Barbara Farmer
Regulatory Licensing & Reporting
Direct Energy
(281)731-5027
ryan.harwell@directenergy.com

July 9, 2020

Public Utilities Commission of Ohio
Docketing Division
180 East Broad Street
Columbus, Ohio 43215-3793

RE: Direct Energy Services, LLC Ohio Gas Certificate Renewal (Cert. No. 02-024G(9))

Dear Docketing Division,

Direct Energy is filing an application to renew the existing natural gas marketer license of Direct Energy Services, LLC. Please note, that this filing is the public version. Confidential Exhibits will be filed in person by our legal firm later this week.

Please advise if you have further questions regarding our submission for Direct Energy Services, LLC

Respectfully submitted,

Barbara Farmer
Direct Energy

Attachment

Ohio | Public Utilities Commission

Competitive Retail Natural Gas Service (CRNGS) Provider Application

Case Number: 02 - 1829 -GA- CRS

Please complete all information. Identify all attachments with a label and title (example: Exhibit C-2 Financial Statements). For paper filing, you can mail the original and three complete copies to the Public Utilities Commission of Ohio, Docketing Division, 180 East Broad Street, Columbus, Ohio 43215-3793.

A. Application Information

A-1. Provider Type.

Select the competitive retail natural gas service (CRNGS) provider type(s) for which the applicant is seeking certification. Please note you can select more than one.

Retail Natural Gas Aggregator	Retail Natural Gas Broker	Retail Natural Gas Marketer
☐	☐	☑

A-2. Applicant's legal name and contact information.

Provide the name and contact information of the business entity.

Legal Name: Direct Energy Services, LLC

Street Address: 12 Greenway Plaza, Suite 250`

City: Houston State: TX Zip: 77046

Telephone: (713)877-3500 Website: www.directenergy.com

A-3. Names and contact information under which the applicant will do business in Ohio.

Provide the names and contact information the business entity will use for business in Ohio. This does not have to be an Ohio address and may be the same contact information given in A-2.

Name: Direct Energy Services, LLC

Street Address: 12 Greenway Plaza, Suite 250

City: Houston State: TX Zip: 77046

Telephone: (713)877-3500 Email: contactdirectenergy@directenergy.com

A-4. Names under which the applicant does business in North America.

Provide all business names the applicant uses in North America. You do not need to include the names provided in A-2 and A-3.

Name(s): Direct Energy Services, LLC Direct Energy

A-5. Contact person for regulatory matters.

Name: Teresa Ringenbach

Street Address: 106 North High Street, Suite 220

City: Dublin State: OH Zip: 43017

Telephone: (614)633-6829 Email: Teresa.ringenbach@directenergy.com

A-6. Contact person for PUCO Staff use in investigating consumer complaints.

Name: Paige Harris

Street Address: 6502 Yale Ave, Suite 300

City: Tulsa State: OK Zip: 74136

Telephone: (918)727-2348 Email: paige.harris@directenergy.com

A-7. Applicant's address and toll-free number for customer service and complaints.

Street Address: 6502 Yale Ave, Suite 300

City: Tulsa State: OK Zip: 74136

Toll-free Telephone: (866)670-6671 Email: csdirectenergy@directenergy.com

A-8. Applicant's federal employer identification number.

FEIN: 20-1340064

A-9. Applicant's form of ownership (select one).

☐ Sole Proprietorship

☐ Limited Liability Partnership (LLP)

☐ Corporation

☐ Partnership

☑ Limited Liability Company (LLC)

Other: __________

A-10. Identify current or proposed service areas.

Identify each service area in which the applicant is currently providing service or intends to provide service and identify each customer class that the applicant is currently serving or intends to serve.

Service area selection:

Columbia Gas of Ohio	Dominion Energy Ohio	Duke Energy Ohio	Vectren Energy Delivery of Ohio
☑	☑	☑	☑

Class of customer selection:

Industrial	Residential	Small Commercial	Large Commercial
☐	☑	☑	☐

A-11. Start Date.

Indicate the approximate start date the applicant began/will begin offering services.

Date: 7/1 /1998

A-12. Principal officers, directors and partners.

Please provide an attachment for all contacts that should be listed as an officer, director or partner.

A-13. Company history.

Provide an attachment with a concise description of the applicant's company history and principal business interests.

A-14. Secretary of State.

Provide evidence that the applicant is currently registered with the Ohio Secretary of State.

A-15. Proof of Ohio office and employee.

Provide "Proof of an Ohio Office and Employee" in accordance with Section 4929.22 of the Ohio Revised Code. List the designated Ohio employee's name, Ohio office address, telephone number and web site address.

Name: Teresa Ringenbach

Street Address: 106 North High Street , Suite 220

City: Dublin State: OH Zip: 43017

Telephone: 614-633-6829 Email: teresa.ringenbach@directenergy.com

B. Managerial Capability

Provide a response or attachment for each of the sections below.

B-1. Jurisdiction of operations.

List all jurisdictions in which the applicant or any affiliated interest of the applicant is certified, licensed, registered or otherwise authorized to provide retail natural gas service or retail/wholesale electric service as of the date of filing the application.

B-2. Experience and plans.

Describe the applicant's experience in providing the service(s) for which it is applying (e.g., number and type of customers served, utility service areas, amount of load, etc.). Include the plan for contracting with customers, providing contracted services, providing billing statements and responding to customer inquiries and complaints in accordance with Commission rules adopted pursuant to Sections 4928.10 and/or 4929.22 of the Ohio Revised Code.

B-3. Disclosure of liabilities and investigations.

For the applicant, affiliate, predecessor of the applicant, or any principal officer of the applicant, describe all existing, pending or past rulings, judgments, findings, contingent liabilities, revocation of authority, regulatory investigations, judicial actions, or other formal or informal notices of violations, or any other matter related to competitive services in Ohio or equivalent services in another jurisdiction.

B-4. Disclosure of consumer protection violations.

Has the applicant, affiliate, predecessor of the applicant, or any principal officer of the applicant been convicted or held liable for fraud or for violation of any consumer protection or antitrust laws within the past five years? If yes, attach a document detailing the information.

Yes ☐ No ☑

B-5. Disclosure of certification denial, curtailment, suspension, or revocation.

Has the applicant, affiliate, or a predecessor of the applicant had any certification, license, or application to provide retail natural gas or retail/wholesale electric service denied, curtailed, suspended, revoked, or cancelled or been terminated or suspended from any of Ohio's Natural Gas or Electric Utility's Choice programs within the past two years? If yes, attach a document detailing the information.

Yes ☐ No ☑

C. Financial Capability

Provide a response or attachment for each of the sections below.

C-1. Financial reporting.

Provide a current link to the most recent Form 10-K filed with the Securities and Exchange Commission (SEC) or attach a copy of the form. If the applicant does not have a Form 10-K, submit the parent company's Form 10-K. If neither the applicant nor its parent is required to file Form 10-K, state that the applicant is not required to make such filings with the SEC and provide an explanation as to why it is not required.

C-2. Financial statements

Provide copies of the applicant's two most recent years of audited financial statements, including a balance sheet, income statement, and cash flow statement. If audited financial statements are not available, provide officer certified financial statements. If the applicant has not been in business long enough to satisfy this requirement, provide audited or officer certified financial statements covering the life of the business. If the applicant does not have a balance sheet, income statement, and cash flow statement, the applicant may provide a copy of its two most recent years of tax returns with social security numbers and bank account numbers redacted.

If the applicant is unable to meet the requirement for two years of financial statements, the Staff reviewer may request additional financial information.

C-3. Forecasted financial statements.

Provide two years of forecasted income statements based solely on the applicant's anticipated business activities in the state of Ohio.

Include the following information with the forecast: a list of assumptions used to generate the forecast; a statement indicating that the forecast is based solely on Ohio business activities only; and the name, address, email address, and telephone number of the preparer of the forecast.

The forecast may be in one of two acceptable formats: 1) an annual format that includes the current year and the two years succeeding the current year; or 2) a monthly format showing 24 consecutive months following the month of filing this application broken down into two 12-month periods with totals for revenues, expenses, and projected net incomes for both periods. Please show revenues, expenses, and net income (revenues minus total expenses) that is expected to be earned and incurred in business activities only in the state of Ohio for those periods.

If the applicant is filing for both an electric certificate and a natural gas certificate, please provide a separate and distinct forecast for revenues and expenses representing Ohio electric business activities in the application for the electric certificate and another forecast representing Ohio natural gas business activities in the application for the natural gas certificate.

C-4. Credit rating.

Provide a credit opinion disclosing the applicant's credit rating as reported by at least one of the following ratings agencies: Moody's Investors Service, Standard & Poor's Financial Services, Fitch Ratings or the National Association of Insurance Commissioners. If the applicant does not have its own credit ratings, substitute the credit ratings of a parent or an affiliate organization and submit a statement signed by a principal officer of the applicant's parent or affiliate organization that guarantees the obligations of the applicant. If an applicant or its parent does not have such a credit rating, enter "Not Rated".

C-5. Credit report.

Provide a copy of the applicant's credit report from Experian, Equifax, TransUnion, Dun and Bradstreet or a similar credit reporting organization. If the applicant is a newly formed entity with no credit report, then provide a personal credit report for the principal owner of the entity seeking certification. At a minimum, the credit report must show summary information and an overall credit score. Bank/credit account numbers and highly sensitive identification information must be redacted. If the applicant provides an acceptable credit rating(s) in response to C-4, then the applicant may select "This does not apply" and provide a response in the box below stating that a credit rating(s) was provided in response to C-4.

C-6. Bankruptcy information.

Within the previous 24 months, have any of the following filed for reorganization, protection from creditors or any other form of bankruptcy? If yes, attach a document detailing the information.
Applicant
Parent company of the applicant
Affiliate company that guarantees the financial obligations of the applicant
Any owner or officer of the applicant

Yes	No
☐	☑

C-7. Merger information.

Is the applicant currently involved in any dissolution, merger or acquisition activity, or otherwise participated in such activities within the previous 24 months? If yes, attach a document detailing the information.

Yes	No
☐	☑

C-8. Corporate structure.

Provide a graphical depiction of the applicant's corporate structure. Do not provide an internal organizational chart. The graphical depiction should include all parent holding companies, subsidiaries and affiliates as well as a list of all affiliate and subsidiary companies that supply retail or wholesale electricity or natural gas to customers in North America. If the applicant is a stand-alone entity, then no graphical depiction is required, and the applicant may respond by stating that it is a stand-alone entity with no affiliate or subsidiary companies.

C-9. Financial arrangements.

This section is only applicable if power marketer or retail electric generation provider have been selected in A-1.

Provide copies of the applicant's financial arrangements to satisfy collateral requirements to conduct retail electric/natural gas business activities (e.g., parental guarantees, letters of credit, contractual arrangements, etc., as described below).

Renewal applicants may provide a current statement from an Ohio local distribution utility (LDU) that shows that the applicant meets the LDU's collateral requirements. The statement or letter must be on the utility's letterhead and dated within a 30-day period of the date the applicant files its renewal application.

First-time applicants or applicants whose certificate has expired must meet the requirements of C-9 in one of the following ways:

- The applicant itself states that it is investment grade rated by Moody's Investors Service, Standard & Poor's Financial Services, or Fitch Ratings and provides evidence of rating from the rating agencies. If you provided a credit rating in C-4, reference the credit rating in the statement.

- The applicant's parent company is investment grade rated (by Moody's, Standard & Poor's, or Fitch) and guarantees the financial obligations of the applicant to the LDU(s).Provide a copy of the most recent credit opinion from Moody's, Standard & Poor's or Fitch.
- The applicant's parent company is not investment grade rated by Moody's, Standard & Poor's or Fitch but has substantial financial wherewithal in the opinion of the Staff reviewer to guarantee the financial obligations of the applicant to the LDU(s). The parent company's financials and a copy of the parental guarantee must be included in the application if the applicant is relying on this option.
- The applicant can provide evidence of posting a letter of credit with the LDU(s) listed as the beneficiary, in an amount sufficient to satisfy the collateral requirements of the LDU(s).

D. Technical Capability

Provide an attachment for each of the sections below.

D-1. Operations.

Retail natural gas brokers/aggregators: Include details of the applicant's business operations and plans for arranging and/or aggregating for the supply of natural gas to retail customers.

Gas Marketers: Describe the operational nature of the applicant's business, specifying whether operations will include the contracting of natural gas purchases for retail sales, the nomination and scheduling of retail natural gas for delivery, and/or the provision of retail ancillary services, as well as other services used to supply natural gas to the natural gas company city gate for retail customers.

D-2. Operations expertise and key technical personnel.

Provide evidence of the applicant's experience and technical expertise in performing the operations described in this application. Include the names, titles, e-mail addresses, telephone numbers and background of key personnel involved in the operational aspects of the applicant's business.

As authorized representative for the above company/organization, I certify that all the information contained in this application is true, accurate and complete. I also understand that failure to report completely and accurately may result in penalties or other legal actions.

P. Bar
Signature

07/06/2020
Date

CO-SECRETARY
Title

Competitive Retail Natural Gas Service Affidavit

County of Harris :

State of TX :

Paolo Berard, Affiant, being duly sworn/affirmed, hereby states that:

1. The information provided within the certification or certification renewal application and supporting information is complete, true, and accurate to the best knowledge of affiant, and that it will amend its application while it is pending if any substantial changes occur regarding the information provided.
2. The applicant will timely file an annual report of its intrastate gross receipts and sales of hundred cubic feet of natural gas pursuant to Sections 4905.10(A), 4911.18(A), and 4929.23(B), Ohio Revised Code.
3. The applicant will timely pay any assessment made pursuant to Sections 4905.10 and 4911.18(A), Ohio Revised Code.
4. Applicant will comply with all applicable rules and orders adopted by the Public Utilities Commission of Ohio pursuant to Title 49, Ohio Revised Code.
5. Applicant will cooperate fully with the Public Utilities Commission of Ohio and its staff on any utility matter including the investigation of any consumer complaint regarding any service offered or provided by the applicant.
6. Applicant will comply with Section 4929.21, Ohio Revised Code, regarding consent to the jurisdiction of the Ohio courts and the service of process.
7. Applicant will comply with all state and/or federal rules and regulations concerning consumer protection, the environment, and advertising/promotions.
8. Applicant will inform the Public Utilities Commission of Ohio of any material change to the information supplied in the application within 30 days of such material change, including any change in contact person for regulatory purposes or contact person for Staff use in investigating consumer complaints.
9. The facts set forth above are true and accurate to the best of his/her knowledge, information, and belief and that he/she expects said applicant to be able to prove the same at any hearing hereof.
10. Affiant further sayeth naught.

