

# Remuneration Report



**Scott Wheway**  
Committee Chairman

“ We continue to take a disciplined approach to executive remuneration that seeks to ensure Executive Directors are fairly and appropriately rewarded while ensuring alignment with the expectations of all our stakeholders.”

## Committee membership

|  | Meetings attended <sup>(1)</sup> |
|--|----------------------------------|
| <b>Scott Wheway, Chairman</b>                                      | 4/4                              |
| <b>Joan Gillman, Non-Executive Director (since 21 August 2019)</b> | 1/1                              |
| <b>Stephen Hester, Senior Independent Director</b>                 | 4/4                              |
| <b>Carlos Pascual, Non-Executive Director<sup>(2)</sup></b>        | 3/4                              |

(1) Attendance is expressed as the number of meetings attended out of the number eligible to attend.  
 (2) Absence due to unavoidable diary conflict.

## Committee key activities in 2019

- Executive remuneration market updates and revised investor guidelines
- 2019 performance metrics, targets and award levels
- Executive Director and Executive Committee objectives for 2019
- Review of two significant incentive plans operating across the Group
- The CEO pay ratio
- Executive and senior manager pension benefits
- Business performance and remuneration outcomes
- Pay, benefits, incentives and policy across the wider workforce

## Areas of focus for the Committee in 2020

- Review of Executive Remuneration Policy
- Remuneration arrangements for a new CEO
- Working with the employee champion to bring the employee voice to our meetings
- 2020 performance metrics, targets and award levels
- Pay, benefits, incentives and policy across the wider workforce

**On behalf of the Board, I present the Remuneration Committee’s report for 2019.**

## In summary

2019 was a very difficult year for Centrica with performance outcomes that were disappointing in a number of areas. The external environment continued to be challenging, with the implementation of the UK default tariff cap, low wholesale gas prices and nuclear outages. Adjusted earnings and adjusted operating cash flow (AOCF) were down compared with the previous year. However, net debt was in line with our 2019 target ranges and cost efficiency delivery was strong. For our non-financial KPIs, brand NPS improvements and customer complaint targets were met and process safety performance was held at top quartile levels.

The Committee has carefully considered the many exceptional contributions of the leadership team and the wider workforce with the mitigation of external factors outside of management control, alongside absolute performance outcomes and shareholder experience in the year.

In this context we have made some tough decisions which reflect our determination to demonstrate that a number of the financial outcomes for 2019 were below expectations.

In summary the Committee has decided:

- to reduce the CEO and Executive Directors’ 2019 annual bonus to zero;
- to use discretion to reduce to zero the 2017/19 LTIP outcome for Executive Directors as a result of overall financial performance over the three-year performance period;
- not to award any annual pay increases to Executive Directors; and
- to reduce the 2020/22 LTIP grant from 300% to 250% in recognition of the lower starting share price.

The effect of these decisions is that the CEO and Executive Directors will receive no variable remuneration for 2019. This is an unusual and far-reaching outcome but the Committee believes it shows appropriate alignment with our key stakeholders, including our shareholders and our workforce, all of whom have endured a very difficult 2019.

## Performance outcomes for the year

The Committee has carefully assessed performance against the original targets that were set for the 2019 Annual Incentive Plan (AIP). The formulaic outcome resulted in AOCF narrowly missing the threshold level. Ordinarily, discretionary adjustments for commodity price movements and other external factors would have increased the AOCF result to midway through the award range. However, Adjusted Operating Profit (AOP) failed to meet the required threshold even with commodity price movements and other external factors considered. Cost efficiency delivery was strong, with an outcome midway between target and maximum for this measure. In making its assessment of performance overall the Committee took into full consideration the shareholder experience over 2019 and as a result, concluded that irrespective of the formulaic result, it was not appropriate to make an annual bonus payment to any of the Executive Directors for the year.

The Committee also assessed the vesting outcome for the Long Term Incentive Plan (LTIP) awards that were made in 2017. The performance conditions were equally weighted between EPS growth, absolute aggregate Economic Profit and non-financial KPIs over the three-year period. The two financial targets were not met, but performance against the non-financial KPIs across the period resulted in a vesting of 40% for this element of the award, mainly as a result of strong safety performance. However, given the poor performance against the two financial measures, the Committee decided to exercise its discretion and reduce the overall outcome of the 2017/19 LTIP to zero.

### Application of Policy for 2020

In 2020, no Executive Director will receive a salary increase. The Committee has also considered the impact that the current share price could have on the number of shares to be granted under the 2020/22 LTIP cycle and as a result has decided to reduce the award level to 250% of salary.

The Committee has reviewed the bonus measures and weightings to apply for 2020, in line with the Group Annual Plan. 50% of the financial measures will be based on adjusted operating profit, 30% of the financial measures will be based on free cash flow and 20% of the financial measures will be based on cost efficiency.

### Remuneration Policy review

In accordance with the established three-year cycle of presenting remuneration policy to shareholders, during 2020 the Committee will review its Policy to ensure that it remains aligned with the strategic objectives and long-term aims of the Group prior to presentation at the 2021 AGM.

### Conclusion

Overall, 2019 has been a challenging year for Centrica as a business and for our shareholders. The Committee continues to take a disciplined approach to executive remuneration that seeks to ensure Executive Directors are fairly and appropriately rewarded while ensuring alignment with the expectations of all our stakeholders. We believe that the difficult decisions made in respect of 2019 achieve this aim and align pay and performance effectively. The Committee is dedicated to an open and transparent dialogue with our investors and therefore I welcome views on any part of our remuneration arrangements.

### Scott Wheway

on behalf of the Remuneration Committee

### Role of the Remuneration Committee

The role of the Committee continues to be ensuring that the Directors, the Executive Committee and the Chairman of the Board are appropriately rewarded, through making recommendations regarding remuneration policy and framework. The Terms of Reference further extend the Committee's remit to include greater responsibility for understanding how pay and conditions align across the Group.

The Committee monitors and reviews the effectiveness of the Remuneration Policy and considers its impact and compatibility with remuneration policies across the wider workforce. To facilitate this remit, the Committee is provided with information and context on pay, benefits and incentive structures in place across the Group to support its decision making.

### Membership and attendance

The Committee is chaired by Scott Wheway, an independent Non-Executive Director. Each member of the Committee is independent. No Director is involved in the determination of, or votes on, any matters relating to his or her own remuneration.

The Chairman of the Board, the Group Chief Executive, the Group General Counsel & Company Secretary, the Group HR Director and the Deputy Group HR Director & Group Head of Reward are normally invited to attend each Committee meeting to provide advice and guidance, other than in respect of their own remuneration.

Joan Gillman, Non-Executive Director, became our Employee Champion in 2018. Joan was appointed to the Remuneration Committee in October 2019 to ensure the employee voice is taken into consideration as it relates to decision making on executive pay.

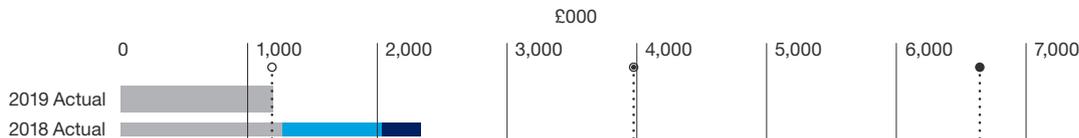
# Remuneration Summary for 2019

## Total remuneration received in 2019 (£000)<sup>(1)</sup>

Iain Conn

**£1,186**

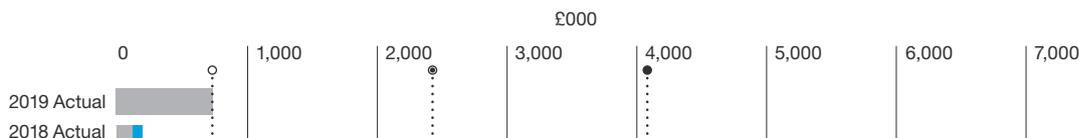
2018: £2,335



Richard Hookway

**£744**

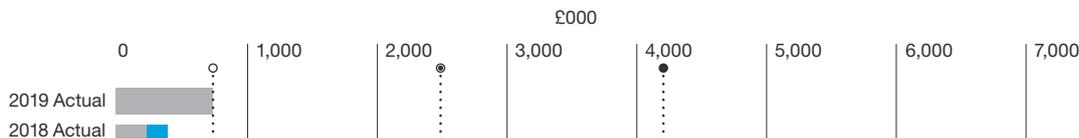
2018: £206



Chris O'Shea

**£752**

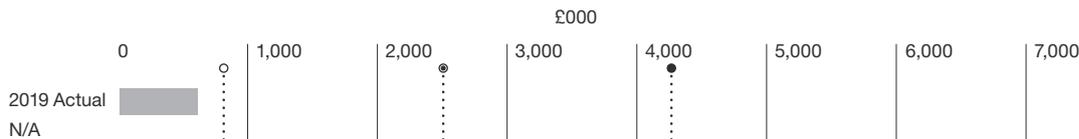
2018: £394



Sarwjit Sambhi

**£607**

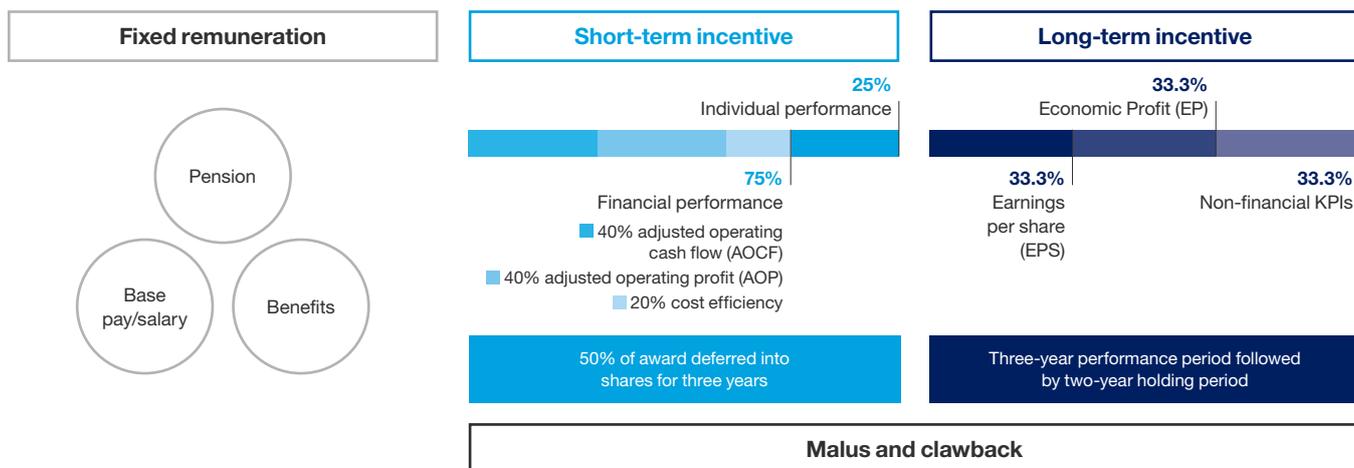
2018: N/A



- Fixed remuneration
- Short-term incentive
- Long-term incentive
- Minimum total pay
- On-target total pay
- Maximum total pay

(1) Prepared on the same basis as the single figure for total remuneration table set out on page 86.

