

Governance

The ultimate objective of corporate governance is to promote good decision-making and effective stewardship of the Company to ensure its sustainable success.

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Board of Directors

Full biographies can be found at centrica.com



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DELLA VALLE

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JOAN
GILLMAN

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LESLEY
KNOX

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STEVE
PUSEY

A N S

SCOTT
WHEAWAY

N R S

- C Chairman of the Board
- A Audit Committee
- D Disclosure Committee
- N Nominations Committee
- R Remuneration Committee
- S Safety, Health, Environment, Security & Ethics Committee
- Denotes Committee Chairman

RICK HAYTHORNTHWAITE Chairman

Rick joined the Board as a Non-Executive Director on 14 October 2013. He was appointed Chairman of the Board on 1 January 2014 and is Chairman of the Nominations Committee.

Skills and experience

Rick has a wealth of knowledge in the energy industry and has significant board experience, both as an executive and non-executive. He led the rescue of Invensys from 2001 to 2005 and the defence, turnaround and subsequent sale of Blue Circle Industries from 1997 to 2001. He has served on the boards of Network Rail as chairman and Cookson, Lafarge, ICI and Land Securities as a non-executive director.

External appointments

Chairman of the global board of MasterCard Incorporated, QIO Technologies and Arc International.

IAIN CONN Group Chief Executive

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

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. 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.

External appointments

Non-executive director of BT Group plc.

JEFF BELL Group Chief Financial Officer

Jeff was appointed Group Chief Financial Officer and joined the Board on 1 August 2015.

Skills and experience

Jeff has a broad range of finance experience. He joined the Group's Direct Energy business in Toronto in 2002 where he held various senior finance positions before moving to the Company's head office in 2008 to support the Group Chief Executive and to lead the Group Strategy team. In 2011 he was appointed Director of Corporate Finance. Prior to Centrica, Jeff worked in Toronto for both KPMG, where he qualified as a chartered accountant, and the Boston Consulting Group.

MARGHERITA DELLA VALLE Non-Executive Director

Margherita joined the Board on 1 January 2011 and is Chairman of the Audit Committee.

Skills and experience

Margherita brings considerable corporate finance and accounting experience and she has a sound background in marketing. She was chief financial officer for Vodafone's European region from April 2007 to October 2010 and chief financial officer of Vodafone Italy from 2004 to 2007. Previously she worked for Omnitel Pronto Italia in Italy and held various consumer marketing positions in business analytics and customer base management prior to moving to finance.

External appointments

Deputy Group CFO of Vodafone Group plc, a member of HM Treasury's Financial Management Review Board of HM Government and a trustee of the Vodafone Foundation.

JOAN GILLMAN

Non-Executive Director

Joan joined the Board on 11 October 2016.

Skills and experience

Joan is 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. Prior to its acquisition by Charter Communications, Time Warner Cable was the second largest cable company in the United States, operating in 29 states and generating over \$23 billion in annual revenue. 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.

STEPHEN HESTER

Senior Independent Director

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

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 30 years' experience in financial services and FTSE 100 companies.

External appointments

Group chief executive of RSA Insurance Group plc.

LESLEY KNOX

Non-Executive Director

Lesley joined the Board on 1 January 2012 and is Chairman of the Remuneration Committee.

Skills and experience

Lesley brings a wealth of strategic and financial experience across a range of businesses to the Board and she is an experienced remuneration committee chair. She was previously with British Linen Bank and was a founder director of British Linen Advisers. Lesley was senior non-executive director of Hays plc and also spent 15 years with Kleinwort Benson.

External appointments

Non-executive director of Thomas Cook Group plc and Legal & General Group Plc, trustee of the Grosvenor Estate and chairman of Grosvenor Group Limited. Chairman of Design Dundee Limited and a trustee of National Galleries Scotland.

STEVE PUSEY

Non-Executive Director

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

Skills and experience

Steve has a wealth of international experience as a senior customer-facing business technology leader. He has considerable experience in the telecommunications industry, in both the wireline and wireless sectors, and in business applications and solutions. Steve has worked for Vodafone, Nortel and British Telecom and is a graduate of the Advanced Management Program at Harvard University.

External appointments

Non-executive director of FireEye, Inc.

MARK HANAFIN

Chief Executive Centrica Business

Mark joined the Board on 14 July 2008.

Skills and experience

Mark has senior management experience across the energy value chain from E&P through to product sales. He has excellent midstream and trading credentials as well as a strong track record in developing supply and marketing businesses. Before joining Centrica, Mark spent 21 years with Royal Dutch Shell.

External appointments

Non-executive director of EDF Energy Nuclear Generation Group Limited (representing Centrica).

MARK HODGES

Chief Executive Centrica Consumer

Mark joined the Board on 1 June 2015.

Skills and experience

Mark brings a strong understanding of the UK consumer market and a track record in improving business performance. He is experienced in working in a regulated environment, driving significant improvements in customer service and efficiency, 'offer innovation', major IT and change projects. Mark was group chief executive officer of Towergate Partnership and prior to this he spent over 20 years with Norwich Union and Aviva plc holding a variety of finance, planning and strategy roles including sitting on both the executive committee and Aviva plc board.

External appointments

Director of Energy UK (representing Centrica).

CARLOS PASCUAL

Non-Executive Director

Carlos joined the Board on 1 January 2015.

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. Between 2011 and 2014 Carlos established and directed the US State Department's Energy Resource Bureau. Until August 2014 Carlos was special envoy and coordinator 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 Centre on Global Energy Policy, Columbia University and senior vice president for global energy at IHS Markit.

SCOTT WHEWAY

Non-Executive Director

Scott joined the Board on 1 May 2016.

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 retail and insurance industries, together with a strong understanding of operating within highly regulated businesses. Scott worked in retail for 27 years both in the UK and internationally.

External appointments

Chairman of Aviva Insurance Limited and senior independent director of Santander UK PLC.

Senior Executives

Full biographies can be found at centrica.com



CHARLES
CAMERON



CHRIS
COX



GRANT
DAWSON



JILL
SHEDDEN, MBE



MIKE
YOUNG

D

CHARLES CAMERON Director of Technology & Engineering

Charles was appointed Director of Technology & Engineering on 1 January 2016.

Skills and experience

Charles has extensive technology and engineering experience and has held corporate roles in marketing, planning and M&A. Before joining Centrica 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.

CHRIS COX Managing Director, Exploration & Production

Chris was appointed Managing Director, Exploration & Production on 1 February 2016.

Skills and experience

Chris has extensive experience in global oil and gas upstream activities. Since 2006 and prior to his appointment with Centrica, he held a number of senior roles at BG Group plc and was latterly the executive vice president, BG Advance and a member of the group executive team. Prior to his time at BG Group plc, Chris was with Amerada Hess and Chevron Corporation.