P. Berard CO-SECRETARY
Signature of Affiant & Title

Sworn and subscribed before me this 6th day of July 2020
Month Year

[signature]
Signature of official administering oath

Trenita Spivey
Print Name and Title

My commission expires on 07/03/2021

TRENITA SPIVEY
NOTARY PUBLIC
STATE OF TEXAS
ID# 5837482
EXPIRES 7-3-2021

Exhibit A-12

Principal Officers and Directors

The following is a current list of the Officers and Directors of Direct Energy Services, LLC:

Board Positions

Bruce Stewart Director & Co-President	12 Greenway Plaza Suite 250 Houston, TX 77046 (713) 877-3500
John Schultz Director & Co-President	194 Wood Avenue South Iselin, NJ 08830 (732) 781-06550

Officers

Bray Dohrwardt Co-Secretary	12 Greenway Plaza Suite 250 Houston, TX 77046 (713) 877-3851
Paolo Berard Co-Secretary	12 Greenway Plaza Suite 250 Houston, TX 77046 (713)877-3533
Stuart Phillips Co-Treasurer	194 Wood Avenue South Iselin, NJ 08830 (732) 781-0542
Dana Mason Co-Treasurer	12 Greenway Plaza Suite 250 Houston, TX 77046 (713)877-5810
Stacy Phillips Assistant Treasurer	12 Greenway Plaza Suite 250 Houston, TX 77046 (281)800-6397

Exhibit A-13
Company History

Background

Direct Energy Services, LLC is part of the Direct Energy family and its parent company is Centrica plc. Direct Energy is one of North America's largest energy and energy-related services providers with over 4 million residential and commercial customer relationships. Direct Energy provides customers with energy choice and support in managing their energy costs through a portfolio of innovative products and services. A subsidiary of Centrica plc (LSE:CNA), one of the world's leading integrated energy companies, Direct Energy operates in 50 states including the District of Columbia and 8 provinces in Canada.

Direct Energy Services, LLC formerly known as Energy America, LLC, first entered the Columbia Gas of Ohio CHOICE program as a marketer in the third quarter of 1998 and has executed numerous campaigns since in the Columbia Gas of Ohio, Dominion East Ohio, Duke Energy Ohio and Vectren Energy Delivery of Ohio service territories.

As part of Direct Energy's business model, Direct Energy Services, LLC plans to continue to grow our customer base through acquisitions and retention efforts. Upon enrollment by the customer, Direct Energy Services, LLC mails a confirmation letter detailing the terms and conditions of the contract as part of its "Welcome Kit" to new customers.

Exhibit A-14
Secretary of State

Attached is the Order of Good Standing with Office of the Secretary in the State of Ohio.

DATE	DOCUMENT ID	DESCRIPTION	FILING	EXPED	PENALTY	CERT	COPY
12/04/2014	201433801734	Subsequent Agent Appointment (FGS)	25.00				0

Receipt

This is not a bill. Please do not remit payment.

LAUREN VADNEY
11380 PROSPERITY FARMS ROAD #221E
PALM BEACH GARDENS, FL, 33410

STATE OF OHIO
CERTIFICATE
Ohio Secretary of State, Jon Husted

1473703

It is hereby certified that the Secretary of State of Ohio has custody of the business records for

DIRECT ENERGY SERVICES, LLC

and, that said business records show the filing and recording of:

Document(s)	Document No(s):
Subsequent Agent Appointment	**201433801734**

Effective Date: 12/04/2014

United States of America
State of Ohio
Office of the Secretary of State

Witness my hand and the seal of the Secretary of State at Columbus, Ohio this 4th day of December, A.D. 2014.

Jon Husted

Ohio Secretary of State

Jurisdictions of Operation – Direct Energy Services, LLC

Name: **Direct Energy Services, LLC**
Business Address: 12 Greenway Plaza, Suite 250, Houston, TX 77046

License #/State of Issuance:

Docket # 06-03-06RE02 (Power)/Connecticut;
Registration # 01-04 (Gas)/Connecticut;
Case No. EA-05-3-5/Order No. 13816 (Power)/D.C.;
Certificate No. 6790 (Power)/Delaware;
Docket # 05-0722 (Power)/Illinois;
Docket # 05-0086 (Gas)/Illinois;
License # CS-047 (Power)/Massachusetts;
License # GS-028 (Gas)/Massachusetts;
License # IR-719 (Power)/Maryland;
License # IR-791 (Gas)/Maryland;
Case No. U-14537 (Gas)/Michigan;
License # ESL-0078 (Power)/New Jersey;
License # GSL-0088 (Gas)/New Jersey;
Letter Order 2019 (Power & Gas)/ New York;
License # DM 15-513 (Power)/ New Hampshire;
Certificate # 02-024G(9) (Gas)/Ohio;
Certificate # 00-19E(10) (Power)/Ohio;
License # A-110164 (Power)/Pennsylvania;
License # A-125135 (Gas)/Pennsylvania;
Docket # D-96-6(U2)(Power)/Rhode Island;
Docket # 2379(T1) (Gas)/Rhode Island

States Not Currently Serving Customers
Case No. U-14724 (Power)/Michigan;
License # E-36 (Power)/Virginia
Docket # 2005-479 (Power)/Maine

Direct Energy affiliates other than a regulated electricity of natural gas utility currently serving retail customers or engaged in the retail sale of electricity, or electricity supply services, or natural gas:

Name: **Direct Energy Business, LLC**
Business Address: 1001 Liberty Avenue Suite 1200, Pittsburgh, PA 15222

License #/State of Issuance:

License # 1351 (Power)/California;
Docket # 00-05-14RE01 (Power)/Connecticut;
Certificate # 5267 (Power)/Delaware;
License # EA-04-4-4 (Power)/D.C.;
Docket No. 04-0811 (Power)/Illinois;
Docket No. 2011-201 (Power)/Maine;
License # IR-437 (Power)/Maryland;
License # CS-021 (Power)/Massachusetts;
License # GS-052 (Gas)/Massachusetts;
Docket # U-13609 (Power)/Michigan;
License # ESL-0165 (Power)/New Jersey;
License # DM 15-373 (Power)/New Hampshire;
Letter Order 2019 (Power & Gas) /New York
Certificate # 00-005(10) (Power)/Ohio;
License # A-110025 (Power)/Pennsylvania;
Docket # D-96-6(Z) (Power)/Rhode Island;
Certificate # 10011 (Power)/Texas
License # E-38 (Power)/Virginia

State Not Currently Serving Customers
License # IR-2697 (Gas)/Maryland
License #0013 (Gas)/California;
Registration # 12-03 (Gas)/Connecticut;
License # GSL-0145 (Gas)/New Jersey;
License # A-125072 (Gas)/Pennsylvania;
Docket # 2379(A3) (Gas)/Rhode Island

Name: **Direct Energy Business Marketing, LLC**
Business Address: 194 Wood Avenue South Suite 200, New Jersey, NJ 08830

License #/State of Issuance:

License # 0031 (Gas)/California;
Registration # 13-03 (Gas)/Connecticut;
Docket # GA-2013-03-1 (Gas)/D.C.;
License # IR-3108 (Gas)/Maryland;
License # GS-051 (Gas)/Massachusetts;
DM 13-121 (Gas)/New Hampshire;
License # GSL0128 (Gas)/New Jersey;
Letter Order 2019 (Power & Gas)/New York;
Certificate # 13-303G(4) (Gas)/Ohio;
License A-2013-2365792 (Gas)/Pennsylvania;
Docket # 2379(Y2) (Gas)/Rhode Island;
License G-7 (Gas)/Virginia

States Not Currently Serving Customers:
Docket # 13-08-02 (Power)/Connecticut;
Docket # EA-2013-12 (Power)/D.C.;
Certificate No. 8425 (Power)/Delaware;
Docket # 2013-00404 (Power)/Maine;
License # IR-3123 (Power)/Maryland;
DM 13-260 (Power)/New Hampshire;
License # ESL0142 (Power)/New Jersey;
License A-2013-2368464 (Power)/Pennsylvania;

Docket # D-96-6(J6) (Power)/Rhode Island

Name: **Direct Energy, LP**
Business Address: 12 Greenway Plaza, Suite 250, Houston, TX 77046

License #/State of Issuance: Rep# 10040 (Power)/Texas

Name: **CPL Retail Energy, LP**
Business Address: 12 Greenway Plaza, Suite 250, Houston, TX 77046

License #/State of Issuance: Rep# 10023 (Power)/Texas

Name: **WTU Retail Energy, LP**
Business Address: 12 Greenway Plaza, Suite 250, Houston, TX 77046

License #/State of Issuance: Rep# 10022 (Power)/Texas

Name: **First Choice Power, LLC**
Business Address: 12 Greenway Plaza, Suite 250, Houston, TX 77046

License #/State of Issuance: Rep# 10008 (Power)/Texas

Name: **Gateway Energy Services Corporation**
Business Address: 12 Greenway Plaza, Suite 250, Houston, TX 77046

License #/State of Issuance:
Case No. GA 03-4 (Gas)/D.C.;
License # A-2009-2137275 (Power)/Pennsylvania;
License # A-2009-2138725 (Gas)/Pennsylvania;
License # IR-334 (Gas)/Maryland;
License # IR-340 (Power)/Maryland;
License # GSL-0146 (Gas)/New Jersey;
License # ESL-0166(Power)/ New Jersey

Exhibit B-2
Experience & Plans

Direct Energy Services, LLC is part of the Direct Energy family and its parent company is Centrica plc. Direct Energy is one of North America's largest energy and energy-related services providers and serves 4 million residential and commercial customers across North America. Direct Energy provides customers with choice and support in managing their energy costs through a portfolio of innovative products and services. A subsidiary of Centrica plc (LSE:CNA), one of the world's leading integrated energy companies, Direct Energy operates in 50 states plus the District of Columbia and 8 provinces in Canada.

Direct Energy Services, LLC, formerly known as Energy America, LLC, first entered the Columbia Gas of Ohio CHOICE program as a marketer in the third quarter of 1998 and has executed numerous campaigns since in the Columbia Gas of Ohio, Dominion East Ohio, Duke Energy Ohio and Vectren Energy Delivery of Ohio service territories. As of May 31, 2020, Direct Energy Services, LLC serves approximately 66,000 residential and small commercial customers in the state of Ohio. Direct Energy plans to continue customer acquisitions and retention efforts as part of it's current business model.

Regarding customer inquiries and complaints:

Normal customer service hours are Monday – Friday, 8 AM – 8PM, Eastern Standard Time and Saturday from 8 AM – 5 PM Eastern Standard Time. When customer concerns are received at Direct Energy Service's Customer Care Center, the issue is researched to determine all factors influencing the concern. Once the factors involved in the issues are established, contact with the customer is made to reach an amicable resolution through our Office of the President Department. If a public agency is involved in the dispute resolution process, once an investigation is complete, the agency is notified of the results and, assuming concurrence, the matter is closed. If the customer disputes the investigation results, Direct Energy Services will inform the customer that PUCO Staff is available to mediate complaints.

Exhibit B-3 Disclosure of Liabilities and Investigations

In the interest of full disclosure, certain Direct Energy entities have been the subject of legal and regulatory proceedings, which are summarized directly below with more detailed explanations following.

- Direct Energy, LP has been the subject of legal and/or regulatory proceedings in Texas.
- Direct Energy Business, LLC has been the subject of a regulatory proceeding with the California Public Utilities Commission and Public Utilities Regulatory Authority in Connecticut.
- Direct Energy Services, LLC has been the subject of legal and/or regulatory proceedings in Connecticut, Maryland, and Michigan.
- Direct Energy Marketing Limited (Canada) has been the subject of legal and/or regulatory proceedings in Alberta, Canada.
- Gateway Energy Services Corporation (formerly known as ECONnergy Energy Company, Inc.) had been the subject of legal and/or regulatory proceedings in New Jersey.

Direct Energy, LP: Texas

In June 2015, Direct Energy, LP agreed to pay an administrative penalty in the amount of $220,000 under a settlement with Staff of the Public Utility Commission of Texas to resolve allegations that it initiated disconnection of customers during a weather moratorium. As a result of an administrative error, Direct initiated disconnections for failure to maintain a current balance above the disconnection balance against 252 customers in counties affected by the extreme weather emergencies, of which ten disconnections were completed by Oncor. Since that time, Direct Energy has proactively implemented more efficient internal controls to ensure that TDU notifications of a weather emergency are implemented within one hour of receipt of that notification.

http://interchange.puc.state.tx.us/WebApp/Interchange/Documents/44833_3_860300.pdf

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In August 2017, Direct Energy, LP agreed to pay an administrative penalty in the amount of $70,000 under a settlement with Staff of the Public Utility Commission of Texas to resolve allegations of non-compliance with Public Utility Regulatory Act §§ 17.001(a) and 39.101(b)(6), as well as 16 Texas Administrative Code §§ 25.474, relating to selection of a retail electric provider; 25.475, relating to general retail electric provider requirements; 25.481, related to unauthorized charges, and 25.495, relating to unauthorized change of retail electric provider. Commission Staff investigated a series of informal complaints relating to door-to-door sales vendors from January 1, 2014 through February 1, 2016. These complaints included both those received by the Commission's Customer Protection Division as well as by Direct Energy. Direct ceased door-to-door solicitations in Texas on December 1, 2016. Door-to-door sales re-commenced approximately a year later after some process improvements and continue today.

http://interchange.puc.state.tx.us/WebApp/Interchange/Documents/47362_4_951957.PDF

In 2017, Direct Energy, LP received two separate Notices of Investigation from the Public Utility Commission of Texas related to demand response. The first allegation was due to an administrative error in submission of the baseline data for the demand response customer. The second allegation was due to gaps within a demand response customer's usage data that was supplied by the host utility. These separate investigations were combined by commission staff and both were settled with a warning from the Commission.

Direct Energy Business, LLC: California (Penalty Assessment – Non-Compliance)

In July 2017, Direct Energy Business, LLC ("DEB") was notified by the Energy Division of the California Public Utilities Commission ("CPUC") that were was a deficiency in DEB's monthly compliance Resource Adequacy load forecast filing for September 2017 by 16.99 MW. The CPUC allowed a seven day extension to procure the required resources; however, we were unable to execute a contract for the deficiency with the only counterparty that had available supply in time to meet the CPUC's deadline. This resulted in the CPUC assessing a penalty of $6.66/kWm, which equaled to $113,000.

Direct Energy Business, LLC: Connecticut

PUCT Docket 19-02-13
Date of Resolution: New/Ongoing

On February 11, 2019, the Public Utilities Regulatory Authority opened the above-referenced docket to consider whether to issue a declaratory ruling finding that the alleged supplier practice of altering the price of business customers' fixed-price contracts violated the Connecticut Unfair Trade Practices Act (CUTPA). After conducting the investigation, the Authority did not issue such a declaratory ruling but rather, in a letter issued on July 19, 2019, referred the matter to the Department of Consumer Protection and the Attorney General on the grounds that "the Authority has reason to believe that Direct's...increases to business customers' fixed-price contracts may violate state law." The conclusion of this matter has no immediate impacts on Direct Energy. It will be up to the Department of Consumer Protection, the agency with the primary authority to enforce CUTPA, to determine whether further action is warranted. If so, it can seek the assistance of the Attorney General in taking any further action against Direct Energy.

