Remuneration Report

Dear Shareholder

On behalf of the Board, I present the Remuneration Committee's report for 2020.

This is my first remuneration report since joining the Centrica Board in June 2020 and assuming the role of Remuneration Committee Chair. I have been impressed at the careful and conscientious way our Executives have approached the extraordinary challenge of transforming Centrica into a competitive provider of energy services, restoring financial stability and dealing with the very real impact that COVID-19 has had on our business.

2020 has been a difficult year for our colleagues, our customers and our shareholders. To set our remuneration decisions in context I thought I would share with you some of the key aspects of change and how we have responded to them in our approach to remuneration.

Board changes during the course of 2020

In March, we appointed Scott Wheway as our Chairman, and agreed an annual fee which was £35,000 per annum less than the previous Chairman.

In April, the Board appointed Chris O'Shea, our then Group Chief Financial Officer, as Group Chief Executive with a reduction of £250,000 in fixed remuneration compared to the previous incumbent, Iain Conn, who left on strictly contractual terms. Chris elected to waive £100,000 of his new annual salary for 2020 in the context of the difficult choices he made to safeguard the business and colleagues and the impact of this on colleagues and shareholders.

In June, the Board appointed a new Group Chief Financial Officer, Johnathan Ford, with fixed remuneration set at a level consistent with the size and complexity of the business at that time, thus saving over £100,000 in fixed costs.

We also halved the number of Executive Directors, reducing fixed costs by £1.47 million. Sarwjit Sambhi, Chief Executive, Centrica Consumer and Richard Hookway, Chief Executive, Centrica Business, left the business on strictly contractual terms, however Sarwjit also waived his right to an enhanced redundancy pension as afforded by the legacy pension scheme rules. Taking into account short and long-term incentives calculated at the maximum opportunity level, the total annual saving in potential Executive Director remuneration achieved through the elimination of these two roles was over £7 million.

Company developments in 2020

In June, we announced plans for a significant restructure designed to create a simpler, leaner Group focused on delivering for our customers. In simplifying the organisational structure, it has been possible to reduce layers and duplications in the management of the business as well as rebalance the number of colleagues in management and group support to business and customer facing roles. The number of roles at the three most senior levels of the organisation has been reduced by around 45% including two Executive Directors.

The cost of our senior leadership team was dramatically reduced delivering an almost 50% saving, with the remaining UK executive team members accepting terms harmonised with the rest of the workforce. This includes a reduction in pension contributions for the Executives and senior leadership team to 10% by April 2021, which compares with an average across the UK workforce of 13%.

We have negotiated over 7,000 different contract variations into a more coherent structure of terms with our workforce and have reduced our UK headcount by approximately 1,100, using our discretionary redundancy terms which are far more generous than the statutory minimum. We believe that the process and outcome is necessary and the way that it has been achieved is respectful and fair.

In the early part of the year, in the light of the uncertain impact of COVID-19 on the business, the decision to pay the annual bonus earned in 2019 for 7,000 eligible colleagues in largely non-customer-facing roles was deferred. In July, this decision was re-assessed and management proposed that our more junior colleagues, approximately 62% of the 7,000 colleagues, would receive their cash bonus in full, to align them with the customer-facing colleagues that had already received a bonus relating to 2019.

Executive Director bonuses had already been reduced to zero by the Committee, as set out in last year's report, and cash bonuses for our management, senior management and senior leadership team relating to 2019 were all cancelled.

This demonstrates leadership's approach to handling all matters on remuneration this year. The Committee is conscious of the need to balance underlying performance and absolute delivery against motivation and retention of a much-reduced senior team.

At the beginning of lockdown last year we took the decision to furlough colleagues as a result of not being able to continue non-essential activities and this also had a knock-on effect on supporting roles. Despite not knowing how long the situation would last we committed at the outset to paying furloughed colleagues in full. Whilst the number of colleagues furloughed fluctuated month to month, overall, we furloughed around 6,000 employees during the period from March to October. In total, we claimed £27 million of support via the Coronavirus Job Retention Scheme, being the equivalent of 2.25% of our total UK wage bill (which is approximately £1.2 billion per annum). The additional support provided by Centrica to maintain full pay and benefits amounted to £7 million.

Performance outcomes for the year

Historically profit and cash flow for bonus purposes has been adjusted for a number of factors including commodity prices, foreign exchange movements and weather. For this year and going forward we believe that the two goals of transparency and shareholder alignment will be better served by not making multiple complex adjustments. Accordingly, even though the impact in 2020 of decreases in commodity prices and warm weather was significant, for this year and going forward we will not make these adjustments. The decision not to make adjustments has a net effect of reducing the financial performance element of the bonus by 21% for 2020.

Despite the impact of COVID-19 on the business, we delivered a resilient performance in 2020 that (after excluding £27 million of support received through the Coronavirus Job Retention Scheme) led to bonus outcomes between threshold and target level. Under the free cash flow measure, following actions such as reductions in discretionary spend, efficient execution of cost reduction programs, focus on cash collection and reductions and deferral of some capex, the stretch target was exceeded (note: the non-payment of the dividend does not affect this outturn). Under the operating profit and cost efficiency measures, just over threshold performance was achieved. Overall, this resulted in a formulaic outcome at the Executive Director level of 72% of the financial element (75% of the bonus is assessed on financial measures and the remainder is determined by strategic and individual achievement).

Five Executive Directors were eligible to be considered for a bonus payment in respect of 2020. For the three former Executives, Iain Conn, Sarwjit Sambhi and Richard Hookway, the Committee has determined that no 2020 bonus will be received. In addition, Johnathan Ford left the Board in January 2021 and accordingly he will not be eligible to receive a bonus for 2020.

Our Group Chief Executive, Chris O'Shea, has been central to the delivery of our performance over the year and the Board considered that he has performed exceptionally well since he took over in March 2020. In addition to the achievements set out above, Chris has energised the significantly reduced leadership team towards swift decisive action, simplified the priorities of the business and embraced the drive towards rightsizing the Group. Based on an assessment of the personal objectives that applied to Chris over the year covering leadership, balance sheet actions, portfolio simplification, organisational change and emphasis on a performance culture, the Committee determined an outcome of above target, at 60%, under the personal objectives element of the annual bonus was appropriate.

In this context the Committee felt that it was important to recognise the success of Chris's first year in the role whilst considering the wider stakeholder experience. We noted Chris's recent appointment to the role of Group Chief Executive and his strong leadership on the path to transformation throughout a very challenging year. The Committee also noted the wider impact of a significant discretionary reduction in the annual bonus, for the second consecutive year, and the third year out of four, on the Company's reputation in the context of being able to attract talented executives in the future.

However, the Committee recognises the expectation set out by the proxy agencies and a number of shareholders that payment of bonuses to executive directors is not considered appropriate in the event that expected dividends have been withdrawn and where our employees have received the benefit of furlough scheme support. However, we believe with no bonus in 2019 and a new Group Chief Executive in role, Centrica faces some unique circumstances.