GRANT DAWSON Group General Counsel & Company Secretary

Grant was appointed Group General Counsel & Company Secretary in February 1997.

Skills and experience

Grant joined British Gas plc in October 1996 and has been Group General Counsel & Company Secretary of Centrica plc since the demerger of British Gas plc on 17 February 1997. He was called to the Bar in 1982 and has spent most of his career in industry, joining the legal department of Racal Electronics plc in 1984 and then STC plc as legal adviser in 1986 until they were taken over in 1991 by Northern Telecom Limited. Between 1991 and 1996, he was the associate general counsel for Nortel in Europe, Africa and the Middle East.

D Disclosure Committee

JILL SHEDDEN, MBE Group HR 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 roles across the Group. Prior to her appointment as Group HR Director Jill was HR Director in British Gas Business and British Gas Energy. In the 2017 New Year's Honours list 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.

MIKE YOUNG Group Chief Information Officer

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

Skills and experience

Mike brings a wealth of experience in managing global IS 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 Centrica he was group chief information officer with the media and digital marketing company Dentsu Aegis Network.

Directors' and Corporate Governance Report

Dear Shareholder

I am pleased to confirm that your Company has fully complied with the principles and provisions of the UK Governance Code throughout the year and the following pages set out in detail how we have done so.

Important as this is, however, good corporate governance is about much more than compliance. The structures, processes and policies described in this report are just the tools we use. The ultimate objective of corporate governance is to promote good decision-making and effective stewardship of the Company to ensure its sustainable success.

It is important to remember that the now familiar features of the governance landscape such as separation of responsibility at the top of companies, independent and diverse boards, committees with clear responsibility for key areas and transparency in reporting are but means to an end; preventing unhealthy concentrations of power, avoiding groupthink, ensuring decisions are based upon informed and wide-ranging discussions and are implemented effectively. Most importantly, good governance also depends upon the Board setting the tone from the top; the values and behaviours that protect and promote the long term success of the Company.

It is disappointing therefore that corporate governance has been in the news again in 2016 for all the wrong reasons, reflecting the failures of a few, exceptional companies, rather than the good practice of the many. The Corporate Governance Reform Green Paper was prompted largely by these failures. We have submitted a response to the consultation and stand ready to work with Government and regulators towards meaningful improvements, where possible. It is crucial, however, that better regulation does not simply mean more regulation and that, vitally, any reform retains the comply or explain principle that has been the foundation of the very significant improvements in corporate governance in the UK over the past two decades.

This Directors' and Corporate Governance Report describes how we are approaching these important issues within Centrica and I hope shareholders will find it interesting and informative.

Rick Haythornthwaite

Chairman

23 February 2017



“It is crucial, however, that better regulation does not simply mean more regulation and that, vitally, any reform retains the comply or explain principle that has been the foundation of the very significant improvements in corporate governance in the UK over the past two decades.”

Rick Haythornthwaite

Chairman

Directors' and Corporate Governance Report continued

CORPORATE GOVERNANCE

The Board believes that effective corporate governance provides an essential foundation for the long-term success of the Company. This report sets out the key elements of our corporate governance arrangements, including how we have sought to apply the principles and provisions of the UK Governance Code (the Code). The Board confirms that, up to the date of this report, it fully complied with the Code.

THE BOARD

The Board is responsible for promoting the overall success of the Company. In doing so, it delegates certain responsibilities to Board Committees and executive management. Details of the Board Committees and their activities during the year are set out on pages 74 to 79. The Board delegates authority to the Group Chief Executive for the execution of strategy and the day-to-day management of the Group. The Board oversees, guides and challenges executive management in the execution of these activities.

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 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.

For more information on our strategy and operating model see page 16 and for more information on our technology and innovation developments see pages 10 and 11.

Board meetings

The Board holds regular scheduled meetings throughout the year. In 2016, the Board met 9 times. Further information on topics considered by the Board in 2016 are detailed on page 73.

Directors

We have sought to ensure we have an appropriate mix of diversity and skills on our Board to ensure constructive debate and thoughtful decision-making. In addition, we believe it is helpful to maintain a blend within the Non-Executive group where some are in full-time executive employment and others are pursuing a non-executive portfolio career path.

At present, there are a total of 12 Directors, of whom four are Executive and eight, including the Chairman, are Non-Executive.

All of our Non-Executive Directors are considered to be independent 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. Our Non-Executive Directors are members of various committees of the Board, which are the Audit, the Nominations, the Remuneration and the Safety, Health, Environment, Security & Ethics Committees.

During the year the Non-Executive Directors, including the Chairman, met frequently without management present. In addition, the Senior Independent Director met with the Non-Executive Directors in the absence of the Chairman to appraise the Chairman's performance.

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. They are also able to seek independent professional advice at the Company's expense in respect of their duties.

The Board has agreed that each Director shall stand for reappointment at each Annual General Meeting (AGM).

Details of the Directors of the Company are set out with their biographies on pages 66 and 67. Information on remuneration and share interests are set out in the Remuneration Report on pages 83 to 99. Details relating to Directors' service contracts or letters of appointment, in the case of Non-Executive Directors, are set out in the remuneration policy that was approved by shareholders on 27 April 2015. The full remuneration policy can be found on our website.

Copies of the Executive Directors' service contracts and letters of appointment for the Non-Executive Directors are available for inspection by shareholders at each AGM and during normal business hours at the Company's registered office.

In line with best practice, the roles of our Chairman and Group Chief Executive are separate, formalised in writing and have been approved by the Board. A summary of these and other roles is shown in the table opposite.

Board composition and roles

Chairman	Rick Haythornthwaite	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	Iain Conn	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	Jeff Bell	Responsible for providing strategic financial leadership of the Company and day-to-day management of the finance function.
Independent Non-Executive Directors	Margherita Della Valle, Joan Gillman, Stephen Hester, Lesley Knox, Carlos Pascual, Steve Pusey, Scott Wheway	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	Stephen Hester	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	Mark Hanafin, Mark Hodges	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.

Recruitment

A rigorous process is followed for the appointment of each new Director to the Board, which is led by the Chairman.

The Nominations Committee used the services of executive search agents to assist in the search for Non-Executive Directors. The agents engaged during 2016 were JCA Group and Heidrick & Struggles.

The Committee considered the candidates against an objective criteria, having due regard for the benefits of Board diversity.

None of the executive search agents listed above provide any other services to the Company.

Appointments

During the year under review, there were a number of changes to the Board.

Joan Gillman, Stephen Hester and Scott Wheway were appointed as Directors of the Company with effect from 11 October 2016, 1 June 2016 and 1 May 2016 respectively.

As announced in July 2016, Stephen Hester succeeded Ian Meakins to become the Company's Senior Independent Director with effect from 1 October 2016.

Mike Linn and Ian Meakins resigned as Directors of the Company with effect from 18 April and 1 October 2016, respectively.

