Directors' and Corporate Governance Report

"We strive to maintain a robust and effective governance framework which supports the execution of our strategy and remains consistent with Our Values and behaviours."

Charles Berry
Chairman

Highlights

- First year as Chairman
- Three new Non-Executive Directors and one Executive Director
- Applied all the principles and fully complied with the provisions of the 2018 Code throughout the year.

Corporate governance

Effective corporate governance provides an essential foundation for the long-term sustainable success of the Company. This report sets out the key elements of Centrica's corporate governance arrangements, including how we have sought to apply the principles and provisions of the 2018 UK Corporate Governance Code (2018 Code) during the year.

Dear Shareholder

This is my first review since becoming Chairman of Centrica in February 2019. I am pleased to introduce the Directors' and Corporate Governance Report for 2019 which sets out the systems and procedures the Company has put in place to structure authority, balance responsibility, and provide accountability to our stakeholders.

2018 UK Corporate Governance Code

In 2018 the Financial Reporting Council (FRC) published its updated UK Corporate Governance Code which applied to the Company from 1 January 2019. The 2018 Code is substantially different from the previous versions and Centrica supports the FRC's aim of setting higher standards of corporate governance to promote transparency and integrity in business and attract investment in the UK for the long term, benefitting the economy and wider society.

The 2018 Code focuses on demonstrating how the governance of a company contributes to its long-term sustainable success, achieves wider objectives and has a greater emphasis on culture and board diversity. These principles already existed in Centrica, and many of the initiatives being promoted by the FRC – including those relating to corporate culture and values, diversity and inclusion, strengthening the stakeholder voice and adopting and operating appropriate remuneration structures – continued to be areas of focus for the Board in 2019.

The Directors' and Corporate Governance Report enables shareholders and wider stakeholders to evaluate how we have complied with the principles of the 2018 Code through the application of its principles. It also illustrates how your Board ensures that the Company has effective corporate governance in place that contributes to the long-term sustainable success of the Company and its strategy for shareholders and for stakeholders more generally.

The 2018 Code and associated guidance are available on the FRC's website at www.frc.org.uk. The index on page 101 sets out where to find each of the required disclosures in respect of Listing Rule 9.8.4 and Disclosure Guidance and Transparency Rules 4.1.5R and 7.2.1.

Corporate governance

At Centrica we recognise the importance of effective corporate governance in supporting the long-term success and sustainability of our business. Sound corporate governance enables clear and consistent delegation of authority from the Board to senior management and beyond in order to promote robust, informed and transparent decision-making. It also promotes effective stewardship to ensure the delivery of strategic objectives and sustainable success. It is the Board's responsibility to set the tone for the organisation including the right culture, values and behaviours that are intended to protect and promote the long-term success of the business. We strive to maintain a robust and effective governance framework which supports the execution of our strategy and remains consistent with Our Values.

The Board is responsible for providing leadership and stewardship of the Group within a framework of appropriate and effective controls that enable risks to be assessed and then managed in a manner which promotes the long-term sustainable success of the Group. The Board is also responsible for overseeing the execution of the Group's strategy, operational and financial performance, financial reporting, internal control and risk management, and corporate governance.

In order to facilitate its oversight role in these areas, and to ensure that it retains decision-making power over matters considered to be material to the current or future financial performance of the Group, the Board has put in place the governance framework. This includes a schedule of matters reserved to the Board. In order to allow the Board to focus on its priorities, a number of its oversight responsibilities have been delegated to five Committees. These responsibilities are set out in terms of reference for each Committee. The Board regularly reviews the remit, authority, composition and terms of reference of each committee.

The Board has also delegated authority to the Group Chief Executive for the execution of the strategy and day-to-day management of the Group. The Chief Executive's Committee supports the Group Chief Executive in the performance of his duties. The Board oversees, challenges and supports executive management in the execution of the strategy and management of the Group.

Board refreshment and succession planning

During 2019, the Board and the Nominations Committee continued to dedicate considerable time to succession planning. Centrica continues to embrace the importance of diversity and inclusion in all Board recruitment. As part of a structured and continuous process of Board refreshment, this year again saw several changes to the Board.

Margherita Della Valle stepped down from the Board as Non-Executive Director and Chairman of the Audit Committee on 12 May 2019. I joined as a Non-Executive Director on 31 October 2018, becoming Chairman of the Board on 21 February 2019. Two further Non-Executive Directors were appointed to the Board during the year, Pam Kaur, who joined in February 2019 and Kevin O'Byrne who joined in May 2019 and was appointed Chairman of the Audit Committee. Heidi Mottram was appointed to the Board on 1 January 2020. The Board acknowledges that work needs to continue to be carried out to further advance and ensure the right balance on the Board.

In December 2018, we announced that Mark Hodges, Chief Executive, Centrica Consumer would be stepping down from the Board in February 2019. We welcomed Mark's successor, Sarwjit Sambhi, an internal candidate, to the Board in March 2019.

Culture and Values

The Board recognises the importance of its role in setting the tone for the organisation and monitoring the Group's culture and values. Our Code sets out our minimum expectations for all those we work with or alongside. It is a guide to making good choices and represents our commitment to doing the right thing and acting with integrity.

During the year, the Board took several opportunities to engage both formally and informally with colleagues from across the business enabling a better understanding of the extent to which Our Values – care, delivery, collaboration, agility and courage – have been embedded throughout the Group. Our Code, along with Our Values, underpin everything that we do.

During 2019, we provided refresher training to help employees with their ongoing understanding of Our Code, with 82% completing it. In September 2019, we celebrated the second anniversary of Our Values. Chris O'Shea and Sarwjit Sambhi hosted a Q&A session to celebrate the anniversary, and employees asked excellent questions around leaders enabling more recognition of colleagues who uphold Our Values, and how living Our Values can support our customer obsession. In addition to this, employees were invited to take part in Our Values' new year's resolutions challenge and share their work-related aspirations.

An employee engagement survey was conducted in October 2019. It is important we obtain feedback from our colleagues about what we are doing well and what we can improve, so that we can take action on issues that matter to our people and build a motivated and engaged workforce that can deliver for our customers. Further information on employee engagement can be found on page 54.

Speak Up is a confidential whistleblowing hotline for employees to report serious concerns. The Company relaunched Speak Up last year to provide a consistent Group-wide approach to raising a concern or seeking advice about any malpractice and misconduct observed in the Group. The Board acknowledges that speaking up can often require the demonstration of one of Our Values, courage, and therefore the Company has various options available to employees when it comes to raising a concern. In the first instance employees are always encouraged to discuss their concerns with their manager. There are times when this might not be the best option so they should consider an alternative manager or function lead. If an employee is not comfortable approaching someone internally then they can raise their concern to the Speak Up helpline or use the online web tool.

Diversity and inclusion

The Group is committed to putting diversity, inclusion, care and respect at the heart of what we do. Our vision is to employ a rich and diverse mix of people who reflect the societies in which we work. We're creating a workplace in which the most talented individuals reach their full potential, whatever their age, gender or background. Our 2030 Responsible Business Ambition is for our senior leadership teams to reflect the diversity of our communities and the customers they serve by 2030. The Chairman leads the Board in its support for the recommendations of the Hampton-Alexander Review, which aims to raise the proportion of women on UK boards to at least one-third by the end of 2020, and also the Parker Review on ethnic diversity on boards. In November 2019, the Company joined energy sector leaders in committing to eliminate the exclusion of disabled people worldwide by signing up to The Valuable 500, a campaign encouraging global business leaders to recognise the value of the world's 1.3 billion disabled people. The Company also supports networks for employees who are, for example, carers, LGBT+, from an ethnic minority, disabled, and US veterans and military members.

Board effectiveness review

The Board carries out an annual evaluation of its effectiveness which includes assessing how it develops and promotes its shared vision of the purpose of the Group, its culture, its values and the behaviours it wishes to encourage in carrying out its business, since the behaviours demonstrated, individually as Directors and collectively as the Board, set the tone from the top. The previous review of the Board for 2018 was an external evaluation conducted by a governance consultancy, Independent Audit Limited, which has no other relationship with the Company. For the 2019 Board evaluation, Independent Audit Limited was again engaged and supported a self-assessment of the effectiveness of the Company's Board and Committees, including observing Board and certain Committee meetings. The Board believed that this approach would bring the benefits of continuity from Independent Audit's Limited reappointment and recognised that the Board was in a transitional phase, given the number of changes to the Board during the year. The evaluation exercise was led by the Chairman and supported by the Group General Counsel & Company Secretary. The results of this review are set out on page 66.

Conclusion

Your Board is committed to maintaining high standards of corporate governance across the Group and believes this is integral to the delivery of our strategy for the long-term sustainable success of the Company for the benefit of shareholders and stakeholders.

I am pleased to say that Centrica has applied all the principles and fully complied with the provisions of the 2018 Code throughout the year.

The Directors' and Corporate Governance Report which follows has been prepared in order to provide stakeholders with a comprehensive understanding of the Company's governance framework under the 2018 Code, the Companies Act 2006, the UK Listing Rules and the Disclosure Guidance and Transparency Rules. I hope that you find the Report informative and engaging.

Charles Berry
Chairman
12 February 2020

Section 172(1) Directors' Duty

Section 172(1) considerations	Where to find more information	Page(s)
Decisions for the long-term success of the Company	Our Strategy – six key factors in Directors' decision-making	12
	Stakeholder engagement – decisions involving the interests of employees and the effect of that on principal decisions e.g. exiting Exploration & Production	16 to 17
	Responsible Business Ambitions	48 to 54
	Board activity – examples of decisions made by the Directors	64
How the Board engages with stakeholders and how the Directors have regard to the need to foster the Company's business relationship with all of its stakeholders, and the effect of that regard	Stakeholder Engagement	16 to 17
	Responsible Business Ambitions	48 to 54
	Board activity	64
Risk	Principal Risks and Uncertainties – risk management process, including financial risks	34 to 45
Training and information	Directors' and Corporate Governance Report – Training and development for Directors	65
Policies and procedures	Responsible Business Ambitions – Non-Financial Reporting Statement	48
	Directors' and Corporate Governance Report – Governance framework	63
Capital allocation and dividend policy – the long-term approach to making decisions around the amount and timing of returns to shareholders, including dividends, share buybacks and other capital distributions within the context of any relevant legal or financial constraints	Business Model – group financial framework	14
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Culture and workforce	Stakeholder Engagement	16 to 17
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	Workforce engagement	67

Board of Directors

It is considered that each of the Directors on the Board of the Company effectively contributes to the Company's long-term sustainability by actively promoting the success of the Company, generating value for shareholders and contributing to the wider society.

Full biographies can be found at centrica.com/board

Committee membership key

- C Chairman of the Board
- AC Audit Committee
- DC Disclosure Committee
- NC Nominations Committee
- RC Remuneration Committee
- SC Safety, Health, Environment, Security and Ethics Committee
- Denotes Committee Chairman

Skills and experience key

- Energy Sector
- Geopolitics
- Emerging Markets
- Financial Services
- Technology
- Engineering/Safety
- Consumer services
- Government/Regulatory
- Finance/M&A

Reasons for the (re-)election of each of our Directors at the forthcoming AGM can be found on our website within the Centrica plc Notice of Annual General Meeting 2020.

Charles Berry
Chairman

C NC

Charles joined the Board as a Non-Executive Director on 31 October 2018 and became Chairman of the Board and Nominations Committee on 21 February 2019.

Relevant skills and experience
Charles has a wealth of international energy and engineering knowledge and a track record of successful leadership of businesses across the industrial, minerals, telecommunications and retail sectors. He also has extensive experience, in both the UK and US, of the regulatory framework of the energy and service markets.

Previous experience
Charles has previously held chairman roles at Senior plc, Drax Group plc, EAGA plc and Thus Group plc. Charles was an executive director of Scottish Power plc from 1999-2005.

External appointments
Chairman of The Weir Group PLC and member of the steering group of the Hampton-Alexander Review.

Iain Conn
Group Chief Executive

DC

Iain was appointed Group Chief Executive on 1 January 2015 and is Chairman of the Disclosure Committee.

Relevant skills and experience
Iain possesses a deep understanding of the energy sector built up over a lifetime in the industry and has demonstrated strong commitment to customers, safety and technology.

Previous experience
Iain was previously BP's chief executive, downstream (BP's refining and marketing division), a position he held for seven years. Iain was a board member of BP for 10 years from 2004 and had previously held a number of senior roles throughout BP including in trading, exploration and production, and the management of corporate functions such as safety, marketing, technology and human resources. He also served as a non-executive director and latterly senior independent director of Rolls-Royce Holdings plc from January 2005 until May 2014.

External appointments
Non-executive director of BT Group plc, chairman of the advisory board of Imperial College Business School and a member of the CBI's President's Committee.

Responsibilities
The Group Chief Executive is responsible for the executive leadership and day-to-day management of the Company, to ensure the delivery of the strategy agreed by the Board.

Chris O'Shea
Group Chief Financial Officer

DC

Chris was appointed Group Chief Financial Officer on 1 November 2018.

Relevant skills and experience
Chris is an experienced listed company chief financial officer with considerable experience of complex, multi-national organisations, not only in the energy sector but also in technology-led engineering and services industries.

Previous experience
Prior to joining the Company, Chris was group chief financial officer of both Smiths Group plc and Vesuvius plc, and a non-executive director of Foseco India Ltd, an Indian-listed supplier to the foundry industry. From 2006 to 2012 Chris held various senior finance roles with BG Group plc, including chief financial officer of Europe and Central Asia, prior to which he held a number of senior roles with Royal Dutch Shell plc in the UK, the US and Nigeria, and with Ernst & Young. Chris studied Accounting and Finance at the University of Glasgow, is a Chartered Accountant, and holds an MBA from the Fuqua School of Business at Duke University.

External appointments
Chairman of the Tax Committee of the 100 Group of UK Finance Directors.

Responsibilities
Responsible for providing strategic financial leadership of the Company and day-to-day management of the finance function. Also responsible for Exploration & Production.

Sarwjit Sambhi
Chief Executive, Centrica Consumer

Sarwjit was appointed Chief Executive, Centrica Consumer and joined the Board on 1 March 2019.

Relevant skills and experience
Sarwjit joined Centrica in 2001 and has held senior leadership positions in retail, strategy, finance, trading, power generation, exploration and production.

Previous experience
Prior to joining the Company, Sarwjit worked for the management and technology consulting company, Booz Allen & Hamilton. Most recently, he was Managing Director, UK Home at the Group.

External appointments
Director of Energy UK (representing Centrica).