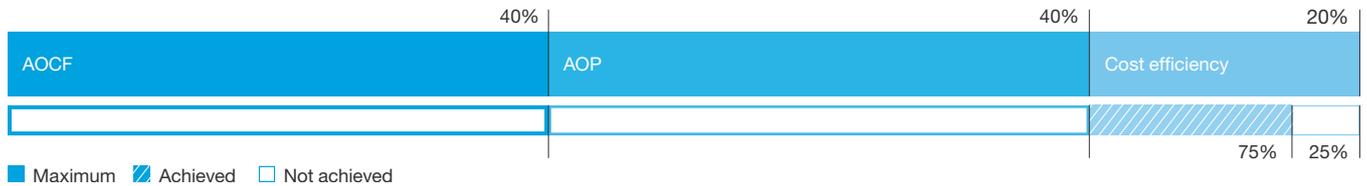
## Components of remuneration package in 2019



[Read more about our Remuneration Policy](#)  
Pages 94 to 99

### Short-term incentive outcome (Annual Incentive Plan)

#### Financial performance



Irrespective of the formulaic result, due to the financial performance of the business in 2019 the Committee exercised discretion resulting in a zero bonus for Executive Directors.

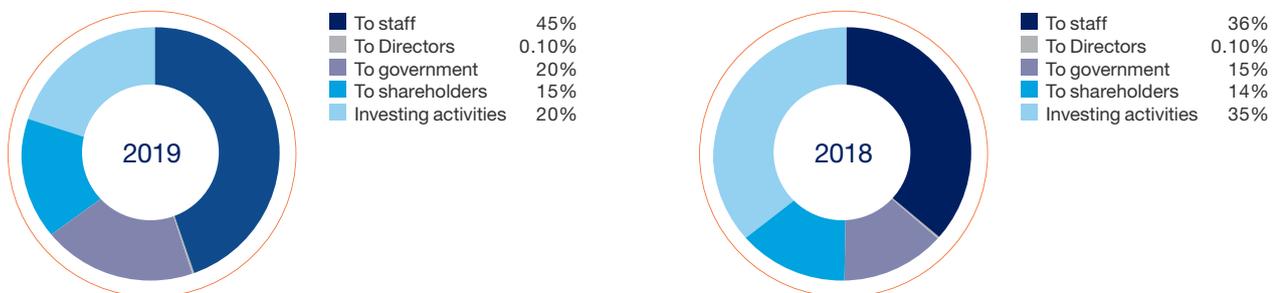
### Long-term incentive outcome (Long Term Incentive Plan)



Irrespective of the formulaic result, the Committee decided to use its discretion to reduce to zero the 2017 LTIP outcome for Executive Directors as a result of overall financial performance over the three-year period.

### 2019 cash flow distribution to stakeholders

The Committee monitors the relationship between the Directors' total remuneration and cash outflows to other stakeholders. As demonstrated by the chart, the Directors' aggregate total remuneration for the year equates to 0.10% (2018: 0.10%) of the Group's operating cash flow.



# Directors' Annual Remuneration Report

## Directors' remuneration in 2019

This report sets out information on the remuneration of the Directors for the financial year ended 31 December 2019.

### Single figure for total remuneration (audited)

| £000                           | Salary/fees |      | Bonus (cash) |      | Bonus (deferred) |      | Benefits <sup>(1)</sup> |      | LTIPs <sup>(2)</sup> |      | Pension <sup>(3)(4)(5)</sup> |      | Total        |                     |
|--------------------------------|-------------|------|--------------|------|------------------|------|-------------------------|------|----------------------|------|------------------------------|------|--------------|---------------------|
|                                | 2019        | 2018 | 2019         | 2018 | 2019             | 2018 | 2019                    | 2018 | 2019                 | 2018 | 2019                         | 2018 | 2019         | 2018 <sup>(2)</sup> |
| <b>Executives</b>              |             |      |              |      |                  |      |                         |      |                      |      |                              |      |              |                     |
| Iain Conn                      | 953         | 940  | -            | 388  | -                | 388  | 31                      | 31   | -                    | 306  | 202                          | 282  | 1,186        | 2,335               |
| Jeff Bell <sup>(6)</sup>       | -           | 479  | -            | 198  | -                | 198  | -                       | 35   | -                    | 182  | -                            | 101  | -            | 1,193               |
| Mark Hanafin <sup>(6)</sup>    | -           | 584  | -            | 235  | -                | 235  | -                       | 23   | -                    | 207  | -                            | 163  | -            | 1,447               |
| Mark Hodges <sup>(7)</sup>     | 106         | 638  | -            | -    | -                | -    | 4                       | 25   | -                    | -    | 27                           | 159  | 137          | 822                 |
| Richard Hookway <sup>(8)</sup> | 600         | 100  | -            | 41   | -                | 41   | 34                      | 4    | -                    | -    | 110                          | 20   | 744          | 206                 |
| Chris O'Shea <sup>(9)</sup>    | 620         | 191  | -            | 79   | -                | 79   | 25                      | 7    | -                    | -    | 107                          | 38   | 752          | 394                 |
| Sarwjit Sambhi <sup>(10)</sup> | 517         | -    | -            | -    | -                | -    | 21                      | -    | -                    | -    | 69                           | -    | 607          | -                   |
| <b>Total</b>                   |             |      |              |      |                  |      |                         |      |                      |      |                              |      | <b>3,426</b> | <b>6,397</b>        |

(1) Taxable benefits include car allowance, health and medical benefits and financial planning advice. Non-taxable benefits include matching shares received under the Share Incentive Plan (SIP). Both taxable and non-taxable benefits are included in the table.

(2) The values of the LTIP awards vesting in April 2019 have been recalculated based on the share price on the date of vest which was 113.6 pence. The previous disclosure in the 2018 single figure table used an estimated share price. Iain Conn, Jeff Bell and Mark Hanafin's total remuneration for 2018 has therefore been restated to include the amended value of these awards.

(3) Notional contributions to the Centrica Unapproved Pension Scheme defined contribution section (CUPS DC) for Jeff Bell, Mark Hanafin, Richard Hookway and Chris O'Shea have been included in this table as if CUPS DC was a cash balance scheme. This includes a deduction in respect of an allowance for CPI inflation on the opening balances of 2.4% in 2019 (3.0% in 2018). CUPS DC contributions for Richard Hookway and Chris O'Shea were reduced to 15% from 1 June 2019 to move towards alignment with the wider workforce.

(4) Iain Conn and Mark Hodges were entitled to receive a salary supplement in lieu of a pension contribution. Iain Conn's salary supplement was reduced to 15% from 1 June 2019 to move towards alignment with the wider workforce.

(5) The value of the increase in defined benefit (DB) pension accrual for Sarwjit Sambhi has been calculated using 20 times the increase in accrued pension over the period, less the contributions paid by him over the year. He received a salary supplement of 10% of the difference between the earnings cap and base pay between 1 March and 31 December 2019.

(6) Jeff Bell stepped down from the Board on 31 October 2018 and Mark Hanafin stepped down from the Board on 30 November 2018. The remuneration in this table includes their pro-rated salary, bonus, benefits and pension benefits earned up to the date they stepped down. The remuneration for the remainder of 2018, whilst they were working their remaining notice periods, was disclosed in the payments for loss of office disclosure on page 94 of the Annual Report and Accounts 2018. The full value of the LTIP awards that vested in April 2019 has been included in the single figure table above. Both Jeff Bell and Mark Hanafin were appointed as non-executive directors of Spirit Energy during 2019.

(7) As Mark Hodges had tendered his resignation and agreed a leaving date of 28 February 2019, his AIP award relating to the 2018 year, and all unvested LTIP awards as at his date of leaving, were forfeited.

(8) Richard Hookway was appointed to the Board on 1 December 2018.

(9) Chris O'Shea was appointed to the Board on 1 November 2018.

(10) Sarwjit Sambhi was appointed to the Board on 1 March 2019.