Board evaluation

In accordance with the Code, we conduct an annual evaluation of Board performance, which is facilitated by an independent third party at least once every three years. As reported last year, we considered conducting the third party evaluation during 2016, a year earlier than required by the Code. On reflection however, with three new Directors appointed in 2016 and the newly established Committee structure still bedding in, we felt it would be more valuable to have the third party evaluation in the second half of 2017.

The internal evaluation was conducted in December 2016, via online questionnaires and interviews with the Chairman. The Senior Independent Director, Stephen Hester, conducted the evaluation of the Chairman's performance through a series of individual discussions with Directors and senior executives.

The results of the evaluation exercises were reviewed by the Board and Committees in February 2017. Overall, the Board was considered to be performing well, with high scores recorded across the range of performance measures. In terms of enhancements, Directors identified some common areas where more information and discussion would be beneficial; in particular, in relation to the Group's new growth markets and to competitor benchmarking. In both areas, Directors felt the need for more attention reflected the rapid developments in those markets and in the competitive landscape rather than a significant gap in the Board's agenda. Opportunities to review these topics in depth have been built into the 2017 Board programme.

Balance and independence of the Board

The Board considers the balance of skills, knowledge, experience and independence to ensure the Board and Committees effectively discharge their duties and responsibilities. As part of its annual review of corporate governance, the Board considered the independence of each Non-Executive Director, other than the Chairman, against the criteria in the Code and determined that each Non-Executive Director remained independent.

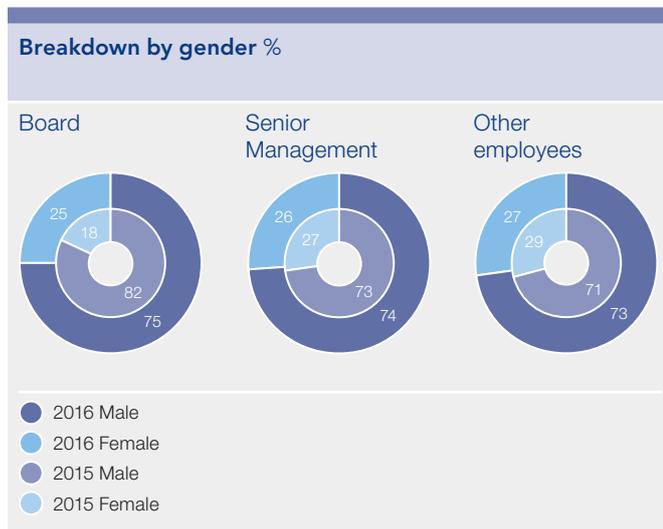
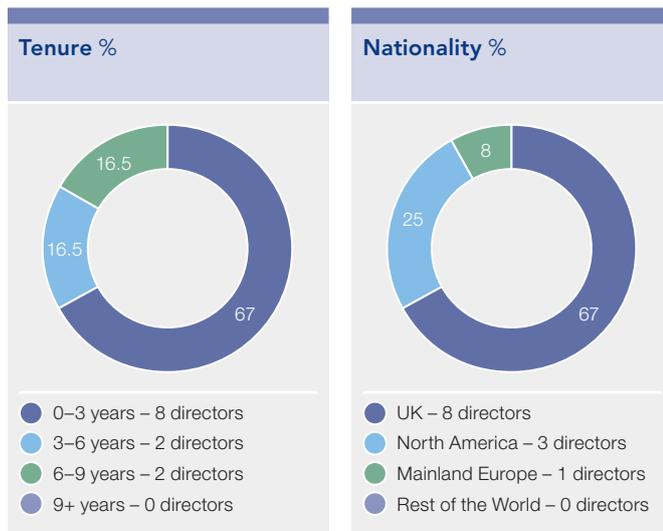
Balance of Non-Executive and Executive Directors

Non-Executive	66.6%
Executive	33.3%

Directors' and Corporate Governance Report continued

Board diversity

Centrica recognises the benefits of diversity in all its forms, at Board level and throughout the Group. As at 31 December 2016, 25% of the Board were women, this is an increase compared to 31 December 2015 where females represented 18% of the Board. Centrica supports the updated recommendations of the Davies review and is continuing to increase the skills, experience and knowledge of a diverse pipeline of talent. Just as importantly, we have also sought to promote a diverse blend of skills, backgrounds and nationalities on the Board.



Employee and senior management diversity

Our employment policies and practices reflect a culture where decisions are based on individual ability and potential in relation to the business' needs. We are committed to promoting equal opportunities and diversity as part of creating an inclusive working environment that attracts and retains the best people and that enables everyone in Centrica to fulfil their potential. Individuals are treated in a non-discriminatory manner at all stages of their employment, including recruitment and selection, reward, training and development and promotion and career development. By delivering on our commitment to diversity and inclusion we are able to:

- attract a diverse range of talent which we believe is the 'fuel' for the company of the future;
- create an inclusive environment so that everyone can bring their 'whole self' to work, to be themselves, have their voice heard and contribute to innovation and ideas; and
- ensure people receive career opportunities based on merit so that we have the right people in the right jobs.

At senior management level, 26% are female, and 27% of employees excluding the Board and senior management are female. Centrica has a range of initiatives in place including coaching and mentoring of diverse talent and our participation in the 30% Club's cross-company, cross-sector mentoring scheme for mid-career women who will benefit from mentoring at their current stage of career.

Two of our global businesses are taking part in a pilot focused on increasing diversity and gender parity. The leadership teams have set themselves internal goals to achieve these measures by challenging internal and external recruiters to present line managers with a more diverse candidate list at all stages of the recruitment process. In addition they will also be taking part in a reverse mentoring programme which will see the leadership team members being mentored by more junior and diverse talent from across the business.

Our employee networks, which include Women, Carers, Parents and Lesbian, Gay, Bi-Sexual & Transgender (LGBT) continue to grow, giving us that sense of energy that comes from having a broader group of people contributing to ideas and issues across our organisation. In recognition of Centrica's commitment to LGBT inclusion, Iain Conn was ranked as one of the Top 30 Ally Executives in the Financial Times' 2016 OUTstanding Leading LGBT+ & Ally Executives and LGBT+ Future Leaders Lists.

We fully support the Government's intention to introduce measures in the future to require companies to report on the gender pay gap, as we believe that transparent reporting drives positive intervention within organisations.

BOARD EFFECTIVENESS

Directors' attendance

Directors are expected to attend all Board and relevant Committee meetings. Details of attendance by Directors at Board and Committee meetings during 2016 are set out in the table opposite. Where a Director was not in attendance, this was due to other prior work commitments. Directors who were unable to attend specific Board or Committee meetings reviewed the relevant papers and provided their comments to the Chairman of the Board or Committee, as appropriate. In addition, any Director who is unable to attend a meeting will, as a matter of course, receive the minutes of that meeting for their reference.