Direct Energy Services, LLC: Connecticut

PUC Docket 13-07-17
Date of Resolution: May 1, 2019

In June 2013, the Connecticut Public Utilities Regulatory Authority ("PURA") opened an investigation into the trade practices of three electric suppliers in the state, which included Direct Energy "(Direct"). The PURA alleged that it had received numerous customer complaints regarding billing, slamming and quality of service against Direct. In October 2013, Direct answered a series of interrogatories issued by the PURA. PURA staff and the Office of Consumer Counsel propounded additional interrogatories in mid-2015, which Direct Energy has answered. The case remains open at After nearly six (6) years of regulatory review, PURA rendered a final decision in this proceeding in which the regulator issued a draft decision in February May 2019 that included a civil penalty of $1.5 million, and a prohibition of new residential sales for six months and a one-year marketing audit oversight process that concludes on November 17, 2020. . The final decision was made on 5/1/19 where the drafted penalty amount remain unchanged and also issued a prohibition in accepting new residential customers for six months outside of online enrollments. The penalty amount was paid on 5/8 and confirmed on 5/9 by Department of Energy and Environmental Protection.As an outgrowth of the PURA final decision, Direct Energy has ceased sales via the door-to-door sales channel, instituted additional internal controls and and enhanced its sales quality assurance and oversight process with the its Sales Quality Framework. The Sales Quality Framework is an internal audit control that regularly monitors our vendor/subcontractor sales and marketing activities for all applicable sales channels, i.e., web-based, door-to-door, outbound telemarketing, in-bound telemarketing, etc.

PUC Docket 06-03-06RE03
Date of Resolution: August 26, 2015

In October 2014, the PURA re-opened Direct's licensing docket as a result of Direct's self-report regarding a process breakdown that resulted in a failure to send renewal notices to customers. The PURA intends to fully examine Direct's compliance with the Connecticut General Statutes, and determine if civil penalties will be applied. Direct had already begun to issue refunds to impacted customers when it submitted the information about its renewal notices.

Direct Energy Services, LLC: Maryland

On May 15, 2019 Staff of the Maryland Public Service Commission (MDPSC) filed a complaint against Direct Energy Services, LLC (Direct Energy) that they had violated Maryland law. The MDPSC then issued a Letter order on May 17, 2019 requiring Direct Energy to file an answer to the complaint by June 18, 2019 and to appear before a hearing on July 17th. On June 18th, Direct Energy submitted evidence within its answer requesting the complete and immediate dismissal of the Staff complaint. Prior to the July 17th hearing, the MD PSC has delegated this matter to the Public Utility Law Judge Division for a finding of whether a pattern or practice exists as described above and a new docket, Case No. 9614, has been created for this matter.

Direct Energy Services, LLC: Michigan

PUC Case U-18121
Date of Resolution: January 12, 2017

On January 12, 2017, the Michigan Public Service Commission ("MPSC") issued an order relating to a settlement with Direct Energy Services, LLC ("DES"). The terms of the settlement agreement is that DES agrees to: (1) pay a fine of $35,000 to be paid to the State of Michigan within 30 days of the Commission order approving the agreement; (2) continue a moratorium on door-to-door sales that began on November 1, 2016, that shall continue for 90 days following the date of the order approving this agreement; (3) submit new training materials within 45 days of the order approving this agreement with actual training of DES' Michigan agents to be completed within 90 days; (4) present Michigan Agency for Energy (MAE) Staff by March 31, 2017 with technologies that enhance customer identification and consent, and secure enrollment processes; (5) implement the Whitepages process described in Attachment 1 to the settlement agreement; (6) meet monthly with the MAE Staff for a period of 12 months to discuss progress with compliance with this settlement agreement and any other related matter; (7) develop with MAE Staff a template for processing complaints; and (8) reopen this docket should the MAE State Response Division identify any reoccurrence of the unauthorized switching of any customers by DES salesperson, which may result in fines, permanent moratorium on door-to-door sales and telemarketing, and or potential license revocation.

Exhibit B-3 Disclosure of Liabilities and Investigations

Direct Energy Marketing Limited: Alberta, Canada

One of Direct Energy's Canadian affiliates is Direct Energy Marketing Limited ("DEML"), which operates a business unit in Alberta called Direct Energy Regulated Services ("DERS"). DERS is a regulated retail provider of natural gas and electricity. As such DERS is often involved in regulatory proceedings in the natural course of operating a regulated business. In addition, DERS is also subject to regular regulatory investigations and audits as required by Alberta legislation. None of these investigations or audits has resulted in any negative findings against DERS.

In May of 2016, based on an action brought by Service Alberta, a government consumer protection agency, Direct Energy Marketing Limited ("DEML") pleaded guilty to three charges under the Fair Trading Act related to activity in 2014 and 2015. DEML pleaded guilty to one count of: failing to refund timely; a non-compliant contract; and entering into a marketing contract without complying with the proper requirements. In addition to the plea, a fine of $13,000 CAD was assessed. By the time of DEML's plea, DEML had already revised its internal processes to address the enumerated concerns.

Gateway Energy Services Corporation: New Jersey

Recently in 2018, Gateway Energy Services Corporation submitted a self-report compliance issue to the New Jersey Board of Public Utilities regarding variable rate pricing for some of its customers. In September 2018 Gateway settled the matter by paying a $13,500 fine and agreed to additional reporting requirements to the agreed upon customer refunds. Direct Energy subsequently instituted the additional reporting requirements and internal controls.

Exhibit C-1
SEC Filings

Direct Energy Services, LLC is an indirect wholly owned subsidiary of Centrica plc. Centrica plc is headquartered in Windsor, UK. As a foreign entity, Centrica is not subject to SEC jurisdiction, and thus does not have SEC filings.

Financial Statements

Independent Auditor's Report

Report on the audit of the financial statements

Opinion

In our opinion:

- the Financial Statements of Centrica plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements which comprise:

- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Company Balance Sheets;
- the Group and Company Statements of Changes in Equity;
- the Group Cash Flow Statement; and
- the related notes 1 to 26 and the supplementary notes S1 to S11 of the Group Financial Statements and notes I to XVIII of the Company Financial Statements.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent company for the year are disclosed in note S9 to the Financial Statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Presentation of the Group Income Statement; • Impairment of long-life assets; • Revenue and cost recognition for derivatives; and • Estimation of accrued energy revenue. All key audit matters are consistent with the prior year.
Materiality	The materiality that we used for the Group Financial Statements was £42 million which was determined on the basis of 5% of forecast 2019 pre-tax profit, adjusted for exceptional items and certain re-measurements as defined in note 7 to the Financial Statements. Our materiality represents 6.5% of the final pre-tax profit adjusted for exceptional items and certain re-measurements.
Scoping	All components of the Group have been subject to a full scope audit using a component materiality level relevant to the size and risk associated with that component other than Centrica Business Solutions (within the Centrica Business segment) and Direct Energy Services (US and Canada) within the Centrica Consumer segment, both of which were subject to specified audit procedures.
Significant changes in our approach	• There are no significant changes in our approach for 2019.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement on page 245 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and company's ability to continue to do so over a period of at least 12 months from the date of approval of the Financial Statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the Financial Statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the Financial Statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 34-43 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the Directors' confirmation on page 37 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 44 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the Directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter description	How the scope of our audit responded to the key audit matter

Presentation of the Group Income Statement

The Group Income Statement set out on page 124 of the Annual Report & Accounts segregates Business performance from Exceptional items and certain re-measurements (the 'Middle column') in arriving at the results for the year with additional information disclosed in Note 7. The Group's policy on the presentation of exceptional items and certain re-measurements can be found in notes 2(a) and 2(b). The Audit Committee also discuss this area in their report on pages 70 to 75.

Business performance is a critical measure for stakeholders and underpins the Group's segmental analysis and description of business results, and therefore the classification of items between Business performance and the Middle column is important for users of the accounts.

The key items included within the Middle column are as follows:

- Re-measurement and settlement of certain energy contracts (£646 million);
- Impairment of certain assets (£925 million);
- Restructuring costs (£356 million);
- Pension change costs and credits (£152 million);
- Net gain on disposals programmes (£35 million); and
- Related tax charges and credits (£217 million).

The Group has an established policy which governs which items should be recognised in the Middle column. However, judgement is applied in the application of this policy. This is a key area of focus for our audit. We identified a potential fraud risk in respect of the presentation of exceptional items, in particular restructuring costs.

The valuation and recording of the impairment of certain assets and the valuation and recording of the re-measurement of certain energy contracts are separate key audit matters. Please see pages 107 and 108 for further detail. The presentation of these items within either Business performance or the Middle column is, however, addressed within this key audit matter.

Significant restructuring costs were incurred in 2019 in relation to Group's strategic review and efficiency programme as set out on page 30. The costs of restructuring arising from the strategic review are included within the Middle Column.

The presentation of the Group's revenue and cost of sales in the results for the period column has been amended and the comparative period results have been represented to comply with the requirements of the IFRIC agenda decision on the Physical Settlement of Contracts to Buy or Sell a non-Financial Item which was issued in March 2019. Please see pages 121 and 163 for further details.

Audit procedures applicable to all items

- We obtained an understanding of key controls around the presentation of items within either Business performance or the Middle column.
- We evaluated the Group's policy on the recording of items within Business performance or the Middle column and considered whether that policy was appropriate. We also evaluated the Group's policy against guidance issued by the Financial Reporting Council (FRC) and the European Securities and Markets Authority (ESMA).
- We challenged Management on the presentation of items within the Middle column and whether these items had been correctly presented within the appropriate column and properly disclosed in line with the Group's policy.

Audit procedures applicable to specific items

- On impairment of certain assets, we challenged Management on the factors that caused any significant movement in value on each asset by interrogating the underlying impairment models and whether the impairment had been recorded within the correct column.
- For restructuring costs we evaluated the costs recorded by Management within the Middle column and challenged whether those costs were being correctly reported in line with the Group's policy.
- We evaluated the income statement amendments and the presentation of certain revenue streams following the IFRIC agenda decision on the recycling of derivative movements.
- We reviewed the presentation and disclosure of Management's conclusions in the Annual Report & Accounts to assess whether the disclosures are fair, balanced and understandable and consistent with the Group's policy and relevant accounting standards.

Key observations

- The exploration and production assets impairments arise from both operating performance of certain projects and a reduction in forecast energy prices, and are material in size, while the Nuclear impairments arise from changes in forecast future energy prices therefore under the Group's policy these impairments are appropriately recorded within the Middle column.
- Where the impairment involves a change in forecast future energy prices combined with factors such as operational performance or available reserves, a judgement is taken by the Group whether this should be reported in the Middle column. We believe these judgements are reasonable.
- The majority of restructuring costs relate to clearly defined projects (see 30). However, there are certain smaller costs incurred in the year which relate to restructuring activities in other areas of the business, and which have been treated as exceptional items and presented within the Middle column in the income statement. Whilst the treatment of these costs as exceptional is subjective, the costs incurred are not material to the Financial Statements.
- We are satisfied with the income statement amendments and the presentation of certain revenue streams following the IFRIC agenda decision.

Key audit matter description	How the scope of our audit responded to the key audit matter

Impairment of long-life assets

The total book value of exploration and production assets is £2,396 million and the total book value of the investment in Nuclear is £1,289 million. Management have recorded a pre-tax impairment charge of £848 million for these assets, including £476 million on exploration and production assets and £372 million on the investment in Nuclear, primarily due to lower forecast long term prices and operational performance, as disclosed in note 7. Further details on the key sources of estimation certainty underpinning the impairment of long life assets can be found in note 3(b). Details on the sensitivity of the above impairment reviews to changes in key assumptions such as commodity prices are disclosed in Note 7(d). The matter is also considered by the Audit Committee in their report on pages 69 to 75.

The Group owns significant upstream exploration and production assets and certain power generation assets, which are required to be reviewed for indicators of impairment and tested for impairment as appropriate.

These assets are subject to the greatest estimation uncertainty, as set out below. Consequently they represent the highest risk of impairment. We therefore identified a risk of material misstatement that these long-life assets are not recoverable. The impairments recorded in the year were primarily because of a change in the estimation of long term commodity prices.

The impairment assessment involves management judgement in considering whether the carrying value of those assets or cash generating units are recoverable. The key assumptions and judgements underpinning the impairment reviews include:

- forecast future cash flows;
- forecast future production or generation profiles;
- forecast future commodity prices;
- estimates of oil and gas reserves;
- availability forecast;
- useful life estimates and life extensions; and
- determining an appropriate discount rate.

Procedures on the overall impairment review

- We have understood management's process for identifying indicators of impairment and for performing their impairment assessment. We assessed and obtained an understanding of the key controls relating to the asset impairment models, the underlying forecasting process and the impairment reviews performed.
- We evaluated and challenged the key assumptions and inputs into the impairment models, which included performing sensitivity analysis, to evaluate the impact of selecting alternative assumptions. We evaluated the current year changes to the key assumptions and retrospectively assessed whether prior year assumptions were appropriate.
- We audited the arithmetical accuracy of the impairment models. We recalculated the impairment charges and headroom and agreed these to financial records.
- We evaluated the impairment judgements taken, with reference to our assessment of the key assumptions as outlined above and the outcome of the sensitivities performed.

Procedures relating to forecast future cash flows

- We confirmed that forecast cash flows were consistent with Board approved forecasts, and analysed reasonably possible downside sensitivities.
- We validated production profiles to external reserve and operator estimates and agreed these to the cash flow forecast assumptions.
- We confirmed estimates of oil and gas reserves to third party reserve reports, assessing the skills, qualifications and independence of those third party experts.
- We evaluated the Group's determination of future commodity prices using our own internal experts, who benchmarked against externally available future commodity price estimates and performed sensitivity analysis with alternative future prices.
- We assessed the reasonableness of the nuclear plants' availability forecast and life extensions and sensitised the impact of change in assumptions on the overall impairment charge.

Procedures relating to the discount rate

- We involved our internal valuation specialists to evaluate management's discount rates, which involved benchmarking against available market views and analysis.

Financial Statements

Key observations

- We are satisfied that the key assumptions used to determine the recoverable amount of long-life assets are appropriate, including estimates of reserves, production and generation profiles.
- We are also satisfied that the Group's discount rate assumptions are determined based on acceptable valuation methodologies. These assumptions are towards the higher end when compared to the ranges determined by our internal valuation specialists but are considered reasonable, consistent with the prior year.
- The Group's future commodity price estimates are within the middle of the acceptable range of external sources. In the prior year the Group's future commodity price estimates were towards the higher end of the acceptable range.
- Based on the procedures performed we are satisfied that the Group's impairment charge is appropriate.