### Single figure for total remuneration (audited)

| £000                                  | Salary/fees |      | Bonus (cash) |      | Bonus (deferred) |      | Benefits |      | LTIPs |      | Pension |      | Total        |              |
|---------------------------------------|-------------|------|--------------|------|------------------|------|----------|------|-------|------|---------|------|--------------|--------------|
|                                       | 2019        | 2018 | 2019         | 2018 | 2019             | 2018 | 2019     | 2018 | 2019  | 2018 | 2019    | 2018 | 2019         | 2018         |
| <b>Non-Executives</b>                 |             |      |              |      |                  |      |          |      |       |      |         |      |              |              |
| Rick Haythornthwaite <sup>(1)</sup>   | 71          | 495  | -            | -    | -                | -    | -        | -    | -     | -    | -       | -    | 71           | 495          |
| Charles Berry <sup>(2)</sup>          | 392         | 12   | -            | -    | -                | -    | -        | -    | -     | -    | -       | -    | 392          | 12           |
| Margherita Della Valle <sup>(3)</sup> | 36          | 98   | -            | -    | -                | -    | -        | -    | -     | -    | -       | -    | 36           | 98           |
| Joan Gillman                          | 93          | 73   | -            | -    | -                | -    | -        | -    | -     | -    | -       | -    | 93           | 73           |
| Stephen Hester                        | 93          | 93   | -            | -    | -                | -    | -        | -    | -     | -    | -       | -    | 93           | 93           |
| Pam Kaur <sup>(4)</sup>               | 67          | -    | -            | -    | -                | -    | -        | -    | -     | -    | -       | -    | 67           | -            |
| Kevin O'Byrne <sup>(5)</sup>          | 62          | -    | -            | -    | -                | -    | -        | -    | -     | -    | -       | -    | 62           | -            |
| Carlos Pascual                        | 73          | 73   | -            | -    | -                | -    | -        | -    | -     | -    | -       | -    | 73           | 73           |
| Steve Pusey                           | 93          | 93   | -            | -    | -                | -    | -        | -    | -     | -    | -       | -    | 93           | 93           |
| Scott Wheway                          | 93          | 93   | -            | -    | -                | -    | -        | -    | -     | -    | -       | -    | 93           | 93           |
| <b>Total</b>                          |             |      |              |      |                  |      |          |      |       |      |         |      | <b>1,073</b> | <b>1,030</b> |

(1) Rick Haythornthwaite stepped down from the Board on 20 February 2019.

(2) Charles Berry was appointed Chairman of the Board on 21 February 2019.

(3) Margherita Della Valle stepped down from the Board on 12 May 2019.

(4) Pam Kaur joined the Board on 1 February 2019.

(5) Kevin O'Byrne joined the Board on 13 May 2019.

### Payments for loss of office (audited)

There were no payments for loss of office in 2019.

## Base salary/fees

Base salaries for Executives were reviewed in January 2019 and the Committee determined that the salary for Iain Conn would be increased by 1.9% to £957,500 with effect from 1 April 2019. As all other Executives were new in post or were leaving the Company during the year, there were no other salary increases for existing Executives.

Base fees for Non-Executives, as well as the additional fee for the Chairman of the Audit Committee, were last increased on 1 January 2016.

The CEC reviewed Non-Executive Director fee levels in December 2019 and it was agreed that no changes would be made to the base fees or the Committee Chairman fees. However, it was determined that the Employee Champion role would receive a fee of £20,000 per annum, in line with the current Committee Chairman fees, with effect from 1 January 2019.

## Bonus – Annual Incentive Plan (AIP)

The charts on page 85 under short-term incentive outcome indicate the extent of achievement against the financial measures and targets that had been set for the AIP for 2019.

In line with the Remuneration Policy, 75% of the award was based on a mix of financial measures based on the Company's priorities for 2019 and 25% was based on personal objectives. Half of any AIP award is deferred into shares which are held for three years.

For the operation of the AIP in 2019, 40% of the financial measures was based on adjusted operating cash flow (AOCF), 40% was based on adjusted operating profit (AOP) and 20% was based on cost efficiency, with targets aligning to the Group Annual Plan. AOCF of £2,058 million was required for target achievement and £2,264 million was required for maximum. The threshold level was £1,852 million. AOCF of £1,830 million was generated in 2019, resulting in an outcome of below threshold for this element of the AIP.

AOP of £1,575 million was required for target achievement and £1,733 million was required for maximum. The AOP result for 2019 was £901 million, below the threshold level of £1,418 million, resulting in a zero outcome for this element of the AIP.

Cost efficiency of £300 million was required for target achievement and £330 million was required for maximum. Cost efficiency of £315 million was generated in 2019 resulting in an outcome midway between target and maximum for this element of the AIP.

The Committee carefully assessed performance against the measures and targets that had been set for the AIP in 2019. Individual achievement against stretching personal strategic objectives was also considered. However, taking into account overall shareholder experience across the year the Committee concluded that irrespective of the formulaic outcome, it was not appropriate to make an annual bonus payment to any of the Executives for the year. Therefore, all AIP bonus payments were reduced to zero.

At this point in the report, we would typically provide a detailed evaluation of individual achievement against strategic objectives. The objectives for each Executive included both financial and non-financial measures. Highlights included strong customer account growth, improvements in brand NPS and materially reduced customer complaints. Our process safety performance remained at top quartile levels and occupational safety targets were met or exceeded in the majority of business units. However, whilst the significant contribution of management over the year was recognised by the Committee, the financial performance of the business and the shareholder experience outweighed the progress made, and the Committee therefore exercised discretion resulting in a zero outcome across all measures including the individual strategic objectives.

## Long-term incentive awards due to vest in 2020

### Performance conditions

The performance conditions relating to the three-year period ending in 2019 are set out below, together with an explanation of the achievement against these performance conditions. The chart on page 85 under long-term incentive outcome indicates the extent of achievement against each measure.

### LTIP performance conditions

| Vesting criteria  | Performance conditions over three-year period  |
|---|--|
| 1/3 based on EPS growth over the 3-year period 2017/19                  | Full vesting for EPS growth of 24% or more<br>Zero vesting if EPS growth does not exceed 9%<br>Vesting increases on a straight-line basis between these points             |
| 1/3 based on absolute aggregate EP over the 3-year period 2017/19       | Full vesting for aggregate EP of £3,500 million<br>Zero vesting if aggregate EP is below £1,500 million<br>Vesting increases on a straight-line basis between these points |
| 1/3 based on non-financial KPI dashboard over the 3-year period 2017/19 | As disclosed below   |

### Performance outcome

#### Adjusted earnings per share (EPS)

EPS is the Company's basic earnings per share adjusted for exceptional items and certain re-measurements net of taxation.

EPS growth during the three-year period ending with 2019 did not exceed RPI growth by 9%. Consequently, the EPS portion of the 2017 LTIP award will not vest.

#### Economic profit (EP)

EP is the adjusted operating profit (after share of joint venture interest) less a tax charge based on the tax rate relevant to the different business segments and after deduction of a capital charge. The capital charge is calculated as capital employed multiplied by the Group's weighted average cost of capital. Where appropriate, expenditure on assets (and related costs) that are not yet in use (pre-productive capital) is excluded from capital employed.

Aggregate EP achieved during the three-year period ending with 2019 was £1,243 million when compared to a threshold level of £1,500 million and a maximum level of £3,500 million. Consequently, the EP portion of the 2017 LTIP award will not vest.

#### LTIP non-financial KPI dashboard

Performance against five equally weighted KPIs is measured each year. Achievement against each target determines the performance zone outcome. The KPI dashboard comprises results over a three-year period.

Throughout each three-year performance period, for each median performance zone outcome, 5% of the KPI portion of the award will be forfeited and for each low performance zone outcome, 10% of the KPI portion of the award will be forfeited.

- High performance zone
- Median performance zone
- Low performance zone

## Non-financial KPI update for long-term incentive plans vesting in 2020

### KPI performance under the LTIP

Set out below is the achievement against the KPI dashboard for the LTIP awards granted in 2017.

| Measure   | Performance period<br>– LTIP awards granted in 2017 and<br>due to vest in 2020 |        |        | 2019 performance (compared with 2018) |
|---|--|--------|--------|---------------------------------------|
|   | Year 1   | Year 2 | Year 3 |                                       |
| Lost time injury frequency rate (LTIFR)             | ●  | ●      | ●      | worsened from 0.49 to 0.58            |
| Significant process safety events (Tier 1)          | ●  | ●      | ●      | improved from 1 to 0                  |
| British Gas net promoter score (NPS) <sup>(1)</sup> | ●  | ●      | ●      | worsened from +2 to -5.7              |
| Direct Energy NPS <sup>(1)</sup>                    | ●  | ●      | ●      | worsened from +41 to +40              |
| Employee engagement <sup>(1)</sup>                  | ●  | ●      | ●      | worsened from 64% to 55%              |

(1) NPS and employee engagement measures disclosed on this page are part of the non-financial KPI dashboard used for the LTIP and are calculated using historical methodology and business areas which were set at the time that the Remuneration Policy was approved. They differ from the new NPS and employee engagement metrics referenced elsewhere in the Annual Report and Accounts 2019.

Performance against the non-financial KPI dashboard during the three-year performance period resulted in 40% of the KPI portion of the 2017/19 LTIP award vesting.

Based on achievement against the LTIP performance conditions over the three-year performance period, as set out above, an overall vesting level of 13% of the original award was reached.

However, as the financial performance targets were not met, the Committee decided to exercise its discretion and reduce the overall vesting level of the 2017 LTIP to zero.

## Pension

With effect from 1 June 2019, it was agreed that the pension contributions for existing Executives would reduce to a maximum of 15% to move towards alignment with the wider UK workforce. Prior to June, the pension contribution for the CEO was 30%, for other Executives recruited prior to 2018 it was 25% and for Executives recruited in 2018 it was 20%.

Iain Conn elected to receive a salary supplement in lieu of participating in a Centrica pension plan. Richard Hookway and Chris O'Shea participated in the Centrica Unapproved Pension Scheme defined contribution section (CUPS DC).