Board and Committee meetings and attendance during the year

	Board	Audit Committee	Remuneration Committee	Nominations Committee	Safety, Health, Environment, Security and Ethics Committee (SHESEC)
Rick Haythornthwaite	9/9	N/A	N/A	6/6	N/A
Iain Conn	9/9	N/A	N/A	N/A	N/A
Jeff Bell	9/9	N/A	N/A	N/A	N/A
Margherita Della Valle	9/9	6/6	4/4	6/6	4/5
Joan Gillman	2/2	N/A	N/A	1/1	1/1
Mark Hanafin	9/9	N/A	N/A	N/A	N/A
Stephen Hester	5/5	3/3	N/A	3/3	N/A
Mark Hodges	9/9	N/A	N/A	N/A	N/A
Lesley Knox	9/9	6/6	4/4	5/6	N/A
Mike Linn	3/3	N/A	3/3	2/3	2/2
Ian Meakins	5/7	3/4	3/3	1/5	N/A
Carlos Pascual	9/9	N/A	4/4	6/6	5/5
Steve Pusey	9/9	6/6	N/A	6/6	5/5
Scott Wheway	5/5	N/A	1/1	3/3	3/3

Induction

All new Directors appointed to the Board receive a comprehensive induction programme tailored to meet their individual needs. The Chairman and Group General Counsel & Company Secretary are responsible for delivering an effective induction programme for newly appointed Directors.

During 2016, tailored induction programmes were designed for Joan Gillman, Stephen Hester and Scott Wheway. These included briefings from members of the Executive team on key areas of the business including the internal audit function, an overview of the Group's risk management processes, the key risks facing the business, site visits and a briefing in respect of the corporate governance framework within Centrica.

Key issues considered by the Board

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 2016, these discussions included:

- Strategic plans for Connected Home, Distributed Energy & Power and Liquefied Natural Gas
- Exploration & Production's portfolio and asset pipeline review
- The Competition and Markets Authority's report on their investigation into the energy market
- British Gas smart metering roll-out
- Investor feedback
- The Group reputation review
- Information security

Ongoing training and development

Ongoing training and development is also provided to all Directors, as agreed with the Chairman and supported by the executive management. As part of this approach, two Board insight and training sessions are held each year. In 2016, these sessions focused on the Group's pension arrangements and investment strategy and increasing the Board's awareness and understanding of process safety and how this is managed within Centrica.

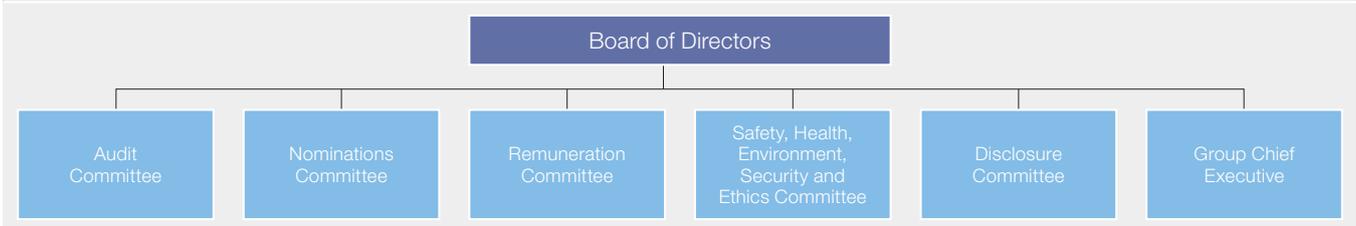
Conflicts of interest

In accordance with the Act and the Company's Articles, Directors are required to report actual or potential conflicts of interest to the Board for consideration and, if appropriate, 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.

BOARD COMMITTEES

The Board has established a number of Committees to exercise oversight in specific areas. Our Board committee structure is set out below, and the responsibilities, membership and key issues considered during the year by each committee is detailed on pages 74 to 79.

Board governance structure



Directors' and Corporate Governance Report continued



MARGHERITA
DELLA VALLE

Committee Chairman

AUDIT COMMITTEE

Members

- Margherita Della Valle (Chairman)
- Stephen Hester
- Lesley Knox
- Steve Pusey

Report of the Committee Chairman

This report aims to provide you with insight into the workings and activities of the Committee during 2016, outlining how as a Committee we discharged our duty to provide oversight of the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems, the considerations we gave to matters of financial risk and control and the key accounting judgements reached.

2016 proved to be another busy year for the Committee. We requested and received updates on risk and control environments in North America and UK Business and on the risk implications of the Group's transformation programme. These reports allow the Committee to continue to build its understanding of Centrica's business, including how key risks are identified and mitigated. We also took the opportunity to put the external audit out for tender. Additionally, the Committee met twice with the Safety, Health, Environment, Security and Ethics (SHESEC) Committee to jointly consider the Group's system of internal control and risk management; in the first quarter to assess the system's effectiveness and in the fourth quarter to look prospectively at any changes that need to be made for 2017. Both committees also jointly received an in-depth presentation on the Group's control environment for Information Systems and Cyber Security. Lastly, we considered an external quality assurance (EQA) review of the Internal Audit function, noting improvements and future areas for enhancement.

The skills and experience of our Committee membership continues to strengthen and I believe that the Committee has performed effectively in 2016. Compliance with the UK Corporate Governance Code, including the risk management and the viability statement requirements, is set out on page 64.

Role of the Committee

The role of the Committee is primarily to assist the Board in fulfilling its corporate governance obligations in relation to the Group's financial reporting, internal control and risk management systems as well as providing oversight of the internal audit function and the external auditors.

Membership and attendance

Margherita Della Valle, as deputy group CFO of Vodafone Group plc, is considered by the Board to have recent and relevant financial experience as required by the Code. Stephen Hester was appointed to the Committee on 1 June 2016. Each member of the Committee is an independent Non-Executive Director with a wide range of relevant business experience. Further details regarding the Directors' skills and experience can be found in their biographies on pages 66 and 67. 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 Head of Internal Audit, Risk & Control, none of whom do so as of right. Other senior executives will attend as required to provide information on matters being discussed

which fall into their area of responsibility. The external auditors, PricewaterhouseCoopers LLP (PwC), also attended each meeting. The Committee meets individually with the external auditors, the Group Chief Financial Officer and the Head of Internal Audit, Risk & Controls at each meeting without Executives present.

Areas of focus and training

An annual schedule of training is designed to provide the Committee members with practical training and insight into specific areas of interest. In 2016, there were two training sessions focused on understanding and assessing risks in relation to the Group's pension arrangements, including the current funding position and the investment strategy, and on process safety management.