Upon careful consideration and review of the overall context and external environment, the Committee determined that whilst resilient performance was achieved under both the financial and personal elements of the bonus, the payment of a bonus relating to 2020 was not appropriate. Accordingly, the Committee exercised its discretion to reduce the annual bonus payment for the Group Chief Executive to zero.

The Committee also exercised its discretion to reduce to zero the overall vesting of the 2018-20 LTIP award as only a proportion of the non-financial performance targets had been achieved. As set out in last year's report, the Committee made a similar decision to exercise its discretion at the end of the performance period for the 2017-19 LTIP award, resulting in zero vesting for this award.

Remuneration Policy review

Turning to the future, under the regulatory requirements, we are scheduled to submit a new three-year policy to shareholders at the 2021 AGM. Ahead of this, we sought views from our major shareholders. They were very supportive of our proposal to submit a policy which is largely unchanged.

Our intention is to conduct a thorough review of remuneration for the Directors and the senior leadership team during 2021 and to seek your approval for the new policy at the 2022 AGM. We have taken the opportunity to make small changes to reflect the 2018 Code requirements and to better align our policy with best practice.

Conclusion

Overall, 2020, 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 Executives are fairly and appropriately rewarded whilst ensuring alignment with the expectations of all our stakeholders. We believe that the actions taken in respect of 2020 achieve this aim and our new simpler senior leadership structure, together with a set of UK employment terms that are more modern and consistent, will allow us to grow and improve our performance.

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.

Carol Arrowsmith
on behalf of the Remuneration Committee
24 February 2021

Role of the Remuneration Committee

The role of the Committee continues to be ensuring that the Directors, the Senior Executive Group 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 Carol Arrowsmith, 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.

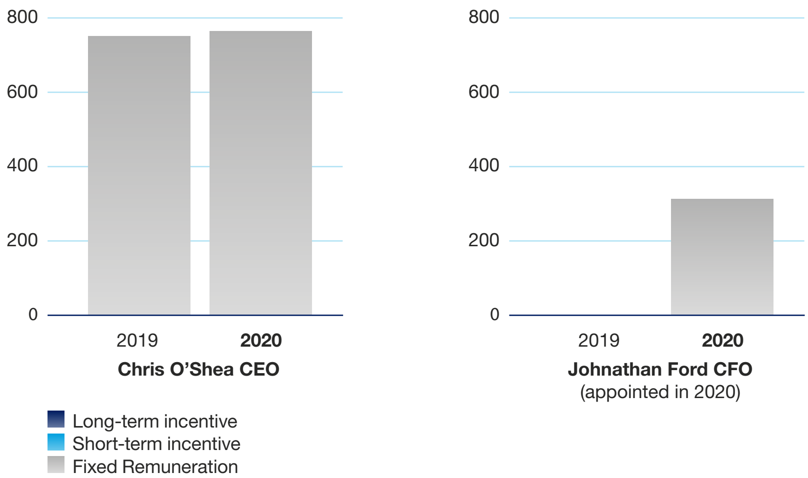
The Chairman of the Board, the Group Chief Executive, the Group HR Director and the COO, HR, Procurement & Property are normally invited to attend each Committee meeting to provide advice and guidance, other than in respect of their own remuneration.

Directors' Annual Remuneration Report

Directors' remuneration in 2020

This report sets out information on the remuneration of the Directors for the financial year ended 31 December 2020.

Summary of total remuneration received in 2019 and 2020 (£000)



Single figure for total remuneration (audited)

Executives £000	Salary/ fees	Bonus (cash)	Bonus (deferred)	Benefits[1]	LTIPs[2]	Pension[3][4][5]	Total	Total fixed remuneration	Total variable remuneration
2020									
Chris O'Shea[6]	**659**	**–**	**–**	**25**	**–**	**81**	**765**	**765**	**–**
Iain Conn[7]	**203**	**–**	**–**	**5**	**–**	**31**	**239**	**239**	**–**
Johnathan Ford[8]	**275**	**–**	**–**	**10**	**–**	**28**	**313**	**313**	**–**
Richard Hookway[9]	**268**	**–**	**–**	**21**	**–**	**16**	**305**	**305**	**–**
Sarwjit Sambhi[9]	**277**	**–**	**–**	**11**	**–**	**21**	**309**	**309**	**–**
Total	**1,682**	**–**		**72**	**–**	**177**	**1,931**	**1,931**	
2019									
Chris O'Shea	620	–	–	25	–	107	752	752	–
Iain Conn	953	–	–	31	–	202	1,186	1,186	–
Johnathan Ford[8]	–	–	–	–	–	–	–	–	–
Richard Hookway	600	–	–	34	–	110	744	744	–
Sarwjit Sambhi	517	–	–	21	–	69	607	607	–
Total	2,690	–	–	111	–	488	3,289	3,289	–

(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 LTIP award for the 2018-20 performance period will lapse. Further details are set out on page 70-71.
(3) Notional contributions to the Centrica Unapproved Pension Scheme defined contribution section (CUPS DC) for Chris O'Shea and Richard Hookway 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 1.5% in 2020 (2.4% in 2019).
(4) Iain Conn and Johnathan Ford received a salary supplement in lieu of a pension contribution, of 15% and 10% of base salary respectively.
(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 January and 11 June 2020.
(6) Chris O'Shea was appointed Group Chief Executive on 14 April 2020, on a salary of £775,000. He elected to waive £100,000 of his salary between March and 31 December 2020.
(7) Iain Conn stepped down from the Board on 17 March 2020. The remuneration in this table includes his pro-rated salary, benefits and pension contributions earned up to the date he stepped down. The remuneration for the period from 18 March to 29 July 2020 is disclosed in payments for loss of office on page 69.
(8) Johnathan Ford was appointed to the Board on 11 June 2020.
(9) Richard Hookway and Sarwjit Sambhi stepped down from the Board on 11 June 2020. The remuneration in this table includes their pro-rated salary, benefits and pension benefits earned up to the date they stepped down. The remuneration for the remainder of 2020 is disclosed in payments for loss of office on page 69.

Payments for loss of office (audited)

Iain Conn stepped down from the Board on 17 March and left Centrica on 29 July 2020. He received his contractual salary and benefits, including pension supplement, until his leave date. For the period 18 March to 29 July 2020 Iain was paid £350,054 in base salary, £8,315 in benefits and £52,508 in pension benefits.

Richard Hookway stepped down from the Board on 11 June and left Centrica on 31 July 2020. He received pay in lieu of notice in accordance with his service contract. During the period 12 June to 31 July Richard was paid £93,174 in base salary, £3,432 in benefits and £12,250 in pension benefits. From 1 August to 31 December 2020, Richard was paid £250,000 in lieu of notice, representing base pay only. The pay in lieu of notice will continue until the end of the contractual notice period.