Notional contributions to the CUPS DC scheme have been included in the single figure for total remuneration table as if it was a cash balance scheme and therefore notional investment returns for the year have been included. The notional pension fund balances for each Executive are disclosed below.

|                                | Total notional pension fund as at 31 December 2019<br>£ | Total notional pension fund as at 31 December 2018<br>£ |
|--------------------------------|---|---|
| CUPS DC Scheme <sup>(1)</sup>  |   |   |
| Richard Hookway <sup>(2)</sup> | 130,028   | 20,000  |
| Chris O'Shea <sup>(2)</sup>    | 146,170   | 38,233  |

(1) The retirement age for the CUPS DC scheme is 62.

(2) Richard Hookway joined Centrica on 1 November and Chris O'Shea joined on 10 September 2018.

|                                  | Accrued pension as at 31 December 2019<br>£ | Accrued pension as at 31 December 2018<br>£ |
|----------------------------------|---|---|
| Centrica Pension Plan            |   |   |
| Sarwjit Sambhi <sup>(1)(2)</sup> | 1,982                                       | -   |

(1) Sarwjit Sambhi was appointed to the Board on 1 March 2019.

(2) The pension accrual rate for 2019 was 1.67% of final pensionable earnings.

## Executive Director recruitment and terminations announced in 2019

### Sarwjit Sambhi

Sarwjit Sambhi joined the Centrica Board as an Executive Director on 1 March 2019, in the position of CEO, Centrica Consumer. He has held a number of senior leadership positions with Centrica since 2001.

Sarwjit's remuneration package consists of base salary, benefits and incentive arrangements that are in line with our Remuneration Policy. There are no special arrangements in respect of his appointment. The key elements of the remuneration package are:

Base salary – £620,000

As part of an existing contractual arrangement, continued pension accrual in the CPP on the same basis as other plan members, subject to an earnings cap of £141,600, plus a salary supplement of 10% on the difference between capped salary and full base salary, also aligned with the defined contribution available to the wider workforce.

From the 2019 performance year, participation in the AIP and the LTIP, with the initial LTIP award pro-rated for the period served on the Board during the three-year performance period.

### Iain Conn

In July it was announced that Iain Conn would step down as CEO and retire from the Board in 2020.

Iain's termination arrangements will be in line with the approved Policy and his service contract.

In order to support an orderly succession before stepping down, Iain will continue as CEO and his remuneration arrangements will continue in line with his existing service contract. He will receive salary, benefits and a pension salary supplement at the current levels. All LTIP awards which are unvested at the point that Iain leaves the Company will lapse in full and no further LTIP awards will be granted.

Sarwjit Sambhi has been employed by Centrica since 2001 and participates in the Centrica Pension Plan (CPP), in line with his existing contractual arrangement. The CPP is a registered defined benefit plan which is closed to new members. Sarwjit participates on the same basis as other plan members, subject to the CPP's earnings cap of £141,600. He receives a salary supplement of 10% of the difference between the CPP's earnings cap and his full base salary (10% is aligned to the employer contribution rate available for the majority of the wider workforce who participate in Centrica's defined contribution scheme).

The accrued pension disclosed below for Sarwjit Sambhi is that which would be paid annually on retirement at age 62, based on eligible service and pensionable earnings at 31 December 2019. He accrued benefits within the Company's defined benefit pension arrangements prior to 1 March 2019; however, the figures shown below relate only to benefits accrued after this date.

## Minimum shareholding requirement for new and departing Executives

Executives are expected to build up and maintain a minimum shareholding in the Company equivalent in value to 300% of base salary, over a period of five years. Sarwjit Sambhi is subject to this requirement from March 2019, the date he was appointed to the Board.

Departing Executives are subject to a post-cessation shareholding requirement of 150% of base salary (or their actual holding if lower) for two years and this will apply to Iain Conn when he leaves the Group.

### Directors' interests in shares (number of shares) (audited)

The table below shows the interests in the ordinary shares of the Company for all Directors on the Board at 31 December 2019. For Executives only, the minimum shareholding requirement is 300% of base salary. The achievement against the requirement is shown below.

Executives have a period of five years from appointment to the Board, or from any material change in the minimum shareholding requirement, to build up the required shareholding.

A post-cessation shareholding requirement of 50% of the full shareholding requirement (or full actual holding if lower) is applicable for two years post-cessation.

|                   | Shares owned as at 31 December 2018 <sup>(1)</sup> | Shares owned as at 31 December 2019 <sup>(1)</sup> | Minimum shareholding guideline (% of salary) | Achievement as at 31 December 2019 (% of salary) <sup>(2)</sup> | Shares owned (subject to continued service) as at 31 December 2019 <sup>(3)</sup> |
|-------------------|--|--|--|---|---|
| <b>Executives</b> |  |  |  |   |   |
| Iain Conn         | 1,896,978  | 2,664,912  | 300  | 249   | 770   |
| Richard Hookway   | –  | 37,886   | 300  | 6   | 264   |
| Chris O'Shea      | 219,000  | 385,399  | 300  | 56  | 264   |
| Sarwjit Sambhi    | n/a  | 398,995  | 300  | 57  | –   |

|                       | Shares owned as at 31 December 2018 <sup>(1)</sup> | Shares owned as at 31 December 2019 <sup>(1)</sup> | Minimum shareholding guideline (% of salary) | Achievement as at 31 December 2019 (% of salary) | Shares owned (subject to continued service) as at 31 December 2019 |
|-----------------------|--|--|--|--|--|
| <b>Non-Executives</b> |  |  |  |  |  |
| Charles Berry         | –  | 40,000   | –  | –  | –  |
| Joan Gillman          | –  | –  | –  | –  | –  |
| Stephen Hester        | 20,700   | 20,700   | –  | –  | –  |
| Pam Kaur              | –  | –  | –  | –  | –  |
| Kevin O'Byrne         | –  | 40,000   | –  | –  | –  |
| Carlos Pascual        | –  | –  | –  | –  | –  |
| Steve Pusey           | 65,917   | 71,780   | –  | –  | –  |
| Scott Wheway          | 10,187   | 10,187   | –  | –  | –  |

(1) These shares are owned by the Director or a connected person and they are not, save for exceptional circumstances, subject to continued service or the achievement of performance conditions. They include for Executives shares purchased in April 2016, 2017 and 2019 with deferred AIP funds which have mandatory holding periods of three and four years and which will be subject to tax at the end of the holding periods.

(2) The share price used to calculate the achievement against the guideline was 89.3 pence, the price on 31 December 2019.

(3) Shares owned subject to continued service include SIP matching shares that have not yet been held for the three-year holding period.

### Executives' interests in shares (number of shares) subject to Company performance conditions

The table below shows the performance share awards that were granted in 2017 and 2018 to Executives under the LTIP. These

awards are subject to the achievement of Company performance conditions before vesting and there is a mandatory two-year holding period following the vesting date before the shares can be released.

|                 | Plan | Number of shares | Vesting date | Release date |
|-----------------|------|------------------|--------------|--------------|
| Iain Conn       | LTIP | 1,270,953        | April 2020   | April 2022   |
|                 | LTIP | 1,700,803        | April 2021   | April 2023   |
| Richard Hookway | LTIP | 878,009          | Nov 2021     | Nov 2023     |
| Chris O'Shea    | LTIP | 979,818          | Sept 2021    | Sept 2023    |

### Share awards granted in 2019 (audited)

The table below shows the performance share awards that were granted to Executives under the LTIP in 2019. These awards are

subject to the achievement of Company performance conditions before vesting and there is a mandatory two-year holding period following the vesting date before the shares can be released.

### LTIP awards granted in 2019<sup>(1)</sup>

|                 | Number of shares <sup>(2)(3)</sup> | Value £000 | Salary multiple | Vesting date | Release date |
|-----------------|------------------------------------|------------|-----------------|--------------|--------------|
| Iain Conn       | 2,057,900                          | 2,394      | 250%            | April 2022   | April 2024   |
| Richard Hookway | 1,289,546                          | 1,500      | 250%            | April 2022   | April 2024   |
| Chris O'Shea    | 1,332,530                          | 1,550      | 250%            | April 2022   | April 2024   |
| Sarwjit Sambhi  | 1,258,501                          | 1,464      | 236%            | April 2022   | April 2024   |

(1) The performance conditions relating to these awards are set out below. The performance period is 1 January 2019 to 31 December 2021.

(2) The share price used to calculate the number of shares granted was 116.32 pence, being the average closing share price over five business days immediately preceding the grant date of 1 April 2019.

(3) The award for Sarwjit Sambhi was pro-rated based on the date he was appointed to the Board.

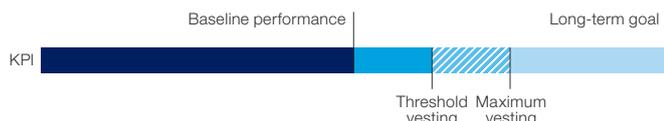
## LTIP performance conditions

| Measures                      | Weightings | Targets                |                         |
|-------------------------------|------------|------------------------|-------------------------|
|                               |            | Threshold (25%)        | Maximum (100%)          |
| Relative TSR                  | 33.3%      | FTSE 100 median        | FTSE 100 upper quartile |
| UAOCF growth                  | 22.2%      | CAGR 2% <sup>(1)</sup> | CAGR 5% <sup>(1)</sup>  |
| Absolute aggregate EP         | 22.2%      | £1,625m                | £2,125m                 |
| Non-financial KPI improvement | 22.2%      | See below              | See below               |

(1) Compound annual growth rate.

Vesting between stated points will be on a straight-line basis.