Key audit matter description	How the scope of our audit responded to the key audit matter

Revenue and cost recognition for derivatives

Details on the Group's derivative activities can be found in note 19 and note S3 (a). The key sources of estimation uncertainty associated with derivatives can be found in note 3(b) with further details on the presentation of certain re-measurement arising on derivatives disclosed in note 2(b).The matter is also considered by the Audit Committee in their report on pages 69 to 75. As disclosed in note 7 to the Financial Statements, certain re-measurements of £647 million pre-tax have been recognised in the current year. The critical accounting judgement in respect of Liquefied Natural Gas ('LNG') is disclosed in note 3(a) and the long term LNG commitments are disclosed in note 23.

In addition to proprietary trading activities, the Group enters into forward commodity contracts to optimise the value of its production, generation and transportation assets as well as to meet the future needs of its customers. Certain of these arrangements are accounted for as derivative financial instruments and are recorded at fair value. We identified the following risks in respect of commodity trades, all of which were identified as fraud risks:

Valuation of complex trades

- Judgement is required in valuing derivative contracts, particularly where there is optionality in a contract that requires modelling on a bespoke basis (Level 2 or 3 in accordance with IFRS 13 Fair Value Measurement). As such we identified a risk relating to the valuation of complex trades.

Own-use treatment and accruals accounting

- Certain commodity contracts have been entered into for the purposes of securing commodities for the energy supply businesses. Where contracts have been entered into to satisfy Centrica's normal business activities, these have been determined to be own-use contracts and consequently are not recorded at fair value. Due to the size and value of these contracts we have identified the appropriateness of the own-use treatment as a key audit matter.
- The Group does not consider its long term LNG supply contracts to be derivatives because of a lack of market liquidity and the inability or lack of history of net settlement. Such contracts are therefore not marked to market. These contracts are significant commitments and therefore this judgement is important to the Group's Financial Statements.

Allocation of optimisation and hedging trading activity in the Middle column

- Where the Group enters into trades that give rise to an accounting mismatch between accrual accounted assets, contracts and demand and the marked to market accounted forward commodity contracts, the fair values of those contracts are accounted for separately as 'certain re-measurements' within the Middle column of the Group's Income Statement and are excluded from Business performance.

We have understood the Group's processes and controls for authorising and recording commodity trades.

In the Group's Energy, Marketing and Trading ('EM&T') business, we used data analytics to trace commodity trades from initiation through to confirmation, settlement (where relevant) and recording in the Group's accounting systems. This included an assessment of whether the accounting recognition was in line with the Group's accounting policies and relevant accounting standards.

Valuation of complex trades

- We used financial instrument specialists to assist the audit team in valuing material complex trades, which included auditing the Group's valuation models by creating an independent valuation, or by assessing the inputs, verifying the reasonableness of the model methodology and assessing the movement in the fair value from the change in significant inputs.

Own-use treatment

- We reviewed all the Group's material 'own use' contracts which were entered into during the year to determine whether the application of the own-use treatment was appropriate.
- We assessed whether there is liquidity in the LNG market or the Group has the ability or practice of net settling of contracts, including reviewing contractual terms.
- We audited the prospective and retrospective demand tests performed by the Group to determine whether the contract volumes exceed the amount of estimated own-use demand in the relevant periods, including an evaluation of the contracts for net settlement activity.

Allocation of optimisation and hedging trading activity in the Middle column

- We audited the principles management use to determine whether a trade should be recognised as part of on-going business performance or presented separately. We evaluated whether those agreed principles had been applied consistently by reviewing key contracts and testing a sample of trades to confirm that the accounting treatment was appropriate.
- We also verified that trades within certain re-measurements were entered into at market prices where the counter-party was another Group business, to determine whether profits and losses within the Middle column reflect only market-related movements.

Key observations

- We are satisfied that commodity trades are valued on a reasonable basis and that the accounting classification and valuation of trades is appropriate.
- We are satisfied with the appropriateness of the Group's own use accounting.
- We agree with the conclusion that LNG contracts should not be accounted for at fair value.

Key audit matter description | **How the scope of our audit responded to the key audit matter**

Estimation of accrued energy revenue

Details on the Group's accrued energy income can be found in note 17. Total accrued energy income at 31 December 2019 was £1,342 million (2018: £1,542 million). The key source of estimation uncertainty associated with accrued energy income is disclosed in note 3(b). The matter is also considered by the Audit Committee in their report on pages 69 to 75.

The recognition of energy supply revenue requires the Group to estimate customer energy usage between the date of the last meter read and the year end, known as accrued or unbilled energy revenue.

Our risk was focused on the accuracy and valuation of accrued energy revenue in the UK and North American Home and Business, being the businesses with the most significant accrued energy revenue. We have pinpointed the risk to the estimates underpinning the recognition and valuation of accrued energy revenue and the potential for management override of related controls. We also identified this as a fraud risk.

Our audit approach for unbilled revenue was a combination of tests of internal control and data analytics work, together with substantive analytical procedures. This included understanding controls in the UK and North American revenue processes, from meter reading to cash collection, and controls over the period end revenue reconciliation process. In the UK, we tested the key controls relied on to estimate accrued energy revenue.

- We used data analytics in UK Home and Business to reperform the calculation of the accrued energy revenue estimate generated by the billing systems for each customer account, in addition to auditing key manual adjustments made by management, and the key assumption, being the value of energy consumed since the last meter read.
- In North America, we focused on creating an independent estimate of accrued energy revenue and compared this to the estimate determined by management.
- In the UK and North America we assessed the accuracy of the estimates made by management in prior periods. Any differences as a result of the work performed were investigated and challenged.

Key observations

- We are satisfied that the estimation of the Group's accrued energy revenue is materially correct. We were able to rely on certain controls around the estimation process in the UK and whilst some improvements were made to processes in North America, the controls are not yet at a stage where we were are able to rely on them. This is discussed further in the Audit Committee's report on pages 69 to 75.

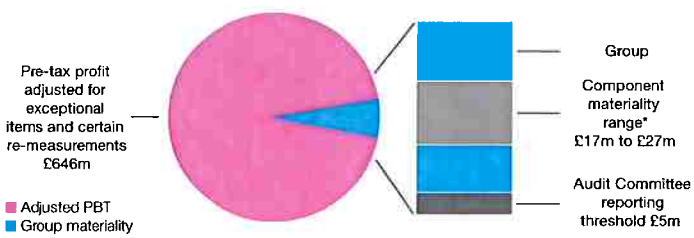
Our application of materiality

Materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group Financial Statements	Parent company Financial Statements
Materiality	£42 million (2018: £60 million)	£40 million (2018: £50 million)
Basis for determining materiality	We determined Group materiality on the basis on 5% of forecast 2019 pre-tax profit, adjusted for exceptional items and certain re-measurements as defined in note 7 to the Financial Statements (2018 - 5%). Our materiality represents 6.5% of the final pre-tax profit adjusted for exceptional items and certain re-measurements (2018: 5.4%).	We determined company materiality based on 1% (2018: 1%) of estimated net assets. Our materiality represents 0.7% of final net assets (2018: 0.9%).
Rationale for the benchmark applied	Pre-tax profit adjusted for exceptional items and certain re-measurements was considered to be the most relevant benchmark as it is of most interest to stakeholders. Furthermore, exceptional items and certain re-measurements are volatile and materially impact the Group's performance each year due to events and transactions that are not part of the underlying activities of the Group, and excluding them enables a more consistent basis with which to consider the Group's performance on an ongoing basis.	We considered net assets to be the most appropriate benchmark given the primary purpose of the Company is a holding company.



*Component materiality range excludes parent company materiality

Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered factors including our ability to rely on internal controls across a number of areas of the audit including payroll, expenditure, meter to cash and revenue, and the willingness to make process improvements as well as management's willingness to correct errors identified and the stability of the finance team.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all individual audit differences in excess of £5 million (2018: £5 million) and collectively all other errors above £2 million (2018: £3 million) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

An overview of the scope of our audit

Identification and scoping of components

The Group is organised by its different segments as outlined in note 4. These segments contain a number of individual businesses, and we use those businesses as the basis for our audit scope.

Our audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Having performed this assessment it was concluded that the following components were considered to be the most significant and were subject to full scope audits:

Centrica Consumer

- UK Home
- North America Home
- Connected Home Solutions
- Ireland

Centrica Business

- UK Business
- North America Business
- Energy Marketing & Trading
- Central Power Generation

Upstream

- Spirit Energy
- Centrica Storage
- Nuclear

Centrica Business Solutions (within the Centrica Business segment) and Direct Energy Services US and Direct Energy Services Canada (within the Centrica Consumer segment) were individually not financially significant and as such we performed specified audit procedures over relevant audit risks.

This scoping resulted in 96% of Group revenue, 90% of Group profit before tax and 95% of Group net assets being subject to audit.

The materiality levels of the components ranged from £17 million to £27 million (excluding parent company materiality) depending on the contribution of the component's operations to the Group and our assessment of risk relevant to each location.

Working with other auditors

All components except for North America Home, North America Business and Ireland are audited from the United Kingdom and hence we oversee these component audits through regular meetings and direct supervision. For the overseas components, each was visited throughout the year by the lead audit partner or other senior members of the engagement team. Throughout the year, the Group audit team has been directly involved in overseeing the component audit planning and execution, through frequent conversations, team meetings, debate, challenge and review of reporting and underlying work papers. In addition to our direct interactions, we sent detailed instructions to our component audit teams, attended audit closing meetings, and reviewed their audit working papers. We are satisfied that the level of involvement of the lead audit partner and team in the component audits has been extensive, and has enabled us to conclude that sufficient appropriate audit evidence has been obtained in support of our opinion on the Group Financial Statements as a whole.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the annual report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by those charged with governance on 11 February 2019 and 10 February 2020;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions and IT regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: (i) The presentation of the Group income statement, (ii) Revenue and cost recognition for derivatives and (iii) Estimation of unbilled energy supply revenue. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, Pensions and Tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Office of Gas and Electricity Markets (Ofgem) and Regulations levied by the UK Financial Conduct Authority and Prudential Regulatory Authority.

Audit response to risks identified

As a result of performing the above, we identified the presentation of the Group income statement, revenue and cost recognition for derivatives and estimation of unbilled energy supply revenue as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations described above as having a different effect on the Financial Statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant authorities where matters identified were significant;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company Financial Statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Shareholders on 13 May 2019 to audit the Financial Statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering the years ending 31 December 2017, 31 December 2018 and 31 December 2019.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

James Leigh FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP

Statutory Auditor
London, United Kingdom
12 February 2020

Group Income Statement

Year ended 31 December	Notes	2019 Business performance £m	2019 Exceptional items and certain re-measurements £m	2019 Results for the year £m	2018 (restated) (i) Business performance £m	2018 (restated) (i) Exceptional items and certain re-measurements £m	2018 (restated) (i) Results for the year £m
Group revenue (i)	4	**26,825**	**(4,151)**	**22,674**	27,381	(4,077)	23,304
Cost of sales (i)	5	**(22,973)**	**7,178**	**(15,795)**	(23,128)	6,808	(16,320)
Re-measurement and settlement of energy contracts (i)	7	**–**	**(3,673)**	**(3,673)**	–	(2,931)	(2,931)
Gross profit/(loss)		**3,852**	**(646)**	**3,206**	4,253	(200)	4,053
Operating costs before exceptional items and credit losses on financial assets	5	**(2,742)**	**–**	**(2,742)**	(2,721)	–	(2,721)
Credit losses on financial assets	5, 17	**(197)**	**–**	**(197)**	(143)	–	(143)
Exceptional items – (impairment)/write-back of retained exploration and production assets	7	**–**	**(476)**	**(476)**	–	90	90
Exceptional items – impairment of power assets and provision for onerous power contracts	7	**–**	**(381)**	**(381)**	–	(46)	(46)
Exceptional items – impairment of Centrica Home Solutions	7	**–**	**(77)**	**(77)**	–	–	–
Exceptional items – net gain/(loss) on disposal (ii)	7	**–**	**35**	**35**	–	(16)	(16)
Exceptional items – net pension change credit/(cost)	7	**–**	**152**	**152**	–	(41)	(41)
Exceptional items – restructuring costs	7	**–**	**(356)**	**(356)**	–	(170)	(170)
Operating costs	5	**(2,939)**	**(1,103)**	**(4,042)**	(2,864)	(183)	(3,047)
Share of (losses)/profits of joint ventures and associates, net of interest and taxation	6, 7	**(12)**	**(1)**	**(13)**	3	(22)	(19)
Group operating profit/(loss)	4	**901**	**(1,750)**	**(849)**	1,392	(405)	987
Net finance cost	7, 8	**(255)**	**–**	**(255)**	(273)	(139)	(412)
Profit/(loss) before taxation		**646**	**(1,750)**	**(1,104)**	1,119	(544)	575
Taxation on profit/(loss)	7, 9	**(218)**	**219**	**1**	(461)	128	(333)
Profit/(loss) for the year		**428**	**(1,531)**	**(1,103)**	658	(416)	242
Attributable to:							
Owners of the parent		**419**	**(1,442)**	**(1,023)**	631	(448)	183
Non-controlling interests		**9**	**(89)**	**(80)**	27	32	59

Earnings per ordinary share	Notes	2019 Pence	2018 Pence
Basic	10	**(17.8)**	3.3
Diluted	10	**(17.8)**	3.2
Interim dividend paid per ordinary share	11	**1.50**	3.60
Final dividend proposed per ordinary share	11	**3.50**	8.40

(i) The Group has amended the presentation of energy derivative contracts following an IFRIC agenda decision in March 2019 and a review of its trading businesses. Prior year results have been restated accordingly. See note 1 for further details.
(ii) Gains and losses on disposals include any impairments and write-backs associated with the assets and businesses disposed of or classified as held for sale.

The notes on pages 119 to 195 form part of these Financial Statements.

Group Statement of Comprehensive Income

Year ended 31 December	Notes	2019 £m	2018 £m
(Loss)/profit for the year		**(1,103)**	242
Other comprehensive (loss)/income			
Items that will be or have been reclassified to the Group Income Statement:			
Impact of cash flow hedging (net of taxation)	S4	**(4)**	10
Exchange differences on translation of foreign operations		**(126)**	106
Exchange differences reclassified to Group Income Statement on disposal	12	**(18)**	–
Items that will not be reclassified to the Group Income Statement:			
Net actuarial (losses)/gains on defined benefit pension schemes (net of taxation)	S4	**(387)**	657
Gains/(losses) on revaluation of equity instruments measured at fair value through other comprehensive income (net of taxation)		**2**	(1)
Share of other comprehensive income/(loss) of joint ventures and associates, net of taxation	14, S4	**29**	(1)
Other comprehensive (loss)/income, net of taxation		**(504)**	771
Total comprehensive (loss)/income for the year		**(1,607)**	1,013
Attributable to:			
Owners of the parent		**(1,511)**	953
Non-controlling interests	S11	**(96)**	60

The notes on pages 119 to 195 form part of these Financial Statements.