Sarwjit Sambhi stepped down from the Board on 11 June and left Centrica on 31 July 2020. He received pay in lieu of notice in accordance with his service contract. During the period 12 June to 31 July Sarwjit was paid £84,389 in base salary, £3,368 in benefits and £6,512 in pension benefits. From 1 August to 1 November 2020 Sarwjit was paid £154,998 in lieu of notice, representing base pay only. No further loss of office payments were made.

As set out on page 67, the Committee determined that the three Executives that stepped down from the Board during 2020 would not receive an annual bonus payment relating to 2020.

Single figure for total remuneration (audited)

	Salary/fees		Total	
£000	**2020**	2019	**2020**	2019
Non-Executives				
Scott Wheway[1]	**343**	93	**343**	93
Carol Arrowsmith[2]	**51**	–	**51**	–
Charles Berry[3]	**93**	392	**93**	392
Joan Gillman	**93**	93	**93**	93
Stephen Hester	**93**	93	**93**	93
Pam Kaur	**73**	67	**73**	67
Heidi Mottram[4]	**73**	–	**73**	–
Kevin O'Byrne	**98**	62	**98**	62
Carlos Pascual[5]	**28**	73	**28**	73
Steve Pusey[6]	**36**	93	**36**	93
Total	**981**	966	**981**	966

(1) Scott Wheway was appointed Chairman on 17 March 2020.
(2) Carol Arrowsmith joined the Board on 11 June 2020.
(3) Charles Berry stepped down from the Board on 17 March 2020.
(4) Heidi Mottram joined the Board on 1 January 2020.
(5) Carlos Pascual stepped down from the Board on 22 May 2020.
(6) Steve Pusey stepped down from the Board on 22 May 2020.

Base salary/fees

Chris O'Shea was appointed as Interim Group Chief Executive on 17 March and was awarded a salary supplement of £100,000 per annum, pro-rated for the period that he was in the interim role. He elected to waive the salary supplement.

On 14 April, Chris O'Shea was appointed as Group Chief Executive with a base salary of £775,000 per annum, which was 19% lower than Iain Conn, the previous Group Chief Executive Officer. On appointment, Chris O'Shea elected to continue with the voluntary salary reduction of £100,000. His Group Chief Executive earnings were therefore based on £675,000 per annum during 2020.

The Committee reviewed the base salary for the Group Chief Executive in January 2020 and determined that no change was required. As the existing Group Chief Financial Officer had announced his intention to leave the Company, and the new Group Chief Financial Officer terms had been recently agreed, no further Executive Director salary changes were proposed.

Scott Wheway was appointed Chairman on 17 March 2020 with an annual fee of £410,000, which was £35,000 less than the previous incumbent.

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

Non-Executive Director fee levels were reviewed in December 2020 and it was agreed that no changes would be made to the base fees or the Committee Chairman fees.

Bonus – Annual Incentive Plan (AIP)

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 2020 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 2020, 50% of the financial measures was based on adjusted operating profit (AOP), 30% was based on free cash flow (FCF) and 20% was based on cost efficiency, with targets aligning to the Group Annual Plan.

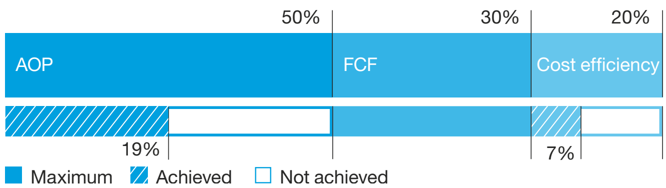
AOP of £732 million was required for target achievement and £805 million was required for maximum. The threshold level was £659 million. The AOP result for 2020 was £672 million, excluding £27 million of government furlough support, resulting in an outcome of between threshold and target for this element of the AIP.

FCF of £607 million was required for target achievement and £668 million was required for maximum. The threshold level was £546 million. FCF of £1,034 million, excluding £27 million of government furlough support, was generated in 2020 resulting in an outcome of maximum for this element of the AIP.

Cost efficiency of £475 million was required for target achievement and £523 million was required for maximum. The threshold level was £428 million. Cost efficiency of £435 million was generated in 2020 resulting in an outcome of slightly above threshold for this element of the AIP.

The chart below summarises the formulaic outcome across the three agreed measures that were set for the operation of the AIP in 2020.

Financial performance



Historically, AOP and FCF for bonus purposes have been adjusted for a number of factors including commodity prices, foreign exchange movements and weather. For 2020 and going forward, the Committee believes the two goals of transparency and shareholder alignment will be better served by not making multiple complex adjustments. Accordingly, even though the impact in 2020 of decreases in commodity prices and warm weather were significant, no adjustments will be made for 2020 or in future years. The decision not to make adjustments for 2020 has a net effect of reducing the financial performance element by 21%.

As set out above and on page 66, Centrica delivered a resilient performance in 2020 that, after excluding £27 million of support received through the Coronavirus Job Retention Scheme, which exceeded expectations set at the start of the year, and which generated a bonus outcome of between threshold and target level.

Chris O'Shea has been central to the delivery of this performance over the year and the Committee considered that he has performed exceptionally well since he took over in March 2020. In addition to the achievements set out above, Chris has energized the significantly reduced leadership team towards swift decisive action, simplified the priorities of the business and embraced the drive towards rightsizing the Group. Based on an assessment of the personal objectives that applied to Chris over the year covering leadership, balance sheet actions, portfolio simplification, organisational change and emphasis on a performance culture, the Committee determined an outcome under this element of above target at 60% was appropriate.

Notwithstanding the fact that resilient performance was achieved under both the financial and personal elements of the bonus, the Committee concluded that it was not appropriate to pay a bonus relating to 2020, due to the poor experience of our shareholders during the year.

Long-term incentive awards due to vest in 2021

Performance conditions

The performance conditions relating to the three-year period ending in 2020 are set out below, together with an explanation of the achievement against these performance conditions. Vesting between stated points is on a straight-line basis.

Financial targets and outcomes

		Targets		
Measures	Weightings	Threshold (25%)	Maximum (100%)	Outcomes
Relative TSR	33.3%	FTSE 100 median	FTSE 100 upper quartile	Below median
Underlying adjusted operated cash flow (UAOCF) growth	22.2%	CAGR 2%[1]	CAGR 5%[1]	-6.9%
Absolute aggregate Economic Profit (EP)	22.2%	£1,625m	£2,125m	£974m
Non-financial KPI improvement	22.2%	See below	See below	See below

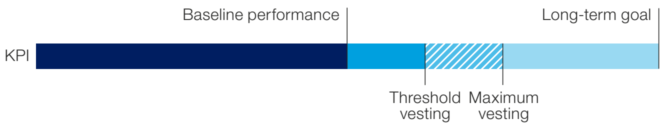
(1) Compound annual growth rate.

Centrica's relative TSR during the three-year performance period was -67.6%, compared with the required threshold level of -1.9%, therefore the TSR portion of the LTIP award granted in 2018 will not vest.

Both the UAOCF growth and the absolute aggregate EP threshold targets were not met and therefore these two portions of the LTIP award granted in 2018 will not vest.