KPI improvement relates to closure of the gap between performance at the start of the period (baseline performance) and our long-term aspirational goals which are generally aligned with upper quartile market performance:



For each LTIP cycle we expect the KPI performance gap to close by 25% for threshold vesting and 50% for maximum vesting. The KPI measures and targets for the 2019/21 cycle are:

|   | Baseline performance | Targets   |         |                |
|---|----------------------|-----------|---------|----------------|
|   |                      | Threshold | Maximum | Long-term goal |
| <b>Safety</b>   |                      |           |         |                |
| Total recordable injury frequency rate (TRIFR) <sup>(1)</sup>                                 | 1.02                 | 0.83      | 0.45    | 0.25           |
| Tier 1 and Tier 2 process safety event frequency rate <sup>(1)</sup>                          | 0.06                 | 0.12      | 0.1     | 0.1            |
| <b>Customer satisfaction</b>  |                      |           |         |                |
| Aggregate brand NPS across our customer businesses weighted by customer numbers               | +10                  | +12.05    | +15     | +20            |
| Complaints per 100,000 customers across our customer businesses weighted by customer accounts | 3,453                | 3,059     | 2,665   | 1,877          |
| <b>Employee engagement</b>  |                      |           |         |                |
|   | 55                   | 60.5      | 66.0    | 77             |

(1) Per 200,000 hours worked.

## Comparison of the Group Chief Executive's (CEO's) remuneration with other employees

The chart below shows the percentage change in base salary, taxable benefits and bonus (annual incentive) payments between 2018 and 2019 for Iain Conn, compared with a comparator group of UK employees over the same period of time.

| Change in Group Chief Executive's remuneration | Change in employee remuneration      |
|--|--------------------------------------|
| Salary and fees<br>↑ <b>1.88%</b>              | Salary and fees<br>↑ <b>2.76%</b>    |
| Taxable benefits<br>→ <b>0.00%</b>             | Taxable benefits<br>→ <b>0.00%</b>   |
| Annual incentive<br>↓ <b>-100%</b>             | Annual incentive<br>↓ <b>-27.23%</b> |

The percentage change in annual incentive for Iain Conn between 2018 and 2019 reflects the fact that he will not receive an annual bonus payment relating to 2019 performance.

The comparator group includes management and technical or specialist employees based in the UK in Level 2 to Level 6 (where Level 1 is the CEO). The employees selected have been employed in their role throughout 2018 and 2019 to give a meaningful comparison. The group has been chosen because the employees have a remuneration package with a similar structure to the CEO, including base salary, benefits and annual bonus.

The chart below shows the ratio of remuneration of the CEO to the average UK employee of the Group for 2018 and 2019.

| CEO Pay Ratio | 25th percentile | 50th percentile | 75th percentile |
|---------------|-----------------|-----------------|-----------------|
| 2019          | 34:1            | 29:1            | 22:1            |
| 2018          | 72:1            | 59:1            | 44:1            |

The Company has used its gender pay gap data (Option B in the Directors' Reporting Regulations) to determine the employees whose remuneration packages sit at the lower, median and upper quartile positions across the UK workforce. This is deemed the most appropriate methodology for Centrica given the different pension and benefit arrangements across the diverse UK workforce. To ensure this data accurately reflects individuals at each quartile position, a sensitivity analysis has been performed. The approach has been to review the total pay and benefits for a number of employees immediately above and below the identified employee at each quartile within the gender pay gap analysis.

The annual remuneration relating to 2018 and 2019 for the three identified employees has been calculated on the same basis as the CEO's total remuneration for 2018 and 2019 in the single figure table on page 86 to produce the ratios.

The lower ratios in 2019 compared with 2018 reflect the fact that Iain Conn's total remuneration for 2019 does not include an annual bonus or the value of a long-term share award vest.

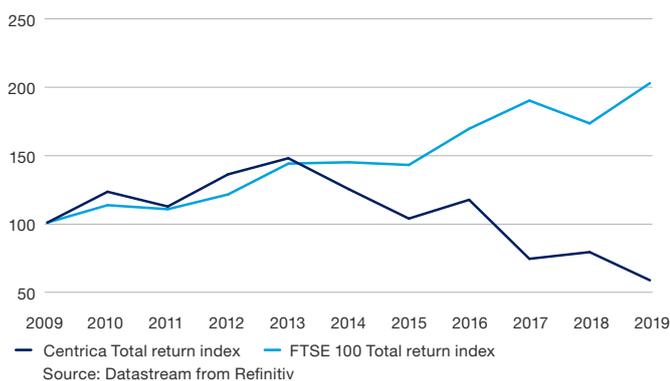
## Pay for performance

The table below shows the CEO's total remuneration over the last ten years and the achieved annual short-term and long-term incentive pay awards as a percentage of the plan maximum.

|                    | Group Chief Executive single figure for total remuneration<br>£000 | Annual short-term incentive payout against max opportunity<br>% | Long-term incentive vesting against max opportunity<br>% |
|--------------------|--|---|--|
| <b>Iain Conn</b>   |  |   |  |
| 2019               | 1,186  | 0   | 0  |
| 2018               | 2,335  | 41  | 18   |
| 2017               | 1,678  | 0   | 26   |
| 2016               | 4,040  | 82  | 0  |
| 2015               | 3,025  | 63  | 0  |
| <b>Sam Laidlaw</b> |  |   |  |
| 2014               | 3,272  | 34  | 35   |
| 2013               | 2,235  | 50  | 0  |
| 2012               | 5,709  | 61  | 67   |
| 2011               | 5,047  | 50  | 59   |
| 2010               | 5,322  | 91  | 62   |

The performance graph below shows Centrica's TSR performance against the performance of the FTSE 100 Index over the ten-year period to 31 December 2019. The FTSE 100 Index has been chosen as it is an index of similar-sized companies and Centrica has been a constituent member throughout the period.

### Total return indices – Centrica and FTSE 100



## Fees received for external appointments of Executive Directors

In 2019, Iain Conn received £114,744 (£124,000 in 2018) as a non-executive director of BT Group plc.

Richard Hookway represents Centrica as a non-executive director of EDF Energy Nuclear Generation Group Limited and Sarwjit Sambhi represents Centrica as a director of Energy UK.

Neither Executive receives any fees or remuneration relating to these external appointments.

## Relative importance of spend on pay

The following table sets out the amounts paid in dividends and staff and employee costs for the years ended 31 December 2018 and 2019.

|   | 2019<br>£m | 2018<br>£m | %<br>Change |
|---|------------|------------|-------------|
| Dividends                               | 471        | 551        | -14         |
| Staff and employee costs <sup>(1)</sup> | 2,027      | 2,019      | -4          |

(1) Staff and employee costs are as per note 5 in the Notes to the Financial Statements.

## Payments to past Directors (audited)

During 2019, no payments were made to past Directors with the exception of the payments disclosed in the single figure for total remuneration table on page 86.

## Funding of share schemes in 2019

During 2019, market purchased shares, held in an employee benefits trust, were used to satisfy outstanding allocations under the Restricted Share Scheme (a conditional share plan for Centrica employees below the executive level). Treasury shares were used to satisfy the release of awards or the exercise of options under the Deferred and Matching Share Scheme, the Long Term Incentive Scheme, the On Track Incentive Plan and Centrica's all-employee share plans. At 31 December 2019, 10,241,808 shares were held in treasury (2018: 31,277,124), following the share repurchase programme throughout 2013 and 2014.

## Advice to the Remuneration Committee

Following a competitive tender process, PwC was appointed as independent external adviser to the Committee in May 2017.

PwC also provided advice to Centrica globally during 2019 in the areas of employment taxes, regulatory risk and compliance issues and additional consultancy services.

PwC's fees for advice to the Committee during 2019 amounted to £87,600 which included the preparation for and attendance at Committee meetings. The fees were charged on a time spent basis in delivering advice that materially assisted the Committee in its consideration of matters relating to executive remuneration.

The Committee takes into account the Remuneration Consultants Group's (RCG) Code of Conduct when dealing with its advisers. PwC is a member of the RCG and the Committee is satisfied that the advice it received during the year was objective and independent and that the provision of any other services by PwC in no way compromises their independence.

## Statement of voting

Shareholder voting on the resolutions to approve the Directors' Remuneration Policy, put to the 2018 AGM, and the Directors' Remuneration Report, put to the 2019 AGM, was as follows:

### Directors' Remuneration Policy

| Votes for     | %     | Votes against | %    |
|---------------|-------|---------------|------|
| 3,378,407,618 | 95.43 | 161,656,874   | 4.57 |

1,705,945 votes were withheld.

### Directors' Remuneration Report

| Votes for     | %     | Votes against | %     |
|---------------|-------|---------------|-------|
| 3,048,524,287 | 85.27 | 526,724,546   | 14.73 |

31,937,839 votes were withheld.

## Implementation in the next financial year

Base salaries for Executives were reviewed in January 2020 and the Committee determined that current salaries were competitive when compared against the market data. The Committee therefore agreed that there would be no salary increases for Executives in 2020.

No changes to benefits for Executives are anticipated.

AIP awards will be in line with the limits set out in the Remuneration Policy table, not exceeding 200% of base salary. 75% of the award will be based on a mix of financial measures based on Centrica's priorities for the forthcoming year and 25% will be based on personal objectives.

For the operation of the AIP in 2020, 50% of the financial measures will be based on adjusted operating profit, 30% of the financial measures will be based on free cash flow and 20% of the financial measures will be based on cost efficiency, with targets aligning to the Group Annual Plan. The targets are considered commercially sensitive until the year end and will therefore be disclosed retrospectively in the Remuneration Report for 2020.

LTIP awards will be granted to three Executives, based on 250% of base salary. This is below the maximum award level of 300% of base salary set out in the Remuneration Policy. Iain Conn will not receive an LTIP award as he will be leaving Centrica in 2020.

The performance measures will consist of relative total shareholder return (TSR) with a weighting of 33.3%, underlying adjusted operating cash flow (UACOF) growth with a weighting of 22.2%, economic profit (EP) with a weighting of 22.2% and non-financial KPIs with a weighting of 22.2%.