Responsibilities of the Audit Committee:

- to support the Board in fulfilling its responsibilities in relation to maintaining effective governance and oversight of the Company's financial reporting, internal controls and risk management;
- to 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 performance, business model and strategy;
- 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, if required, the removal of the Head of Internal Audit, Risk & Controls;
- managing the relationship with the Group's external auditors on behalf of the Board including the policy on the award of non-audit services;
- to conduct a tender for the external audit contract at least every 10 years and make appointment recommendations to the Board;
- to consider and review legal and regulatory compliance issues, specifically in relation to financial reporting and controls, and, together with the SHESEC, maintain oversight of the arrangements in place for the management of statutory and regulatory compliance in areas such as financial crime; and
- to establish and oversee whistleblowing and fraud prevention arrangements within the Group.

Key issues considered by the Audit Committee:

- reviewed the 2015 Preliminary Results, the 2015 Annual Report and Accounts and 2016 half-year results and Interim Report;
- gave further consideration to the Code changes introduced in 2015 relating to the robust assessment of risks and the viability statement and their application to the 2016 Annual Report and Accounts;
- the key judgements and financial reporting matters for 2016;
- in conjunction with the SHESEC Committee, assessed the effectiveness of the system of risk management and internal controls;
- reviewed and approved the audit and non-audit fees;
- the fair, balanced and understandable test in relation to the Annual Report and Accounts, when taken as a whole;
- the effectiveness of external auditors (PwC);
- matters highlighted in the Group Risk, Control & Assurance Report and Group Ethics & Compliance Report;
- adherence across the Group with regulatory and compliance requirements, including the undertakings in respect of Centrica Storage;
- an external quality assurance (EQA) review of the Internal Audit function;
- whether the judgements, estimates and assumptions used in the presentation of the Financial Statements were reasonable and consistent; and
- regular updates of cases reported to the Company's 'Speak Up' helpline.

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 Head of Internal Audit is also a matter for the Committee.

The Committee approved the Group's annual Internal Audit plan which was primarily risk-based focusing on the assurance of core processes. 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. To provide the Committee with insight into the performance of the internal audit function relative to similar functions in other organisations, an external quality assurance (EQA) review of the Internal Audit function was undertaken.

During the year, the Committee received regular reports summarising the findings from the Group's internal audit function'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.

The Board's 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 internal controls and compliance with the Group's Business Principles and policies are assessed. Self-certification is completed both at the half year and full year. The results of the annual process, together with the conclusions of the internal reviews by internal audit, inform the annual assessment of the effectiveness of the systems of risk management and internal controls performed by the Audit Committee and the SHESEC Committee in 2016.

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, performance and independence of the external auditors as well as whether a formal tender process is required.

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.

Effectiveness and independence of the external auditors

To assess the effectiveness and independence of the external auditors, the Committee carried out an assessment of PwC. This included a review of the report issued by the audit quality review team regarding PwC and an internal questionnaire completed by Committee members and relevant members of management on their views of PwC'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.

In addition, to ensure the independence of the external auditors and in accordance with International Standards on Auditing (UK & Ireland) 260 and Ethical Statement 1 issued by the Accounting Practices Board and as a matter of best practice, PwC have confirmed their independence as auditors of the Company, in a letter addressed to the Directors. Together

with PwC's confirmation and report on their approach to audit quality and transparency, the Committee concluded that PwC demonstrated appropriate qualifications and expertise and remained independent of the Group and that the audit process was effective.

Non-audit fees

In order to preserve the 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. The current cap on non-audit work is £2.75 million, which is assessed annually for appropriateness against external guidance and regulation. The award of non-audit work, within permitted categories, is subject to pre-clearance by the Committee, should the fees in a given year exceed a specified threshold. All significant non-audit work is tendered and where PwC or Deloitte LLP were appointed, it was considered that their skills and experience made them the most appropriate supplier of the work. Significant engagements undertaken during 2016 included audit-related assurance services and advice on corporate finance support for acquisitions and disposals. On a quarterly basis, the Committee is provided with reports of all non-audit assignments awarded to the external auditors and a full breakdown of non-audit fees incurred. A summary of fees paid to the external auditors is set out in note S9 to the Financial Statements.

Appointment of the external auditors

PwC have been the external auditor of the Group since the merger of Centrica in 1997. In 2016, the Committee led a formal audit tender process. The Board and PwC mutually agreed that PwC, having regard to the length of their tenure, would not participate in the formal tender process. The conclusion of the tender process was a firm recommendation to appoint Deloitte LLP as the Company's auditor for the financial year commencing 1 January 2017. The Board has accepted and endorsed this recommendation, which is subject to shareholder approval at the Annual General Meeting scheduled for 8 May 2017.

Audit information

Each of the Directors who held office at the date of approval of the Annual Report and Accounts confirms that, so far as they are aware, there is no relevant audit information of which PwC are unaware and that they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that PwC are aware of that information.

EXTERNAL AUDITOR TRANSITION

Following a rigorous selection process Deloitte LLP was selected as the Group's external auditor for the financial year commencing from 1 January 2017. Shareholders will be asked to confirm their appointment at the 2017 AGM.

The Committee, together with management, spent significant time drawing up the assessment criteria to select the successful audit firm. The audit tender process involved three firms who each submitted their proposals for the audit. Each of the firms' engagement teams met with Centrica management teams across the Group and feedback from these meetings was provided to the Committee to inform the decision-making process. Additionally, the firms each presented to the Committee, which allowed the Committee to assess the prospective auditors' capabilities and their proposed audit approach, in terms of the strength of the lead partners and their leadership team, expertise, industry experience and audit quality, as well as independence. The Board approved the Committee's recommendation to appoint Deloitte LLP due to their extensive experience, particularly in a listed environment, their audit quality and audit service quality ratings, and their knowledge and experience of energy and utilities industries and large-scale transformation programmes.