Non-financial KPI targets and outcomes

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, targets and outcomes for the 2018-20 cycle were:

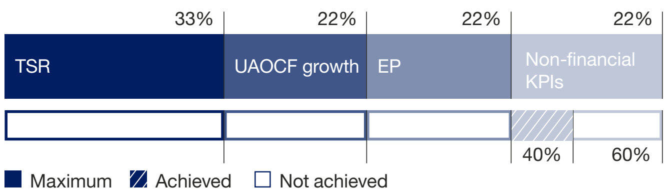
		Targets			
	Baseline performance 2020	Threshold	Maximum	Long-term goal	Outcomes
Safety					
Total recordable injury frequency rate (TRIFR)[1]	**1.06**	0.86	0.45	0.25	1.03
Tier 1 and Tier 2 process safety event frequency rate[1]	**0.08**	0.073	0.065	0.05	0.00
Customer satisfaction Aggregate brand NPS across our customer businesses weighted by customer numbers	**+15.1**	+16.33	+17.55	+20	+13.8
Complaints per 100,000 customers across our customer businesses weighted by customer accounts	**3,429**	3,041	2,653	1,877	2,569
Employee engagement (percentage favourable)	**43**	51.5	60.0	77	42

(1) Per 200,000 hours worked.

Performance against the non-financial KPI dashboard during the three-year performance period resulted in 40% of the KPI portion of the 2018-20 LTIP award vesting.

Overall performance outcome

The chart below indicates the extent of achievement against each measure.



Based on achievement against the LTIP performance conditions over the three-year performance period, as set out above, an overall weighted average vesting level of 8% 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 2018 LTIP to zero.

Pension

In 2020, it was agreed that the pension contributions for the newly appointed Group Chief Executive and Group Chief Financial Officer would be 10% of base salary to align them with the wider UK workforce where the current average pension contribution rate was 13% of base salary. Prior to 2020, pension contributions for existing Executive Directors were 15%.

Iain Conn and Johnathan Ford 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 also been included. The notional pension fund balances for each Executive are disclosed below.

Sarwjit Sambhi participated in the Centrica Pension Plan (CPP), in line with his existing contractual arrangement when he was appointed to the Board. The CPP is a registered defined benefit plan which is closed to new members. Sarwjit participated on the same basis as other plan members, subject to the CPP's earnings cap of £141,600. He received 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 as at 31 July 2020, the date he left Centrica. He accrued benefits within the Company's defined benefit pension arrangements prior to being appointed to the Board in 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 2020 £**	Total notional pension fund as at 31 December 2019 £
Richard Hookway(2)	**148,373**	130,028
Chris O'Shea(2)	**229,466**	146,170

(1) The retirement age for the CUPS DC scheme is 62.
(2) Richard Hookway joined Centrica on 1 November 2018 and left Centrica on 31 July 2020. Chris O'Shea joined on 10 September 2018.

Centrica Pension Plan	**Accrued pension as at 31 December 2020 £**	Accrued pension as at 31 December 2019 £
Sarwjit Sambhi(1)(2)	**2,768**	1,982

(1) Sarwjit Sambhi was appointed to the Board on 1 March 2019 and left Centrica on 31 July 2020.
(2) The pension accrual rate for 2019 was 1.67% of final pensionable earnings and for 2020 was 1.25% of final pensionable earnings.

Executive Director recruitment and terminations

Chris O'Shea

Chris O'Shea was appointed Interim Group Chief Executive on 17 March 2020. He was offered a salary supplement of £100,000, pro-rated, whilst he was in this role. However, he elected to waive the salary supplement and to remain on his existing Group Chief Financial Officer salary of £620,000 per annum.

On 14 April 2020, Chris O'Shea was appointed Group Chief Executive on a permanent basis. His remuneration package consisted of a base salary and variable incentive arrangements which were in line with Centrica's remuneration policy and practice. The base salary was set at £775,000 per annum and the pension contribution was reduced from 15% to 10% of base salary to bring it closer to the average pension contribution across the UK workforce, which as at the end of 2020 was 13%. Chris elected to continue to waive £100,000 of his salary, pro-rated, until 31 December 2020.

Johnathan Ford

On 11 June 2020, Johnathan Ford was appointed Group Chief Financial Officer. His remuneration package consisted of a base salary and variable incentive arrangements which were in line with Centrica's remuneration policy and practice. The base salary was set at £495,000 per annum and the pension contribution was set at 10% of base salary. It was confirmed that the annual bonus maximum award would be 150% of salary and the usual annual LTIP grant would be 175% of salary.

Johnathan Ford resigned from his role on 18 January 2021 and Centrica waived its right to contractual notice. Therefore, all remuneration entitlement ceased from his leave date of 31 January 2021, with no further payments due to be made after this date. He will not be entitled to receive a bonus payment for 2020.

Iain Conn

It was announced in July 2019 that Iain Conn would step down from the Board and leave Centrica in 2020.

On 17 March 2020, Iain stepped down from his role of Group Chief Executive and from the Board. He was treated in accordance with Centrica's remuneration policy and his service contract for the remaining term of his employment. He received salary and contractual benefits, including pension supplement, until 29 July 2020, details of which are disclosed on page 69. All unvested LTIP awards lapsed on leaving and the Committee determined that no bonus payment for 2020 would be received.

All deferred AIP shares from previous years will be released on their usual vesting dates.

Sarwjit Sambhi

On 11 June 2020, Sarwjit Sambhi stepped down from the Board and from his role of Chief Executive, Centrica Consumer. He left Centrica on 31 July 2020 and was treated in accordance with Centrica's remuneration policy and his service contract for the remaining term of his employment.

Between 11 June and 31 July 2020, Sarwjit received salary and contractual benefits, including pension benefits, and for the remaining period of his notice he was entitled to a payment in lieu of base salary only. Details of these payments are disclosed on page 69. The Committee determined that no bonus payment for 2020 would be received.

Sarwjit was granted an LTIP award in 2019 which will be time apportioned to 31 July 2020 and will vest on the normal vesting date subject to the satisfaction of the performance conditions.

All deferred AIP shares from previous years will be released on their usual vesting dates.

Richard Hookway

On 11 June 2020, Richard Hookway stepped down from the Board and from his role of Chief Executive, Centrica Business. He left Centrica on 31 July 2020 and was treated in accordance with Centrica's remuneration policy and his service contract for the remaining term of his employment.

Between 11 June and 31 July 2020, Richard received salary and contractual benefits, including pension benefits, and for the remaining period of his notice he was entitled to a payment in lieu of base salary only. Details of these payments are disclosed on page 69. The Committee determined that no bonus payment for 2020 would be received.

Richard was granted an LTIP award in 2019 which will be time apportioned to 31 July 2020 and will vest on the normal vesting date subject to the satisfaction of the performance conditions.

All deferred AIP shares from previous years will be released on their usual vesting dates.