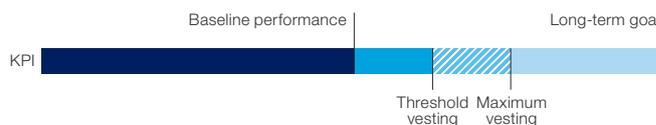
It is proposed that the following financial targets will apply to the 2020 LTIP awards:

| Measures                      | Weightings | Targets                |                         |
|-------------------------------|------------|------------------------|-------------------------|
|                               |            | Threshold (25%)        | Maximum (100%)          |
| Relative TSR                  | 33.3%      | FTSE 100 median        | FTSE 100 upper quartile |
| UACOF growth                  | 22.2%      | CAGR 2% <sup>(1)</sup> | CAGR 5% <sup>(1)</sup>  |
| Absolute aggregate EP         | 22.2%      | £1,542m                | £2,042m                 |
| Non-financial KPI improvement | 22.2%      | See below              | See below               |

(1) Compound annual growth rate.

Vesting between stated points will be on a straight-line basis.

KPI improvement relates to closure of the gap between performance at the start of the period (current performance) and our long-term aspirational goals which are generally aligned with upper quartile market performance:



For each LTIP cycle we expect the KPI performance gap to close by 25% for threshold vesting and 50% for maximum vesting.

The KPI measures and targets are:

|   | Current performance | Targets   |         |                |
|---|---------------------|-----------|---------|----------------|
|   |                     | Threshold | Maximum | Long-term goal |
| <b>Safety</b>   |                     |           |         |                |
| Total recordable injury frequency rate (TRIFR) <sup>(1)</sup>                                 | 1.06                | 0.86      | 0.45    | 0.25           |
| Tier 1 and Tier 2 process safety event frequency rate <sup>(1)</sup>                          | 0.08                | 0.073     | 0.065   | 0.05           |
| <b>Customer satisfaction</b>  |                     |           |         |                |
| Aggregate brand NPS across our customer businesses weighted by customer numbers               | +15.1               | +16.33    | +17.55  | +20            |
| Complaints per 100,000 customers across our customer businesses weighted by customer accounts | 3,429               | 3,041     | 2,653   | 1,877          |
| <b>Employee engagement</b>  | 43%                 | 51.5%     | 60.0%   | 77%            |

(1) Per 200,000 hours worked.

## Changes since 1 January 2020

### Share Incentive Plan

During the period from 1 January 2020 to 12 February 2020 Iain Conn, Richard Hookway and Chris O'Shea each acquired 384 shares through the SIP.

The Remuneration Report has been approved by the Board of Directors and signed on its behalf by:

### Justine Campbell

Group General Counsel & Company Secretary  
12 February 2020

# Remuneration Policy

Set out over the following pages is a summary of the Remuneration Policy (Policy) that was approved by shareholders on 14 May 2018. The full Policy can be found at [centrica.com](http://centrica.com)

## Executive Directors' remuneration

The Committee believes that the remuneration arrangements are aligned with the organisation's strategic goals as well as the experience and expectation of shareholders.

The Policy closely aligns the interests of the Executive Directors (Executives) with the delivery of long-term shareholder value through returns and growth whilst ensuring behaviours remain consistent with the governance and values of the business.

## Objectives

The Policy aims to deliver remuneration arrangements that:

- attract and retain high calibre Executives in a challenging and competitive global business environment;
- place strong emphasis on both short-term and long-term performance;
- are strongly aligned to the achievement of strategic objectives and the delivery of sustainable long-term shareholder value through returns and growth; and
- seek to avoid creating excessive risks in the achievement of performance targets.

## Remuneration framework

The design of the remuneration framework for Executives ensures that a substantial portion of the maximum opportunity is dependent upon performance and delivered in shares over a three to five-year period.

Total remuneration comprises fixed pay and variable performance-related pay, which is further divided into short-term incentive (with a one-year performance period) and long-term incentive (with a three-year performance period).

Fixed remuneration includes base salary, benefits and pension. Short-term incentive is delivered through the Annual Incentive Plan (AIP) which is described on page 95. Long-term incentive is delivered through the Long Term Incentive Plan (LTIP) which is described on page 96. Both plans are underpinned by stretching performance measures and targets that closely link to our strategy.

## Performance measures

The Committee believes that the performance measures selected will help drive our customer-focused strategy, allowing us to deliver for our customers, our employees and our shareholders.

## How the LTIP measures link to our strategy

The chart below shows our revised Group Priorities linked to the LTIP measures. Our business model and Group Priorities are set out in more detail on page 14.

### Centrica's strategy/Group priorities

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



### LTIP measures

|       |  |
|-------|--|
| 22.2% | Non-financial KPIs                                     |
| 33.3% | Relative total shareholder return (TSR)                |
| 22.2% | Underlying adjusted operating cash flow (UACOF) growth |
| 22.2% | Economic profit (EP)                                   |

### Centrica's financial framework

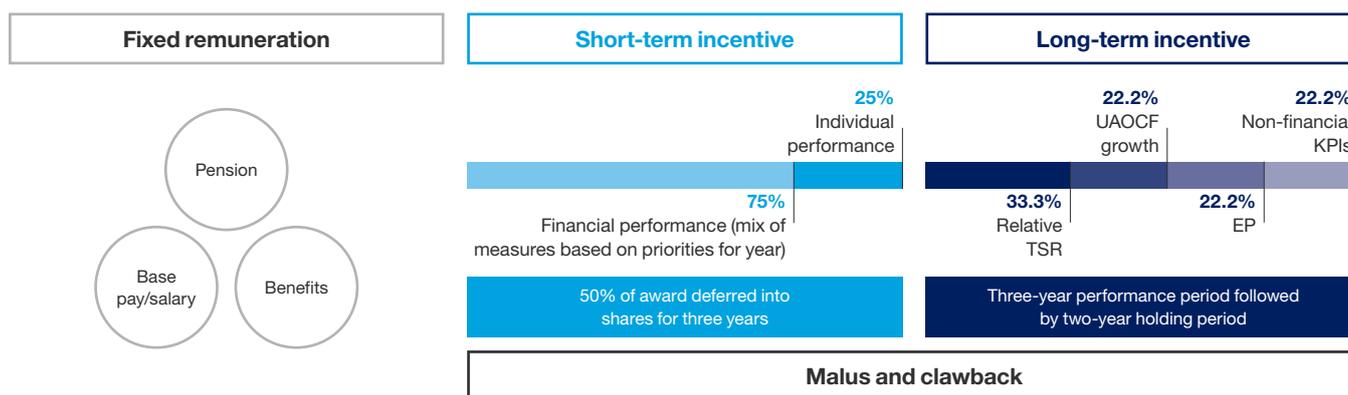
| Measure                                    | Target  |
|--|---|
| AOCF                                       | Growth over the medium term   |
| Dividend                                   | Progressive from 2019 rebased level linked to growth in earnings and AOCF           |
| Controllable costs                         | £1bn of cost efficiency delivery over 2019-22                                       |
| Capital re-discipline                      | Annual capital expenditure of around £500m post Spirit Energy and Nuclear disposals |
| Credit rating                              | Strong investment grade ratings   |
| Return on average capital employed (ROACE) | At least 10-12%   |



### LTIP measures

|       |                    |
|-------|--------------------|
| 33.3% | Relative TSR       |
| 22.2% | UACOF growth       |
| 22.2% | EP                 |
| 22.2% | Non-financial KPIs |

## Summary of Policy design



## Remuneration Policy table

The table below sets out the separate components of the Policy that applies to Executives.

| Purpose and link to strategy  | Operation and clawback   | Maximum opportunity   | Performance measures  |
|---|--|---|---|
| <p><b>Base pay/salary</b></p> <p>Reflects the scope and responsibility of the role and the skills and experience of the individual.</p> <p>Salaries are set at a level sufficient for the Group to compete for international talent and to attract and retain Executives of the calibre required to develop and deliver our strategy.</p> | <p>Base salaries are reviewed annually, taking into account individual and business performance, market conditions and pay in the Group as a whole. Changes are usually effective from 1 April each year.</p>  | <p>Ordinarily, base salary increases in percentage terms will be in line with increases awarded to other employees of the Group.</p> <p>Increases may be made above this level to take account of individual circumstances such as a change in responsibility, progression/development in the role or a significant increase in the scale or size of the role.</p> <p>The base salary for an Executive will not exceed £1 million per annum.</p> <p>This is consistent with the previously approved policy.</p> | <p>Not applicable.</p>  |
| <p><b>Short-term incentive plan</b></p> <p>Designed to incentivise and reward the annual performance of individuals and teams in the delivery of short-term financial and non-financial metrics.</p> <p>Performance measures are linked to the delivery of the Group's long-term financial goals and key Group priorities.</p>            | <p>In line with the Group's annual performance management process, each Executive has an agreed set of stretching individual objectives each year.</p> <p>Following measurement of the individual and Company financial performance outcome AIP awards are made. Half of the AIP award is paid in cash. The other half is required to be deferred into shares which are held for three years, to further align the interests of Executives with the long-term interests of shareholders.</p> <p>Dividends are payable on the shares during the holding period.</p> <p>If overall business performance is not deemed satisfactory, an individual's AIP payment for the year may be reduced or forfeited, at the discretion of the Committee.</p> <p>Malus and clawback apply to the cash and share awards (see policy table notes).</p> | <p>Maximum of 200% of base salary. Half the maximum is payable for on-target performance.</p> <p>This is consistent with the previously approved policy.</p>  | <p>75% based on a mix of financial performance measures aligned to Centrica's priorities for the forthcoming year and 25% based on individual objectives aligned to the Group's priorities and strategy.</p> <p>Under the previously approved policy, 62.5% was based on adjusted operating cash flow and 37.5% was based on individual objectives.</p> <p>Performance is assessed over one financial year.</p> |