Financial statements

Group Statement of Changes in Equity

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
1 January 2018	348	2,121	1,184	(950)	2,703	729	3,432
Adjustment on adoption of IFRS 9	–	–	28	(28)	–	–	–
Profit for the year	–	–	183	–	183	59	242
Other comprehensive income	–	–	–	770	770	1	771
Employee share schemes	–	–	3	27	30	–	30
Scrip dividend	6	119	–	–	125	–	125
Dividends paid to equity holders (note 11)	–	–	(673)	–	(673)	–	(673)
Other	–	–	–	7	7	14	21
31 December 2018	354	2,240	725	(174)	3,145	803	3,948
Loss for the year	–	–	(1,023)	–	**(1,023)**	(80)	**(1,103)**
Other comprehensive loss	–	–	–	(488)	**(488)**	(16)	**(504)**
Employee share schemes and other share transactions	–	–	(10)	53	**43**	–	**43**
Scrip dividend (note 11)	6	90	–	–	**96**	–	**96**
Dividends paid to equity holders (note 11)	–	–	(561)	–	**(561)**	–	**(561)**
Distributions to non-controlling interests	–	–	–	–	**–**	(124)	**(124)**
31 December 2019	**360**	**2,330**	**(869)**	**(609)**	**1,212**	**583**	**1,795**

The notes on pages 119 to 195 form part of these Financial Statements.

Group Balance Sheet

	Notes	31 December 2019 £m	31 December 2018 £m
Non-current assets			
Property, plant and equipment	13	**3,133**	4,124
Interests in joint ventures and associates	14	**1,306**	1,661
Other intangible assets	15	**1,455**	1,720
Goodwill	15	**2,578**	2,736
Deferred tax assets	16	**553**	532
Trade and other receivables, and contract-related assets	17	**154**	119
Derivative financial instruments	19	**493**	537
Retirement benefit assets	22	**56**	223
Securities	24	**131**	239
		9,859	11,891
Current assets			
Trade and other receivables, and contract-related assets	17	**4,839**	5,543
Inventories	18	**431**	459
Derivative financial instruments	19	**1,320**	1,141
Current tax assets		**115**	187
Securities	24	**124**	68
Cash and cash equivalents	24	**1,342**	1,268
		8,171	8,666
Assets of disposal groups classified as held for sale	12	**124**	–
		8,295	8,666
Total assets		**18,154**	20,557
Current liabilities			
Derivative financial instruments	19	**(1,854)**	(1,136)
Trade and other payables, and contract-related liabilities	20	**(5,533)**	(6,207)
Current tax liabilities		**(339)**	(360)
Provisions for other liabilities and charges	21	**(284)**	(305)
Bank overdrafts, loans and other borrowings	24	**(857)**	(374)
		(8,867)	(8,382)
Liabilities of disposal groups classified as held for sale	12	**(18)**	–
		(8,885)	(8,382)
Non-current liabilities			
Deferred tax liabilities	16	**(151)**	(384)
Derivative financial instruments	19	**(291)**	(430)
Trade and other payables, and contract-related liabilities	20	**(152)**	(191)
Provisions for other liabilities and charges	21	**(2,175)**	(2,540)
Retirement benefit obligations	22	**(219)**	(302)
Bank loans and other borrowings	24	**(4,486)**	(4,380)
		(7,474)	(8,227)
Total liabilities		**(16,359)**	(16,609)
Net assets		**1,795**	3,948
Share capital	25	**360**	354
Share premium		**2,330**	2,240
Retained earnings		**(869)**	725
Other equity	S4	**(609)**	(174)
Total shareholders' equity		**1,212**	3,145
Non-controlling interests	S11	**583**	803
Total shareholders' equity and non-controlling interests		**1,795**	3,948

The Financial Statements on pages 114 to 195, of which the notes on pages 119 to 195 form part, were approved and authorised for issue by the Board of Directors on 12 February 2020 and were signed below on its behalf by:

Iain Conn
Group Chief Executive

Chris O'Shea
Group Chief Financial Officer

Financial statements

Group Cash Flow Statement

Year ended 31 December	Notes	2019 £m	2018 £m
Group operating (loss)/profit including share of results of joint ventures and associates		**(849)**	987
Add back share of losses of joint ventures and associates, net of interest and taxation	6	**13**	19
Group operating (loss)/profit before share of results of joint ventures and associates		**(836)**	1,006
Add back/(deduct):			
Depreciation, amortisation, write-downs, impairments and write-backs		**2,299**	1,019
Profit on disposals		**(159)**	(13)
Decrease in provisions		**–**	(29)
Cash contributions to defined benefit schemes in excess of service cost income statement charge		**(493)**	(34)
Employee share scheme costs	S4	**41**	43
Unrealised losses arising from re-measurement of energy contracts		**432**	241
Exceptional charges reflected directly in operating profit		**237**	56
Operating cash flows before movements in working capital relating to business performance and payments relating to taxes and exceptional charges		**1,521**	2,289
Increase in inventories		**(14)**	(43)
Decrease/(increase) in trade and other receivables and contract-related assets relating to business performance		**518**	(834)
(Decrease)/increase in trade and other payables and contract-related liabilities relating to business performance		**(385)**	831
Operating cash flows before payments relating to taxes and exceptional charges		**1,640**	2,243
Taxes paid	9	**(92)**	(61)
Payments relating to exceptional charges in operating costs		**(298)**	(248)
Net cash flow from operating activities		**1,250**	1,934
Purchase of businesses, net of cash acquired		**(30)**	(85)
Sale of businesses		**236**	20
Purchase of property, plant and equipment and intangible assets	4	**(781)**	(926)
Sale of property, plant and equipment and intangible assets		**8**	26
Investments in joint ventures and associates		**(1)**	(3)
Dividends received from joint ventures and associates	14	**1**	22
Receipt of sub-lease capital payments	24	**3**	–
Interest received		**11**	15
Sale/(purchase) of securities	24	**50**	(76)
Net cash flow from investing activities		**(503)**	(1,007)
Payments for own shares	S4	**–**	(11)
Proceeds from sale of forfeited share capital		**2**	–
Distribution to non-controlling interests		**(124)**	–
Financing interest paid	24	**(243)**	(305)
Repayment of borrowings and capital element of leases	24	**(241)**	(1,673)
Equity dividends paid		**(471)**	(551)
Net cash flow from financing activities		**(1,077)**	(2,540)
Net decrease in cash and cash equivalents		**(330)**	(1,613)
Cash and cash equivalents including overdrafts at 1 January		**1,128**	2,737
Effect of foreign exchange rate changes		**(4)**	4
Cash and cash equivalents including overdrafts at 31 December	24	**794**	1,128
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents		**1,342**	1,268
Overdrafts included within current bank overdrafts, loans and other borrowings		**(548)**	(140)

The notes on pages 119 to 195 form part of these Financial Statements.

Financial Statements

Contents

Independent Auditor's Report

Report on the audit of the financial statements

Opinion

In our opinion:

- the Financial Statements of Centrica plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Company Balance Sheets;
- the Group and Company Statements of Changes in Equity;
- the Group Cash Flow Statement; and
- the related notes 1 to 26 and the supplementary notes S1 to S11 of the Group financial statements and notes I to XVIII of the Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Presentation of the Group Income Statement; • Impairment or write back of long-life assets; • Revenue and cost recognition for derivatives; and • Estimation of accrued energy revenue. Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year are identified with .
Materiality	The materiality that we used for the Group Financial Statements was £60 million which was determined on the basis of 5% of profit before tax adjusted for exceptional items and certain re-measurements, as defined in note 2(a) and note 7.
Scoping	All segments of the Group have been subject to a full scope audit using a component materiality level relevant to the size and risk associated with that segment other than Distributed Energy & Power and Central Power Generation, which were subject to specified audit procedures.
Significant changes in our approach	The following changes were made to the key audit matters reported in the prior year: • We have refined the key audit matter reported in the prior year around the presentation of exceptional items and certain re-measurements to cover the overall presentation of the Group Income Statement. • The accounting for the acquisition of Bayerngas Norge AS's exploration and production business is no longer a key audit matter as it is not relevant in the current year as the transaction completed in 2017.

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed the directors' statement on page 112 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements. We considered as part of our risk assessment the nature of the company, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**
Principal risks and viability statement Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: • the disclosures on pages 41 to 51 that describe the principal risks and explain how they are being managed or mitigated; • the directors' confirmation on page 44 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or • the directors' explanation on page 51 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R (3) is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance to our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters include those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter description	How the scope of our audit responded to the key audit matter

Presentation of the Group Income Statement

The Group Income Statement set out on page 124 of the Annual Report & Accounts segregates Business performance from Exceptional items and certain re-measurements (the 'Middle column') in arriving at the results for the year with additional information disclosed in Note 7. The Group's policy on the presentation of exceptional items and certain re-measurements can be found in notes 2(a) and 2(b). The Audit Committee also discuss this area in their report on pages 80 to 84.

Business performance is a critical measure for stakeholders and underpins the Group's segmental analysis and description of business results and therefore the classification of items between Business performance and the Middle column is important for users of the accounts.

The key items included within the Middle column are as follows:

- Impairment and/or write back of certain assets;
- Re-measurement of certain energy contracts;
- Restructuring and business change costs;
- Provision for onerous contracts;
- Guaranteed minimum pension equalisation past service cost;
- Debt repurchase costs; and
- Related tax charges and credits.

The Group has an established policy which governs which items should be recognised in the Middle column. However, judgement is applied in the application of this policy. This is a key area of audit focus for our audit. We identified a fraud risk in respect of the presentation of exceptional items, in particular restructuring and business change costs.

The valuation and recording of the impairment and write back of certain assets and the valuation and recording of the re-measurement of certain energy contracts are separate key audit matters. Please see pages 117 and 118 for further detail. The presentation of these items (and related onerous contract provisions) within either Business performance or the Middle column is addressed within this key audit matter.

The Group records re-measurements of certain energy contracts within cost of sales when unrealised. The Group's policy for the re-measurement of certain energy contracts includes the reclassification of mark to market movements between cost of sales and revenue upon realisation of those contracts. This is a common treatment but challenge has been made as to whether it is appropriate following the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. This practice is currently under consultation by the International Financial Reporting Interpretations Committee (IFRIC). A change in policy and presentation may be required in 2019 if the IFRIC determines that such reclassifications are no longer permitted.

The Group announced in 2018 the second phase of the strategic review which was initially announced in 2015. Significant restructuring and business change costs were incurred in 2018 in relation to this review as set out on page 38. The costs of restructuring and business change arising from the strategic review are included within the Middle Column. Judgement is needed around which costs are included within the Middle column and which are reported as ongoing costs within Business performance.

Audit procedures applicable to all items

- We assessed the design and implementation of key controls around the presentation of items within either Business performance or the Middle column.
- We reviewed the Group's policy on the recording of items within Business performance or the Middle column and considered whether that policy was appropriate. We also evaluated the Group's policy against guidance issued by the Financial Reporting Council (FRC) and the European Securities and Markets Authority (ESMA).
- We challenged Management on the presentation of items within the Middle column and whether these items had been correctly presented within the appropriate column and properly disclosed in line with the Group's policy.

Audit procedures applicable to specific items

- On impairment and/or write backs of certain assets (and related onerous contract provisions), we challenged Management on the factors that caused any significant movement in value on each asset by interrogating the underlying impairment models and whether the impairment and/or write back had been recorded within the correct column.
- On the re-measurement of certain energy contracts and the recycling on realisation of certain fair value movements to revenue, we reviewed relevant accounting literature in order to determine whether the approach adopted was reasonable.
- For restructuring and business change costs we audited the costs recorded by Management within the Middle column and challenged whether those costs were being correctly reported in line with the Group's policy.
- We reviewed the presentation and disclosure of Management's conclusions in the Annual Report & Accounts to assess whether the disclosures are consistent with the Group's policy and relevant accounting standards.

Key observations

- The majority of the asset impairments and/or write backs arise from changes in forecast future energy prices and therefore under the Group's policy are appropriately recorded within the Middle column.
- Where the impairment and/or write back involves a change in forecast future energy prices combined with factors such as operational performance or available reserves, a judgement is taken by the Group whether this should be reported in the Middle column. We believe these judgements are reasonable.
- We are satisfied that the Group's current treatment for the reclassification of mark to market movements between cost of sales and revenue is reasonable pending the IFRIC determination.
- The majority of restructuring costs relate to clearly defined projects (see 36). However, there are certain smaller costs incurred in the year which relate to restructuring activities in other areas of the business, and which have been treated as exceptional items and presented within the Middle column in the income statement. Whilst the treatment of these costs as exceptional is subjective, the costs incurred are not material to the Financial Statements.

Key audit matter description

Impairment or write back of long-life assets

The total book value of Gas production and storage assets is £3,438m and the total book value of the investment in Nuclear is £1,645m. Management have recorded a net pre-tax impairment reversal of £90 million as disclosed in note 7. Further details on the key sources of estimation certainty underpinning the impairment of long life assets can be found in note 3(b). Details on the sensitivity of the above impairment reviews to changes in key assumptions such as commodity prices are disclosed in Note 7(d). The matter is also considered by the Audit Committee in their report on pages 80 to 84.

The Group owns significant upstream gas and oil assets and certain power generation assets, which are required to be reviewed for indicators of impairment and tested for impairment as appropriate.

These assets are subject to the greatest estimation uncertainty due to their sensitivity to factors such as future commodity prices and discount rates.

Consequently they represent the highest risk of impairment. We therefore identified a risk of material misstatement that these long-life assets are not recoverable or that previously recorded impairments should or should not be reversed.

The impairment assessment involves management judgement in considering whether the carrying value of those assets or cash generating units are recoverable. The key assumptions and judgements underpinning the impairment reviews include:

- forecast future cash flows;
- forecast future production or generation profiles;
- forecast future commodity prices;
- estimates of oil and gas reserves; and
- determining an appropriate discount rate.

How the scope of our audit responded to the key audit matter

Procedures on the overall impairment review

- We have understood management's process for identifying indicators of impairment and for performing their impairment assessment. We assessed the design and implementation of key controls relating to the asset impairment models, the underlying forecasting process and the impairment reviews performed.
- We evaluated and challenged the key assumptions and inputs into the impairment models, which included performing sensitivity analysis, to evaluate the impact of selecting alternative assumptions.
- We audited the arithmetical accuracy of the impairment models. We recalculated the impairment charges, write backs or headroom and agreed these to financial records.
- We evaluated the impairment or write back judgements taken, with reference to our assessment of the key assumptions as outlined above and the outcome of the sensitivities performed. For potential impairment write backs, we understood the causes of any such write back, and corroborated this to evidence of trigger events, and evaluated whether the write back should or should not be recognised.