Directors' and Corporate Governance Report

continued

Key judgements and financial reporting matters in 2016	Audit Committee reviews and conclusions
<p>IMPAIRMENT OF GOODWILL, UPSTREAM GAS AND OIL ASSETS, POWER GENERATION ASSETS AND STORAGE FACILITY ASSETS</p> <p>The Group makes judgements and estimates in considering whether the carrying amounts of its assets are recoverable. These judgements include primarily the achievement of Board approved business plans, long-term projected cash flows, generation and production levels (including reserve estimates) and macroeconomic assumptions such as the growth and discount rates and long-term commodity and capacity market auction prices used in the valuation process. In the forecasts, where forward market prices are not available, prices are determined based on internal model inputs.</p>	<p>The Committee reviewed management reports detailing the carrying and recoverable value of the assets and the key judgements and estimates used. At the year end it concluded exceptional pre-tax impairment write-backs of Exploration & Production gas and oil assets and reductions to decommissioning provisions of £135 million relating to the UK, Dutch and Norwegian gas and oil assets (£79 million) and Trinidad and Tobago gas assets (£56 million) were required, primarily due to increased reserves, cost savings, decommissioning reductions and, in the case of Trinidad and Tobago, based on the proceeds agreed for the sale of these assets. In addition to routine and immaterial impairments recorded in business performance, predominantly in E&P, the Committee reviewed the recoverable value of the York field and concluded a pre-tax impairment of £63 million was required following reservoir quality issues concerning the fourth production well which was recorded in business performance.</p> <p>Following the award of a 15 year capacity contract to the previously mothballed combined cycle gas turbine power station at Kings Lynn the Committee concluded an exceptional pre-tax impairment write-back of £26 million.</p> <p>At the half year, the Committee had reviewed the recoverable value of the UK gas storage assets and, following updated assumptions on asset availability in the near term and future expenditure on asset integrity, had agreed an exceptional pre-tax impairment of £176 million. The Committee has reviewed the updated assumptions of the recoverable value of the UK gas storage assets and have concluded no adjustment to this impairment is required.</p> <p>There is uncertainty associated with the disposal process of the Group's Canadian oil and gas assets and significant judgement was required in determining the recoverable amount of the assets, with a range of possible outcomes. The Committee reviewed this and the recoverable amount of all other significant balance sheet assets, and concluded their carrying values were appropriate.</p> <p>The external auditors held discussions with the Committee on the key judgements and assumptions used in the impairment tests and provided their own analytical report. Further detail on impairments arising, and the assumptions used in determining the recoverable amounts, is provided in notes 7 and S2 on pages 126 to 128 and 163 to 165.</p>
<p>PRESENTATION OF CERTAIN RE-MEASUREMENTS AND EXCEPTIONAL ITEMS</p> <p>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.</p>	<p>In prior years the Committee received training on the classification of exceptional items and certain re-measurements on the face of the income statement. This year the Committee asked management to present its policy for classification of items as certain re-measurements and exceptional items. The Committee reviewed the policy along with management reports detailing the judgements regarding the appropriate presentation of items as certain re-measurements and exceptional items. The Committee considered the size, nature and incidence of these items and concluded that separate disclosure of these items was appropriate in the Financial Statements.</p> <p>Exceptional items include the E&P asset impairment write-backs in the UK, Netherlands, Norway, and Trinidad and Tobago, impairment write-back of the Group's UK gas fired power station asset at Kings Lynn, impairment of its UK gas storage assets, net release of/provisions for onerous power procurement contracts, restructuring costs related to the strategic review announced in 2015, pension past service credits associated with a change to the Centrica Pension Plan, net gains on disposal of businesses and assets and changes to E&P tax rates. Further detail is provided in note 7 on pages 126 to 128.</p>

Key judgements and financial reporting matters in 2016	Audit Committee reviews and conclusions
<p>DOWNSTREAM REVENUE RECOGNITION</p> <p>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.</p>	<p>The Committee has reviewed and held discussions with the external auditors on the level of provisions made during the year. The implementation of a new billing system in UK Business in 2014 meant that the determination of the appropriate level of bad debt provisions last year required more judgement than in previous years.</p> <p>During 2016, improvements in billing performance, levels of cancellations/errors and complaints backlog have continued. The review of bad debt provisioning has continued to require more judgement. The Committee has reviewed management reports detailing these judgements and have concluded the level of provision is adequate. Further detail of accrued energy income and provision for credit loss is provided in note 17 on pages 142 and 143.</p>
<p>DETERMINATION OF LONG-TERM COMMODITY PRICES</p> <p>Long-term commodity price forecasts are derived using valuation techniques based on available external data. A significant number of judgements and assumptions are used in deriving future commodity curves. These forecasts are benchmarked against other third party forecasts and are approved by the Group's Executive Committee. The long-term commodity price forecasts are used in determining the fair values of derivative financial instruments in North America and Europe. They are also a key input in the Group's impairment valuation testing.</p>	<p>The Committee reviewed management reports detailing the key developments during the year and a summary of price changes and drivers. The Committee also reviewed the proposed valuation commodity curves versus those of external third parties. The external auditors also provided detailed reporting and held discussions with the Committee on the potential impact of changes in the commodity curves. More detail on the assumptions used in determining fair valuations is provided in note S6 on pages 176 to 178. Sensitivities of the asset impairment tests to changes in price forecasts are provided in note 7 on pages 127 and 128.</p>
<p>BUSINESS COMBINATIONS</p> <p>During the year, the Group acquired Ener-G Cogen's CHP business and Neas Energy's energy management services and trading business. Business combinations require a fair value exercise to be undertaken to allocate purchase price (cost) to the fair value of the acquired identifiable assets, liabilities, contingent liabilities and goodwill. As a result of the nature of fair value assessments in the energy industry, this purchase price allocation exercise requires subjective judgements based on a wide range of complex variables at a point in time. Specifically for these acquisitions, judgement is required in valuing the customer relationship assets.</p>	<p>The Committee reviewed management reports detailing the valuations and key judgements and estimates. The Committee also approved the disclosures in note 12. The external auditors also provided detailed reporting and held discussions with the Committee on the key judgements and assumptions used. Further details on business combinations are set out in note 12 on pages 133 to 135.</p>
<p>PENSIONS</p> <p>The cost, assets and liabilities associated with providing benefits under defined benefit schemes is 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.</p>	<p>The Committee reviewed and approved the key assumptions and disclosures in the Financial Statements. Independent actuaries were consulted on the appropriateness of the assumptions and discussions were held with the external auditors. Further details on pensions are set out in note 22 on pages 147 to 151.</p>
<p>GOING CONCERN AND LIQUIDITY RISK</p> <p>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.</p>	<p>The Committee reviewed 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 2016. Further details on sources of finance are set out in note 24 on pages 153 to 156 and in the Going Concern section of the Directors' and Corporate Governance Report, on page 82.</p>
<p>OFGEM CONSOLIDATED SEGMENTAL STATEMENT</p> <p>The Group is required to prepare an annual regulatory statement (Consolidated Segmental Statement (CSS)) for Ofgem which breaks down its 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 IFRS Annual Report and Accounts. The Group publishes the CSS at the same time as our 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.</p>	<p>The Committee reviewed the Ofgem CSS 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 203 to 215.</p>

Directors' and Corporate Governance Report continued



STEVE
PUSEY

Committee Chairman

SAFETY, HEALTH, ENVIRONMENT, SECURITY AND ETHICS COMMITTEE (SHESEC)

Members

- Steve Pusey (Chairman)
- Margherita Della Valle
- Joan Gillman
- Carlos Pascual
- Scott Wheway



RICK
HAYTHORNTHWAITE

Committee Chairman

NOMINATIONS COMMITTEE

Members

- Rick Haythornthwaite (Chairman)
- Margherita Della Valle
- Joan Gillman
- Stephen Hester
- Lesley Knox
- Carlos Pascual
- Steve Pusey
- Scott Wheway

Report of the Committee Chairman

2016 was the first full year of operation for the Safety, Health, Environment, Security and Ethics Committee (SHESEC). We spent a lot of time formalising the Committee's forward agenda to ensure its focus was aligned with those principal risks considered to have a potentially significant impact on the Group.