| Purpose and link to strategy   | Operation and clawback  | Maximum opportunity   | Performance measures  |
|--|---|---|---|
| <p><b>Long-term incentive</b></p> <p>Designed to retain Executives and to encourage sustainable high performance.</p> <p>Provides an incentive that aligns with the Group’s strategy to deliver long-term shareholder value through returns and growth.</p> <p>Provides a direct link between executive remuneration and the Group’s long-term financial goals and priorities.</p> | <p>Long Term Incentive Plan (LTIP) awards are granted to Executives each year based on a percentage of base salary at the point of award. Shares vest at the end of a three-year performance period, depending on the achievement against the performance targets, but are not released until the fifth anniversary of the award date.</p> <p>LTIP awards are usually delivered as conditional shares.</p> <p>Awards may also be granted as nil-cost options with a seven-year exercise period.</p> <p>It is a requirement of the LTIP that the net shares are held for a further two years following the vesting date. Malus applies to the shares during the three-year performance period and clawback applies to the shares during the two-year holding period (see policy table notes).</p> <p>Dividend equivalents are calculated at the end of the performance period on any conditional LTIP share awards or nil-cost options. Dividend equivalents are paid as additional shares or as cash.</p> <p>If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee.</p> | <p>Maximum of 300% of base salary plus dividend equivalents.</p> <p>This is consistent with the previously approved policy.</p> <p>The amount payable for achieving the minimum level of performance is 5.55% of award. Under the previously approved policy, the minimum level was 0%.</p> | <p>33.3% based on relative total shareholder return (TSR) with the remainder equally weighted and based on UAOCF growth, absolute aggregate economic profit (EP) and non-financial KPIs, all measured over a three-year performance period.</p> <p>Under the previously approved policy, performance measures were equally weighted and based on earnings per share (EPS), absolute aggregate EP and non-financial KPIs, measured over a three-year performance period.</p> |
| <p><b>Pension</b></p> <p>Positioned to provide a market-competitive post-retirement benefit, in a way that manages the overall cost to the Company.</p>  | <p>Executives are entitled to participate in a Company money purchase pension arrangement or to take a fixed salary supplement (calculated as a percentage of base salary, which is excluded from any bonus calculation) in lieu of pension entitlement.</p> <p>The Group’s policy is not to offer defined benefit arrangements to new employees at any level, unless this is specifically required by applicable legislation or an existing contractual agreement.</p>   | <p>The maximum benefit is 25% of base salary.</p>   | <p>Not applicable.</p>  |

| Purpose and link to strategy  | Operation and clawback   | Maximum opportunity  | Performance measures |
|---|--|--|----------------------|
|   | <p>Executives appointed prior to 2015 are entitled to participate in a Centrica pension arrangement or to receive a fixed salary supplement in lieu of pension entitlement in accordance with the terms of their contracts.</p> <p>We would only continue to honour defined benefit pension arrangements in the event of an individual being promoted to the Board who retains a contractual entitlement to such benefit.</p> <p>In late 2018, it was agreed that the pension contributions for existing Executives would reduce to a maximum of 15% with effect from 1 June 2019 to move towards alignment with the wider UK workforce.</p> |  |                      |
| <p><b>Benefits</b></p> <p>Positioned to support health and wellbeing and to provide a competitive package of benefits that is aligned with market practice.</p>                                     | <p>The Group offers Executives a range of benefits including some or all of:</p> <ul style="list-style-type: none"> <li>• a company-provided car and fuel, or a cash allowance in lieu;</li> <li>• life assurance and personal accident insurance;</li> <li>• health and medical insurance for the Executive and their dependants;</li> <li>• health screening and wellbeing services; and</li> <li>• a contribution towards financial planning advice.</li> </ul>   | <p>Cash allowance in lieu of company car – £22,000 per annum.</p> <p>The benefit in kind value of other benefits will not exceed 5% of base salary.</p> <p>This is consistent with the previously approved policy.</p> | Not applicable.      |
| <p><b>Relocation and expatriate assistance</b></p> <p>Enables the Group to recruit or promote the appropriate individual into a role, to retain key skills and to provide career opportunities.</p> | <p>Assistance may include (but is not limited to) removal and other relocation costs, housing or temporary accommodation, education, home leave, repatriation and tax equalisation.</p>  | <p>Maximum of 100% of base salary.</p> <p>This is consistent with the previously approved policy.</p>  | Not applicable.      |
| <p><b>All-employee share plans</b></p> <p>Provides an opportunity for employees to voluntarily invest in the Company.</p>   | <p>Executives are entitled to participate in all-employee share plans on the same terms as all other eligible employees.</p>   | <p>Maximum contribution limits are set by legislation or by the rules of each plan. Levels of participation apply equally to all participants.</p> <p>This is consistent with the previously approved policy.</p>      | Not applicable.      |

### Policy table notes

The Committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the summary Policy set out above, where the terms of the payment were agreed before the Policy came into effect, at a time when the relevant individual was not an Executive of the Company or, in the opinion of the Committee, the payment was not in consideration for the individual becoming an Executive of the Company. For these purposes payments include the amounts paid in order to satisfy awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

The Committee may make minor amendments to the Policy (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

### Performance measures

We continue to be committed to full transparency and disclosure. We will disclose all targets as soon as any commercial sensitivity falls away. At the latest, this will be at the end of the performance period.

### Relative total shareholder return (TSR)

Compares Centrica's TSR (share price growth plus dividends) for the performance period with the TSR ranking of the other companies in the FTSE 100 Index.

The FTSE 100 Index has been chosen as it is a broad equity index of which Centrica is a constituent member and it reflects the investment interests of our UK shareholder base.

### UAOCF growth

Growth in net cash flow from operating activities (which includes taxes paid) adjusted to include dividends received from joint ventures and associates and to exclude payments relating to exceptional items, UK defined benefit pension deficit contributions and movements in variation margin and cash collateral that are included in net debt.

This is adjusted for the impact of commodity price movements in Exploration & Production/Nuclear, foreign exchange movements and any material one-off working capital items to give a measure of underlying growth.

### Economic profit (EP)

EP is adjusted operating profit (after share of joint venture interest) less a tax charge based on the tax rate relevant to the different business segments and after deduction of a capital charge. The capital charge is calculated as capital employed multiplied by the Group's weighted average cost of capital.

Further details of these performance measures are provided in notes 2, 4 and 10 of the Financial Statements. In addition, see page 223 for an explanation of UAOCF.

### Non-financial KPIs

Based on the Group's non-financial KPIs, using three-year targets for improvement.

### Malus and clawback

The Committee can apply malus (that is reduce the number of shares in respect of which an award vests) or delay the vesting of awards if it considers it appropriate where a participant has engaged in gross misconduct or displayed inappropriate management behaviour which fails to reflect the governance and values of the business or where the results for any period have been restated or appear inaccurate or misleading.

Where an award has vested, the resulting shares will generally be held for a period during which they may be subject to clawback in the event that the Committee determines that one or more of the circumstances above has occurred.

### Pension arrangements applying to Executives

All registered scheme benefits are subject to HMRC guidelines and the Lifetime Allowance.

The Centrica Unapproved Pension Scheme (CUPS) defined contribution (DC) section provides benefits for individuals not eligible to join the CUPS defined benefit (DB) section and for whom registered scheme benefits are expected to exceed the Lifetime Allowance. The CUPS DC section is offered as a direct alternative to a cash salary supplement.

The CUPS DB section was closed to new members in October 2002.

CUPS is unfunded but the benefits are secured by a charge over certain Centrica assets. An appropriate provision in respect of the accrued value of these benefits has been made in the Company's balance sheet.

The Centrica Pension Plan (CPP) is a registered defined benefit plan which is closed to new members.

### Non-Executive Directors' remuneration

#### Remuneration Policy

Centrica's policy on Non-Executive Directors' (Non-Executives) fees takes into account the need to attract the high calibre individuals required to support the delivery of our strategy.

#### Terms of appointment

Non-Executives, including the Chairman, do not have service contracts. Their appointments are subject to Letters of Appointment and the Articles of Association. All Non-Executives are required to be re-elected at each AGM.

## Remuneration Policy table

| Purpose and link to strategy   | Operation and clawback  | Maximum opportunity  | Performance measures   |
|--|---|--|------------------------|
| <p><b>Chairman and Non-Executive Director fees</b></p> <p>Sufficient level to secure the services of individuals possessing the skills, knowledge and experience to support and oversee the Executive Directors in their execution of the Board's approved strategies and operational plans.</p> <p>Fees reflect market practice as well as the responsibilities and time commitment required by our Non-Executives.</p> | <p>The fee levels for the Chairman are reviewed every two years by the Remuneration Committee.</p> <p>The fee levels of the Non-Executives are reviewed every two years by the Executive Committee.</p> <p>Non-Executives are paid a base fee for their services. Where individuals serve as Chairman of a Committee of the Board, additional fees are payable. The Senior Independent Director also receives an additional fee.</p> <p>Current fee levels (applying from 1 January 2016):</p> <p>Chairman of the Board – up to £495,000 per annum.</p> <p>Base fee for Non-Executives – £72,500 per annum. The following additional fees apply:</p> <ul style="list-style-type: none"> <li>• Chairman of Audit Committee – £25,000 per annum;</li> <li>• Chairman of Remuneration Committee – £20,000 per annum;</li> <li>• Chairman of Safety, Health, Environment, Security and Ethics Committee – £20,000 per annum; and</li> <li>• Senior Independent Director – £20,000 per annum.</li> </ul> | <p>The maximum level of fees payable to Non-Executives, in aggregate, is set out in the Articles of Association.</p> | <p>Not applicable.</p> |
|  | <p>The Company reserves the right to pay a Committee membership fee in addition to the base fees.</p> <p>Non-Executives are able to use 50% of their fees, after appropriate payroll withholdings, to purchase Centrica shares. Dealing commission and stamp duty is paid by the Non-Executive.</p> <p>The Non-Executives, including the Chairman, do not participate in any of the Company's share schemes, incentive plans or pension schemes.</p> <p>Non-Executives will be reimbursed for business expenses relating to the performance of their duties including travel, accommodation and subsistence. In certain circumstances these, or other incidental items, may be considered a 'benefit in kind' and if so may be grossed up for any tax due.</p>  |  |                        |

### Recruitment policy

The policy on the recruitment of new Non-Executives during the policy period would be to apply the same remuneration elements as for the existing Non-Executives. It is not intended that variable pay, day rates or benefits in kind be offered, although in exceptional circumstances such remuneration may be required in currently unforeseen circumstances. The Committee will include in future Remuneration Reports details of the implementation of the policy as utilised during the policy period in respect of any such recruitment to the Board.