Kate Ringrose

On 18 January 2021, Kate Ringrose was appointed Group Chief Financial Officer. Her remuneration package consisted of a base salary and variable incentive arrangements which were in line with Centrica's remuneration policy and practice. The base salary was set at £450,000 per annum and the pension contribution was set at 10% of base salary. It was confirmed that the annual bonus maximum award would be 150% of salary and the usual annual LTIP grant would be 175% of salary.

Minimum shareholding requirement for new and departing Executives

Executive Directors 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.

Departing Executive Directors are subject to a post-cessation shareholding requirement of 150% of base salary (or their actual holding if lower) for two years and this applies to Iain Conn, Sarwjit Sambhi and Richard Hookway.

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 2020. For Executive Directors only, the minimum shareholding requirement is 300% of base salary. The achievement against the requirement is shown below.

Executive Directors 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 2019(1)	**Shares owned as at 31 December 2020(1)**	Minimum shareholding guideline (% of salary)	**Achievement as at 31 December 2020 (% of salary)(2)**	**Shares owned (subject to continued service) as at 31 December 2020(3)**
Executives					
Chris O'Shea(4)	385,399	**489,251**	300	**34**	**528**
Johnathan Ford	–	**0**	300	**0**	**0**

	Shares owned as at 31 December 2019(1)	**Shares owned as at 31 December 2020(1)**
Non–Executives		
Scott Wheway	10,187	**110,187**
Carol Arrowsmith	–	–
Joan Gillman	–	–
Stephen Hester	20,700	**20,700**
Pam Kaur	–	–
Heidi Mottram	–	–
Kevin O'Byrne	40,000	**40,000**

(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 2019 with deferred AIP funds which have mandatory holding periods of three 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 46.6 pence, the price on 31 December 2020.

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

(4) During the period from 1 January 2020 to 12 February 2021 Chris O'Shea acquired 642 shares through the SIP.

Executive Directors interests in shares (number of shares) subject to Company performance conditions

The table below shows the performance share awards that were granted in 2018 and 2019 to Executive Directors 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
Chris O'Shea	LTIP	979,818	Sept 2021	Sept 2023
	LTIP	1,332,530	April 2022	April 2024

Share awards granted in respect of 2020 (audited)

In the 2019 remuneration report, it was reported that the 2020 LTIP award would be granted to Executive Directors based on 250% of salary. The performance targets for the three-year performance period 2020-22 were set out. The awards were not granted during the usual period following the Preliminary announcement due to ongoing discussions on the disposal of the Direct Energy (DE) business, which at the time amounted to price-sensitive information.

Accordingly, the Committee has determined that the 2020 LTIP award will be granted in the period following the Preliminary announcement in 2021, with performance conditions relating to the three-year period 2020-22. The Economic profit element has been adjusted to reflect the DE disposal after the first year of the performance period and the non-financial KPIs that are customer-related have been revised based on the original 2019 baseline performance and long-term goal, with the impact of the DE business removed.

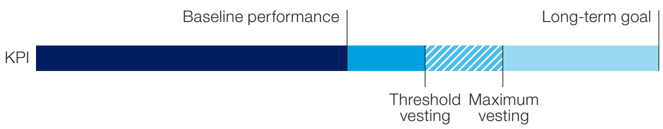
It is proposed that the following financial targets will apply to the LTIP.

Measures	Weightings	Targets 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%	£1,357m	£1,797m
Non-financial KPI improvement	22.2%	See below	See below

(1) Compound annual growth rate.

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

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



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

The KPI measures and targets are:

	Current performance	Targets Threshold	 Maximum	 Long-term goal
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	**+12.95**	+13.61	+14.26	+16
Complaints per 100,000 customers across our customer businesses weighted by customer accounts	**3,879**	3,449	3,019	2,159
Employee engagement	**43%**	51.5%	60.0%	77%

(1) Per 200,000 hours worked.

Governance

Annual percentage change in remuneration of directors and employees

The table below shows the percentage changes (on a full-time equivalent basis) in the Executive and Non-Executive Directors' remuneration between the financial year ended 31 December 2019 and the year ended 31 December 2020 compared to the amounts for full-time employees of the Group for each of the following elements of pay:

	Percentage change from 2019 to 2020		
Executive Directors	Salary/fees	Benefits	Bonus
Chris O'Shea[(1)]	6.3	0	0
Johnathan Ford[(2)]	–	–	–
Non-Executive Directors			
Scott Wheway[(3)]	268.8	–	–
Carol Arrowsmith[(4)]	–	–	–
Joan Gillman	0	–	–
Stephen Hester	0	–	–
Pam Kaur	0	–	–
Heidi Mottram[(5)]	–	–	–
Kevin O'Byrne	0	–	–
Average per employee (excluding Directors)[(6)]	0	1.1	236.4

(1) Chris O'Shea was appointed to the Centrica Board as Group Chief Financial Officer on 1 November 2018 and became interim Group Chief Executive with effect from 17 March 2020. He was appointed as Group Chief Executive on 14 April 2020. From 17 March until 31 December 2020, he elected to waive £100,000 of his salary.
(2) Johnathan Ford was appointed as Group Chief Financial Officer on 11 June 2020.
(3) Scott Wheway was appointed as Non-Executive Chairman on 17 March 2020 and the increase in his fees is due to this change.
(4) Carol Arrowsmith was appointed to the Board on 11 June 2020.
(5) Heidi Mottram was appointed to the Board on 1 January 2020.
(6) The comparator group includes all management and technical or specialist employees based in the UK in Level 2 to Level 6 (where Level 1 is the Executive and Non-Executive Directors). There are insufficient employees in the Centrica plc employing entity to provide a meaningful comparison. The employees selected have been employed in their role throughout 2019 and 2020 to give meaningful comparison. The group has been chosen because the employees have a remuneration package with a similar structure to the Executive Directors, including base salary, benefits and annual bonus. The increase in the benefits between 2019 and 2020 represents the increase in the healthcare plan costs. The increase in the bonus between 2019 and 2020 is due to the fact that cash bonuses relating to 2019 for non-customer facing employees were cancelled. The bonus number relating to 2020 is an estimate of the payments due to be made in March/April 2021.

The chart below shows the ratio of remuneration of the CEO to the average UK employee of the Group for 2018, 2019 and 2020.

CEO pay ratio	25th percentile	50th percentile	75th percentile
2020	32:1	15:1	14:1
2019	34:1	29:1	22:1
2018	72:1	59:1	44:1

For 2020 the CEO total remuneration figure includes the single figure chart combined earnings of both Iain Conn and Chris O'Shea for the period that they were in the CEO role during 2020.

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, 2019 and 2020 for the three identified employees has been calculated on the same basis as the CEO's total remuneration for the same period in the single figure table on page 68 to produce the ratios.

The ratios in 2020 have reduced due to the fact that Chris O'Shea's base salary and pension contributions are less than the previous CEO, Iain Conn, and total remuneration for the identified employees at each percentile level has increased.