We decided that Health, Safety and Resilience were areas that we wanted to focus on particularly given the Group's exposure to these risks across all of our businesses. We received regular reports from management on Health and Safety performance, covering both personal safety and process safety, as well as business resilience and provided appropriate challenge and support as required.

We also received updates on the Ethics & Compliance programme intended to provide effective structures for overseeing Ethics & Compliance within Centrica. Sourcing and supplier management was another area that we focused on, which included receiving regular updates on the programmes to streamline and globalise the Procurement function and to implement the Group's compliance with the UK's Modern Slavery Act.

During the year we met twice with the Audit Committee to jointly consider the Group's system of internal control and risk management; in the first quarter to assess the system's effectiveness and in the fourth quarter to look prospectively at any changes that needed to be made for 2017.

Role of the Committee

The Committee has responsibility for the oversight of the adequacy and effectiveness of the Group's internal controls and risk management systems in respect of certain principal risks identified by the Group. These are as follows and the Committee considers each one in terms of their ethical and compliance implications:

- Health, Safety, Environment and Security;
- People: engagement, culture and behaviours;
- Sourcing and supplier management;
- Information Systems Security; and
- Legal, Regulatory, Ethical Standards and Compliance matters.

Membership and attendance

The Committee is chaired by Steve Pusey, an independent Non-Executive Director. Scott Wheway and Joan Gillman were appointed to the Committee on 1 May 2016 and 11 October 2016 respectively. The Board has determined that each member of the Committee is independent. During the year, the Chairman of the Board and the Group Chief Executive attended all Committee meetings, as do other key executives.

Key issues considered by SHESEC:

- Health and safety matters relating to asset integrity;
- Developing the priority risk focus for the Committee's forward agenda programme;
- Sourcing and supplier management;
- Modern Slavery Act compliance;
- Cyber and data security; and
- Business resilience.

Report of the Committee Chairman

2016 was a busy year for the Nominations Committee. We reviewed the succession plans in place for the Board, the Executive and senior management. Given the Group's strategy and with the assistance of our skills matrix, we identified digital, retail, North America and financial services as additional business experience and expertise that new Board members could bring to complement those of our existing Board. We considered and appointed Scott Wheway, Stephen Hester and Joan Gillman as Non-Executive Directors.

Role of the Committee

The Committee ensures 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.

Membership and attendance

The Committee is chaired by the Chairman of the Board. Scott Wheway, Stephen Hester and Joan Gillman were appointed to the Committee on 1 May 2016, 1 June 2016 and 11 October 2016 respectively. During the year, the Group Chief Executive attended all Committee meetings, as do other key executives.

Each member of the Committee is an independent Non-Executive Director who has a wide range of relevant business experience.

Key issues considered by the Nominations Committee:

- Review of Committee membership;
- The appointments of Scott Wheway, Stephen Hester and Joan Gillman;
- Consideration of exposure to loss of key personnel;
- Succession planning for the Senior Independent Director, the Non-Executive Directors, the Executive and senior management; and
- The skills of each of the Directors and the independence of each of the independent Non-Executive Directors prior to the 2016 AGM and recommendation that each of them be subject to election and re-election at the 2016 AGM.



LESLEY KNOX
Committee Chairman

REMUNERATION COMMITTEE

Members

- Lesley Knox (Chairman)
- Margherita Della Valle
- Carlos Pascual
- Scott Wheway

Set out below is an overview of the Remuneration Committee including its role and membership during 2016. The full Remuneration Report can be found on page 83 which contains our statutory remuneration disclosures as well as more detail on the main areas of focus for the Committee during the year.

Role of the Committee

The role of the Committee is to determine and make recommendations to the Board on the Company's framework and policy for the remuneration of the Chairman of the Board, the Company's Executive Directors and other senior executives.

Membership and attendance

The Committee is chaired by Lesley Knox, an independent Non-Executive Director. Scott Wheway was appointed to the Committee on 1 May 2016. 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. Meetings of the Committee are attended by 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.

Responsibilities of the Remuneration Committee:

- Determine total individual remuneration packages and terms and conditions for the Executive Directors and Executive Committee;
- Approve the design of, and determine targets for, any performance related pay schemes for the Executive Directors and the Executive Committee and approve the total annual and long-term incentive plan payments;
- Review the design of all share incentive plans for approval by the Board and the Company's shareholders; and
- Prepare and recommend to the Board for approval each year a report on remuneration policy and a separate report on the implementation of the policy in the last financial year.

Key issues considered by the Remuneration Committee:

- The approval of the individual strategic objectives and the financial targets for the short and long-term incentive awards granted in 2016 to Executive Directors and Executive Committee members;
- Review of base pay for Executive Directors and Executive Committee members;
- The approval of the terms of appointment for two new Executive Committee members;
- Developments and trends in executive remuneration with the independent external remuneration committee adviser; and
- Evaluation of the achievement against the objectives set for the vesting of the second tranche of the Group Chief Executive's recruitment award.



IAIN CONN
Committee Chairman

DISCLOSURE COMMITTEE

Members

- Iain Conn (Chairman)
- Jeff Bell
- Grant Dawson

Role of the Committee

The Disclosure Committee is responsible for the implementation and monitoring of systems and controls in respect of the management and disclosure of inside information and for ensuring that regulatory announcements, shareholder circulars, prospectuses and other documents issued by the Company comply with applicable legal or regulatory requirements.

Membership and attendance

The Committee is chaired by Iain Conn, the Group Chief Executive.

Responsibilities of the Disclosure Committee:

- Review the preliminary results announcement, the half-year results and the trading statements;
- Consideration of the release of regulatory and industry announcements;
- Review announcements regarding key management changes; and
- Consideration of announcements in respect of specific projects.

Key issues considered by the Disclosure Committee:

- The proposed final dividend and the final preliminary results announcement;
- The trading updates and approval of the final draft of the announcements;
- The interim dividend and the announcement in respect of the interim results for the six months to 30 June 2016; and
- The changes implemented by the EU Market Abuse Regulations and the impact of these changes on the Company's share dealing code.

Directors' and Corporate Governance Report continued

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 2016. The directors' report required under the Companies Act 2006 (the Act) comprises this Directors' and Corporate Governance Report, the Remuneration Report and the Responsible Business section for disclosure of our greenhouse gas emissions in the Strategic Report.

The management report required under Disclosure and Transparency Rule 4.1.5R comprises the Strategic Report, (which includes the risks relating to our business), Shareholder Information and details of acquisitions and disposals made by the Group during the year in note 12. This Directors' and Corporate Governance Report fulfills the requirements of the corporate governance statement required under Disclosure & Transparency Rule 7.2.1.

Future developments

A description of future developments can be found in the Strategic Report. A description of the Group's exposure and management of risks is provided in the Strategic Report on pages 56 to 64.