Procedures relating to forecast future cash flows

- We confirmed that forecast cash flows were consistent with Board approved forecasts, and analysed reasonably possible downside sensitivities.
- We validated production profiles to external reserve and operator estimates and agreed these to the cash flow forecast assumptions.
- We confirmed estimates of oil and gas reserves to third party reserve reports, assessing the skills, qualifications and independence of those third party experts.
- We evaluated the Group's determination of future commodity prices using our own internal experts, who benchmarked against externally available future commodity price estimates and performed sensitivity analysis with alternative future prices.

Procedures relating to the discount rate(s)

- We involved our internal valuation specialists to evaluate management's discount rates, which involved benchmarking against available market views and analysis.

Key observations

- We are satisfied that the key assumptions used to determine the recoverable amount of long-life assets are appropriate, including estimates of reserves, production and generation profiles.
- We are also satisfied that the Group's discount rate assumptions are determined based on acceptable valuation methodologies. These assumptions are towards the higher end when compared to the ranges determined by our internal valuation specialists but are considered reasonable.
- The Group's future commodity price estimates are within the acceptable range of external sources, albeit at the high end of this range.
- Based on the sensitivities we performed we are satisfied that the Group's total net pre-tax impairment reversal of £90 million is appropriate and other long-life assets are not impaired. We concur with Management's judgement that, other than those write backs recognised, previously recorded impairments should not currently be written back.

Key audit matter description	How the scope of our audit responded to the key audit matter

Revenue and cost recognition for derivatives

Details on the Group's derivative activities can be found in note 19 and note S3 (a). The key sources of estimation uncertainty associated with derivatives can be found in note 3(b) with further details on the presentation of certain re-measurement arising on derivatives disclosed in note 2(b).The matter is also considered by the Audit Committee in their report on pages 80 to 84. As disclosed in note 7 to the financial statements, certain re-measurements of £220 million have been recognised in the current year. The critical accounting judgement in respect of Liquefied Natural Gas ('LNG') is disclosed in note 3(a) and the long term LNG commitments are disclosed in note 23.

In addition to proprietary trading activities, the Group enters into forward commodity contracts to optimise the value of its production, generation, storage and transportation assets as well as to meet the future needs of its customers. Certain of these arrangements are accounted for as derivative financial instruments and are recorded at fair value. We identified the following risks in respect of commodity trades:

Valuation of complex trades

- Judgement is required in valuing derivative contracts, particularly where there is optionality in a contract that requires modelling on a bespoke basis (Level 2 or 3 in accordance with IFRS 13 Fair Value Measurement). As such we identified a risk relating to the valuation of complex trades.

Own-use treatment and accruals accounting

- Certain commodity contracts have been entered into for the purposes of securing commodities for the energy supply businesses. Where contracts have been entered into to satisfy Centrica's normal business activities, these have been determined to be own-use contracts and consequently are not recorded at fair value. Due to the size and value of these contracts we have identified the appropriateness of the own-use treatment as a key audit matter.
- The Group does not consider its long term LNG supply contracts as derivatives because of a lack of market liquidity. Such contracts are therefore not marked to market. These contracts are significant commitments and therefore this judgement is important to the Group's financial statements.

Allocation of optimisation and hedging trading activity in the Middle column

- Where the Group enters into trades that give rise to an accounting mismatch between accrual accounted assets, contracts and demand and the marked to market accounted forward commodity contracts, the fair values of those contracts are accounted for separately as 'certain re-measurements' within the Middle column of the Group's Income Statement and are excluded from Business performance.

Due to the judgement involved in identifying and valuing these contracts, we have identified the appropriateness of the allocation of trades to the Middle column as a key audit matter, as this has a significant impact on the Group's reported business performance. This was also identified by us a fraud risk.

- We have understood the Group's processes and controls for authorising and recording commodity trades including assessing the design and implementation of key controls.
- In the Group's Energy, Marketing and Trading ('EM&T') segment, we used data analytics to trace commodity trades from initiation through to confirmation, settlement (where relevant) and recording in the Group's accounting systems. This included an assessment of whether the accounting recognition was in line with the Group's accounting policies and relevant accounting standards.

Valuation of complex trades

- We used financial instrument specialists to assist the audit team in valuing complex trades, which included auditing the Group's valuation models by creating an independent valuation, or performing input and output analysis for all material non-standard contracts.

Own-use treatment

- We reviewed all the Group's material 'own use' contracts which were entered into during the year to determine whether the application of the own-use treatment was appropriate.
- We audited the prospective and retrospective demand tests performed by the Group to determine whether the contract volumes exceed the amount of estimated own-use demand in the relevant periods, including an evaluation of the contracts for net settlement activity.

Allocation of optimisation and hedging trading activity in the Middle column

- We audited the principles management use to determine whether a trade should be recognised as part of on-going business performance or presented separately. We evaluated whether those agreed principles had been applied consistently by reviewing key contracts and testing a sample of trades to confirm that the accounting treatment was appropriate.
- We also verified that trades within certain re-measurements were entered into at market prices where the counter-party was another Group business, to ensure that profits and losses within the Middle column reflect only market-related movements.

Key observations

- We are satisfied that commodity trades are valued appropriately and that the accounting classification and valuation of trades is appropriate.
- In North America Business, we identified misstatements associated with the own use classification which arose as a result of weaknesses in the control environment. These misstatements were not material and were corrected by management, but improvements are required to the control environment relating to these accounting judgements. North America Business controls and accounting processes are discussed in the Audit Committee report on pages 80 to 84.
- We agree with the conclusion that LNG contracts should not be marked to market.

Key audit matter description

How the scope of our audit responded to the key audit matter

Estimation of accrued energy revenue

Details on the Group's accrued energy income can be found in note 17. Total supply accrued energy income at 31 December 2018 was £1,542m (2017: £1,585m). The key source of estimation uncertainty associated with accrued energy income is disclosed in note 3(b). The matter is also considered by the Audit Committee in their report on pages 80 to 84.

The recognition of energy supply revenue requires the Group to estimate customer energy usage between the date of the last meter read and the year end, known as accrued or unbilled energy revenue.

Our risk was focused on the accuracy and valuation of accrued energy revenue in the UK and North American Home and Business segments being the segments with the most significant accrued energy revenue. We have pinpointed the risk to the estimates underpinning the recognition and valuation of accrued energy revenue and the potential for management override of related controls. We also identified this as a fraud risk.

- Our audit approach for unbilled revenue was a combination of tests of internal control and data analytics work. This included understanding the design of controls in the UK and North American revenue processes, from meter reading to cash collection, and controls over the period end revenue reconciliation process. In the UK, we tested the design, implementation and operating effectiveness of key controls relied on to estimate accrued energy revenue. In North America, we assessed the design and implementation of controls around accrued energy revenue.
- We used data analytics in UK Home and Business to independently recalculate the accrued energy revenue estimate generated by the billing systems for each customer account, in addition to auditing key manual adjustments made by management, and the key assumption, being the value of energy consumed since the last meter read.
- In North America, we focused on creating an independent estimate of accrued energy revenue and compared this to the estimate determined by management.
- In the UK and North America we assessed the accuracy of the estimates made by management in prior periods. Any differences as a result of the work performed were investigated and challenged.

Key observations

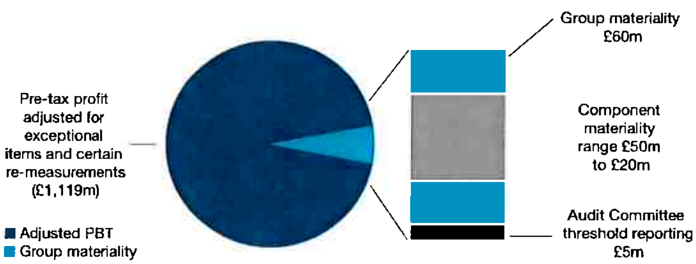
- We are satisfied that the estimation of the Group's accrued energy revenue is materially correct. The estimation processes in the UK are appropriately controlled and whilst some improvements were made to processes in North America, the controls are not yet at a stage where we were are able to rely on their operating effectiveness. This is discussed further in the Audit Committees report on pages 80 to 84.

Our application of materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group Financial Statements	Company Financial Statements
Materiality	£60 million (2017: £50 million)	£50 million (2017: £40 million)
Basis for determining materiality	We determined Group materiality on the basis of 5% of forecast 2018 pre-tax profit, adjusted for exceptional items and certain re-measurements as defined in note 7 to the financial statements (2017: 5%). Our materiality represents 5.4% of the final pre-tax profit adjusted for exceptional items and certain re-measurements (2017: 5.6%).	We determined Company materiality based on 1% (2017: 1%) of estimated net assets. Our materiality represents 0.9% of final net assets (2017: 0.8%).
Rationale for the benchmark applied	Pre-tax profit adjusted for exceptional items and certain re-measurements was considered to be the most relevant benchmark as it is of most interest to stakeholders. Furthermore, exceptional items and certain re-measurements are volatile and materially impact the Group's performance each year due to events and transactions that are not part of the underlying activities of the Group, and excluding them enables a more consistent basis with which to consider the Group's performance on an ongoing basis.	We considered net assets to be the most appropriate benchmark given the primary purpose of the company is a holding company.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £5 million (2017: £5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

The Group is organised by its different operating segments as outlined in note 4. These operating segments represent the different businesses in the Group, and are how management monitor performance. We used the Group's operating segments as the basis for our audit scope.

Our audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Having performed this assessment it was concluded that the following components were considered to be the most significant and were subject to full scope audits:

- UK Home
- North America Home
- North America Business
- Energy Marketing & Trading
- Exploration & Production (Spirit Energy)

The following components were identified as individually non-significant components. However we concluded that a full scope audit was appropriate where components have material risks or given the strategic importance of the businesses:

- Connected Home
- UK Business
- Ireland
- Centrica Storage (within Exploration and Production)

The following components were individually not financially significant and as such we performed specified audit procedures over relevant audit risks:

- Distributed Energy & Power
- Central Power Generation

This scoping resulted in 98% of Group revenue, 94% of Group profit before tax and 96% of Group net assets being subject to audit.

The materiality levels of the components ranged from £20 million to £50 million depending on the contribution of the component's operations to the Group and our assessment of risk relevant to each location. Given our judgement to perform full scope audits in the non-significant segments noted above, we determined that a component materiality of £20 million for these businesses was appropriate to reflect the lower risk profile of these segments.

All components except for North America Home, North America Business and Ireland are audited from the United Kingdom and hence we oversee these component audits through regular meetings and direct supervision. For the overseas components, each was visited throughout the year by the Group audit partner and other senior members of the engagement team. Throughout the year, the Group audit team has been directly involved in overseeing the component audit planning and execution, through frequent conversations, team meetings, debate, challenge and review of reporting and underlying work papers. In addition to our direct interactions, we sent detailed instructions to our component audit teams, attended audit closing meetings, and reviewed their audit working papers. We are satisfied that the level of involvement of the Group audit partner and team in the component audits has been extensive, and has enabled us to conclude that sufficient appropriate audit evidence has been obtained in support of our opinion on the Group Financial Statements as a whole.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we considered there was a risk of fraud around the presentation of the Group income statement, the valuation and recognition of derivatives and the recognition of accrued energy income all of which are considered key audit matters. We also considered there was a risk of fraud around the valuation of decommissioning provisions, the completeness of provisions for uncertain tax provisions and management override of controls; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context and which could directly impact the Group include the UK Companies Act, the UK Listing Rules and Pensions and Tax legislation. Other key regulations which could have an indirect effect include regulations set by regulators in the key markets in which the Group operates including the Office of Gas and Electricity Markets (Ofgem) and Regulations levied by the UK Financial Conduct Authority and Prudential Regulatory Authority.

Audit response to risks identified

As a result of performing the above, we identified (i) The Presentation of the Group Income Statement, (ii) Revenue and cost recognition for derivatives and (iii) Estimation of unbilled energy supply revenue as key audit matters which were also identified as risks of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant authorities where matters identified were significant;
- performing audit procedures to challenge the key assumptions underpinning those audit risks where a risk of fraud was identified but which were not identified as key audit matters including decommissioning provisions and the completeness of provisions for uncertain tax provisions;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Shareholders on 14 May 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering the years ending 31 December 2017 to 31 December 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

James Leigh FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP

Statutory Auditor
London, United Kingdom
20 February 2019

Group Income Statement

Year ended 31 December	Notes	2018 Business performance £m	2018 Exceptional items and certain re-measurements £m	2018 Results for the year £m	2017 (restated) (i) (ii) Business performance £m	2017 (restated) (i) (ii) Exceptional items and certain re-measurements £m	2017 (restated) (i) (ii) Results for the year £m
Group revenue	4(b)	**29,686**	**–**	**29,686**	28,035	–	28,035
Cost of sales before exceptional items and certain re-measurements	5	**(25,433)**	**–**	**(25,433)**	(23,998)	–	(23,998)
Re-measurement of certain energy contracts	7	**–**	**(200)**	**(200)**	–	153	153
Cost of sales	5	**(25,433)**	**(200)**	**(25,633)**	(23,998)	153	(23,845)
Gross profit/(loss)		**4,253**	**(200)**	**4,053**	4,037	153	4,190
Operating costs before exceptional items and credit losses on financial assets	5	**(2,721)**	**–**	**(2,721)**	(2,716)	–	(2,716)
Credit losses on financial assets [ii]	5, 17	**(143)**	**–**	**(143)**	(132)	–	(132)
Exceptional items – net write-back/(impairment) of Exploration & Production assets	7	**–**	**90**	**90**	–	(678)	(678)
Exceptional items – net loss on disposal [iii]	7	**–**	**–**	**–**	–	(62)	(62)
Exceptional items – restructuring and business change costs	7	**–**	**(170)**	**(170)**	–	(144)	(144)
Exceptional items – other	7	**–**	**(103)**	**(103)**	–	–	–
Operating costs	5	**(2,864)**	**(183)**	**(3,047)**	(2,848)	(884)	(3,732)
Share of profits/(losses) of joint ventures and associates, net of interest and taxation	6, 7	**3**	**(22)**	**(19)**	51	(28)	23
Group operating profit/(loss)	4(c)	**1,392**	**(405)**	**987**	1,240	(759)	481
Financing costs	7, 8	**(300)**	**(139)**	**(439)**	(364)	–	(364)
Investment income	8	**27**	**–**	**27**	20	–	20
Net finance cost		**(273)**	**(139)**	**(412)**	(344)	–	(344)
Profit/(loss) before taxation		**1,119**	**(544)**	**575**	896	(759)	137
Taxation on profit/(loss)	7, 9	**(461)**	**128**	**(333)**	(191)	352	161
Profit/(loss) for the year		**658**	**(416)**	**242**	705	(407)	298
Attributable to:							
Owners of the parent		**631**	**(448)**	**183**	693	(365)	328
Non-controlling interests		**27**	**32**	**59**	12	(42)	(30)

Earnings per ordinary share	Notes	2018 Pence	2017 Pence
Basic	10	**3.3**	5.9
Diluted	10	**3.2**	5.9
Interim dividend paid per ordinary share	11	**3.60**	3.60
Final dividend proposed per ordinary share	11	**8.40**	8.40

(i) Prior year results have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.
(ii) Credit losses on financial assets are now disclosed separately in accordance with IAS 1: 'Presentation of financial statements'. See note 1 for further details.
(iii) Gains and losses on disposal include any impairments and write-backs associated with the assets disposed of upon classification as held for sale.