## Other Statutory Information

The Directors submit their Annual Report and Accounts for Centrica plc, together with the consolidated Financial Statements of the Centrica group of companies, for the year ended 31 December 2019. The Directors' Report required under the Companies Act 2006 comprises this Directors' and Corporate Governance Report (pages 55 to 102) including the Delivering our Responsible Business Ambitions section for disclosure of our carbon emissions in the Strategic Report (pages 48 to 54). The management report required under Disclosure Guidance and Transparency Rule 4.1.5R comprises the Strategic Report (pages 2 to 54) (which includes the risks relating to our business), Shareholder Information (page 222) and details of acquisitions and disposals made by the Group during the year in note 12 (pages 140 to 141). This Directors' and Corporate Governance Report fulfils the requirements of the corporate governance statement required under Disclosure Guidance and Transparency Rule 7.2.1.

### Articles of Association (Articles)

The Company's Articles were adopted at the 2019 AGM. They may only be amended by a special resolution of the shareholders.

### Centrica shares

#### Substantial shareholdings

At 31 December 2019, Centrica had received notification of the following interests in voting rights pursuant to the Disclosure and Transparency Rules:

|   | % of share capital <sup>(1)</sup> |
|---|-----------------------------------|
| Schroders Investment Management Limited | 10.53                             |
| BlackRock, Inc.                         | 6.59                              |
| Majedie Asset Management Limited        | 4.99                              |
| Newton Investment Management Limited    | 4.99                              |

(1) Percentages are shown as a percentage of the Company's issued share capital when the Company was notified of the change in holding. On 27 January 2020, Standard Life Aberdeen notified the Company of its interest in 5.06% of the voting rights of the issued share capital. On 4 February 2020, Schroders Investment Management Limited notified the Company that it had increased its interest in the voting rights of the issued share capital to 11.033%. As at 12 February 2020, there were no further changes notified to the Company.

### Share capital

The Company has a single share class which is divided into ordinary shares of 6<sup>14</sup>/<sub>81</sub> pence each. The Company was authorised at the 2019 AGM to allot up to 1,899,045,361 ordinary shares as permitted by the Act. A renewal of a similar authority will be proposed at the 2020 AGM. The Company's issued share capital as at 31 December 2019, together with details of shares issued during the year, is set out in note 25 to the Financial Statements.

### Rights attaching to shares

Each ordinary share of the Company carries one vote. Further information on the voting and other rights of shareholders is set out in the Articles and in explanatory notes which accompany notices of general meetings, all of which are available on our website.

### Repurchase of shares

As permitted by the Articles, the Company obtained shareholder authority at the 2019 AGM to purchase its own shares up to a maximum of 569,713,608 ordinary shares. No shares were purchased under this authority in 2019. As at 31 December 2019, 10,241,808 shares were held as treasury shares. These shares held in treasury represent 0.17% of the Company's issued share capital. Dividends are waived in respect of shares held in the treasury share account.

### Shares held in employee benefit trusts

The Centrica plc Employee Benefit Trust (EBT) is used to purchase shares on behalf of the Company for the benefit of employees, in connection with the Deferred and Matching Share Scheme, and the Restricted Share Scheme. The Centrica plc Share Incentive Plan Trust (SIP Trust) is used to purchase shares on behalf of the Company for the benefit of employees, in connection with the SIP. Both the Trustees of the EBT and the SIP Trust, in accordance with best practice, have agreed not to vote any unallocated shares held in the EBT or SIP Trust at any general meeting and dividends are waived in respect of these shares. In respect of allocated shares in both the EBT and the SIP Trust, the Trustees shall vote in accordance with participants' instructions. In the absence of any instruction, the Trustees shall not vote.

### Scrip Dividend Programme termination

Historically, the vast majority of shareholders have chosen to receive dividends in cash. Many of these shareholders have advised the Company that they were concerned that the issue of new shares under the Scrip Dividend Programme had a dilutive effect on their shareholdings. The Company listened to shareholders' concerns and, having taken the feedback into account, took the decision to terminate the Scrip Dividend Programme with effect from the 2019 interim dividend. More information, including frequently asked questions, can be found on our website.

## Index to Directors' Report and other disclosures

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### Employee participation in share schemes

The Company's all-employee share schemes are a long-established and successful part of our total reward package, encouraging the involvement of UK employees in the Company's performance through employee share ownership. We offer tax-advantaged Sharesave (SAYE) schemes in the UK and Ireland, and a Share Incentive Plan (SIP) in the UK, with good levels of take-up for all share plans across the Group. Currently, 42% of eligible employees participate in Sharesave and 30% of eligible employees participate in the SIP.

### Workforce

#### Directors' indemnities and insurance

In accordance with the Articles, the Company has granted a deed of indemnity, to the extent permitted by law, to Directors and members of the Executive Committee for each company in the Group. Qualifying third-party indemnity provisions (as defined by section 234 of the Act) were in force during the year ended 31 December 2019 and remain in force. The Company also maintains directors' and officers' liability insurance for its Directors and officers.

### Employee involvement

We remain committed to employee involvement throughout the Group. Employees are kept well informed of the performance and strategy, including financial and economic, of the Group and other matters of concern through personal briefings, regular meetings, town halls, email and broadcasts by the Group Chief Executive and members of the Board at key points in the year.

### Equal opportunities

The Group is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit.

### Employees with disabilities

It is our policy that people with disabilities should have full and fair consideration for all vacancies. During the year we continued to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria and we endeavour to retain employees in the workforce if they become disabled during employment. This commitment was recognised in January 2018 by our achievement of level 1 Disability Confident Status and in 2017 we launched a Disability and Wellbeing Network to help employees impacted by disability to access the support they need to thrive at work. We are proud to support The Valuable 500 initiative and champion disability inclusion throughout Centrica. Launched at the World Economic Forum's Annual Summit this year, The Valuable 500 seeks 500 global businesses to place disability inclusion on their board agenda as the first step to full inclusion for disabled people in business.

### Human rights

As an international company we have a responsibility and are committed to upholding and protecting the human rights of individuals working for us in the communities and societies where we operate. We take steps to ensure that our people working in countries with a high risk of human rights abuses are safeguarded, as set out in Our Code. We also recognise the opportunity we have to contribute positively to global efforts to ensure human rights are understood and observed.

### Other information

#### Political donations

The Company operates on a politically neutral basis. No political donations were made by the Group for political purposes during the year. However, in accordance with the United States Federal Election Campaign Act, a Political Action Committee (PAC) called Direct Energy Employee Political Action Committee (DEEPAC) was formed to facilitate voluntary political contributions by its US employees. DEEPAC is controlled by neither the Company nor Direct Energy but instead by a governing board of individual employee members of DEEPAC on a voluntary basis. Direct Energy, as authorised by law, has provided limited administrative support to DEEPAC. DEEPAC has been organised to provide a vehicle to dispense voluntary contributions from eligible employees. Participation in DEEPAC is entirely voluntary for eligible employees, and political donations from DEEPAC are determined by a governing board of DEEPAC members. In 2019, contributions to DEEPAC by employees amounted to \$37,106, and DEEPAC made 63 political donations totalling \$48,640.

### Significant agreements – change of control

There are a number of agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid. The significant agreements of this kind relate to 2009, when the Company entered into certain transactions with EDF Group in relation to an investment in the former British Energy Group, which owned and operated a fleet of nuclear power stations in the UK. The transactions include rights for EDF Group and the Company to offtake power from these nuclear power stations. As part of the arrangements, on a change of control of the Company, the Group loses its right to participate on the boards of the companies in which it has invested. Furthermore, where the acquirer is not located in certain specified countries, EDF Group is able to require Centrica to sell out its investments to EDF Group.

### Payments policy

We recognise the importance of good supplier relationships to the overall success of our business. We manage dealings with suppliers in a fair, consistent and transparent manner.

### Disclosures required under Listing Rule 9.8.4R

The Company is required to disclose certain information under Listing Rule 9.8.4R in the Directors' Report or advise where such relevant information is contained. All such disclosures are included in this Directors' and Corporate Governance Report, other than the following sections of the 2019 Annual Report and Accounts:

| Information                            | Location in Annual Report | Page(s)     |
|--|---------------------------|-------------|
| Directors' compensation                | Remuneration Report       | 82 to 99    |
| Capitalised interest (borrowing costs) | Financial Statements      | 134, note 8 |
| Details of long-term incentive schemes | Remuneration Report       | 96          |

### Directors' statements

Accounting standards require that Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare the Financial Statements on a going concern basis. The Group's business activities, together with factors that are likely to affect its future development and position, are set out in the Group Chief Executive's Statement on pages 6 to 11 and the Business Reviews on pages 20 to 28. After making enquiries, the Board has a reasonable expectation that Centrica and the Group as a whole have adequate resources to continue in operational existence and meet their liabilities as they fall due, for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the Financial Statements. Additionally, the Directors' Viability Statement – which assesses the prospects for the Group over a longer period than the 12 months required for the going concern assessment – is set out on pages 44 to 45. Further details of the Group's liquidity position are provided in notes 24 and S3 to the Financial Statements.

### Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Accordingly, the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and have elected to prepare the Company Financial Statements in accordance with UK Generally Accepted Accounting Practice including FRS 101 'Reduced Disclosure Framework' (United Kingdom Accounting Standards

and applicable law). Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

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

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

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

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

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

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming AGM.

By order of the Board

**Justine Campbell**

Group General Counsel & Company Secretary

12 February 2020