Results and dividends

The Group's results and performance summary for the year are set out on page 3. Dividends paid and proposed are set out in note 11 to the Financial Statements on page 133.

Financial instruments

Full details of the Group's financial instruments can be found in notes 19, S3 and S6 on pages 143 and 144, 169 to 173 and 176 to 178 respectively.

Articles of Association (Articles)

The Company's Articles were adopted at the 2010 AGM and were amended at the 2016 AGM. They may only be amended by a special resolution of the Shareholders.

Directors

The names of the Directors who held office during the year are set out on pages 66 and 67, with the exception of Mike Linn and Ian Meakins who retired from the Board on 18 April 2016 and 1 October 2016 respectively.

Details of the authority, role and powers of Directors are set out within this Directors' and Corporate Governance Report.

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. Qualifying third-party indemnity provisions (as defined by section 234 of the Act) were in force during the year ended 31 December 2016 and remain in force. The Company also maintains directors' and officers' liability insurance for its Directors and officers.

Employment policies

Employee involvement

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

The Company's all-employee share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In the UK we offer both Sharesave, HMRC's Save as You Earn Scheme, and the Share Incentive Plan (SIP) with good levels of take-up across the Group. Currently, 57% of eligible UK employees participate in Sharesave and 35% of eligible UK employees participate in the SIP. Details of both schemes are set out in the Remuneration Report on page 89.

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.



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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 endeavour to retain employees in the workforce if they become disabled during employment.

Human rights

As an international company we have a responsibility and are committed to uphold and protect 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 to human rights are safeguarded, as set out in our Business Principles and Human Rights Policy. We also recognise the opportunity we have to contribute positively to global efforts to ensure human rights are understood and observed.

Political donations

Centrica's political donations policy states that Centrica 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 Centrica 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 2016, contributions to DEEPAC by employees amounted to \$78,624, and DEEPAC made 54 political donations totalling \$29,000.

Relations with shareholders

The Board recognises and values the importance of maintaining an effective investor relations and communication programme. The Board is proactive in obtaining an understanding of shareholder views on a number of key matters affecting the Group and receives formal investor feedback regularly.

In 2016, Centrica's shareholder engagement programme included:

- formal presentations for the announcement of the Group's 2015 preliminary and 2016 interim results;
- meetings between the Group Chief Executive and Group Chief Financial Officer and the Company's major shareholders during the year;
- the Chairman of the Remuneration Committee meeting with a number of the Company's major shareholders during the year to discuss the Company's remuneration arrangements;

- the Chairman and Senior Independent Director meeting with major institutional shareholders in order to gain a first-hand understanding of their concerns and key issues and provide regular updates of these to the Board; and
- a meeting with our largest investors and leading proxy advisers to provide insight into the key focus and considerations of the Board and its Committees and a better understanding of the governance measures operating across the business.

The Company's AGM provides all shareholders with the opportunity to develop further their understanding of the Company. Shareholders can ask questions of the full Board on the matters put to the meeting, including the Annual Report and Accounts and the running of the Company generally. The Company intends to send the Notice of AGM and any related papers to shareholders at least 20 working days before the meeting. All Directors, including Committee Chairmen, are in attendance at the AGM to take questions.

At the AGM, the Chairman and the Group Chief Executive present a review of the Group's business. A poll is conducted on each resolution at all Company general meetings. All shareholders have the opportunity to cast their votes in respect of proposed resolutions by proxy, either electronically or by post. Following the AGM, the voting results for each resolution are published and are available on our website.

Stephen Hester, the Senior Independent Director, is available to shareholders if they have concerns that contact through the normal channels has failed to resolve.

Our website 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.

Material shareholdings

At 31 December 2016, Centrica had received notification of the following material shareholdings pursuant to the Disclosure & Transparency Rules:

31 December 2016	
	% of share capital*
BlackRock, Inc.	5.88
Schroders Investment Management Limited	5.72
Newton Investment Management Limited	5.02
Schroders plc	5.00
Invesco Limited	4.95
Aberdeen Asset Managers Limited	4.91

* Percentages are shown as a percentage of the Company's issued share capital when the Company was notified of the change in holding.

As at 23 February 2017, there were no changes in the details shown in the above table.

Share capital

The Company has a single share class which is divided into ordinary shares of 6¹⁴/₈₁ pence each. The Company was authorised at the 2016 AGM to allot up to 1,690,057,192 ordinary shares as permitted by the Act. A renewal of this authority will be proposed at the 2017 AGM. The Company's issued share capital as at 31 December 2016, 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 2016 AGM to purchase its own shares up to a maximum of 507,017,158 ordinary shares. No shares were purchased under this authority in 2016.

As at 31 December 2016, 50,833,460 shares were held as treasury shares. These shares held in treasury represent 0.93% of the Company's issued share capital. Dividends are waived in respect of shares held in the treasury share account.

Issued share capital

In May 2016 the Company conducted an equity placing of 350,000,000 ordinary shares of 6¹⁴/₈₁ pence each at a price of 200.00 pence per share, a discount of 13.5%, to raise a total of £700 million before expenses (£694 million net of expenses). The proceeds from the equity placing allowed the acceleration of the Group's customer-facing strategy through two attractive and prioritised acquisitions, ENER-G Cogen and Neas Energy, and also allowed the Group to further lower its level of net debt in an uncertain external environment, reducing pressure on the Group's targeted strong investment grade credit ratings.

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, the Restricted Share Scheme and the On Track Incentive Plan. 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, in accordance with best practice, have agreed not to vote any unallocated shares held in the EBT or SIP 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.

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 agreement of this kind relates to 2009, when Centrica 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 Centrica to offtake power from these nuclear power stations. As part of the arrangements, on a change of control of Centrica, 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.

Related party transactions

Related party transactions are set out in note S8 to the Financial Statements.

Events after the balance sheet date

Events after the balance sheet date are disclosed in note 26 to the Financial Statements.

Directors' and Corporate Governance Report continued

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 Annual Report and Accounts 2016.

Information	Location in Annual Report	Page(s)
Directors' compensation	Remuneration Report	83 to 99
Capitalised interest (borrowing costs)	Financial Statements	129, note 8
Details of long-term incentive schemes	Remuneration Report	84

Going concern

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 9 and the Business Reviews on pages 36 to 51. After making enquiries, the Board has a reasonable expectation that the parent company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the Financial Statements. Further details of the Group's liquidity position are provided in notes 24 and S3 to the Financial Statements.

Directors' responsibilities statement

The Directors, who are named on pages 66 and 67, 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 United Kingdom 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 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 2016, when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Each of the Directors confirm 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 64 together with the Directors' and Corporate Governance Report on pages 65 to 99, 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;
- as outlined on page 75, there is no relevant audit information of which PwC 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.

By order of the Board

Grant Dawson
Group General Counsel & Company Secretary
23 February 2017