Responsibilities
Responsible for executive leadership and day-to-day management of Centrica Consumer in support of the Group Chief Executive and the delivery of the strategy agreed by the Board.

Richard Hookway
Chief Executive, Centrica Business

Richard was appointed Chief Executive, Centrica Business and joined the Board on 1 December 2018.

Relevant skills and experience
Richard has worked in the energy sector for 35 years at BP plc, most recently as Group Chief Operating Officer for Global Business Services and IT.

Previous experience
Prior to joining the Company, Richard spent seven years as chief financial officer for BP's Downstream division which includes customer-facing businesses, refining and marketing and the P&L for BP's oil trading activities. He previously held a number of senior commercial roles both in the UK and in North America including head of the Natural Gas Liquids business based in Houston and the Commercial and Industrial Marketing business for Europe. He also held positions in trading, exploration and production, petrochemicals and in group functions.

External appointments
Non-Executive Director of EDF Energy Nuclear Generation Group Limited (representing Centrica).

Responsibilities
Responsible for executive leadership and day-to-day management of Centrica Business in support of the Group Chief Executive and the delivery of the strategy agreed by the Board.

Joan Gillman
Non-Executive Director

NC RC SC

Joan joined the Board on 11 October 2016 and is the Employee Champion on the Board.

Relevant skills and experience
Joan's expertise lies in optimising stakeholder management and shaping growth and transformational strategies to lead and govern high performing teams. She has a consistent track record of thought leadership and growth in new technology.

Previous experience
Joan started her career as an executive in a Senator's office of the United States Senate. As the internet became a growing force, she has driven growth and transformation across four media and communications companies since 1995. Most recently, Joan served as a former executive vice president of Time Warner Cable, as well as chief operating officer, Time Warner Cable Media and president, Time Warner Cable Media LLC. Joan led one of Time Warner Cable's three operating divisions, doubling revenues and overseeing the company's big data strategy.

External appointments
Director of Airgain, Inc., InterDigital, Inc and Cumulus Media, Inc.

Stephen Hester
Senior Independent Director

AC NC RC

Stephen joined the Board on 1 June 2016 and is the Senior Independent Director.

Relevant skills and experience
Stephen has wide-ranging experience, particularly in customer-facing businesses, together with recognised expertise in transforming business performance. He has a deep knowledge of operating within highly regulated businesses with over 35 years' experience in financial services and within FTSE 100 companies.

Previous experience
Stephen has previously held positions as chief executive of Royal Bank of Scotland Group, chief executive of British Land plc and chief operating officer of Abbey National plc, as well as a number of senior executive roles at Credit Suisse First Boston in London and New York.

External appointments
Group chief executive of RSA Insurance Group plc.

Pam Kaur
Non-Executive Director

AC SC NC

Pam joined the Board on 1 February 2019.

Relevant skills and experience
Pam has extensive experience in audit, business, compliance, finance and risk management.

Previous experience
Pam has previously held various senior roles at global financial institutions including Citigroup, Lloyds TSB, the Royal Bank of Scotland and Deutsche Bank, and has worked with regulators and supervisory boards across the world. She has an MBA in finance and a BCom (Hons) from Panjab University in India and is a qualified chartered accountant.

External appointments
Group Chief Risk Officer at HSBC Holdings plc.

Heidi Mottram
Non-Executive Director

NC SC

Heidi joined the Board on 1 January 2020.

Relevant skills and experience
Heidi brings considerable relevant strategic and operational experience acquired in her current and previous roles. Her deep understanding of the importance of customer service, delivered in complex multi-stakeholder environments with a high public profile, is particularly pertinent to the Company, at this time, as it focuses on the delivery of its customer-centric strategy.

Previous experience
Heidi began her career with British Rail in the mid-1980s. She held a number of roles in GNER, before joining Midland Mainline in 1999 as Operations Director. She was Commercial Director for Arriva Trains Northern from January 2004, before becoming Managing Director of Northern Rail Limited, the UK's largest rail franchise.

External appointments
CEO of Northumbrian Water Limited and Northumbrian Water Group Limited. Vice-Chair of the North East Local Enterprise Partnership, and a member of the CBI Board and Vice-Chair of Newcastle University Council.

Kevin O'Byrne
Non-Executive Director

AC NC

Kevin joined the Board on 13 May 2019 and is Chairman of the Audit Committee.

Relevant skills and experience
Kevin brings extensive retail and finance experience to the Board, having occupied senior roles in a number of leading UK and international retailers. The Board considers that Kevin has recent and relevant financial experience.

Previous experience
Kevin was previously chief executive officer of Poundland Group plc, and held executive roles at Kingfisher plc including divisional director UK, China and Turkey, chief executive officer of B&Q UK & Ireland and group finance director. Prior to that he was finance director of Dixons Retail plc. From 2008 to 2017 he was a non-executive director and chairman of the audit committee of Land Securities Group PLC where he was also senior independent director from 2012 to 2016.

External appointments
Group chief financial officer of J Sainsbury plc.

Carlos Pascual
Non-Executive Director

NC RC SC

Carlos joined the Board on 1 January 2015.

Relevant skills and experience
Carlos has held a number of senior positions in the energy industry and is a senior leader in energy geopolitics and economic and commercial development.

Previous experience
Between 2011 and 2014 Carlos established and directed the US State Department's Energy Resource Bureau and until August 2014 Carlos was special envoy and co-ordinator for international energy affairs, acting as senior adviser to the US Secretary of State on energy issues. He has also served as US ambassador in Mexico and Ukraine.

External appointments
Non-resident senior fellow at the Center on Global Energy Policy, Columbia University, and senior vice-president for global energy at IHS Markit.

Steve Pusey
Non-Executive Director

AC NC SC

Steve joined the Board on 1 April 2015 and is Chairman of the SHESEC.

Relevant skills and experience
Steve has a wealth of international experience as a senior customer-facing business technology leader. He also has considerable experience in the telecommunications industry, in both the wireline and wireless sectors, and in business applications and solutions.

Previous experience
Between 2006 and July 2015 Steve was the chief technology officer of Vodafone Group Plc and held responsibility for defining and leading their global technology strategy. Steve was a director of Vodafone Group Plc for six years. Prior to joining Vodafone Group Plc, Steve was executive vice president and president of Nortel in Europe, Africa and the Middle East, and spent several years with British Telecom. Steve is a graduate of the Advanced Management Program at Harvard University.

External appointments
Non-executive director of FireEye, Inc.

Scott Wheway
Non-Executive Director

NC RC SC

Scott joined the Board on 1 May 2016 and is the Chairman of the Remuneration Committee.

Relevant skills and experience
Scott has a wealth of experience as a senior customer-facing business leader with a mix of deep retail and consumer expertise. He has considerable knowledge gained in both the retail and insurance sectors, together with a strong understanding of operating within highly regulated businesses.

Previous experience
Scott worked in retail for 27 years both in the UK and internationally. He is the former chief executive officer of Best Buy Europe (retail services), director of The Boots Company plc, managing director and retail director of Boots the Chemist at Alliance Boots plc and a director of the British Retail Consortium. He formerly held a number of senior executive positions at Tesco plc (retail services), including chief executive of Tesco in Japan, and served as non-executive director of Aviva plc.

External appointments
Chairman of AXA UK plc and senior independent director of Santander UK group Holdings PLC.

Board changes and attendance

Board changes
- Pam Kaur joined the Board on 1 February 2019
- Rick Haythornthwaite stepped down from the Board on 20 February 2019
- Charles Berry became Chairman on 21 February 2019
- Mark Hodges stepped down from the Board on 28 February 2019
- Sarwjit Sambhi joined the Board on 1 March 2019
- Margherita Della Valle stepped down from the Board on 12 May 2019
- Kevin O'Byrne joined the Board on 13 May 2019
- Heidi Mottram joined the Board on 1 January 2020

The Board has agreed that each Director shall stand for election or re-election at each AGM. Copies of the Executive Directors' service contracts and the Non-Executive Directors' Letters of Appointment are available for inspection by shareholders at each AGM and during normal business hours at the Company's registered office.

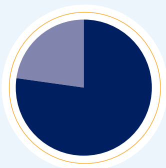
Board attendance

	Board(1)(3)
Number of meetings	
Charles Berry(2)	10/11
Iain Conn	11/11
Margherita Della Valle	3/3
Joan Gillman	11/11
Rick Haythornthwaite	2/2
Stephen Hester	11/11
Mark Hodges	2/2
Richard Hookway	11/11
Pam Kaur	10/10
Kevin O'Byrne	8/8
Chris O'Shea	11/11
Carlos Pascual(2)	9/11
Steve Pusey(2)	10/11
Sarwjit Sambhi	9/9
Scott Wheway	11/11

(1) During the year there were 11 Board meetings, of which nine were scheduled meetings and two were called at short notice.
(2) All absences were due to Directors having unavoidable diary conflicts.
(3) Attendance is expressed as the number of meetings attended out of the number eligible to be attended.

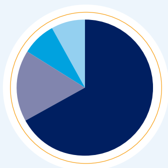
Board diversity

By gender



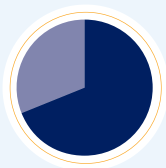
Male	83%
Female	17%

By nationality



British	67%
American	17%
Indian	8%
Irish	8%

By tenure



0-3 years	69%
3-6 years	31%

*Data as at 31 December 2019

Senior Executives

Charles Cameron
Director of Technology & Engineering and Chairman of Centrica Innovations

Charles was appointed Director of Technology & Engineering on 1 January 2016 and Chairman of Centrica Innovations on 1 May 2017.

Skills and experience
Charles has extensive technology and engineering experience and has held corporate roles in marketing, planning and M&A. Before joining the Group, he was head of technology, downstream at BP plc and was a member of the downstream executive team.

Prior to his time at BP, Charles spent 23 years with the French Institute of Petroleum and their catalyst, technology licensing and engineering service business, Axens.

Justine Campbell
Group General Counsel & Company Secretary

DC

Justine was appointed Group General Counsel & Company Secretary on 1 April 2019 and has responsibility for legal, regulatory, compliance and governance across the Group.

Skills and experience
Justine joined Centrica in 2013 as General Counsel for British Gas. Prior to joining Centrica, Justine was General Counsel and Corporate Affairs Director of Vodafone UK for five years, before which she spent seven years at O2/Telefonica, the final two as European general counsel. She qualified with Freshfields in London and Brussels and holds a law degree from Trinity College, Dublin and an advanced management qualification from the Saïd Business School, Oxford.

Jill Shedden, MBE
Group Human Resources Director

Jill was appointed Group Director, Human Resources on 1 July 2011.

Skills and experience
Jill joined British Gas plc as a graduate in 1988 and has since held a wide range of senior HR roles across the Group. Prior to her appointment as Group HR Director, Jill was HR Director in British Gas Business, British Gas Energy and Centrica Energy. In 2017 Jill was awarded an MBE for 'services to women and equality' in recognition of her work with, amongst other organisations, the Women's Business Council.

External appointments
Non-executive director of Thames Water Utilities Limited.

Mike Young
Group Chief Information Officer

Mike was appointed Group Chief Information Officer on 1 November 2016.

Skills and experience
Mike brings a wide range of experience in managing global information systems functions in partnership with customer-facing units and using big data and digital technologies to drive revenue growth and improve the customer experience. Before joining the Group he was group chief information officer with the media and digital marketing company Dentsu Aegis Network.

Governance framework

The Board

The Board is collectively responsible for the long-term success of the Group. With due regard to the views of shareholders and other stakeholders, it provides leadership and direction including establishing the Group's culture, values and ethics, setting strategy and overseeing its implementation, ensuring only acceptable risks are taken and being responsible for corporate governance and the overall financial performance of the Group.

Matters reserved exclusively for the Board
There are certain key responsibilities that the Board does not delegate and which are reserved for its consideration. The full Schedule of Matters Reserved is available under governance on our website, but key features include:

- the development of strategy and major policies;
- approving the annual operating plan, Financial Statements and major acquisitions and disposals;
- approving interim dividend payments and recommending final dividend payments; and
- the appointment and removal of Directors and the Company Secretary.

Read more about our Stakeholder Engagement on
Pages 16 to 17

Read more on how we manage our Risks on
Pages 34 to 45

Read more about Our Strategy and Our Business Model on
Pages 12 to 15

Board composition and roles

Chairman
Responsible for the leadership and management of the Board. In doing so, he is responsible for promoting high ethical standards, ensuring the effective contribution of all Directors and, with support from the Group General Counsel & Company Secretary, best practice in corporate governance.

Group Chief Executive
Responsible for the executive leadership and day-to-day management of the Company, to ensure the delivery of the strategy agreed by the Board.

Group Chief Financial Officer
Responsible for providing strategic financial leadership of the Company and day-to-day management of the finance function.

Independent Non-Executive Directors
Responsible for contributing sound judgement and objectivity to the Board's deliberations and overall decision-making process, providing constructive challenge, and monitoring the Executive Directors' delivery of the strategy within the Board's risk and governance structure.

Senior Independent Director
Acts as a sounding board for the Chairman and serves as a trusted intermediary for the other Directors, as well as shareholders as required.

Group Executive Directors
Responsible for executive leadership and day-to-day management of relevant business units in support of the Group Chief Executive and the delivery of the strategy agreed by the Board.

Group Company Secretary
Adviser to the Chairman and the Board on matters of corporate governance, induction, training and the efficient management of Board and Committee meetings. Responsible for ensuring the effectiveness of the Company's governance framework.

Committees

Audit Committee
For more information
Pages 69 to 75

Disclosure Committee
For more information
Page 76

Nominations Committee
For more information
Pages 77 to 79

Remuneration Committee
For more information
Pages 82 to 99

Safety, Health, Environment, Security and Ethics Committee
For more information
Pages 80 to 81

The role and responsibilities of each Committee are set out in its Terms of Reference found on the Company's website at
centrica.com/boardcommittees

Board activity

Board meetings

The Board held 11 meetings in 2019, nine of which were in person and two by scheduled telephone conferences. If Directors are unable to attend a meeting, they have the opportunity beforehand to discuss any agenda items with the Chairman.

Each year the Board seeks to combine one or two meetings with visits to the Group's operations and in 2019 visited North America Home, Houston, in March and British Gas, Stockport, in September. Details of these visits can be found on page 65. During the year, the Non-Executive Directors, including the Chairman, met frequently without management present. The Non-Executive Directors met once during the year without the Chairman present.

