide free financial education for employees. 	<ul style="list-style-type: none"> • Invest £60 million in training our engineers by the end of 2012 • Continue to expand the use of the Learning Management System • Continue to develop our peoples' capabilities and career potentials.

Recruitment

<ul style="list-style-type: none"> • Increase the amount of external hires handled by the Centrica Recruitment Team (CRT) from 50% to 75% in 2009. • Work with each area of the business to define talent gaps that the graduate programme can support. • To enter the Sunday Times Top 100 Graduate Recruiters list. 	<ul style="list-style-type: none"> • Handled 60% of our external hiring in the UK through the CRT. • Saved £3m in 2009 by avoiding the use of external agencies and improved our engagement with new employees right from the start of their relationship with us. • Expanded our graduate programme across Direct Energy, shifting the emphasis from information systems to general management programme. • We changed our graduate programme to reflect the needs of the business, where the programme now has specific roles such as analysis, marketing, customer operations and human resources instead of a general management stream. The programme continues to offer the functional streams for engineering, geoscience and petroleum reservoir, finance, and information systems. • Recruited 70 employees through Centrica graduate programmes in the UK and North America. • Won the 2009 Best Work Experience and Summer Placement Programme award from the UK's National Council for Work Experience. 	<ul style="list-style-type: none"> • Strive for 75% of external hires to be handled by the CRT in 2010 • Continue our two year plan to gain a place in The Times Top 100 Graduate Recruiters list by 2011
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Diversity and inclusion

<ul style="list-style-type: none"> • Conduct a diversity benchmark exercise to identify areas of opportunity on which we can capitalise. 	<ul style="list-style-type: none"> • Audited our processes and activities to determine their impact on diversity and to feed into our 2010 Diversity Agenda. • Commissioned research to explore why we have relatively few women in management roles. • Won the 25th Anniversary Women in Science & Engineering Award for recruiting, training and developing female engineers. 	<ul style="list-style-type: none"> • Establish and begin implementation of a three year diversity strategy
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Supply chain

What we said we would do	What we did	What we plan to do next
CR clauses		
<ul style="list-style-type: none"> Continue to embed CR clauses and the supplier CR policy into contracts with business partners. 	<ul style="list-style-type: none"> Introduced CR clauses into 101 contracts with suppliers. 	<ul style="list-style-type: none"> Sign up an additional 150 suppliers to the CR clauses in 2010.
Risk and compliance		
<ul style="list-style-type: none"> Map out the CR risks within the end-to-end lifecycle of our supply chain. Roll out prequalification for First Point Assessment Ltd (FPAL) Implement an audit process with our suppliers to enable us to monitor non-financial risks present in our supply chain and ensure CR policies are being adhered to. 	<ul style="list-style-type: none"> Began working with an external service provider to develop a tool to assess CR risks among our suppliers. Assessed supplier risk for Centrica Energy Upstream using the FPAL tool and participated in a joint pilot of a revised version which has been extended to include wider CR issues. Conducted five trial CR audits of suppliers in India, South Africa and the UK to test a supplier assessment questionnaire. 	<ul style="list-style-type: none"> Explore supplier audit programmes and introduce one for Group and British Gas suppliers by 2011 Complete and roll out a non-financial risk tool Integrate non-financial risk tool into supplier management processes to link to financial risk assessments
Communication and training		
<ul style="list-style-type: none"> Provide ongoing training to ensure procurement, supplier and contract managers are familiar with best practice in responsible procurement. Deliver further UK supplier workshops. Enhance the communication of our responsible procurement activities. Ensure greater engagement with North American procurement colleagues to build on the initial UK experiences. We plan to introduce an online portal for suppliers and business partners to communicate our key policies. 	<ul style="list-style-type: none"> Continued to have regular meetings with suppliers as part of our supplier management programme. Held a workshop for 30 key suppliers on responsible procurement in the UK. Combined the Responsible Procurement Steering Group with a wider supplier governance group. Trained the majority of our British Gas and Group procurement teams. Ensured engagement between UK procurement teams and colleagues in North America to share experiences and build capacity. Extended plans to establish an online portal for suppliers to explore the best way to provide the information suppliers need to achieve the standards required to work with us. 	<ul style="list-style-type: none"> Train 100% of the UK group and downstream procurement team by the end of 2010 Establish a programme to ensure new procurement staff and employees who return from extended leave receive training Conduct an upstream supplier forum in the UK

Local Impact

What we said we would do	What we did	What we plan to do next
Working with charity partners		
<ul style="list-style-type: none"> Continue to utilise charitable partnerships to deliver essential services for our stakeholders. 	<ul style="list-style-type: none"> Continued to work with our seven charity partners in the UK to identify and support disadvantaged and vulnerable groups. Developed a strategic partnership for Centrica Storage with the RNLI as the organisation provides crucial rescue services in and around our Easington gas processing terminal. Worked with charity partners in North America to support Raising the Roof, the Ontario Association of Food Banks, Scientists in Schools, the Alberta Council for Environmental Education, the Boys and Girls Clubs of America, Coalition on Housing and Homelessness in Ohio, and the Western Pennsylvania Conservancy. Extended permanent placements to 55 local employment partnership (LEP) participants to work with us as customer service advisors. 	
Engaging with communities		
<ul style="list-style-type: none"> Continue to support our host communities in our international operations. Plan to develop a volunteering programme for Generation Green. 	<ul style="list-style-type: none"> Launched our partnership with British Swimming to inspire participation among school children through Pools 4 Schools and introduced 11,000 people to swimming. Engaged with host communities in Nigeria NGOs and the Mbo regional government to support our Skills Acquisition Programme. Worked with local NGO, the OM Foundation, in India and business partners Hewitt and EXL to construct a secondary school in Noida, Delhi, which opened in 2009 with an initial intake of 40 students. Contributed to the development of a research report 'Youth homelessness in Canada: The Road to Solutions' that aims to lead thinking on ways to tackle youth homelessness. Committed to invest up to \$2.5m over five years in community investment programmes across Pennsylvania. Ran exhibitions about our wind farm developments to give communities the opportunity to see our proposals and to tell us their views. Published a booklet called 'Responsible Renewables' to raise awareness and share information on our community investment projects. Worked with local schools at industry days to promote awareness of gas storage and engineering apprenticeships. Worked with schools through Generation Green to increase awareness of environmental impacts and encourage energy efficient behaviours. 	<ul style="list-style-type: none"> Continue to expand the resources and lesson plans available to Generation Green schools and update them on a monthly basis To teach 10,000 more children to swim in disadvantaged areas through the Pools 4 Schools programme in 2010

Employee volunteering

<ul style="list-style-type: none"> • Continue to increase employee community involvement in the UK and North America. • Invest in North America to help support employees to get involved in volunteer initiatives. 	<ul style="list-style-type: none"> • Encouraged employees to volunteer a total of 37,000 hours of their time to support charity and community programmes, an increase of 64% from 2008. • Increased volunteering hours among Direct Energy employees by over 1000% to 6200 hours. • Relunched our Get involved programme in the UK and our 'direct in the community' programme in North America. • Provided facilities for employees to search for volunteering opportunities in the National Volunteering Database thanks to our partnership with YouthNet. • Revised our 'direct in the community' programme to encourage more employees to participate and improve the accuracy of reporting. 	<ul style="list-style-type: none"> • Continue to support employees getting involved in 2010 by supporting employee fundraising and developing volunteering programmes with our strategic charity partners and with Generation Green • Enable all engineers to access to our Get Involved intranet site by the end of 2010.
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