Pay for performance

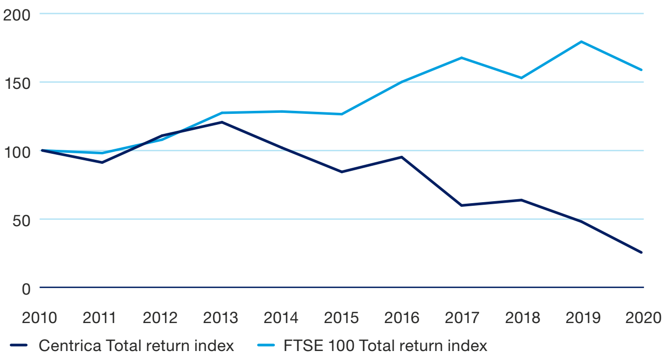
The table below shows the CEO's total remuneration over the last ten years and the achieved annual short-term and long-term incentive pay awards as a percentage of the plan maximum.

	Chief Executive single figure for total remuneration £000	Annual short-term incentive payout against max opportunity %	Long-term incentive vesting against max opportunity %
Chris O'Shea			
2020	765	0	0
Iain Conn			
2020	239	0	0
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

For 2020 the single figure for total remuneration for both Iain Conn and Chris O'Shea are shown. The total remuneration figure for Chris O'Shea includes his earnings during 2020 as CFO and CEO.

The performance graph below shows Centrica's TSR performance against the performance of the FTSE 100 Index over the 10-year period to 31 December 2020. 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 majority of the period.

Total return indices – Centrica and FTSE 100



Source: Datastream from Refinitiv

Fees received for external appointments of Executive Directors

In 2020, until 17 March, Iain Conn received £24,151 (£114,744 in 2019) as a non-executive director of BT Group plc.

Richard Hookway represented Centrica as a non-executive director of EDF Energy Nuclear Generation Group Limited and Sarwjit Sambhi represented Centrica as a director of Energy UK. Neither Executive Director's received any fees or remuneration relating to these external appointments during 2020.

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 2019 and 2020.

	2020 £m	2019 £m	% Change
Dividends	**0**	471	-100
Staff and employee costs(1)	**1,577**	2,027	-22

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

Payments to past Directors (audited)

During 2020, no payments were made to past Directors with the exception of the payments disclosed in the single figure for total remuneration table on page 68 and the payments for loss of office disclosure on page 69.

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 2020 in the areas of employment taxes, regulatory risk and compliance issues and additional consultancy services.

PwC's fees for advice to the Committee during 2020 amounted to £88,350 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 2020 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	%
3,802,215,278	98.66	51,694,947	1.34

137,428,211 votes were withheld.

Implementation in the next financial year

Base salaries for Executive Directors 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 Executive Directors in 2020.

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. The financial targets will align with 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 2021.

LTIP awards will be granted to the Chief Executive and Chief Financial Officer within the limits set out in the Remuneration Policy.

As a result of the uncertainty relating to long-term incentive targets, broader Company performance, and the impact of COVID-19, the Committee has decided to delay the grant of the 2021-23 LTIP award until later in the year when the Committee has clearer sight of the appropriate measures and targets that should apply to this award. The measures and approach to targets will not represent a significant deviation from our recent approach and will be fully disclosed in the Remuneration Report for 2021.

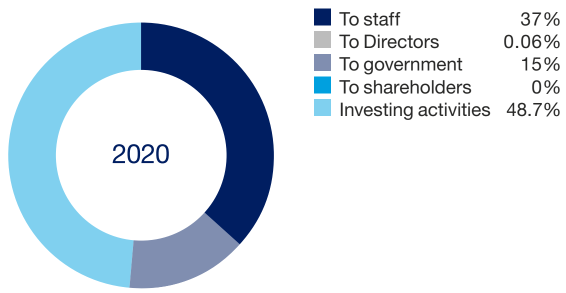
The Remuneration Report has been approved by the Board of Directors and signed on its behalf by:

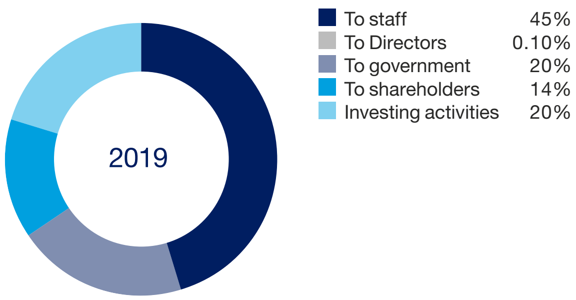
Raj Roy
Group General Counsel & Company Secretary
24 February 2021

Governance

2020 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 0.06% (2019: 0.10%) of the Group's operating cash flow.





Remuneration Policy

As Centrica's Directors' Remuneration Policy (Policy) was last approved by shareholders at the AGM in 2018, the Policy set out below will be the subject of a shareholder vote at the AGM in May 2021 and will be effective from that date.

We have taken the opportunity to make small changes to reflect 2018 Code requirements and to better align our Policy with best practice.

Our intention is to conduct a thorough review of remuneration for the Directors and the senior leadership team during 2021 and to seek shareholders' approval for a new Policy at the AGM in 2022.

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).

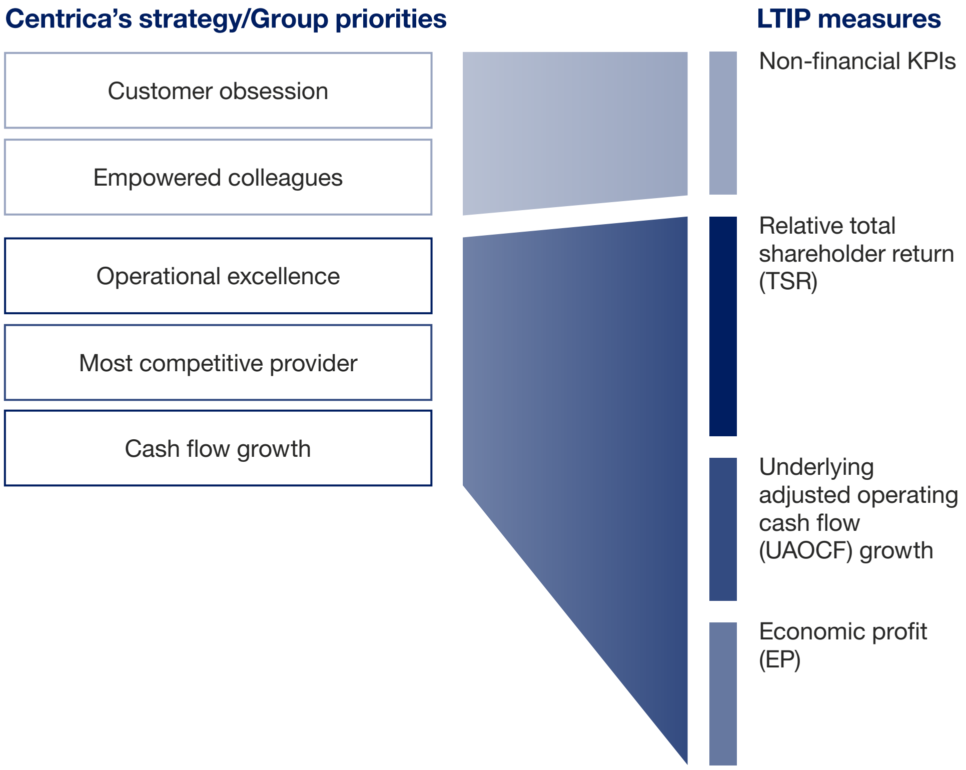
Fixed remuneration includes base salary, benefits and pension. Short-term incentive is delivered through the Annual Incentive Plan (AIP) which is described on page 77. Long-term incentive is delivered through the Long Term Incentive Plan (LTIP) which is described on page 78. Both plans are underpinned by stretching performance measures and targets that closely link to our strategy.