Board activity

During the year, the Board considers a comprehensive programme of regular matters covering operational and financial performance reporting, strategic reviews and updates, and various governance reports and approvals. In addition, each Board meeting features deep dives into a specific operation or topic. In 2019, the Board's focus for the first half was on the strategic update and during that the Board reviewed the foundations of the 2015 Group Strategy Review (GSR), considered developments in the external environment since the time of the GSR and in that context reflected on the Company's progress in delivering its strategy. Various scenarios were modelled and discussed, with regard to all stakeholders, focusing in particular on the options for exiting Exploration & Production, and Nuclear and the implications for the Group's financial framework. In addition, the Board reviewed the Group's potential for delivering further cost efficiencies as well as the future potential of the North America Business, Centrica Business Solutions and Centrica Home Solutions business units. Following four months of review, the Board announced the results of its review in July 2019, including the divestment of Spirit Energy and the rebasing of the dividend.

During 2019, Board discussions included:

Key areas of activity	Matters considered	Views of Stakeholder groups considered
Strategy and business plan	• Strategic update • Group Annual Plan • Multi-year efficiency programme update • Portfolio optimisation • Group Strategic Transformation Programme	• Customers • Investors and shareholders • Communities and NGOs • Government and regulators • Suppliers • Colleagues
Performance and risk	• Group Performance Reports, including reports from the Group Chief Executive, Group Chief Financial Officer and Executive Directors • Business reviews • Periodic results –including dividend • Going concern and viability statements • UK Defined Benefit Pension Schemes Valuation and Funding	• Customers • Investors and shareholders • Suppliers • Government and regulators • Colleagues
Governance	• Annual Report and Accounts • AGM documentation • 2018 UK Corporate Governance Code • Board evaluation findings • Succession planning for Directors and Senior Leadership Team • Reports from Committee Chairs • Conflicts of interest review • Terms of Reference reviews • Director independence	• Investors and shareholders • Government and regulators • Colleagues
Culture and stakeholders	• Employee engagement surveys • Feedback from Employee Champion • Investor updates and feedback • Our Code • Diversity and inclusion • Culture, talent & capability review • Town hall meetings • Site visits • Gender pay gap reporting	• Investors and shareholders • Communities and NGOs • Government and regulators • Colleagues
Political and regulatory environment	• Climate change • Brexit preparations • Energy supply nationalisation • Modern Slavery Act • Price cap and judicial review	• Investors and shareholders • Communities and NGOs • Government and regulators • Suppliers

Directors' independence and conflicts

All our Non-Executive Directors are considered to be independent against the criteria in the 2018 Code and free from any business interest which could materially interfere with the exercise of their judgement. In addition, the Board is satisfied that each Non-Executive Director is able to dedicate the necessary amount of time to the Company's affairs.

The Non-Executive Directors' Letters of Appointment state that Non-Executive Directors must inform the Group Company Secretary of any other business, directorships, appointments, adviserships or other relevant connections (including any relevant changes, and a broad indication of the time involved). By accepting their appointment, Non-Executive Directors agree to confirm that they are able to allocate sufficient time to meet the expectations of their role and to perform their responsibilities effectively. Directors also confirm that they will inform the Board of any subsequent changes to their circumstances which may affect the time they can commit to their duties. The agreement of the Chairman must be obtained before accepting additional commitments that might affect the time Non-Executive Directors are able to devote to their appointment.

In accordance with the Companies Act 2006 and the Company's Articles of Association, Directors are required to report actual or potential conflicts of interest to the Board for consideration and, if required, authorisation. If such conflicts exist, Directors recuse themselves from consideration of the relevant subject matter. The Company maintains a schedule of authorised conflicts of interest which is regularly reviewed by the Board.

The Company's Articles of Association provide how Directors are appointed, retired and replaced. These can be found on our website.

Directors' induction

All new Directors appointed to the Board receive a comprehensive induction programme which is led by the Chairman and supported by the Group Chief Executive. This programme is tailored to meet each individual's needs and is structured and designed to ensure that new Directors are equipped with the requisite information and knowledge about the Group and its markets to contribute meaningfully and effectively to Board discussions as soon as possible. The programme includes briefings from members of the Executive, and management teams covering key areas of the business, an overview of the Group's risk management processes, the Internal Audit function and the corporate governance framework within Centrica. The induction programme also includes a series of site visits for new Directors to familiarise themselves with the Group's businesses.

On completion of the induction programme, all new Directors will have sufficient knowledge and understanding of the business to effectively contribute to strategic discussions and the oversight of the Group.

Training and development for Directors

It is important to make sure that Directors' skills and knowledge are refreshed and updated regularly. The Chairman is responsible for the ongoing development of all Directors and discusses with each Director any individual training and development needs, such as formal and informal briefings, meetings with management and visits to the Group's operations. As part of this approach, formal insight and training sessions are held each year. In March, a session was held for new Directors which focused on Market Abuse Regulation and Directors' duties (including their section 172(1) duty). This was followed in September by teach-ins on planning and dispatch, digital journeys, and the SIPD (simplified, integrated planning and dispatch) Programme. Two showcases were presented to the Board members covering customer STAR intervention (demonstrating the value of thinking differently resulting in improved performance across key metrics), and customer empathy.

In addition, the Directors have full access to the advice and services of the Group General Counsel & Company Secretary, who is responsible for advising the Board, through the Chairman, on corporate governance matters. Directors are also able to seek independent professional advice at the Company's expense in respect of their duties.

Board diversity

The Company recognises the benefits of diversity and inclusion in all its forms, at Board level and throughout the Group.

Our Nominations Committee is committed to ensuring and promoting a diverse blend of skills, backgrounds and nationalities on the Board and further details on the Committee's activities in this regard are set out in the Nominations Committee report on pages 77 to 79.

The Company supports the recommendations of the Hampton-Alexander and Parker Reviews in relation to gender and ethnic diversity and is continuing to develop a diverse talent pipeline with the necessary skills, experience and knowledge.
Our Chairman, Charles Berry, is a member of the Hampton-Alexander steering group.

As at 31 December 2019, 17% of the Board were women and comprised Directors from the UK, Ireland, US and India with a wide range of skills and expertise. Heidi Mottram was appointed a Non-Executive Director with effect from 1 January 2020, increasing the proportion of women on the Board to 23%.

Read more about our employee diversity on
Page 52

Board planning conference

At this year's planning conference the Board focused on the performance and implementation of the most material deliverables arising from the Strategic Update announced in July 2019. It marked the beginning of the Group Annual Plan cycle for 2020. Following the Board Planning Conference, the 2020 Group Annual Plan was finalised and approved by the Board.

Site visits

While the bulk of the Board's work is conducted around the boardroom table, Directors recognise the importance and benefits gained by visiting the Group's operations. During 2019, the Board visits included the Group's operations in the US (Houston) and the UK (Stockport).

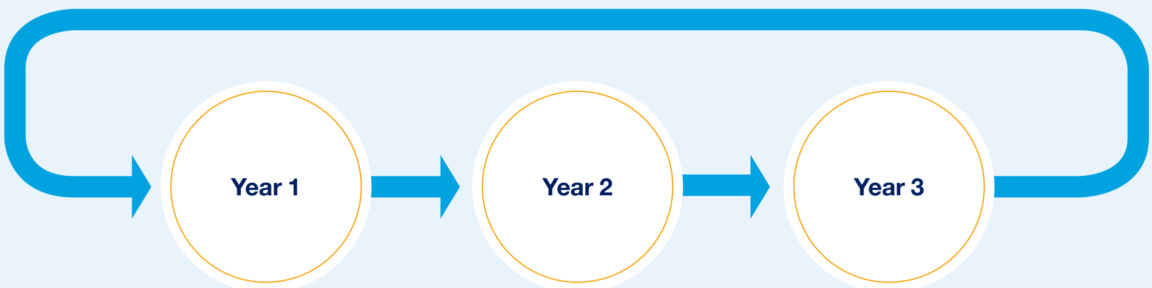
In March 2019, the Board visited Centrica's North America Home team in Houston. The visit comprised a scheduled Board meeting and discussions with the North America Home leadership team on strategy and performance. There was also a town hall held with employees and some Board members, including the Chairman.

In September 2019, the Board visited British Gas, UK Home, in Stockport. The visit comprised a scheduled Board meeting and discussions with the British Gas UK Home Energy & Services leadership team on strategy, performance and culture. In addition, the visit provided the Board with an opportunity to meet colleagues involved with British Gas operations. The Board members were able to meet and explore the plans relating to the digital transformation of the customer operations environment for UK Home Energy & Services.

Evaluation of the Board and its Committees

The Board recognises that it continually needs to monitor and improve its performance. The performance and effectiveness of the Board and its Committees are subject to formal review through the annual evaluation process. In accordance with the 2018 Code, Centrica's annual evaluation of Board effectiveness is facilitated by an independent third party at least once every three years.

Three-year evaluation cycle



Internal Self-Assessment:
Questionnaires for the Board and Committee members plus individual meetings with the Chairman. The outcome is discussed by the Board and recommendations are made for actions to be taken during the year.

Internal Self-Assessment:
Questionnaires for the Board and Committee members plus individual meetings with the Chairman. The outcome is discussed by the Board and recommendations are made for actions to be taken during the year and progress is assessed against actions agreed from the previous year.

External review:
Facilitated by an external, independent party, bringing expertise, objectivity and fresh perspective to the process, whilst serving as a catalyst to facilitate dialogue and add value to conclusions of the evaluation.

Progress against the 2017-18 external Board evaluation

In 2017-18, the performance and effectiveness of the Board were reviewed through an externally facilitated evaluation process by Independent Audit Limited, a governance consultancy that has no other relationship with Centrica. The Directors concluded that the Board and its Committees continued to discharge their duties and responsibilities effectively. A number of opportunities for improvement in the way the Board operates were also identified and these were set out in the 2018 Annual Report. The main agreed actions included reviewing and enhancing Board papers and presentations to promote high quality input, debate, support and challenge at meetings; reviewing the use of operational KPIs in Board reports to enhance the level and clarity of insight provided to the Board; and considering whether further discussion on business performance should be incorporated into future Board agendas.

During 2019, these areas were progressed, through: the alignment of timings and processes of Secretariat and Centrica's Executive Committee (CEC); guidance for Board papers drawn up and templates updated; and KPIs reflected and reported on at each Board meeting, with new KPIs added where necessary.

For the 2019 Board effectiveness evaluation, Independent Audit Limited was again engaged to support a follow-up self-assessment of the effectiveness of Centrica's Board and Committees. The Board believed that this approach would bring benefits of continuity.

The evaluation process was led by the Chairman and supported by the Group General Counsel & Company Secretary. All Board members and certain executives completed questionnaires which were designed to focus on issues that were raised in the 2017-18 external evaluation. Additionally, Independent Audit Limited observed Board and Committee meetings and reviewed meeting papers and presentations. The responses from the questionnaires were collated with Independent Audit Limited's observations and the results of the review were presented to and discussed by the Board at its meeting in December 2019.

The Directors believe that the Board and Committees continue to operate effectively and, around the boardroom table, there are good levels of engagement and, overall, a collegiate atmosphere. The Directors also recognise that there have been significant changes to the Board, with seven new Directors joining the Board since the last effectiveness evaluation. Good progress has been made in bringing the refreshed Board together and this will continue to be a focus for the Chairman. While progress has also been made on the actions identified in the previous effectiveness evaluation, these will continue to be ongoing themes for 2020.

Chairman's performance

The Senior Independent Director, Stephen Hester, conducted the evaluation of the Chairman's performance through discussions with Directors and Senior Executives. Stephen then discussed the feedback with the Chairman.

Individual performance

The Chairman held performance meetings with each Director to discuss their individual contribution and performance over the year and their training and development needs. Following these meetings, the Chairman confirmed that each Director continued to make an effective contribution to the Board and the Company.

Workforce engagement

Employee engagement is critical to our success. During 2019, we began the work to embed the role of Employee Champion as an integral part of Centrica's governance framework. Using the output from employee discussions in 2018, we formalised the Employee Champion role in written terms of reference to ensure that its purpose was clear, it was well supported by the Company, and there were mechanisms in place for reporting and feedback.

The key purposes set out in the terms of reference are to:

- Bring employee perspectives to the Board to increase board effectiveness and decision making through the lens of an employee;
- Review reports on the Group's organisational health and culture; and
- Bring about positive results for employees with the Board being better informed by employee perspective and insight.

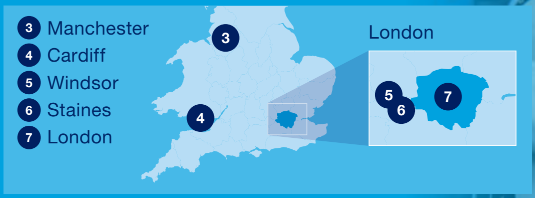
During 2019, I continued discussions with employees across the Centrica group. Workshops were held at our UK sites in Manchester, Cardiff, Windsor, Staines and London and in the US, at our main locations in New Jersey and Houston. These workshops were held across a range of organisational levels to gather a broad range of views and were structured around understanding how we could "improve the experience of our colleagues" to empower them and to help them perform at their best in order to better serve our customers. Colleagues were also encouraged to share their views on any other aspects of their working environment.

I am pleased to report that employees across the group continued to engage fully and openly, sharing their views on key themes such as ways of working in the context of significant organisational transformation, and colleagues' understanding of the Group's strategy as it relates to the roles they perform. Feedback from colleagues during the workshops was not always positive and this was reinforced by the engagement scores from the Our Voice employee engagement survey which were lower than the previous year. After the workshops, feedback and observations were provided to senior management who kept the Board informed on actions taken to address employee concerns. Additionally, follow-ups were sent to all employees summarising thoughts, observations and the actions arising from the workshops.

Our workshops

USA

United Kingdom



The principal purpose of the role of Employee Champion is to ensure the voice of the workforce is heard in the boardroom and considered in Board discussions and decision making. The Board has listened to what employees have said and has therefore made empowering colleagues a Group priority for 2020 and beyond. Its aim is to eliminate obstacles and create opportunities for our employees to deliver for our customers. To ensure this happens, a number of initiatives were implemented during 2019 including:

- The inclusion of people and culture in the SHESEC agenda;
- The development of a people and talent dashboard for the Board; and
- The appointment of the Employee Champion to the Remuneration Committee.

We will further develop the role and impact of the Employee Champion during 2020 and beyond, with a focus on the following key areas:

- Engagement for all Board members with colleagues at offsite visits and town hall briefings;
- Improved communications to enable all of our colleagues to connect to our Purpose and to perform at maximum capability;
- Ensure the Board has more clarity on goals and initiatives that senior executives are pursuing to address pain points that prevent colleagues from performing at their best;
- Graduate and apprentice focused events to support engagement with future leaders; and
- Diversity, respect and inclusion – ensure that this remains firmly on the Board agenda.