The notes on pages 129 to 208 form part of these Financial Statements.

Group Statement of Comprehensive Income

Year ended 31 December	Notes	2018 £m	2017 (restated) (i) £m
Profit for the year		**242**	298
Other comprehensive income/(loss):			
Items that will be or have been reclassified to the Group Income Statement:			
Gains on revaluation of available-for-sale securities, net of taxation	S4	–	5
Net gains on cash flow hedges	S4	**22**	24
Transferred to income and expense on cash flow hedges (ii)	S4	**(10)**	(34)
Transferred to assets and liabilities on cash flow hedges (iii)	S4	**–**	(7)
Cash flow hedging reserve recycled to Group Income Statement on disposal	S4	**–**	10
Taxation on cash flow hedges	S4	**(2)**	1
		10	(6)
Exchange differences on translation of foreign operations (iv)	S4	**105**	(128)
Exchange gains on translation of actuarial reserve	S4	**1**	1
Exchange differences recycled to Group Income Statement on disposal		**–**	8
		116	(120)
Items that will not be reclassified to the Group Income Statement:			
Losses on revaluation of equity instruments measured at fair value through other comprehensive income, net of taxation	S4	**(1)**	–
Net actuarial gains on defined benefit pension schemes	S4	**792**	222
Taxation on net actuarial gains on defined benefit pension schemes	S4	**(135)**	(38)
		656	184
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	S4	**(1)**	43
Other comprehensive income, net of taxation		**771**	107
Total comprehensive income for the year		**1,013**	405
Attributable to:			
Owners of the parent		**953**	432
Non-controlling interests	S11	**60**	(27)

(i) Comparatives have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.
(ii) Cash flow hedging gains of £10 million (2017: £29 million) have been transferred to financing costs in the Group Income Statement. In 2017, £5 million cash flow hedging gains were transferred to operating costs before exceptional items in the Group Income Statement.
(iii) On adoption of IFRS 9: 'Financial instruments', cash flow hedging gains and losses transferred to assets and liabilities are no longer presented as an item in the Group Statement of Comprehensive Income and are now recognised directly in equity.
(iv) Includes £1 million gain (2017: £3 million) in respect of exchange differences on translation of foreign operations attributable to non-controlling interests.

The notes on pages 129 to 208 form part of these Financial Statements.

Group Statement of Changes in Equity

	Share capital (note 25) £m	Share premium £m	Retained earnings £m	Other equity (note S4) £m	**Total £m**	Non-controlling interests (note S11) £m	**Total equity £m**
1 January 2017	342	1,929	1,504	(1,109)	2,666	178	2,844
Effect of adoption of IFRS 15 [i]	–	–	9	–	9	–	9
1 January 2017 (restated) [i]	342	1,929	1,513	(1,109)	2,675	178	2,853
Profit/(loss) for the year (restated) [i]	–	–	328	–	328	(30)	298
Other comprehensive income	–	–	–	104	104	3	107
Employee share schemes	–	–	4	31	35	–	35
Scrip dividend	6	192	–	–	198	–	198
Dividends paid to equity holders (note 11)	–	–	(661)	–	(661)	–	(661)
Distributions to non-controlling interests	–	–	–	–	–	(3)	(3)
Acquisition of business	–	–	–	24	24	721	745
Disposal of business	–	–	–	–	–	(152)	(152)
Investment by non-controlling interests	–	–	–	–	–	12	12
31 December 2017 (restated) [i]	348	2,121	1,184	(950)	2,703	729	3,432
Adjustment on adoption of IFRS 9 [i]	–	–	28	(28)	**–**	–	**–**
Profit for the year	–	–	183	–	**183**	59	**242**
Other comprehensive income	–	–	–	770	**770**	1	**771**
Transfers to assets and liabilities from cash flow hedging reserve [i]	–	–	–	(1)	**(1)**	–	**(1)**
Employee share schemes	–	–	3	27	**30**	–	**30**
Scrip dividend (note 11)	6	119	–	–	**125**	–	**125**
Dividends paid to equity holders (note 11)	–	–	(673)	–	**(673)**	–	**(673)**
Acquisition of business (note 12)	–	–	–	8	**8**	14	**22**
31 December 2018	**354**	**2,240**	**725**	**(174)**	**3,145**	**803**	**3,948**

(i) See note 1 for further details of adjustments and restatements arising on transition to IFRS 15: 'Revenue from contracts with customers' and IFRS 9: 'Financial instruments'.

The notes on pages 129 to 208 form part of these Financial Statements.

Group Balance Sheet

	Notes	31 December 2018 £m	31 December 2017 (restated) (i) £m
Non-current assets			
Property, plant and equipment	13	**4,124**	4,132
Interests in joint ventures and associates	14	**1,661**	1,699
Other intangible assets	15	**1,720**	1,676
Goodwill	15	**2,736**	2,650
Deferred tax assets	16	**532**	568
Trade and other receivables, and contract-related assets	17	**119**	97
Derivative financial instruments	19	**537**	463
Retirement benefit assets	22(d)	**223**	–
Securities	24	**239**	231
		11,891	11,516
Current assets			
Trade and other receivables, and contract-related assets	17	**5,543**	4,669
Inventories	18	**459**	409
Derivative financial instruments	19	**1,141**	927
Current tax assets		**187**	289
Securities	24	**68**	5
Cash and cash equivalents	24	**1,268**	2,864
		8,666	9,163
Total assets		**20,557**	20,679
Current liabilities			
Derivative financial instruments	19	**(1,136)**	(733)
Trade and other payables, and contract-related liabilities	20	**(6,207)**	(5,418)
Current tax liabilities		**(360)**	(336)
Provisions for other liabilities and charges	21	**(305)**	(264)
Bank overdrafts, loans and other borrowings	24	**(374)**	(707)
		(8,382)	(7,458)
Non-current liabilities			
Deferred tax liabilities	16	**(384)**	(174)
Derivative financial instruments	19	**(430)**	(287)
Trade and other payables, and contract-related liabilities	20	**(191)**	(167)
Provisions for other liabilities and charges	21	**(2,540)**	(2,684)
Retirement benefit obligations	22(d)	**(302)**	(886)
Bank loans and other borrowings	24	**(4,380)**	(5,591)
		(8,227)	(9,789)
Total liabilities		**(16,609)**	(17,247)
Net assets		**3,948**	3,432
Share capital	25	**354**	348
Share premium		**2,240**	2,121
Retained earnings		**725**	1,184
Other equity	S4	**(174)**	(950)
Total shareholders' equity		**3,145**	2,703
Non-controlling interests	S11	**803**	729
Total shareholders' equity and non-controlling interests		**3,948**	3,432

(i) Prior year comparatives have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.

The Financial Statements on pages 124 to 208, of which the notes on pages 129 to 208 form part, were approved and authorised for issue by the Board of Directors on 20 February 2019 and were signed below on its behalf by:

Iain Conn
Group Chief Executive

Chris O'Shea
Group Chief Financial Officer

Group Cash Flow Statement

Year ended 31 December	Notes	2018 £m	2017 (restated) (i) £m
Group operating profit including share of results of joint ventures and associates		**987**	481
Add back/(deduct) share of losses/(profits) of joint ventures and associates, net of interest and taxation	6	**19**	(23)
Group operating profit before share of results of joint ventures and associates		**1,006**	458
Add back/(deduct):			
Depreciation, amortisation, write-downs, impairments and write-backs		**1,019**	1,794
Profit on disposals		**(13)**	(41)
Decrease in provisions		**(29)**	(227)
Cash contributions to defined benefit schemes in excess of service cost income statement charge		**(34)**	(104)
Employee share scheme costs	S4	**43**	47
Unrealised losses/(gains) arising from re-measurement of energy contracts		**241**	(45)
Operating cash flows before movements in working capital		**2,233**	1,882
Increase in inventories		**(43)**	(56)
(Increase)/decrease in trade and other receivables		**(831)**	263
Increase in trade and other payables		**884**	29
Operating cash flows before payments relating to taxes and exceptional charges		**2,243**	2,118
Taxes paid	9(d)	**(61)**	(102)
Payments relating to exceptional charges in operating costs		**(248)**	(176)
Net cash flow from operating activities		**1,934**	1,840
Purchase of businesses, net of cash acquired		**(85)**	17
Sale of businesses		**20**	593
Purchase of property, plant and equipment and intangible assets	4(e)	**(926)**	(882)
Sale of property, plant and equipment and intangible assets		**26**	14
Investments in joint ventures and associates	14(a)	**(3)**	(6)
Dividends received from joint ventures and associates	14(a)	**22**	58
Disposal of interests in joint ventures and associates		**–**	218
Interest received		**15**	22
Purchase of securities	24(c)	**(76)**	(2)
Net cash flow from investing activities		**(1,007)**	32
Payments for own shares	S4	**(11)**	(11)
Distribution to non-controlling interests		**–**	(7)
Financing interest paid	24(c)	**(305)**	(318)
Repayment of borrowings and finance leases (ii)	24(c)	**(1,673)**	(271)
Equity dividends paid		**(551)**	(463)
Net cash flow from financing activities		**(2,540)**	(1,070)
Net (decrease)/increase in cash and cash equivalents		**(1,613)**	802
Cash and cash equivalents including overdrafts at 1 January		**2,737**	1,960
Effect of foreign exchange rate changes		**4**	(25)
Cash and cash equivalents including overdrafts at 31 December	24(c)	**1,128**	2,737
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents		**1,268**	2,864
Overdrafts included within current bank overdrafts, loans and other borrowings		**(140)**	(127)

(i) Prior period comparatives have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 1 for further details.
(ii) Includes cash flows related to exceptional costs for the Group's debt repurchase programme. See note 7 for further details.

The notes on pages 129 to 208 form part of these Financial Statements.

Projected Financial Forecast

Public

Direct Energy Services, LLC

Ohio / Natural Gas

OHIO - Gas - NAH Energy 2020 and 2021 Estimate		
	2020	**2021**
Revenue	[redacted]	[redacted]
Expenses	[redacted]	[redacted]
Net Income	[redacted]	[redacted]

Prepared by:

Faith Kelly, Financial Analyst
Direct Energy
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Moody's
INVESTORS SERVICE

Rating Action: Moody's downgrades Centrica's ratings to Baa2/Ba1, stable outlook

13 Mar 2020

London, 13 March 2020 -- Moody's Investors Service (Moody's) has today downgraded to Baa2 from Baa1 the issuer and senior unsecured ratings of Centrica plc (Centrica). Moody's has also downgraded to Ba1 from Baa3 the junior subordinated debt ratings. The Prime-2 short-term commercial paper rating has been affirmed. The outlook was changed to stable from negative.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

The rating downgrade takes account of the persistently challenging environment in Centrica's markets of operations and the resulting deterioration in the company's credit metrics, with financial ratios no longer commensurate with the previous Baa1 rating.

Centrica reported a 35% decline in adjusted operating profit to GBP901 million in 2019. The decline in earnings and cash flows was primarily due to the impact of UK default tariff cap, low wholesale gas prices and nuclear outages. While the company's adjusted operating cash flow of GBP1.8 billion and net debt of GBP3.2 billion were both within management's 2019 target ranges, the deterioration in earnings is evidence of a continued difficult operating environment in Centrica's key markets.

UK retail energy supply remains challenging. While the pace of decline in Centrica's customer accounts appears to be easing with the number of accounts down 2.4% in 2019, profitability has been heavily impacted by the default tariff cap and further pressure on margins from intense competition. Performance of other businesses has been mixed, with the Services division reporting an increase in the number of accounts and margins, and the Energy Marketing and Trading (EM&T) division's results boosted by good European trading and optimisation performance. While achieved B2B power retail margins improved in North America, Centrica continued to incur operating losses in the Business Solutions and Home Solutions divisions, and earnings from Upstream were down by 68% due to lower volumes and commodity prices in 2019.

Against this difficult environment, Centrica has been executing on a number of measures to preserve cash flows through (1) additional cost cutting initiatives, with the aim of achieving GBP1 billion in savings across 2019-2022; (2) rebasing of dividend payments to its shareholders in 2019; and (3) non-core asset sales. While improving the company's cost structure will bring significant restructuring costs over the medium-term, management's strategic focus on the long-term viability of Centrica's business in the evolving markets of energy supply and services coupled with the disciplined financial policy, continue to be supportive of Centrica's credit quality.

With regard to disposals, Centrica's strategic objective is to sell the Spirit Energy exploration and production (E&P) business and its nuclear interest. There are, however, risks to execution with uncertainty around timing and any proceeds to be received, particularly in the context of the recent drop in commodity prices coupled with prolonged outages at nuclear power plants. Spirit Energy is directly exposed to movements in oil and gas prices, even if the sensitivity of its 2020 cash flows is limited by hedging. A sustained weak commodity environment would, however, reduce the company's Upstream earnings next year and depress the longer-term outlook for the business.

Overall, Centrica's Baa2 ratings are supported by (1) a degree of business and international diversification across the UK, Ireland and North America; (2) its leading market position in the UK supply segment, with 11.8 million customer accounts as of end-2019; (3) well-established brand and market position in the services division in the UK; and (4) positive free cash flow generation and disciplined financial policy with track record of creditor-supportive measures. These positives are, however, balanced against (1) strong competitive dynamics in retail supply, given low barriers to entry; (2) pressure on profitability following the introduction of a price cap in the UK retail supply; (3) exposure to commodity markets and weather; and (4) uncertainty around the company's ability to sustainably improve profitability in the context of the ongoing business restructuring.

The Ba1 long-term rating on the hybrid securities, which is two notches below the issuer rating of Baa2 for Centrica, reflects the features of the hybrids that receive basket 'C' treatment, i.e. 50% equity or "hybrid equity credit" and 50% debt for financial leverage purposes.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that Centrica will be able to navigate the challenges in its markets, including because of the recent drop in commodity prices, and will take measures, as these may be necessary, to shore up its financial profile so that its credit metrics are commensurate with the Baa2 ratings.

WHAT COULD CHANGE THE RATING UP/DOWN

Rating upgrade is unlikely in the near term given the continued regulatory and competitive pressures in Centrica's key markets of operations and exposure to commodity markets. Over the medium term, a stabilisation of the market environment coupled with sustainable improvement in the company's profitability and material strengthening of the company's financial profile could exert upward rating pressure.