Performance measures

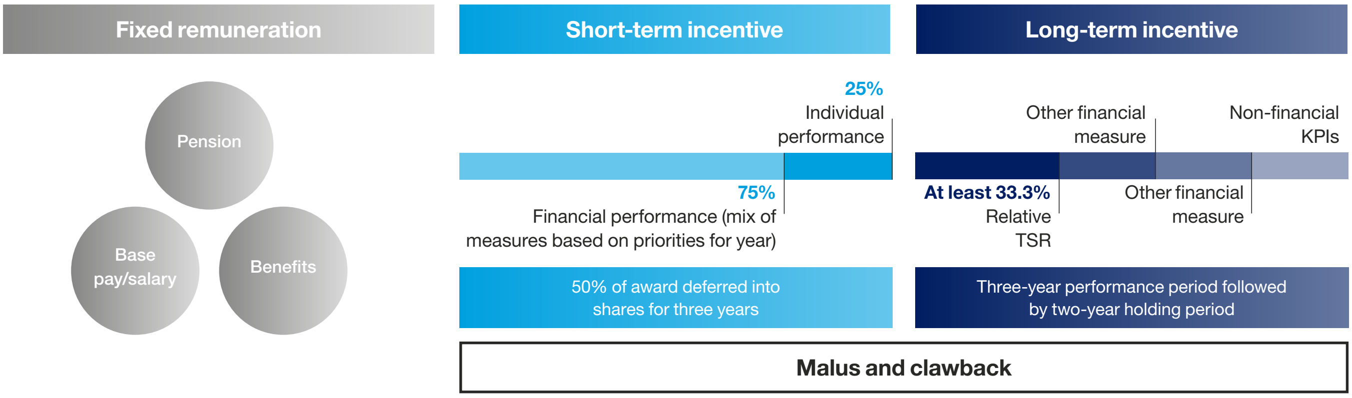
The Committee believes that the performance measures selected will help drive our customer-focused strategy, allowing us to deliver for our customers, our employees and our shareholders.

How the LTIP measures link to our strategy

The chart below shows our Group Priorities linked to the 2020 LTIP measures. Our strategy, business model and Group Priorities are set out in more detail on pages 8, 9 and 10.



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 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 paid in deferred shares which are held for three years, to further align the interests of Executives with the long-term interests of shareholders. Dividends are paid 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. Performance is assessed over one financial year. This is consistent with the previously approved policy.

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 restricted 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 accrued during the performance period and calculated on vesting 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 in respect of each financial year plus dividend equivalents. The amount payable for achieving the minimum level of performance is 5.55% of award. This is consistent with the previously approved policy.	Performance is assessed over a three-year period against measures determined by the Committee each year based on the key strategic and financial objectives of the business over the performance period. Typically, at least 33% of the award will be based on TSR, operated alongside other financial and non-financial metrics. This is consistent with the previously approved policy, but wording is amended for clarity.
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 for Executives is 10% of base salary. This compares with the average pension benefit across the wider UK workforce of 10-13%. Under the previously approved Policy, the maximum benefit for Executives was 25% of base salary.	Not applicable.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
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 but not limited to: • 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; and • health screening and wellbeing services.	Cash allowance in lieu of company car – £15,120 per annum. The benefit in kind value of other benefits will not exceed 5% of base salary. The value of the car allowance has been reduced since 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 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, full disclosure 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 companies in the FTSE 100 Index.

The FTSE 100 Index has been chosen as it is a broad equity index of which Centrica has historically been a constituent 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.

Historically this has been 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.

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.

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.

Discretion and judgement

It is important that the Committee maintains the flexibility to apply discretion and judgement to achieve fair outcomes as no remuneration policy and framework, however carefully designed and implemented, can pre-empt every possible scenario. The Committee needs to be able to exercise appropriate discretion to determine whether mechanistic or formulaic outcomes are fair, in context and can be applied in an upward or downward manner when required. Judgement is applied appropriately by the Committee, for example when considering the political and social pressures on the business, the impact of significant movements in external factors such as commodity prices, in setting and evaluating delivery against individual and non-financial performance targets to ensure they are considered sufficiently stretching and that the maximum and minimum levels are appropriate and fair.

The Committee has absolute discretion to decide who receives awards, the level of the awards under the incentive plans and the timing, within the parameters set in the rules.

In the case of a corporate action, the Committee can agree when a corporate action applies to a share award, whether awards pay out or are rolled over in this situation and how any special dividend might apply. The Committee also maintains the discretion to adjust any awards in the event of a variation of capital, for example to maintain the incentive value at the level originally intended.

The Committee retains discretion, consistent with market practice, regarding the operation and administration of the incentive plans including, but not limited to, the following:

- agreeing appropriate measures and setting targets aligned to the Group's priorities or KPIs;
- determination of the result of any disputes relating to the interpretation of the rules;
- alteration of the terms of the performance targets if it feels that they are no longer a fair measure of the Company's performance, as long as the new targets are not materially less challenging than the original ones; and
- determination that any award is forfeit in whole or in part.

The Committee also retains the discretion to forfeit or clawback deferred awards if it determines that prior performance which resulted in the annual bonus being awarded was discovered to be a misrepresentation of results or inappropriate management behaviour which fails to reflect the governance or values of the business.

Total remuneration by performance scenario

The charts below indicate the minimum, on-target and maximum remuneration that could be received by each Executive, under the Policy. Assumptions made for each scenario are:

- minimum – fixed remuneration only (base salary at current level, together with pension and benefits as set out in the Remuneration Policy table);
- on-target – fixed remuneration plus target AIP (as set out in the Remuneration Policy table) and expected value under the LTIP on vesting of 50%;
- maximum – fixed remuneration plus maximum AIP opportunity and maximum levels of vesting under the LTIP (as set out in the Remuneration Policy table); and
- Maximum +50% share price growth – fixed remuneration plus maximum AIP opportunity and maximum levels of vesting under the LTIP (as set out in the Remuneration Policy table) with 50% share price growth.

Recruitment policy

The Committee will apply the same remuneration policy during the policy period as that which applies to existing Executives when considering the recruitment of a new Executive in respect of all elements of remuneration as set out in the Remuneration Policy table.