Looking ahead, I will continue to spend time with colleagues in 2020 and work with senior executives to develop a programmatic effort to ensure that we create an environment where each employee can reach their full potential and be at their best, and we can retain and develop the best talent to continue to deliver for our stakeholders.

Joan Gillman
Employee Champion

Shareholder engagement

The Board is committed to maintaining open channels of communication with all of the Company's stakeholders. An important part of this is providing a clear explanation of the Company's strategy and objectives, and ensuring feedback is acknowledged, considered and, where appropriate, acted upon. During 2019, the Chairman held 27 one-to-one meetings with investors.

Meetings, roadshows and conferences

We typically offer meetings with senior management to our major institutional shareholders twice a year, following the Company's Preliminary and Interim results. These meetings are attended by the Group Chief Executive and Group Chief Financial Officer, and also sometimes divisional Chief Executives, to ensure that shareholders have the opportunity to hear directly from management on the Company's performance and progress.

In addition, management and/or Investor Relations attend a number of investor conferences throughout the year, giving shareholders further opportunity to meet and receive updates directly from Company representatives, while senior management are also available to meet on an ad hoc basis with major shareholders if requested.

Engagement themes with our institutional shareholders

During the year, engagement themes included:

- Centrica's strategic update, announced alongside the Interim results in July;
- The intended divestments of Nuclear and Spirit Energy;
- The regulatory and political environment for UK energy;
- Restructuring and cost efficiency progress;
- Climate change and Centrica's role in this; and
- CEO succession.

Key investor relations activities during the year

Q1 (Jan–Mar)	Q2 (Apr–June)	Q3 (Jul–Sep)	Q4 (Oct–Dec)
Preliminary results	Chairman's one-to-one meetings with investors (including ESG colleagues)	Interim results	Trading update
Post-results investor meetings	AGM	Post-results investor meetings	
Annual Report published	Trading update		

Meetings between the CEO and CFO and the Company's major shareholders

Chairman and Senior Independent Director meet with major institutional shareholders

Press releases available on centrica.com

Annual General Meeting

Our AGM is attended by our Board and Executive Committee members and is open to all our shareholders to attend. A summary presentation of financial results is given before the Chairman deals with the formal business of the meeting. Shareholders present during the meeting can question the Board. Representatives from Investor Relations and customer services are available before and after the meeting to answer any additional questions that shareholders may have. Our 2019 AGM was very well supported; the level of support for the resolutions carried ranged from 85.27% to 99.91%.

We are holding our 2020 AGM at the Manchester Central Convention Complex, Windmill St, Manchester M2 3GX on Monday, 11 May 2020. The move to a regional location reflects the breadth of our customer and shareholder base and office locations too, and we look forward to holding future AGMs in other UK locations to enable us to reach more of our shareholders. Further information is available in the Notice of AGM (see centrica.com/agm20).

Reuniting our shareholders with unclaimed dividends

Since 2009, together with our Registrar, Equiniti, and its partner ProSearch, Centrica has run an asset reunification programme. This seeks to reunite shareholders with uncashed dividends and share entitlements. To date, we have successfully reunited £23.5million of share and dividend assets with shareowners.

At the 2019 AGM, shareholders approved the adoption of new Articles which have provided the Company with greater control and flexibility in relation to its treatment of untraced shareholders, the procedure for the payment of dividends and the holding of combined physical and electronic general meetings. Following the adoption of the new Articles and attempts to trace shareholders, the forfeited shares were sold in June 2019. The funds will be spent on progressing Centrica's 2030 Responsible Business Ambitions and the 15 global goals we have set to contribute to a more sustainable world. Further information can be found on page 48 and on our website. As agreed, the Company will honour all late claims and asks shareholders who want to make a claim to contact our Registrars who are managing this process for us. Contact details can be found on page 222.

Share dealing programme

We continue to run our popular share dealing programme for shareholders with shareholdings of up to 5,000 shares, giving them the option to sell or increase their shareholdings at a fixed fee. Shareholders who sold their shares had a further option to donate the proceeds to UK Charity ShareGift, resulting in over £404,000 being donated since 2010.

Centrica.com

Our website, centrica.com, contains up-to-date information for shareholders and other interested parties including annual reports, shareholder circulars, share price information, news releases, presentations to the investment community and information on shareholder services.

Read more about Shareholder Information on
Page 222

Audit Committee

Kevin O'Byrne
Committee Chairman

"My priority in this first year has been to get to know Centrica – its people, its businesses, its operations, and its risk management processes and internal controls."

Committee membership

	Meetings attended(1)
Kevin O'Byrne, Chairman (since 13 May 2019)	2/2
Margherita Della Valle, Chairman (until 12 May 2019)	1/1
Stephen Hester, Senior Independent Director	3/3
Pam Kaur, Non-Executive Director (since 1 February 2019)	3/3
Steve Pusey, Non-Executive Director	3/3

(1) Attendance is expressed as the number of meetings attended out of the number eligible to be attended.

All current Audit Committee members also attended the two joint SHESEC/Audit Committee meetings held in 2019.

Committee highlights in 2019

- Kevin O'Byrne and Pam Kaur joined the Committee as Chair and Member respectively
- Conducted reviews of the control environment of Centrica Business, Centrica Consumer and Spirit Energy
- Continued dialogue with management in relation to the Finance Transformation Programme
- Monitored progress on projects to enhance Group level controls and an independent review by Internal Audit of their effectiveness (or implementation)
- Reviewed accounting judgements in particular relating to exceptional or one-off items excluded from underlying results

Areas of focus for the Committee in 2020

- Review of Group-wide Financial Risk
- Reviews of regulated entity risks within UK Insurance, North America Business and EM&T
- External Quality Assessment (EQA) of Internal Audit to be performed in 2020 (performed every three to five years, with the last EQA being in 2016)
- Review and refresh of Enterprise Risk Framework
- Monitor delivery of certain Finance Transformation actions
- Continue to monitor ongoing projects to enhance Group level controls and Internal Audit's review of their effectiveness
- Review trading controls of EM&T

Dear Shareholder

On behalf of the Board, I am pleased to present the Audit Committee's report for the year ended 31 December 2019 which explains the Committee's focus and activities during the year and its objectives for 2020. This is my first report to you as Audit Committee Chair having joined the Board in May 2019. My priorities in this first year have been to spend time visiting a number of Company offices, meeting with colleagues, and understanding the operations, risk management processes, and internal controls. I have also spent time with the Company's professional advisers. I hope you find this report an interesting explanation of our work during the year. It should be read in conjunction with our UK Corporate Governance Code compliance section on pages 55 to 56, Our Principal Risks and Uncertainties on pages 34 to 43 and our Viability Statement on pages 44 to 45.

The Audit Committee assists the Board in fulfilling its oversight responsibilities by reviewing and monitoring the integrity of the financial information provided to shareholders and other stakeholders. The Committee oversees financial reporting and related risks and internal controls, and also has a role in overseeing the internal and independent auditors, as well as interacting with other members of management and external stakeholders.

I believe that the Committee has performed effectively in 2019 and I would like to thank members of the Committee and all the colleagues who have contributed to our work, for their time and commitment during what has been another busy year. In the coming year I plan to increase my own knowledge of the business while ensuring this Committee continues to perform effectively.

Role of the Committee

The Committee's Terms of Reference are available on centrica.com. The core responsibilities of the Committee are to:

- support the Board in fulfilling its responsibilities to maintain effective governance and oversight of the Company's financial reporting, internal controls and risk management;
- provide advice to the Board on whether the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders to assess the Company's position, performance, business model and strategy;
- monitor and review the operation and effectiveness of the Group's Internal Audit function, including its independence, strategic focus, activities, plans and resources;
- facilitate the appointment and, if required, the removal of the Group Head of Internal Audit, Risk & Control;
- manage the relationship with the Group's external auditors on behalf of the Board including the policy on the award of non-audit services;
- conduct a tender for the external audit contract at least every 10 years and make appointment recommendations to the Board; and
- consider and review legal and regulatory compliance issues, specifically in relation to financial reporting and controls, and, together with the Safety, Health, Environment, Security and Ethics Committee (SHESEC), maintain oversight of the arrangements in place for the management of statutory and regulatory compliance in areas such as financial crime.

The Committee regularly undertakes reviews of its Terms of Reference to ensure it reflects the actual role carried out by the Committee and is operating at maximum effectiveness.

Membership of the Committee and attendance at meetings

The Committee is comprised solely of independent Non-Executive Directors: Kevin O'Byrne (since 13 May 2019), Stephen Hester, Pam Kaur (since 1 February 2019) and Steve Pusey. Margherita Della Valle stepped down from the Audit Committee on 12 May 2019.

Kevin O'Byrne, as Group Chief Financial Officer of J Sainsbury plc, is considered by the Board to have recent and relevant financial experience as required by the 2018 Code. The Board is satisfied that the Committee has the resources and expertise to fulfil its responsibilities.

Meetings of the Committee are attended by the Chairman of the Board, the Group Chief Executive, the Group Chief Financial Officer, the Group General Counsel & Company Secretary, the Group Head of Corporate Finance and the Group Head of Internal Audit, Risk & Control, none of whom do so as a right. Other Senior Executives will attend as required to provide information on matters being discussed which fall within their area of responsibility. The external auditors, Deloitte LLP (Deloitte), also attended each meeting. The Committee meets individually with the external auditors, the Group Chief Financial Officer and the Group Head of Internal Audit, Risk & Control at each meeting without other Executive Directors present.

The Committee met five times in 2019, twice jointly with the SHESEC, where each committee retains discretion to require a full presentation and discussion on any joint meeting topic at their respective meeting if deemed appropriate. I have appreciated the contribution from the members of the Committee, management team and auditors in facilitating an open discussion and in taking the important work of the Committee forward.

The Committee has developed its agenda to enable, over the course of a year, active oversight of all key areas of responsibility and to facilitate deeper dives into topics of particular importance or pertinence. At the joint meetings between the Committee and the SHESEC, the Committees considered the Group's System of Risk Management and Internal Control: in the first quarter to assess the system's effectiveness; and in the fourth quarter to look prospectively at plans for 2020.

More detail on the key issues considered by the Committee in 2019 are given below.

Main activities of the Committee during 2019

- Conducted reviews of the control environment of Centrica Business, Centrica Consumer and Spirit Energy;
- Continued dialogue with management in relation to the Finance Transformation Programme;
- Review of 2018 financial results, Annual Report and Accounts and 2019 Interim results;
- Review of structure of 2019 Annual Report and Accounts to best reflect the Group's operations in line with the strategic update in July 2019;
- Oversight of implementation of IFRS 16;
- Update to the policy on independence of external auditors following a decision to reduce the annual non-audit fee limit;
- Effectiveness review of external auditors;
- Continued oversight of the maintenance and development of the control environment;
- Regular reports on Risk, Assurance and Controls, Internal and External Audit;
- Monitored progress on projects to enhance Group level controls and on independent review by Internal Audit of their effectiveness or implementation; and
- Reviewed accounting judgements in particular relating to exceptional or one-off items excluded from underlying results.

Effectiveness of the Committee

Read more about the Committee's effectiveness, which was considered as part of this year's evaluation process, on page 66.

Risk management and internal controls

Internal Audit

The Committee is responsible for monitoring and reviewing the operation and effectiveness of the Group's Internal Audit function, including its independence, strategic focus, activities, plans and resources. The appointment and removal of the Group Head of Internal Audit, Risk & Control is also a matter for the Committee.

The Committee approved the Group's annual Internal Audit plan. The plan is developed in response to those risks identified through the Enterprise Risk Management processes, using the independent insight and experience of the Internal Audit team and their advisers. It incorporates assurance over all aspects of our Group Risk Universe, including the Principal Risks in the categories of Strategic, Financial, Operational and Legal & Regulatory risk. As part of its consideration of the plan, the Committee reviewed staffing levels and qualifications to ensure these were appropriate and adequate for the delivery of the plan. An External Quality Evaluation of Internal Audit will be conducted in 2020 (deferred from 2019 to accommodate the roll-out of a new audit software tool and methodology), following a positive outcome in 2016. Further information on the Principal Risks is available on pages 34 to 45.

During the year, the Committee received regular reports summarising the findings from the Group Internal Audit team's work and action plans to resolve any highlighted areas. The Committee monitored the progress of the most significant action plans to ensure these were completed satisfactorily.

Review of the System of Risk Management and Internal Controls

Each year, an extensive process of self-certification operates throughout the Group whereby the effectiveness of the System of Risk Management and Internal Controls, including compliance with Our Code, and policies are assessed. In addition, there is a comprehensive programme to assess the Group's entity level controls. The results of the annual process, together with the conclusions of the internal reviews by Internal Audit, enable the Audit Committee and the SHESEC, on behalf of the Board, to form and report their view on effectiveness.

During 2019, there was further activity to improve the financial and commercial controls across the Group. These improvements were discussed within the Committee and the SHESEC throughout the year to provide support and guidance to our management teams. The Committee concluded that the System of Risk Management and Internal Control is effective, whilst recognising the need for ongoing and continuous improvement. We have confidence in the work of Internal Audit and the functional assurance teams, alongside our management teams, to identify issues that arise and remediate control gaps where necessary in line with our risk appetite.

Fair, balanced and understandable
As part of the Committee's determination, on behalf of the Board, of whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy, the Committee considers the processes and controls involved in its production and the financial reporting responsibilities of the Directors under section 172 of the Companies Act 2006 to promote the success of the Company for the benefit of its members as a whole. There is a robust governance framework around the production of the Annual Report to ensure it is critically reviewed and signed off by the key teams in the relevant businesses and functions and the Committee was satisfied that the process was effective and confirmed to the Board that the Annual Report, when taken as a whole, was fair, balanced and understandable.

External auditors
The Committee manages the relationship with the Group's external auditors on behalf of the Board. The Committee considers annually the scope, fee, audit plan, performance and independence of the external auditors as well as whether a formal tender process is required. The Committee last led a formal audit tender process in 2016, the details of which can be found in the 2016 Annual Report and Accounts.

The Board considers it of prime importance that the external auditors remain independent and objective and, as a safeguard against this being compromised, the Committee implemented and monitors a policy on the independence of external auditors. This policy details the process for the appointment of the external auditors, the tendering policy, the provision of non-audit services, the setting of audit fees and the rotation of audit partner and staff. There are no contractual or similar obligations restricting the Group's choice of external auditors.