Downward rating pressure would arise if Centrica was not able to maintain financial profile in line with the current ratings, namely funds from operations (FFO)/net debt above 30% and retained cash flow (RCF)/net debt above 20% on a sustainable basis. Taking account of the planned disposals, the ratings could be downgraded if Centrica's FFO/net debt appeared likely to be persistently below 40% and RCF/net debt below 30%, albeit the precise tolerance for financial leverage will depend on the details of disposals and any further developments in the group's markets of operations.

The principal methodology used in these ratings was Unregulated Utilities and Unregulated Power Companies published in May 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

LIST OF AFFECTED RATINGS

..Issuer: Centrica plc

Downgrades:

.... LT Issuer Rating, Downgraded to Baa2 from Baa1

....Junior Subordinated Regular Bond/Debenture, Downgraded to Ba1 from Baa3

....Senior Unsecured Bank Credit Facility, Downgraded to Baa2 from Baa1

....Senior Unsecured Medium-Term Note Program, Downgraded to (P)Baa2 from (P)Baa1

....Senior Unsecured Regular Bond/Debenture , Downgraded to Baa2 from Baa1

Affirmations:

....Commercial Paper, Affirmed P-2

....Other Short Term, Affirmed (P)P-2

Outlook Actions:

..Issuer: Centrica plc

....Outlook, Changed To Stable From Negative

Centrica plc is the UK's largest energy supplier. It provides gas and electricity to residential and commercial customers, mostly under the British Gas brand. The company also provides energy-related services, mainly comprising maintenance and repair. In North America, Centrica supplies energy to commercial and residential customers via its Direct Energy subsidiary.

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Research Update:

U.K.-Based Centrica PLC Downgraded To 'BBB' On Challenging Business Fundamentals; Outlook Stable

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Table Of Contents

Research Update:

U.K.-Based Centrica PLC Downgraded To 'BBB' On Challenging Business Fundamentals; Outlook Stable

Rating Action Overview

- Following several years of U.K. energy supply market deterioration, we expect the regulatory default price cap and less favorable commodity price environment will hinder Centrica in 2019.
- We also note the weaker-than-expected results and expansion prospects for the group's U.S. operations.
- Despite Centrica's successful implementation of supportive financial policies and credit enhancing measures, we think weakening market fundamentals have gradually reduced the group's overall credit quality.
- We are lowering our long term issuer credit rating on Centrica to 'BBB' from 'BBB+' and we are lowering the issue rating on the group's hybrid debt to 'BB+' from 'BBB-'.
- The stable outlook reflects our expectation that Centrica will keep its leading position in the U.K. gas and electricity supply market, maintaining funds from operations to debt above 30% on a sustainable basis.

Rating Action Rationale

The downgrade reflects our view that Centrica's market position and overall credit quality have weakened, with limited prospects for marked improvement in the coming two to three years. Over the past two to three years, strong competitive pressures in the U.K. power and gas retail activities--combined with the implementation of the default price cap that the regulator, Ofgem, has applied to U.K. energy suppliers--have gradually weakened the operating environment. This has directly harmed Centrica's profitability. At the same time, the group's U.S. operations did not perform as well as expected, adding less value than anticipated to the group's diversified sources of income. Although we view the group's new businesses, including smart homes solutions, as a potential source of growth, we think this is unlikely to materialize in the next two to three years.

We view Centrica's electricity and gas supply divisions in the U.K. and U.S. (consumer and business) as core activity for the group. Centrica's financial performance in these divisions was materially lower than our expectation in 2018, with operating profit down by 15% for the consumer division and by 25% for the business division, compared with 2017. This was due to ongoing competitive pressure in the U.K. with Centrica's market share continuing to decline to 24% in the third quarter (Q3) of 2018 from 26% as of Q3 2017. The U.S. division's results were below expectations because of unfavorable weather conditions, competitive market conditions, and lower retail power net margins. Despite the weakness in the performance of the gas and electricity retail division, Centrica's S&P Global Ratings adjusted funds from operations (FFO)-to-debt ratio remained almost unchanged at about 36% in financial year ended March 31, 2018 (FY2018). This was mainly due to a strong contribution from the Exploration & Production (E&P) division, given the favorable commodity price environment; a reduction in adjusted net debt to about £4.5 billion from about £5 billion, on the back of a lower pension obligation following a revaluation of underlying assets; and cost cutting measures.

We expect 2019 to remain challenging, primarily because of the U.K. default price cap. Following a governmental pledge to prevent energy bills from increasing, Ofgem introduced the price cap for its first dual fuel cap level, effective for Standard Variable Tariffs (SVT) customers from January 2019. The tariff cap aims to incentivize suppliers to improve efficiency and to compete effectively for supply contracts. With about 2.9 million customers on SVT, Centrica's margins have come under pressure and we expect the tariff cap will lead to an approximate £300 million reduction in operating profit in 2019, excluding cost cutting measures. However, we recognize that competitive pressure in the market may be easing. The reduction in the number of Centrica's customer accounts slowed to 245,000 in 2018, including a reduction of just 23,000 in the second half of 2018. Furthermore, 10 domestic suppliers exited the market in 2018, with two more suppliers exiting the market so far in 2019. However, we see limited potential for sustainable recovery in profitability in the U.K. and in the U.S. in the short term.

Considering our expectation that 2019 will be challenging, we view positively management's commitment to take further actions to improve performance and reduce debt. These include targeting additional divestments of noncore positions totaling £500 million in 2019--of which the first £230 million sale of Clockwork Home services in North America has already been agreed--and further cost savings of £250 million in 2019. We expect that adjusted FFO to debt for FY2019-FY2021 will be about 35%-40%.

The group has announced its intention to sell its 20% stake in British Energy's nuclear operations by 2020. It is also possible that Centrica may assess different alternatives for the E&P business, which it considers as noncore. We do not include these transactions in our current base-case scenario, mainly because we think they would be difficult to complete given their complexity. That said, if they were to materialize, such transactions would move Centrica toward a more asset-light, pure retailer business model, which would weaken our assessment of its business risk profile. We expect that Centrica would primarily use the proceeds from the potential divestment of nuclear and E&P operations to reduce debt and reinforce the financial risk profile.

Outlook

The stable outlook reflects our expectations that Centrica will maintain FFO to debt at a level above 30% based on its still leading position in the U.K. gas and electricity supply market, adequate degree of vertical integration and the implementation of supportive financial policy. We expect Centrica to continue generating substantial free cash flow, which will cover investments and dividends.

Upside scenario

An upgrade would depend on good operating performance and maintained market positions and profitability--both in the U.K. and the U.S.--strong output, and a favorable price environment for the E&P and power generation businesses, such that Centrica could sustainably maintain FFO to debt above 40%.

Downside scenario

At this stage, we consider a downgrade of Centrica unlikely, given the group's supportive financial policy and our expectations that the group will operate with some headroom in its credit metrics for the 'BBB' rating. We would consider a downgrade if Centrica's business environment declined such that the group could not maintain FFO to debt at 30% because of a further deterioration in U.K. retail markets significantly harming Centrica's market position and profitability, for example. We would also consider a negative rating action if the group were to divest the nuclear and E&P operations, essentially undermining its scale and diversity, if not combined with material debt reduction.

Company Description

Centrica is an international integrated energy group operating in the U.K., Europe, the Republic of Ireland, and North America. The group's client-facing divisions operate under the following main brands: British Gas in the U.K., Bord Gais in the Republic of Ireland, and Direct Energy in the U.S.

Centrica is the largest supplier of electricity and gas in the U.K. British Gas' market share was 24% in October 2018. Bord Gais supplies energy to about 0.69 million customers in the Republic of Ireland. Direct Energy supplies gas and electricity in North America to 3.5 million residential customers, primarily located in Ontario, Alberta, North East U.S., and Texas. It also provides gas and electricity to 240,000 business customers.

Centrica has E&P assets in North West Europe, with reserves of 203 million barrels of oil equivalent (mmboe) in 2018. Centrica operates its E&P business in two divisions: Spirit Energy and Centrica Storage. In 2018, Centrica's total E&P production was 57.9 mmboe.

Centrica has 20% interest in eight nuclear power stations in the U.K., which produced 11.8 terawatt hours of electricity in 2018. It also provides energy using power generated at the Spalding combined cycle gas turbine.

Our Base-Case Scenario

Our base case assumes:

- A challenging 2019, mainly because of the U.K. default price cap. However, we see initial signs that competitive pressure in the U.K. retail market is easing.
- Oil prices of about $60 per barrel, demonstrating a lower commodity price environment compared to 2018.
- Cumulative, hefty cost efficiencies to support operating profit. Centrica has already delivered £940 million in cost savings, and it has planned a further £750 million by 2021.
- Downsizing of E&P to an output of about 50 mmboe per year, from 79.5 million mmboe in 2014.
- Relatively flexible dividend policy closely related to operating cash flow increases.
- Divestment of £500 million noncore business in 2019.
- Capital expenditure of up to about £1 billion a year, including £400 million-£600 million in the E&P segment in the short term.

Based on these assumptions, we arrive at the following credit measures:

- FFO to debt remaining at about 35%.
- Debt to EBITDA at about 2.0x.
- Generally positive discretionary cash flow.

Liquidity

We assess Centrica's liquidity position as strong because its sources of liquidity cover its uses by 1.5x over the next 12 months and by more than 1.0x over the next 24 months. We also acknowledge Centrica's good access to capital markets, prudent treasury policies, and strong relationship with banks.

Centrica's principal liquidity sources over the 12 months from Dec. 31, 2018 are:

- Unrestricted cash of about £1.2 billion;
- About £3.8 billion available in undrawn committed bank facilities that mature in more than one year;
- Our estimate of FFO of about £1.5 billion for the next 12 months; and
- £230 million from asset sales of the Clockwork Home Services business in

North America.

Centrica's principal liquidity uses over the same period are:
- Short-term debt maturities of about £290 million;
- Capex of about £1 billion; and
- Dividend payments of about £650 million over the next 12 months.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/A-2

Business risk: Satisfactory
- Country risk: Low
- Industry risk: Moderately high
- Competitive position: Strong

Financial risk: Intermediate
- Cash flow/Leverage: Intermediate

Anchor: bbb

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology And Assumptions: Assigning Equity Content To Hybrid Capital Instruments Issued By Corporate Entities And Other Issuers Not Subject To Prudential Regulation, Jan. 16, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The

Unregulated Power And Gas Industry, March 28, 2014

- Criteria | Corporates | Industrials: Key Credit Factors For The Oil And Gas Exploration And Production Industry, Dec. 12, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria | Financial Institutions | General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Insurance | General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Downgraded; Ratings Affirmed

	To	From
Centrica PLC		
Issuer Credit Rating	BBB/Stable/A-2	BBB+/Negative/A-2
Senior Unsecured	BBB	BBB+
Junior Subordinated	BB+	BBB-
British Gas Trading Ltd.		
Issuer Credit Rating	BBB/Stable/--	BBB+/Negative/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44)

20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Exhibit C-5
Credit Report

As part of Exhibit C-4 complete credit reports from two credit reporting agencies were provided for Direct Energy's parent company Centrica plc.

Redacted

Exhibit C-8

U.S. Operations – as of December 30, 2019

LINES OF BUSINESS:

B – BUSINESS
C – CORPORATE
CH – CONNECTED HOME
CI – CENTRICA INNOVATIONS
D – DISTRIBUTED ENERGY & POWER
R – RESIDENTIAL ENERGY SUPPLY
S – RESIDENTIAL AND/OR COMMERCIAL SERVICES

CONFIDENTIAL

*100% ownership except where noted

INTERNATIONAL

U.S.

INTERNATIONAL

U.S.

Footnote 1. Direct Energy Marketing Limited owns 1600 Preferred non-voting shares.
Footnote 2. The ownership interest indicated may fluctuate based on business modelling.
Footnote 3. This entity holds other minority interest(s) less than 40%.

CONFIDENTIAL - For Internal Use Only

Exhibit C-9
Financial Arrangements

The Public Version – Redacted

Confidential Versions of the Utility Agreements have been filed with the Commission under seal

Exhibit D-1
Operations

Direct Energy Services, LLC, part of the Direct Energy family, has operational backing with one of DE's affiliates to maximize efficiency in providing high quality service to customers. Direct Energy has integrated all the key components in-house for natural gas supply and trading. This includes the complete supply cycle of contracting the natural gas purchases for retail sales, nomination and scheduling of retail natural gas for delivery, and other components for producing, storing and supplying of natural gas. Direct Energy Business Marketing, LLC, who is the wholesale trading affiliate of Direct Energy for US trading, has the contractual relationships with outside parties and partners to provide energy supply to end use customers.

Exhibit D-2
Operations Expertise and Key Technical Personnel

John Schultz, President – Centrica North America & Direct Energy Business

John.schultz@directenergy.com

(732) 750-6197

John Schultz is currently the Head of Centrica North America & North America Business, and President, Direct Energy Business, LLC and Direct Energy Business Marketing, LLC. Direct Energy Business is responsible for the natural gas supply and trading activities on behalf of all of the Direct Energy family of entities. John's office is located in the Iselin, New Jersey. He has 20+ years of experience in the energy industry and has held various positions in the field including natural gas and electricity trading and operations, commercial and industrial sales and energy infrastructure development. John has a B.S in Agricultural Economics from Penn State University and has attended executive development programs at the Fuqua School of Business at Duke University and Harvard Business School.

His team for natural gas is led by Steve Dixon and David Brast.

Steve Dixon, SVP, North American Sales – Direct Energy Business

Steve.dixon@directenergy.com

(732) 750-6240

Steve is currently Senior Vice President and Head of North American Sales for Direct Energy Business. He joined Direct Energy in 2013 as the Head of the East Region Gas Operations and prior to that, he served as Vice President of Natural Gas Operations for Hess Corporation's Energy Marketing business. He joined Hess Corporation in 1998 after serving in positions at Resource Energy, Aquilla Energy and Phillip's Petroleum Company (now Conoco Phillips). He has 30 years of experience in the energy industry in a variety of roles, including operations, sales, marketing and trading. In his current role at Direct Energy, he is responsible for leading all aspects in developing a best in class customer facing sales team. Mr. Dixon has a BS in Business Administration from Lyon College and an MBA from the Walton College at the University of Arkansas. He has also attended Executive Development Programs at both Harvard Business School and Harvard Law School.

David Brast, SVP North American Power & Gas – Direct Energy Business

David.brast@directenergy.com

(713) 877-3642

David is the Senior Vice President of North American Power & Gas where his responsibility is overseeing retail supply, trading, asset optimization and power generation.

David joined the company in August 2013. He is an experienced energy professional who previously held a role as Senior Vice President of Business Segments for NRG Energy. He has more than 20 of years of experience specializing in risk management, power and gas trading and commercial operations. He has a Bachelor's degree in Accounting and Finance from Texas A&M University.