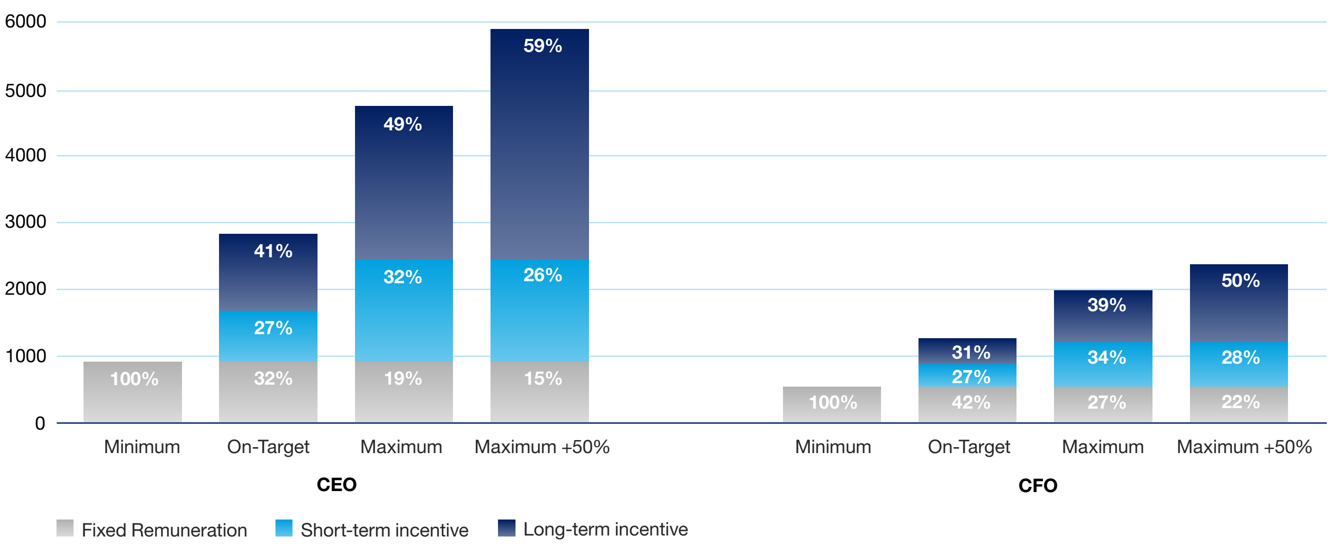
Whilst the maximum level of remuneration which may be granted would be within plan rules and ordinarily subject to the maximum opportunity set out in the Remuneration Policy table, in certain circumstances, an arrangement may be established specifically to facilitate recruitment of a particular individual up to 25% above the maximum opportunity, albeit that any such arrangement would be made within the context of minimising the cost to the Company. The policy for the recruitment of Executives during the policy period includes the opportunity to provide a level of compensation for forfeiture of bonus entitlements and/or unvested long-term incentive awards from an existing employer, if any, and the additional provision of benefits in kind, pensions and other allowances, as may be required in order to achieve a successful recruitment.

Service contracts

Service contracts provide that either the Executive or the Company may terminate the employment by giving one year's written notice. The Committee retains a level of flexibility, as permitted by the Code, in order to attract and retain suitable candidates. It reserves the right to offer contracts which contain an initial notice period in excess of one year, provided that at the end of the first such period the notice period reduces to one year.

All Executive and Non-Executive Directors are required to be re-elected at each AGM.

Total remuneration by performance scenario (£000)



Termination policy

The Committee carefully considers compensation commitments in the event of an Executive's termination. The aim is to avoid rewarding poor performance and to reduce compensation to reflect the departing Executive's obligations and to mitigate losses.

Save for summary dismissal, the policy is to either continue to provide base salary, pension and other benefits for any unworked period of notice or, at the option of the Company, to make a payment in lieu of notice comprising base salary only. Typically any payment in lieu of notice will be made in monthly instalments and reduce, or cease completely, in the event that remuneration from new employment is received.

An AIP award for the year in which the termination occurs may be made following the normal year end assessment process, subject to achievement of the agreed performance measures and time-apportioned for the period worked. Any award would be payable at the normal time with a 50% deferral and no new long-term incentive plan awards would be made.

Except in cases of death in service, the policy is not to vest any existing long-term incentive plan awards earlier than their normal vesting date. In all cases any vesting remains subject to satisfaction of the associated performance conditions and will be time-apportioned for the period worked.

Executives leaving following resignation will forfeit any potential AIP award for the performance year in which the resignation occurs and all unvested LTIP awards. In addition, Executives summarily dismissed will also forfeit any deferred shares. Deferred awards can also be clawed back if it is subsequently discovered that the results have been achieved by behaviour which fails to reflect the governance and values of the business or where the results for any period appear inaccurate or misleading.

On a change of control, existing LTIP awards will be exchanged on similar terms or vest to the extent that the performance conditions have been met at the date of the event and be time-apportioned to the date of the event or the vesting date, subject to the overriding discretion of the Committee.

Pay fairness across the Group

The Group operates in a number of different environments and has many employees who carry out a range of diverse roles across a number of countries. In consideration of pay fairness across the Group, the Committee believes that ratios related to market competitive pay for each role profile in each distinct geography are the most helpful.

The ratios of salary to the relevant market median are compared for all permanent employees across the Group and are updated using salary survey benchmarking data on an annual basis.

Unlike the significant majority of the workforce who receive largely fixed remuneration, mainly in the form of salary, the most significant component of Executive compensation is variable and dependent on performance. As such, the Committee reviews total compensation for Executives against benchmarks rather than salary alone.

A number of performance-related incentive schemes are operated across the Group which differ in terms of structure and metrics from those applying to Executives.

The Group also offers a number of all-employee share schemes in the UK, Ireland and North America and Executives participate on the same basis as other eligible employees.

Performance measures applying to Executives are cascaded down through the organisation and Group employment conditions include high standards of health and safety and employee wellbeing initiatives.

No consultation in respect of Executive remuneration takes place with employees during the year.

Shareholding requirement

A minimum shareholding requirement is in place for Executive Directors to build and maintain a value of shares over a five-year period equal to 300% of base salary, with a condition that 75% of vested incentive shares (post-tax) will be retained until the requirement has been met.

A post-cessation shareholding requirement of 50% of the shareholding requirement (or full actual holding if lower) is applicable for 24 months post-cessation.

External appointments of Executives

It is the Company's policy to allow each Executive to accept one non-executive directorship of another company, although the Board retains the discretion to vary this policy.

Fees received in respect of external appointments are retained by the individual Executive and are set out in the Directors' Annual Remuneration Report each year.

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

(consistent with the previously approved policy)

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. 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 and Risk Committee – £25,000 per annum; • Chairman of Remuneration Committee – £20,000 per annum; • Chairman of Safety, Environment and Sustainability Committee – £20,000 per annum; • Senior Independent Director – £20,000 per annum; and • Employee Champion – £20,000 per annum. 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.	The maximum level of fees payable to Non-Executives, in aggregate, is set out in the Articles of Association.	Not applicable.

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.