Deloitte was appointed as the Company's auditor at the beginning of 2017 and will this year perform its third full audit. The re-appointment of Deloitte as auditors was approved by shareholders at the AGM in May 2019 and it has been recommended for re-appointment again in 2020.

The Company has complied with the Statutory Audit Services Order 2014 for the financial year under review.

Effectiveness and independence of the external auditors
To assess the effectiveness and independence of the external auditors, the Committee carried out an assessment of Deloitte, primarily looking at the key areas of audit quality, capability and competence, past performance and independence. This assessment included a review of the report issued by the Audit Quality Review (AQR) team regarding Deloitte and separately an internal questionnaire was completed by the Chairman of the Board, Committee members and senior members of management on their views of Deloitte's performance. The questionnaire covered a review of the audit partner and team, the audit scope and approach, audit plan execution, auditor independence and objectivity and robustness of the challenge of management. The feedback received was reviewed by management and reported to the Committee and the Board.

The FRC's AQR review of Deloitte's 2017 audit was completed in early 2019 and the Committee reviewed the detailed findings. Recommendations have been built into ongoing processes. The Committee was satisfied with the external auditor's commitment to audit quality, the robust and professional working relationship with management and demonstration of strong technical knowledge and professional scepticism.

In addition, to ensure the independence of the external auditors and in accordance with International Standards on Auditing (UK & Ireland) 260 and Ethical Standard 2019 issued by the Accounting Practices Board and as a matter of best practice, Deloitte has confirmed its independence as auditors of the Company. Together with Deloitte's confirmation and report on its approach to audit quality and transparency, the Committee concluded that Deloitte demonstrated appropriate qualifications and expertise and remained independent of the Group and that the external audit process was effective.

Non-audit fees
To safeguard the objectivity and independence of the external auditor, the Committee is responsible for the policy on the award of non-audit services to the external auditors. A copy of this policy is available on our website. All requests to utilise Deloitte for non-audit services must be approved by the Chairman of the Audit Committee and the current cap on non-audit work is £1 million (reduced from £2.75 million during 2019), which is assessed annually for appropriateness against external guidance and regulation. This cap is significantly below the EU regulation of 70% non-audit fees compared to the three-year average of statutory audit fees. Non-audit fees for 2019 totalled £0.8 million – being 10% of this three-year average. All non-audit work within this policy is detailed and reviewed by the Committee at the next meeting. All significant non-audit work is tendered and, where Deloitte was appointed, it was considered that its skills and experience not only made it the most appropriate supplier of the work but also there was clear evidence that another firm could not be used without adversely impacting the business.

Kevin O'Byrne
on behalf of the Audit Committee

Key judgements and financial reporting matter in 2019	Audit Committee reviews and conclusions
Determination of long-term commodity prices and their use in valuing long-lived assets Long-term commodity price forecasts are a key assumption in the valuation of the Group's long-lived assets. Historically, these have been derived internally, using valuation techniques based on available external data and then benchmarked against other third-party forecasts. In 2019, following debate with the Committee, the Group has moved to using a "P50" median price curve, derived from a collection of third-party forecasts. The advantage of this approach is to more clearly align to pricing that a reasonable market participant would use and so that other external data points (e.g. consensus view of impact of climate change) are factored into these prices.	In previous periods, the Committee had observed the sensitivity of long-lived asset valuations to long-term commodity prices and had challenged proposed commodity curves in the context of external third parties' views. Accordingly, the move to a "P50" median curve approach (derived from third parties) was welcomed by the Committee. The Committee also noted that the "P50" long-term commodity price forecasts had reduced year on year, in line with most external third-party forecasts. Deloitte provided detailed reporting and held discussions with the Committee on the impact of the commodity curves. As a result of the above, the Committee was comfortable the curves and consequent valuations were appropriate. Sensitivities of the asset impairment tests to changes in price forecasts are provided in note 7 on pages 131 to 133.
Impairment of long-lived assets The Group makes judgements and estimates in considering whether the carrying amounts of its assets are recoverable. In particular, the main assets under consideration are Goodwill, Upstream gas and oil fields, the Nuclear investment, and Centrica Home Solutions' and Centrica Business Solutions' non-current assets. These judgements include primarily the achievement of Board-approved business plans, long-term projected cash flows, generation and production levels (including reserve estimates and life extensions) and macroeconomic assumptions such as the growth and discount rates and long-term commodity and capacity market auction prices used in the valuation process. When deriving forecast cash flows, market prices are used for the period when a commodity is liquid. For the longer-term illiquid period, the "P50" median price curve is used (see "Determination of long-term commodity prices and their use in valuing long-lived assets", above). At the year-end, pre-tax net exceptional impairment write-offs of Upstream gas and oil fields of £476 million were booked, relating to UK, Danish and Norwegian assets (including decommissioning cost updates). Pre-tax exceptional impairments of £381 million in relation to power assets (of which £372 million is against the Nuclear investment) and £77 million in relation to Centrica Home Solutions (including inventory and goodwill write-downs) were also booked. No impairment was required for Centrica Business Solutions customer business. Note that other impairments have also been reflected in exceptional items as part of property rationalisation costs and net gain on disposals, as well as within business performance (e.g. dry hole costs). These items are generally not judgemental.	The Committee reviewed management reports detailing the assets at risk of impairment and the key judgements and estimates used. The Committee observed the general year-on-year fall in both liquid and "P50" commodity prices. It noted that £198 million of the Upstream gas and oil asset write-offs were primarily due to these price reductions. £310 million related to fields where development was now deemed unlikely and there was a £32 million write-back of decommissioning liabilities from updated assumptions. The Committee noted the Nuclear investment recoverable amount continues to be based on a value-in-use (VIU) calculation rather than on a sales basis, and that the held for sale criteria had not been met. It observed that the impairment booked was primarily driven by the price reductions noted above. The Committee requested that disclosure be maintained in the Annual Report to note that any future sales proceeds could still be lower than this VIU. The Audit Committee challenged management and Deloitte on the key inputs to the impairment models including price, outage rates, life extensions and discount rates, and was comfortable with the conclusions reached. The Committee also noted the methodology used in valuing the Centrica Home Solutions and Centrica Business Solutions businesses, which included looking at sensitivities and benchmarking to external valuations. The Committee concurred with management's assessment of the level of impairment required for the Centrica Home Solutions assets and that no impairment was needed for Centrica Business Solutions customer business. Further detail on impairment arising and the assumptions used in determining the recoverable amounts is provided in notes 7 and S2 on pages 131 to 133. and 167 to 169.

Key judgements and financial reporting matter in 2019	Audit Committee reviews and conclusions
Classification and presentation of exceptional items and certain re-measurements The Group reflects its underlying financial results in the business performance column of the Group Income Statement. To be able to provide this clearly and with consistent presentation, the effects of certain re-measurements of financial instruments and exceptional items are reported separately in a different column in the Group Income Statement. The classification of items as exceptional and specific trades as certain re-measurements (see "Energy derivatives – classification and valuation" below) are subject to defined Group policies. These policies are reviewed annually by management. At the year-end, exceptional items included the impairments noted above, as well as restructuring costs related to the Group's cost efficiency programme of £356 million, net pension change credit of £152 million (see "Pensions" below) and net gains from disposals of £35 million. Certain re-measurements totalled a £647 million cost. During the year, the Group changed the presentation of its Income Statement following the IFRIC agenda decision on Physical Settlement of Contracts to Buy or Sell a non-financial item. This saw the inclusion of a "Re-measurement and settlement of energy contracts" line item within gross margin and meant that the certain re-measurement column was amended to facilitate this re-presentation.	The Committee formally reviewed and approved the Group's policy on exceptional items in 2018 and, in the current year, it used this policy to help inform the appropriateness of the proposed classifications. The Committee challenged the items classified as exceptional items, considering their size, nature and incidence and in the context of the Group policy. The Committee concluded that separate disclosure of these items as exceptional was appropriate in the Financial Statements. The Committee also noted that the Group policy on certain re-measurements classification remained unchanged from previous periods and that this presentation allowed underlying performance to be reflected on a consistent and comparable basis. It also noted the grossing-up impact from the IFRIC re-presentation and concurred that this was an appropriate response to the new guidance. Further detail is provided in notes 1 and 7 on pages 119 to 121 and 131 to 133.
Energy derivatives – classification and valuation The Group enters into numerous commodity contracts in its ordinary course of business. This can be to procure load for its downstream business, sell output from its upstream assets, to trade around its other commodity exposures or to make money from proprietary activities. On entering into these contracts, the business assesses each of the individual trades and classifies them as either: (i) Out of scope of IFRS 9: • for commodities with no active market and where contracts cannot otherwise be net settled; • for "own use" contracts (i.e. customer contracts, contracts to take delivery and meet customer demand or sell upstream output); or (ii) In scope of IFRS 9: • contracts for commodities which have the ability to be and practice of being net settled. Energy contracts outside the scope of IFRS 9 are accruals accounted. Those contracts deemed in scope of IFRS 9 are treated as derivatives and are marked-to-market (fair valued). If the derivatives are for proprietary energy trading, they are recorded in the business performance column of the Income Statement. If they are entered into to protect and optimise the value of underlying assets/contracts or to meet the future downstream demand needs, they are recorded as certain re-measurements. The fair value of derivatives is estimated by reference to published liquid price quotations for the relevant commodity. Where the derivative extends into illiquid periods, valuation techniques are used based on forecasts of long-term commodity prices. Judgement is required in all aspects of both the classifications and valuations. One of the Group's critical accounting judgements is that LNG contracts are outside the scope of IFRS 9 because there is still no active market (i.e. liquid prices are not available) and our LNG contracts cannot be net settled.	The Committee noted that the Group's policy and methodologies in classifying and valuing energy derivatives were unchanged from previous periods. The Committee also reviewed and understood the breakdown by business of the movement in IFRS 9 derivative valuations in the Income Statement. It reflected on the fact the Group is generally a net buyer of commodity and that in a period of falling prices, contracts in the scope of IFRS 9 will see a loss booked into the Income Statement. The Committee noted and concurred with the specific judgement around LNG. Further detail is provided in notes 1 and 7 on pages 119 to 121 and 131 to 133.

Key judgements and financial reporting matter in 2019	Audit Committee reviews and conclusions
Energy supply revenue recognition The Group's revenue for energy supply activities includes an estimate of energy supplied to customers between the date of the last meter reading and an estimated year-end meter reading. It is estimated through the billing systems, using historical consumption patterns, on a customer-by-customer basis, taking into account weather patterns, load forecasts and the differences between actual meter readings being returned and system estimates. An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits which will flow to the Group, including bill cancellation and re-bill rates. To the extent that the economic benefits are not expected to flow to the Group, revenue is not recognised. At the year-end, unbilled energy income for the supply businesses was £1,342 million (2018: £1,542 million).	The Committee has reviewed the level of unbilled revenue accrual and provisions made during the year and discussed with management and the external auditors. The Committee noted that the unbilled accrual had followed the same estimation process as in previous years and that Deloitte had independently reperformed this calculation to within an immaterial difference. More details of accrued energy income and provision for credit loss are provided in note 17 on pages 147 to 148.
Pensions The assets and liabilities, and the cost associated with providing benefits under defined benefit schemes, are determined separately for each of the Group's schemes. Judgement is required in setting the key assumptions used for the actuarial valuation which determines the ultimate cost of providing post-employment benefits, especially given the length of the Group's expected liabilities. The net Group pension deficit was £163 million (2018: £79 million). The UK defined benefit schemes used a nominal discount rate of 2.2% (2018: 3.0%) and inflation of 2.9% (2018: 3.1%). During the year, the Group renegotiated some of the terms and conditions associated with the UK schemes (including contribution rates, salary caps and pension in retirement options). The impact of these changes has been reflected in the above deficit (and is part of the net pension exceptional item).	The Committee received training on the Centrica Pension Schemes in July 2018. The Committee noted the key assumptions and disclosures in the Financial Statements. The Committee noted the negotiated changes to the schemes and the link to exceptional items. The Committee also noted the consistent year-on-year methodology used to derive the key defined benefit assumptions and that the rates were within comparator range. It also recognised the role of the independent actuary, who is consulted on the appropriateness of the assumptions, and discussions were also held with the external auditors. Further details on pensions are set out in note 22 on pages 162 to 166.
Going concern, Viability Statement and liquidity risk The Group experiences significant movements in its liquidity position due primarily to the seasonal nature of its business and margin cash. To mitigate this risk the Group holds cash on deposit and maintains significant committed facilities. The Group regularly prepares an assessment detailing these available resources to support the going concern assumption in preparing the Financial Statements. The Group also models various possible downside scenarios to show the longer-term viability of the business and to support the Viability Statement.	The Committee reviewed and challenged management's funding forecasts and sensitivity analysis and the impact of various possible adverse events including significant commodity price movements and credit rating downgrades. The external auditors also provided detailed reporting and held discussions with the Committee. Following the review, the Committee recommended to the Board the adoption of the going concern statement in the Annual Report and Accounts 2019 and concurred with the viability conclusion. Further details on sources of finance are set out in note 24 on pages 158 to 160. The Going Concern section is in Other Statutory Information on page 102 and the Viability Statement in Our Principal Risks and Uncertainties on pages 44 to 45.

Key judgements and financial reporting matter in 2019	Audit Committee reviews and conclusions
IFRS 16: Leases The Group was required to adopt IFRS 16: Leases in 2019. This had the effect of bringing all leases (excluding low value or short-term leases) on balance sheet. Following a detailed review of the Group's relevant contractual positions, application resulted in the recognition of total lease liabilities and right-of-use assets on 1 January 2019 of £620 million and £463 million respectively. £402 million of the lease liability is incremental to the previous position and so consequently increased net debt. Judgement was required around the treatment of extension and termination options and identifying the customer for arrangements involving assets used in joint operations.	The Committee reviewed and challenged the Group's assessment of the accounting impact of IFRS 16 and also discussed the approach and conclusions with the external auditors. The Committee concurred with the conclusions reached on adoption of this standard. Further details on the new accounting standards are included in note [1] on pages 119 to 121.
Ofgem Consolidated Segmental Statement The Group is required to prepare an annual regulatory statement (Consolidated Segmental Statement (CSS)) for Ofgem which breaks down our licensed activities for the financial year into a generation, domestic and non-domestic and electricity and gas result. The CSS is reconciled to our externally reported International Financial Reporting Standards Annual Report and Accounts. The Group publishes the CSS at the same time as the full year Annual Report and Accounts and the CSS is independently audited. In preparing the CSS, judgement is required in the allocation of non-specific costs between domestic and non-domestic and electricity and gas and the distinction between licensed and non-licensed activities.	The Committee reviewed the Ofgem Consolidated Segmental Statement and the key judgements and disclosures made in its preparation. The external auditor also provided a detailed report and held discussions with the Committee. The full CSS and the independent audit opinion approved by the Committee for publication are set out on pages 212 to 221.

Disclosure Committee

Iain Conn
Committee Chairman

Committee membership

	Meetings attended[1]
Iain Conn, Group Chief Executive	6/6
Chris O'Shea, Group Chief Financial Officer	6/6
Justine Campbell, Group General Counsel & Company Secretary (since 1 April 2019)	4/4
Grant Dawson, Group General Counsel & Company Secretary (until 30 March 2019)	2/2

(1) Attendance is expressed as the number of meetings attended out of the number eligible to be attended.

Committee focus in 2019

- Reviewed the Preliminary Results announcement, the Annual Report and Accounts, the Interim Results and the trading statements and advised on the scope and content of disclosure
- Reviewed announcements regarding Board and key management changes
- Specific projects – in relation to confidential and inside information

Areas of focus for the Committee in 2020

- Review results announcements to determine scope and content of disclosure
- Keep Confidential Projects under review in relation to confidential and inside information
- Keep under review the systems and controls in respect of management and disclosure of inside information

Dear Shareholder

On behalf of the Board, I am pleased to present the Disclosure Committee report for the year ended 31 December 2019 which explains the Committee's focus and activities during the year and for 2020.

Role of the Committee

The Disclosure Committee is responsible for the disclosure controls and procedures of the Group and for ensuring that Centrica meets the regulatory requirements when disclosing information concerning the Company. It is therefore responsible for the design, implementation, operation and monitoring of systems and controls in respect of the management and disclosure of inside information, keeping the adequacy of Disclosure Procedures under review, and for ensuring that regulatory announcements, shareholder circulars, prospectuses and other documents issued by the Company comply with applicable legal or regulatory requirements and specifically the Market Abuse Regulation, the Listing Rules, and Disclosure Guidance and Transparency Rules. The Committee resolves questions about the materiality and treatment of information and considers and determines whether certain issues or events give rise to inside information about the Company which requires disclosure and/or the creation of insider lists. The Committee, in conjunction with its advisers, will also, in certain exceptional circumstances, consider whether the conditions for delaying disclosure of inside information about the Company are satisfied and, where appropriate, will implement and monitor the delay procedure.

The Committee has scheduled meetings each year to approve the Interim and Preliminary Results announcements and trading statements and meets as required to review other matters falling under the Committee's remit.

Membership and attendance at meetings

The Committee is comprised of the Group Chief Executive, Group Chief Financial Officer and Group General Counsel & Company Secretary. The Committee met six times during 2019, with each meeting having a distinct agenda to reflect the particular matters for the Committee's consideration. Members of management are invited to attend when required. The auditors, Deloitte, attended the 20 February meeting.

Main activities of the Committee during 2019

During the year the Committee reviewed the Preliminary Results announcement, the Annual Report and Accounts, the Interim Results and the trading statements, and advised on the scope and content of disclosure. The Committee also considered the release of regulatory and industry announcements, reviewed announcements regarding Board and key management changes, and considered specific confidential projects to determine whether there was inside information in relation to the Company.

Committee effectiveness

Read more about our Board and Committee evaluation process on page 66.

Iain Conn
on behalf of the Disclosure Committee

Nominations Committee

Charles Berry
Committee Chairman

"We continue to align the Board and senior leadership succession planning with Centrica's strategy and culture."

Committee membership

	Meetings attended(1)
Charles Berry, Chairman (since 21 February 2019)(2)	4/5
Rick Haythornthwaite, Chairman (until 20 February 2019)	1/1
Joan Gillman, Non-Executive Director	5/5
Stephen Hester, Senior Independent Director	5/5
Pam Kaur, Non-Executive Director (since 1 February 2019)(2)	3/5
Kevin O'Byrne, Non-Executive Director (since 13 May 2019)	4/4
Carlos Pascual, Non-Executive Director	5/5
Steve Pusey, Non-Executive Director(2)	4/5
Scott Wheway, Non-Executive Director	5/5
Margherita Della Valle, Non-Executive Director (until 12 May 2019)	1/1

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

Heidi Mottram, Non-Executive Director, joined the Committee on 1 January 2020.

Committee highlights in 2019

- Succession planning
- Three new Non-Executive Directors appointed
- One new Executive Director appointed
- Committee membership changes

Areas of focus for the Committee in 2020

- Succession planning of Executive Directors: Recruitment and onboarding of the Group Chief Executive to succeed Iain Conn
- Executive Director and senior leadership succession: enhancing the talent development and diversity pipeline

Dear Shareholder

On behalf of the Board, I am pleased to present the Nominations Committee's report for 2019 which explains the Committee's focus and activities during the year and looks ahead to 2020. I hope you will find the report that follows interesting and informative.

The Nominations Committee continues to play a key supporting role in Centrica's strategy, maintaining a balanced and effective leadership, to create and promote the Group's culture and values. This year the Committee has continued to focus on succession planning and, specifically, refreshing the executive and non-executive membership of the Board. The Committee has also continued its internal talent development, this year looking at its diversity pipeline, and has conducted a rigorous internal review of its performance.

Role of the Committee

The Nominations Committee is responsible for ensuring that the Board and its Committees have the appropriate balance of skills, knowledge and experience to effectively lead the Company both now and in the future. This is achieved through effective succession planning, the identification and development of internal talent and a clear understanding of the competencies and capabilities required to support the delivery of Centrica's strategy.

The Committee undertakes comprehensive reviews of the leadership needs of the Company, both executive and non-executive, to ensure the continued ability of the organisation to compete effectively in the marketplace and keeps informed of the strategic issues and commercial changes affecting the Company and the market in which it operates.

The Committee plays an important role in promoting diversity and inclusion on the Board. In identifying and nominating candidates to fill Board vacancies, the Committee considers candidates from a wide range of backgrounds, assessing them on merit against objective criteria and with due regard for the benefits of diversity on the Board.

The Committee regularly undertakes reviews of its Terms of Reference to ensure that it reflects the actual role carried out by the Committee and is operating effectively. The Board reviewed and approved new Terms of Reference for the Committee in July 2019. The Terms of Reference and operations of the Committee already captured the bulk of the new requirements set out in the 2018 Code, and therefore only minor changes were required. The membership requirement was altered to at least three members to align with the other Committees; the definition of diversity was extended more broadly than solely gender diversity; and in line with best practice, a requirement for new Directors to disclose other interests was added.

Membership and attendance at meetings

The Committee is comprised solely of Non-Executive Directors: Charles Berry (Chairman), Joan Gillman, Stephen Hester, Pam Kaur, Heidi Mottram (since 1 January 2020), Kevin O'Byrne, Carlos Pascual, Steve Pusey and Scott Wheway. The Board is satisfied that the Committee has the resources and expertise to fulfil its responsibilities.

During the year, the Group Chief Executive and Group HR Director were invited to attend meetings, as and when the Committee thought it appropriate and necessary. If required by the Committee, other Senior Executives may be invited to attend to provide information on matters being discussed which fall within their area of responsibility.

The Committee met five times during 2019, with each meeting having a distinct agenda to reflect the particular matters for the Committee's consideration.

Main activities for the Committee during 2019

- Ensured the Board and senior leadership succession planning is aligned with Centrica's strategy and culture;
- Reviewed Director elections and re-elections at the forthcoming AGM following a formal and rigorous process for evaluating the performance of individual Board members;
- Identified and recommended to the Board new Non-Executive Directors. Pam Kaur replaced Lesley Knox; Charles Berry succeeded Rick Haythornthwaite as Chairman; Kevin O'Byrne was appointed to succeed Margherita Della Valle as Audit Committee Chairman; and Heidi Mottram was appointed during the year, joining the Board on 1 January 2020.
- Began the recruitment process for a successor to the Group Chief Executive; and
- Recommended changes in membership of the Audit, Nominations and Remuneration Committees and of the SHESEC.

Board succession

Throughout the year, the Committee continued to focus on Board succession. Succession planning within the Company is continuous and pro-active and arrangements are in place to ensure that changes to the membership of the Board are well managed. The Committee keeps under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace.

The Committee embraces the importance of diversity and inclusion in all Board recruitment and supports the recommendations of the Hampton-Alexander and Parker Reviews in relation to gender and ethnic diversity. The Committee remains committed to achieving a more diverse Board, with broad search criteria used to encourage a diverse range of candidates.

The Committee also regularly reviews the structure, size and composition (including the skills, experience, independence, knowledge and diversity, including gender and ethnicity) of the Board and its Committees to ensure they can discharge their duties effectively. This planning is in alignment with the Company's values and culture and takes into account the challenges and opportunities facing the Company.

Non-Executive Directors

Following a formal and rigorous process for evaluating the performance of the individual Board members, which gives due regard to their time commitment, performance and ability to continue to contribute to the Board taking account of the knowledge, skills and experience required, the Nominations Committee proposed all serving Directors for election or re-election by shareholders at the AGM.

It is the role of the Committee to ensure there is a formal and appropriate procedure for the appointment of new directors to the Board. The Committee is responsible for leading this process and making recommendations to the Board. The search process for new Non-Executive Directors is to appoint search firms to secure a strong and diverse list of candidates. A shortlist of candidates is shared with the Committee, meetings scheduled and then once the candidates have been identified, confirmation of the time commitment required and disclosure of any other business interests that may result in a conflict of interest.

During 2019, a search process was initiated, to identify three new Non-Executive Directors. Pam Kaur joined the Board on 1 February 2019. Pam's considerable experience of audit, compliance, finance and risk management will be of significant benefit to the Board. Kevin O'Byrne joined the Board on 13 May 2019 and brings a wealth of retail and finance experience; he was also previously chair of the Audit Committee at Land Securities Group PLC. In May, I engaged Korn Ferry to carry out a search process to identify a suitable candidate for a further appointment of a Non-Executive Director with operational utility experience. I am delighted that Heidi Mottram joined the Board on 1 January 2020. She was selected for her considerable relevant strategic and operational experience acquired in her current and previous roles and her deep understanding of the importance of customer service, delivered in complex multi-stakeholder environments with a high public profile.

Executive Directors

In 2018, in line with our Executive Director succession planning, the Nominations Committee recommended, and the Board approved, the appointment of Sarwjit Sambhi as Chief Executive, Centrica Consumer, who joined the Board on 1 March 2019. Sarwjit joined the Group in 2001 and has held senior leadership positions in retail, strategy, finance, trading, power generation, exploration and production. Most recently, he was Managing Director, UK Home.

In July 2019 it was announced that Iain Conn had agreed with the Board to step down as Group Chief Executive and retire from the Board in 2020. The Nominations Committee appointed Korn Ferry to focus on identifying and assessing both internal and external candidates for the role.

Committee memberships

During the year the Nominations Committee carried out a review of the composition of the Committees to take into account the new Board members and the skills that they bring to the Board and made recommendations for changes to the membership of four of the Committees. Kevin O'Byrne was appointed as Chairman of the Audit Committee and Pam Kaur joined as a member. Pam Kaur also joined the SHESEC on 21 August 2019, and Joan Gillman joined the Remuneration Committee on the same date. Heidi Mottram joined the Board on 1 January 2020 and became a member of the SHESEC upon appointment. All Non-Executive Directors are members of the Nominations Committee.

Talent development

Internal talent development and the ability to attract, retain and develop skilled, high potential individuals within Centrica are areas on which the Committee continues to focus. The Nominations Committee, supported by the Group HR Director, and in partnership with Spencer Stuart, has developed a clear understanding of how the requirements of our senior management roles are changing in line with the evolving customer requirements, with the aim of upgrading and realigning our leadership capability. The review carried out identified key employees who were considered to be, or could be developed to be, critical to the success of the Group, and appropriate plans were put in place to ensure there is an appropriate mix of employees within the Group who could fill key roles in the short and longer term. The Group Chief Executive and Group HR Director provide the Committee with regular updates on succession planning for senior management.

The Committee encourages the development of board-level skills through senior executives taking on roles on subsidiary boards and external directorships.

Senior Executives

The Senior Executives are members of the Centrica Executive Committee, and are responsible for setting expectations, policies, processes and an executive governance framework for strategy, people, performance management, communications, and risk management.

The Nominations Committee recommended the appointment of Justine Campbell as Group General Counsel & Company Secretary, which the Board approved with effect from 1 April 2019. Justine has been with the Group since 2013 and has considerable legal and regulatory experience in both the energy and telecommunications sectors.

The Committee recognises the importance of and the benefits to the Company of developing a diverse pipeline and it will continue to work with senior management to develop internal talent.

Diversity, respect and inclusion

The Group operates in increasingly diverse communities, both in the UK and internationally, and this diversity is evident in our workforce, and among our customers, suppliers and other stakeholders. We recognise the value that individuals from different backgrounds and of different abilities can bring to our business, and in an increasingly competitive environment this is an important factor in the Company's strategy, in particular our customer obsession.

The Board Diversity Policy sets out the approach of the Group to diversity and inclusion. Throughout the process of appointment of Board members, due regard is given to ensuring fairness and diversity through consideration of skills, experiences, competencies and individual characteristics. The recruitment process complies with Group HR recruitment processes around diversity, respect and inclusion. The Chairman of the Board is accountable for the implementation of the Board Diversity Policy and considering and adopting a range of approaches to promote diversity within the Board. For example, these may include but are not limited to:

- Informal and formal Board discussions;
- Board agenda items relating to diversity;
- Raising awareness on the benefits of diversity;
- Board learning and development activities which promote diversity; and
- Diversity impact assessments in respect of Board-related projects or activities where relevant and appropriate.

Applying these principles ensures that the Board better reflects the communities in which we operate. The Board periodically monitors and measures Board diversity and drafts action plans where improvements are required.

Senior managers are also required to support this policy in developing diversity in the broader business and must also comply with Group HR recruitment processes and the Centrica UK Diversity, Respect and Inclusion Policy.

The Board has already met the Parker Review target, following the appointment of Sarwjit Sambhi and Pam Kaur to the Board in 2019 in addition to Carlos Pascual who joined the Board in 2015. The Board fully supports the recommendations of the Hampton-Alexander Review and aspires to meet its goals by 2022 of having 33% women on our Board (and senior leaders). We recognise that there is always more we can do and will continue to work to build an inclusive workplace at all levels of the Company.

Board and Committee evaluation

For the 2019 Board evaluation, Independent Audit Limited, an external provider, facilitated a self-assessment of the effectiveness of the Company's Board and Committees, including observing Board and Committee meetings. The evaluation exercise was led by the Chairman and supported by the Group General Counsel & Company Secretary. Independent Audit Limited attended Board and various Committee meetings and produced a report for the Chairman which was discussed by the Board. Read more about the Board evaluation process on page 66.

Committee effectiveness

Read more about our Board and Committee evaluation process on page 66.

Charles Berry
on behalf of the Nominations Committee

Safety, Health, Environment, Security and Ethics Committee

Steve Pusey
Committee Chairman

"We've raised awareness of our views on climate change, set our climate change Ambitions to 2030 and engaged with key stakeholders, with positive feedback."

Committee membership

	Meetings attended(1)
Steve Pusey, Chairman	4/4
Margherita Della Valle, Non-Executive Director (until 12 May 2019)	1/1
Joan Gillman, Non-Executive Director	4/4
Pam Kaur, Non-Executive Director (since 21 August 2019)	1/1
Carlos Pascual, Non-Executive Director	4/4
Scott Wheway, Non-Executive Director	4/4

(1) Attendance is expressed as the number of meetings attended out of the number eligible to be attended.

All current SHESEC members also attended the two joint SHESEC/Audit Committee meetings held in 2019.
Heidi Mottram, Non-Executive Director, joined the Committee on 1 January 2020.

Committee highlights in 2019

- Cultural assessment across all NA businesses and functions – no systemic issues exist; common themes and opportunities for improvement
- Approved change to environmental KPIs following the Group's outperformance against the internal carbon footprint KPI and the changes to the Group's assets
- Separately reviewed deep dives on Centrica's Occupational and Process Safety performance and the key 2019 initiatives for each of these areas
- Oversaw transition from implementation of Ethics and Compliance (E&C) structures to embedding E&C into business activities

Areas of focus for the Committee in 2020

- Process safety
- Occupational safety
- Resilience and business continuity
- Impact of transformation activity on workforce

Dear Shareholder

On behalf of the Board, I am pleased to present the Safety, Health, Environment, Security and Ethics Committee (SHESEC) report for the year ended 31 December 2019 which explains the Committee's focus and activities during the year and for 2020.

The SHESEC plays a supporting role in Centrica's strategy by providing constructive challenge to the management of risks and reviewing the effectiveness of the control framework related to safety, health, environment, security and ethics.

I hope that you find this report an interesting explanation of our work during the year.

Role of the Committee

The Committee is responsible for keeping under review the adequacy and effectiveness of the Company's internal controls and risk management systems related to safety, health, environment, security and ethics in respect of:

- People: Engagement, Culture and Behaviours;
- Sourcing and Supplier Management;
- Infrastructure, Equipment and Practices affecting Health, Safety, Environment and Security;
- Information Systems and Security; and
- Legal, Regulatory and Ethical Standards Compliance.

The Committee regularly undertakes reviews of its Terms of Reference to ensure that it reflects the actual role carried out by the Committee, and is operating effectively. The Board reviewed and approved new Terms of Reference for the Committee in July 2019 which incorporated only minor changes, to remove the requirement for the Committee to meet at least twice a year with only the Head of Internal Audit present and to amend references to the Group's Business Principles to Our Code.

Membership of the Committee and attendance at meetings

The Committee comprises Steve Pusey (Chairman), Joan Gillman, Pam Kaur (since 21 August 2019), Heidi Mottram (since 1 January 2020), Carlos Pascual and Scott Wheway. All of the Committee's members are independent Non-Executive Directors.

SHESEC members bring a wide range of sector experience, insight and stakeholder perspectives which are used to challenge, shape and provide oversight of the SHESEC's agenda. Details of the matters discussed at Committee meetings are set out later in this report.

During the year, the Chairman of the Board, the Group Chief Executive, the Group General Counsel & Company Secretary, the Group HR Director, the Group HSES Director and the Group Head of Internal Audit, Risk and Control attended all Committee meetings, as did other key executives.

The Committee met four times during 2019, with each meeting having a distinct agenda to reflect the particular matters for the SHESEC's consideration.

At each meeting the Committee receives reports from Group HSES, Group Ethics & Compliance and Group Internal Audit & Enterprise Risk, in addition to deep dives on key areas of focus.

The SHESEC's forward programme is developed with the Group General Counsel & Company Secretary and is regularly reviewed. The SHESEC and Audit Committee work together, through their Chairmen and secretaries, to ensure that agendas do not overlap or omit coverage of any key risks during the year.

Joint meetings of the Audit Committee and SHESEC

The Audit Committee and SHESEC hold joint meetings twice a year to simplify reporting of key issues that are within the remit of both Committees and to make more effective use of the Committees' time. At the joint meetings in 2019, the Committees considered the Group's systems of risk management and internal control: in the first quarter to assess the system's effectiveness; and in the fourth quarter to look prospectively at plans for 2020. Each Committee retains discretion to require a full presentation and discussion on any joint meeting topic at their respective meeting if deemed appropriate. Further details are included in the Audit Committee's report.

Main activities of the Committee during 2019

The review of operational risk and performance forms a large part of the Committee's agenda. Group HSES, Group Internal Audit, Risk & Control and Ethics & Compliance provided quarterly reports on their assurance work, on operational risk, including on the Group's health, safety and environmental performance and operational integrity. Further deep dives provided measures of personal and process safety, environmental and regulatory compliance, security and cyber risk analysis. The Committee reviewed these risks and their management and mitigation in depth with relevant executive management. The main activities of the Committee in 2019 were:

- approved change to environmental KPIs following the Group's outperformance against the internal carbon footprint KPI and the changes to the Group's assets;
- reviewed Centrica's adherence to FCA's Market Conduct;
- reviewed the impact of transformation activity on the HSE function and our overall HSE performance, as measured by our key metrics;
- separately reviewed deep dives on Centrica's Occupational and Process Safety performance and the key 2019 initiatives for each of these areas;
- oversaw transition from implementation of Ethics & Compliance (E&C) structures to embedding E&C into business activities;
- GDPR programme reaching a 'mature state' with the adoption of similar data privacy frameworks and controls in North America drawing on the experience of the GDPR programme for the UK and ongoing activity to raise employee awareness of the importance of data as a key strategic asset;
- reviewed the work undertaken to ensure slavery and human trafficking are not taking place within Centrica's business or supply chains and endorsed the proposal that Centrica's 2019 Modern Slavery Act (MSA) Statement be recommended to the Board for approval;
- discussion of an initiative for desired culture in North America and the multi-year journey required to deliver the actions as a result of the review. Cultural assessment across all NA businesses and functions – no systemic issues exist; common themes and opportunities for improvement;
- Our Code e-learning and certification launch;
- Ethics & Compliance – minimum standards had been reached during 2018, progress to embed/build upon during 2019;
- audit of NEAS; and
- reviewed the developing governance arrangements for subsidiary companies and in particular for Centrica's regulated entities.

Safety

The Committee continued to prioritise safety as a key focus area. Whilst customer injury numbers remained low, our recordable injury frequency rate increased slightly in 2019. Overall injury numbers continue to reduce but our reorganisation has led to lower worked hours year on year. We experienced two Tier 2 process safety events in 2019, a gas release on the J6A platform within our Spirit Energy joint venture in April and a fire on a CHP unit in Centrica Business Solutions in October. This compares to one Tier 1 and one Tier 2 event in 2018. However, our process safety incident frequency rate also increased as our worked hours reduced year on year. The rate remains better than target. Due to the previous year's Tier 1 event, which also occurred on J6A, the Committee discussed in detail the 2019 gas release, the investigation findings and actions, also referring to the findings of the previous event investigation. The final investigation report was circulated to the Committee. The CBS event was discussed at the CEC HSES Sub-committee.

Our Spirit Energy joint venture is required to comply with Centrica's HSES policies and is accountable to the Spirit Energy Board for its HSES performance. Spirit Energy's Board's assurance of policy compliance is provided through Spirit Energy's HSES and Internal Audit functions. Centrica assures Spirit Energy's HSES performance through: the Centrica-appointed directors on the Spirit Energy Board; regular reviews by Centrica Executive Management and Board; and, where necessary, through the right to independently audit Spirit Energy's performance and compliance with our HSES policies.

Environmental review

Environmental Leadership was a core element of the Centrica HSE plan for 2018-19 and will remain a core element for 2020. In 2019, we made strong progress in raising awareness of our views on climate change, introduced 2030 Responsible Business Ambitions to tackle climate change and increased our engagements with key stakeholders including customers and investors, with positive feedback on our ambitions.

Committee effectiveness

Read more about our Board and Committee evaluation process on page 66.

Steve Pusey
on behalf of the SHESEC

Read more about our process safety performance in our Key Performance Indicators on
Pages 18 to 19

Read more about Our Code and the Speak Up helpline centrica.com/ourcode
See Page 54 or centrica.com/assurance for more details.

Governance

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[1]
Scott Wheway, Chairman	4/4
Joan Gillman, Non-Executive Director (since 21 August 2019)	1/1
Stephen Hester, Senior Independent Director	4/4
Carlos Pascual, Non-Executive Director[2]	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

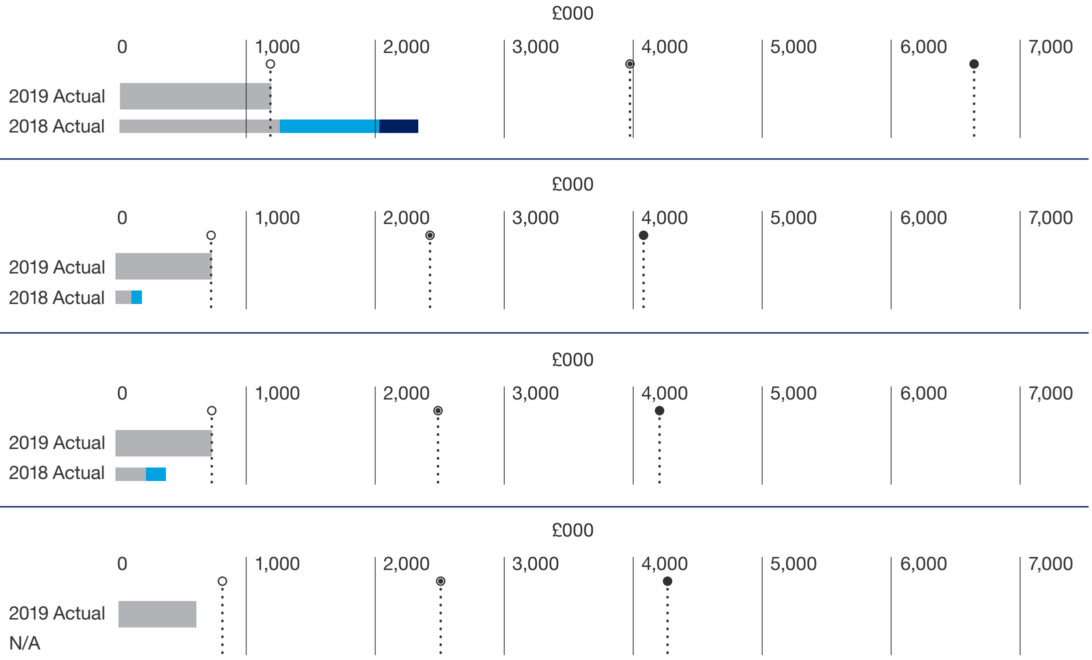
Total remuneration received in 2019
(£000)[1]

Iain Conn
£1,186
2018: £2,335

Richard Hookway
£744
2018: £206

Chris O'Shea
£752
2018: £394

Sarwjit Sambhi
£607

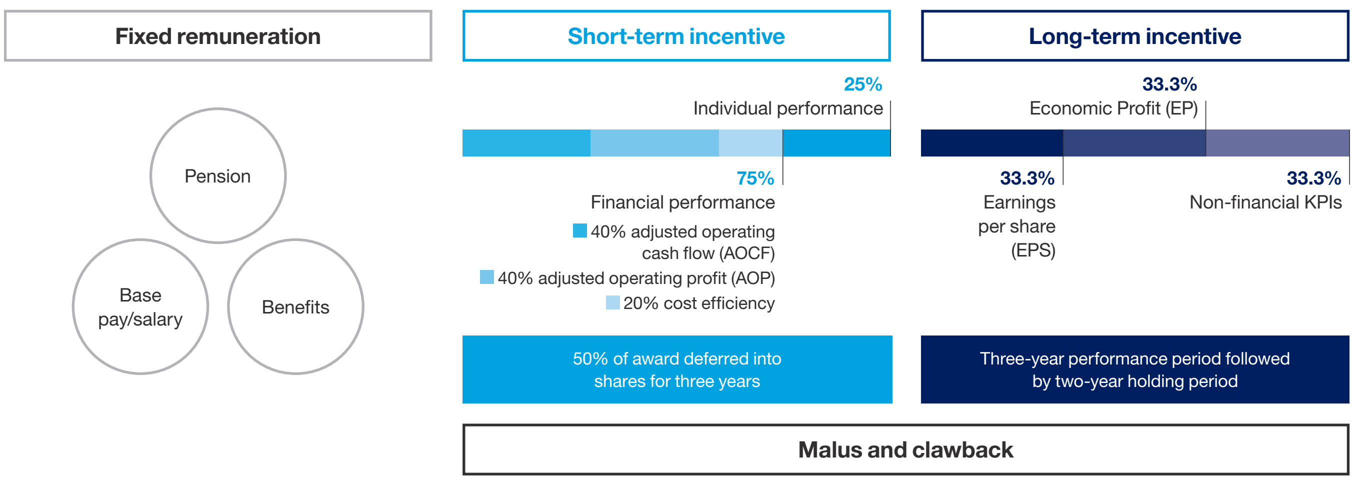


- Fixed remuneration
- Short-term incentive
- Long-term incentive

- Maximum total pay
- On-target total pay
- Minimum total pay

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

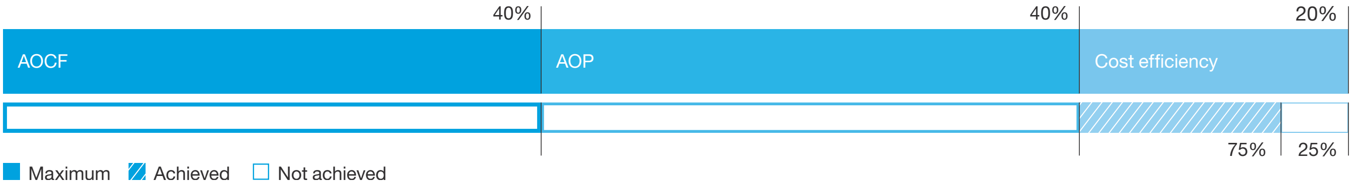
Components of remuneration package in 2019



Read more about our Remuneration Policy
Pages 94 to 99

Short-term incentive outcome
(Annual Incentive Plan)

Financial performance



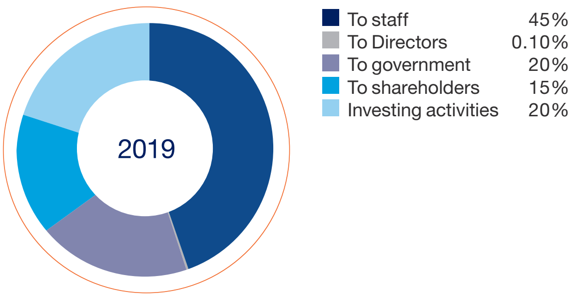
Irrespective of the formulaic result, due to the financial performance of the business in 2019 the Committee exercised discretion resulting in a zero bonus for Executive Directors.

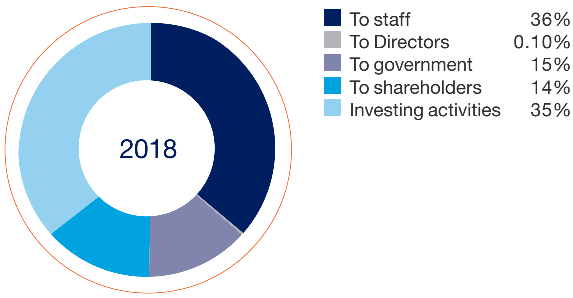
Long-term incentive outcome
(Long Term Incentive Plan)

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)

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

(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)

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

(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 Zero vesting if EPS growth does not exceed 9% 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 Zero vesting if aggregate EP is below £1,500 million 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.

	Performance period – LTIP awards granted in 2017 and due to vest in 2020			
Measure	Year 1	Year 2	Year 3	2019 performance (compared with 2018)
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)[(1)]	○	○	○	worsened from +2 to -5.7
Direct Energy NPS[(1)]	○	○	○	worsened from +41 to +40
Employee engagement[(1)]	○	○	○	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.

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.

CUPS DC Scheme[1]	**Total notional pension fund as at 31 December 2019 £**	Total notional pension fund as at 31 December 2018 £
Richard Hookway[2]	**130,028**	20,000
Chris O'Shea[2]	**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.

Centrica Pension Plan	**Accrued pension as at 31 December 2019 £**	Accrued pension as at 31 December 2018 £
Sarwjit Sambhi[1][2]	**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.

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(1)	**Shares owned as at 31 December 2019(1)**	Minimum shareholding guideline (% of salary)	**Achievement as at 31 December 2019 (% of salary)(2)**	**Shares owned (subject to continued service) as at 31 December 2019(3)**
Executives					
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(1)	**Shares owned as at 31 December 2019(1)**	Minimum shareholding guideline (% of salary)	**Achievement as at 31 December 2019 (% of salary)**	**Shares owned (subject to continued service) as at 31 December 2019**
Non–Executives					
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(1)

	Number of shares(2)(3)	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.

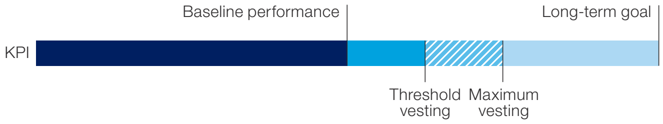
LTIP performance conditions

Measures	Weightings	Targets: Threshold (25%)	Targets: Maximum (100%)
Relative TSR	33.3%	FTSE 100 median	FTSE 100 upper quartile
UAOCF growth	22.2%	CAGR 2%[1]	CAGR 5%[1]
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	Targets: Maximum	Targets: Long-term goal
Safety				
Total recordable injury frequency rate (TRIFR)[1]	**1.02**	0.83	0.45	0.25
Tier 1 and Tier 2 process safety event frequency rate[1]	**0.06**	0.12	0.1	0.1
Customer satisfaction 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
Employee engagement	**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 ↑ **1.88%**	Salary and fees ↑ **2.76%**
Taxable benefits → **0.00%**	Taxable benefits → **0.00%**
Annual incentive ↓ **-100%**	Annual incentive ↓ **-27.23%**

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.

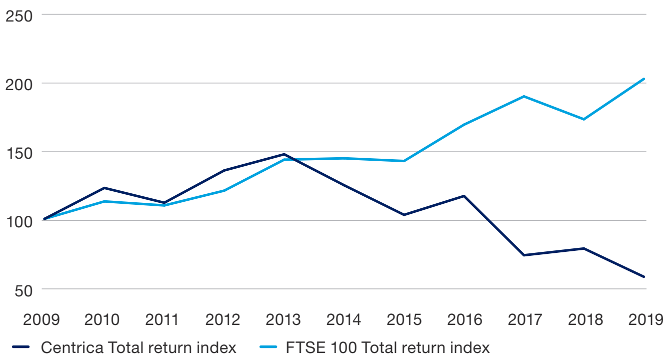
Pay for performance

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 £000	Annual short-term incentive payout against max opportunity %	Long-term incentive vesting against max opportunity %
Iain Conn			
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
Sam Laidlaw			
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



Source: Datastream from Refinitiv

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 £m	2018 £m	% Change
Dividends	**471**	551	-14
Staff and employee costs[(1)]	**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 (UAOCF) 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%.

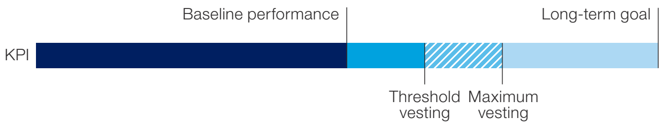
It is proposed that the following financial targets will apply to the 2020 LTIP awards:

		Targets	
Measures	Weightings	Threshold (25%)	Maximum (100%)
Relative TSR	33.3%	FTSE 100 median	FTSE 100 upper quartile
UAOCF growth	22.2%	CAGR 2%(1)	CAGR 5%(1)
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:

		Targets		
	Current performance	Threshold	Maximum	Long-term goal
Safety				
Total recordable injury frequency rate (TRIFR)(1)	**1.06**	0.86	0.45	0.25
Tier 1 and Tier 2 process safety event frequency rate(1)	**0.08**	0.073	0.065	0.05
Customer satisfaction 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
Employee engagement	**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

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).

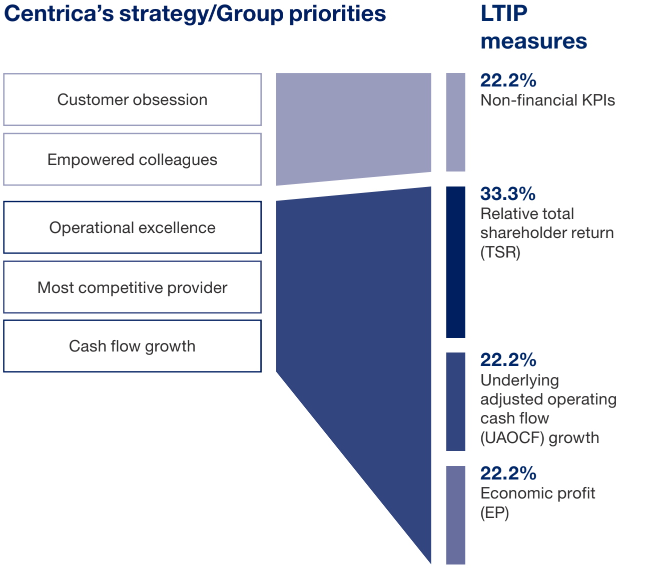
Fixed remuneration includes base salary, benefits and pension. Short-term incentive is delivered through the Annual Incentive Plan (AIP) which is described on page 95. Long-term incentive is delivered through the Long Term Incentive Plan (LTIP) which is described on page 96. Both plans are underpinned 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.

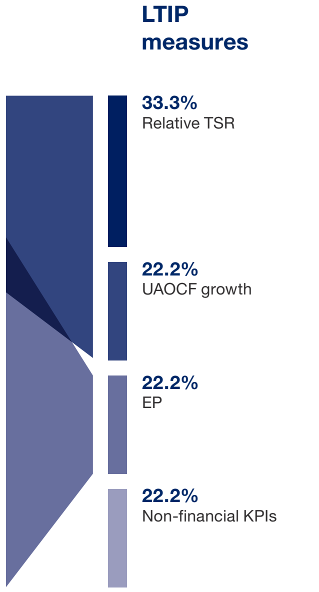
How the LTIP measures link to our strategy

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.

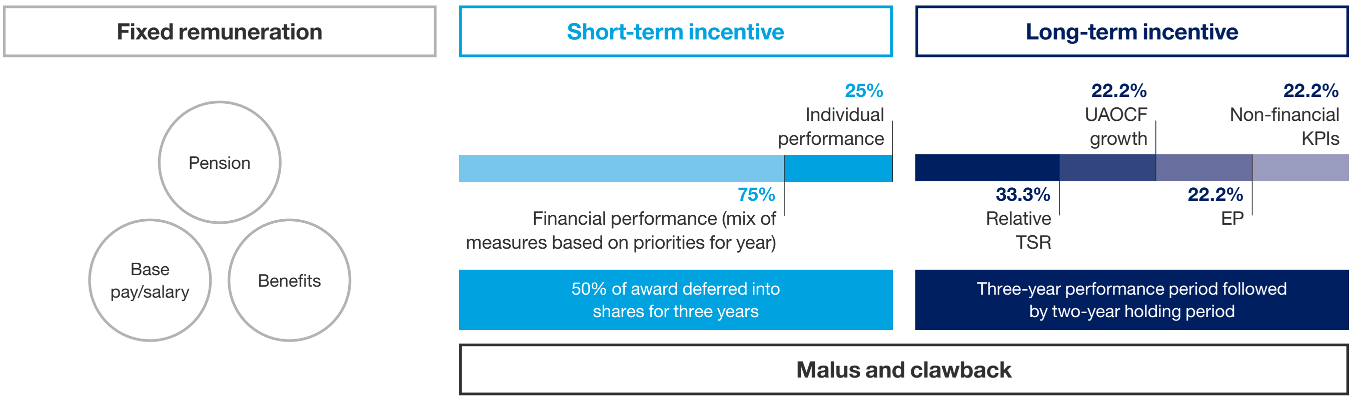


Centrica's financial framework

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%



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
Base pay/salary Reflects the scope and responsibility of the role and the skills and experience of the individual. 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.	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.	Ordinarily, base salary increases in percentage terms will be in line with increases awarded to other employees of the Group. 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. The base salary for an Executive will not exceed £1 million per annum. This is consistent with the previously approved policy.	Not applicable.
Short-term incentive plan Designed to incentivise and reward the annual performance of individuals and teams in the delivery of short-term financial and non-financial metrics. Performance measures are linked to the delivery of the Group's long-term financial goals and key Group priorities.	In line with the Group's annual performance management process, each Executive has an agreed set of stretching individual objectives each year. 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. Dividends are payable on the shares during the holding period. 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. Malus and clawback apply to the cash and share awards (see policy table notes).	Maximum of 200% of base salary. Half the maximum is payable for on-target performance. This is consistent with the previously approved policy.	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. Under the previously approved policy, 62.5% was based on adjusted operating cash flow and 37.5% was based on individual objectives. Performance is assessed over one financial year.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
Long-term incentive Designed to retain Executives and to encourage sustainable high performance. Provides an incentive that aligns with the Group's strategy to deliver long-term shareholder value through returns and growth. Provides a direct link between executive remuneration and the Group's long-term financial goals and priorities.	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. LTIP awards are usually delivered as conditional shares. Awards may also be granted as nil-cost options with a seven-year exercise period. 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). 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. If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee.	Maximum of 300% of base salary plus dividend equivalents. This is consistent with the previously approved policy. 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%.	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. 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.
Pension Positioned to provide a market-competitive post-retirement benefit, in a way that manages the overall cost to the Company.	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. 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.	The maximum benefit is 25% of base salary.	Not applicable.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
	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. 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. 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.		
Benefits Positioned to support health and wellbeing and to provide a competitive package of benefits that is aligned with market practice.	The Group offers Executives a range of benefits including some or all of: • a company-provided car and fuel, or a cash allowance in lieu; • life assurance and personal accident insurance; • health and medical insurance for the Executive and their dependants; • health screening and wellbeing services; and • a contribution towards financial planning advice.	Cash allowance in lieu of company car – £22,000 per annum. The benefit in kind value of other benefits will not exceed 5% of base salary. This is consistent with the previously approved policy.	Not applicable.
Relocation and expatriate assistance Enables the Group to recruit or promote the appropriate individual into a role, to retain key skills and to provide career opportunities.	Assistance may include (but is not limited to) removal and other relocation costs, housing or temporary accommodation, education, home leave, repatriation and tax equalisation.	Maximum of 100% of base salary. This is consistent with the previously approved policy.	Not applicable.
All-employee share plans Provides an opportunity for employees to voluntarily invest in the Company.	Executives are entitled to participate in all-employee share plans on the same terms as all other eligible employees.	Maximum contribution limits are set by legislation or by the rules of each plan. Levels of participation apply equally to all participants. This is consistent with the previously approved policy.	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
Chairman and Non-Executive Director fees 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. Fees reflect market practice as well as the responsibilities and time commitment required by our Non-Executives.	The fee levels for the Chairman are reviewed every two years by the Remuneration Committee. The fee levels of the Non-Executives are reviewed every two years by the Executive Committee. 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. Current fee levels (applying from 1 January 2016): Chairman of the Board – up to £495,000 per annum. Base fee for Non-Executives – £72,500 per annum. The following additional fees apply: • Chairman of Audit Committee – £25,000 per annum; • Chairman of Remuneration Committee – £20,000 per annum; • Chairman of Safety, Health, Environment, Security and Ethics Committee – £20,000 per annum; and • Senior Independent Director – £20,000 per annum.	The maximum level of fees payable to Non-Executives, in aggregate, is set out in the Articles of Association.	Not applicable.
	The Company reserves the right to pay a Committee membership fee in addition to the base fees. 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. The Non-Executives, including the Chairman, do not participate in any of the Company's share schemes, incentive plans or pension schemes. 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.		

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[1]
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 $6^{14}/_{81}$ 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

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