# Remuneration Report

On behalf of the Board, I am pleased to present the Remuneration Committee's report for 2016.

## OVERVIEW

During 2016 we operated our Policy, approved by shareholders in April 2015, for the second of the intended three-year period. We were pleased to receive votes in support of our 2015 Implementation Report from over 85% of our shareholders notwithstanding some expressed concerns about the one-off recruitment awards granted to Iain Conn. The awards were granted as compensation for the forfeiture of unvested long-term incentive plan awards from his previous employer and were a critical part of securing his employment in the face of significant competition for his services. Set out in detail on page 95 of this report is the Committee's assessment of Iain's performance against the targets that were set in respect of the second and final tranche of shares.

## PERFORMANCE FOR THE YEAR

The Board believes that the Executive Team has successfully repositioned the strategy, organisation and priorities of the Group. The Board established targets for the year, the achievement of which would enable delivery of the strategy over the medium term, in the knowledge that these would be very stretching for the Group as a whole and successful achievement would require exceptional leadership.

I am able to report that all targets have been achieved or exceeded and the pace of change has resulted in greater progress along the transformation journey than the Board could have reasonably expected. A summary of the individual assessment of each Executive Director against the demanding personal objectives that were set for the year is set out on page 93 of this report.

Following the plan for 2016 being set towards the end of 2015, average commodity prices have fallen by 15% – 30%, driven by lower demand in Asia, US shale gas resilience, natural gas oversupply and continued high production by OPEC member states. Whilst some of this price fall has been offset through planned hedging, the impact on the Group was significant. However, underlying performance, which is a key consideration in assessing Group operating cash flow growth, was very strong. The key drivers were above plan delivery in the transformation and efficiency programme across the Group somewhat offsetting gross margin pressures, most notably in UK Energy Supply & Services, Exploration & Production, Energy Marketing & Trading gross margin generation in trading and the gas asset book, and significant improvements in working capital management.

In reaching a view on financial performance, the Committee satisfied itself that working capital recovery was not the driver of out-performance and the benefit of foreign exchange as the pound sterling weakened over the year was more than offset by the commodity price impact. The Committee considered management behaviour including non-financial metrics. Safety outputs missed stretching objectives but personal and customer safety improved materially versus 2015 and process safety was stable. Employee engagement scores from a full survey taken during the most material organisational change period fell back, particularly in the areas of greatest change. The Committee also considered the communications and investor reaction to the equity placing and post-placing developments. Having considered all of these factors, overall the Committee concluded that financial performance as reported was a fair reflection of management performance in the year.

For past performance over the three-year performance period ending with 2016, the Group Economic Profit target applying in both long-term incentive plans operated under the previously approved policy (the Long Term Incentive Scheme and the Deferred and Matching Share Scheme) was not met, therefore there will be no vesting in 2017 and all of the awards made in April 2014 will be forfeit.

## TOTAL REMUNERATION

As there were a number of Executive Directors appointed part way through the prior year and 2016 has seen very strong in-year performance, this Implementation Report will include materially increased total remuneration figures when compared to the prior year figures. The Committee is satisfied that the remuneration determined for each Executive is appropriate in the context of the approved Policy and the significant in-year performance delivered.

## LOOKING FORWARD

In preparation for presentation of a remuneration policy to shareholders at the AGM in 2018 the Committee plans to fully review executive remuneration during the forthcoming year taking into consideration the strategic direction of the Group, appropriate ongoing alignment with that strategy and the continuing development of all stakeholders' views regarding executive pay. The Committee expects to consult with major shareholders on any proposals in the latter months of the year.

**Lesley Knox**
**Chairman of the Remuneration Committee**
23 February 2017

"The Board believes that the Executive Team has successfully repositioned the strategy, organisation and priorities of the Group."

**Lesley Knox**
Chairman of the Remuneration Committee

# Remuneration Summary for 2016

## SHORT-TERM AND LONG-TERM INCENTIVE PERFORMANCE 2016

The charts below set out the measures and their weighting (inner circle) and the performance achieved against the maximum (outer circle) for both the short-term (Annual Incentive Plan) and long-term (Long Term Incentive Scheme and Deferred and Matching Share Scheme) incentive arrangements operated during the year.

### Short-term incentive targets

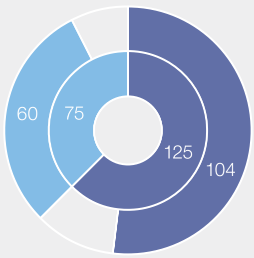
Group financial performance – adjusted operating cash flow of £2,610 million was required for target achievement and £2,741 million for maximum. The threshold level was £2,349 million.

Individual strategic objectives – achievement against strategic objectives aligned to the Group's strategic priorities, measured in line with the Group's performance management process.

### Short-term incentive outcome

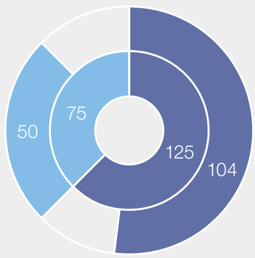
Figures in the charts below represent percentage of base salary for each Executive Director. Achievement against individual strategic objectives is set out on page 93.

#### Iain Conn



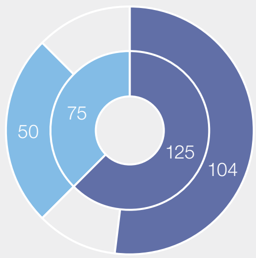

- Adjusted operating cash flow
- Strategic objectives

#### Jeff Bell



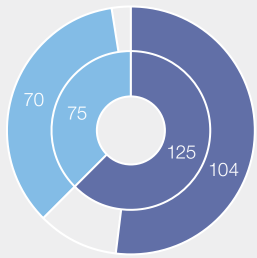

- Adjusted operating cash flow
- Strategic objectives

#### Mark Hanafin




- Adjusted operating cash flow
- Strategic objectives

#### Mark Hodges




- Adjusted operating cash flow
- Strategic objectives

### Long-term incentive targets

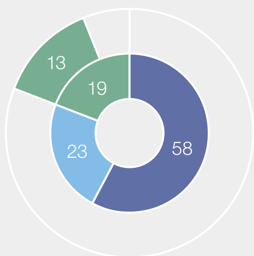
For the Long Term Incentive Scheme (LTIS) and the Deferred and Matching Share Scheme (DMSS), performance against Group Economic Profit (EP), Adjusted Earnings per Share (EPS) and non-financial KPIs was measured over a three-year period ending with 2016. In addition, a positive or negative TSR multiplier is applied to any vesting outcome under the LTIS.

The EP and EPS performance targets have not been achieved. Performance against the non-financial KPI dashboard across the three-year period was strong, however, as a result of the EP target not being met, the non-financial KPI portion of the LTIS award will not vest.

Neither of the long-term incentive plans ending with the 2016 performance year will vest and therefore there will be no payout in 2017. Full details of the performance outcomes are set out on page 94.

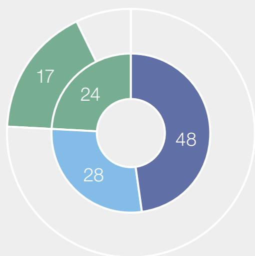
### Long-term incentive outcome

#### Jeff Bell




- Group EP
- EPS
- Non-financial KPIs

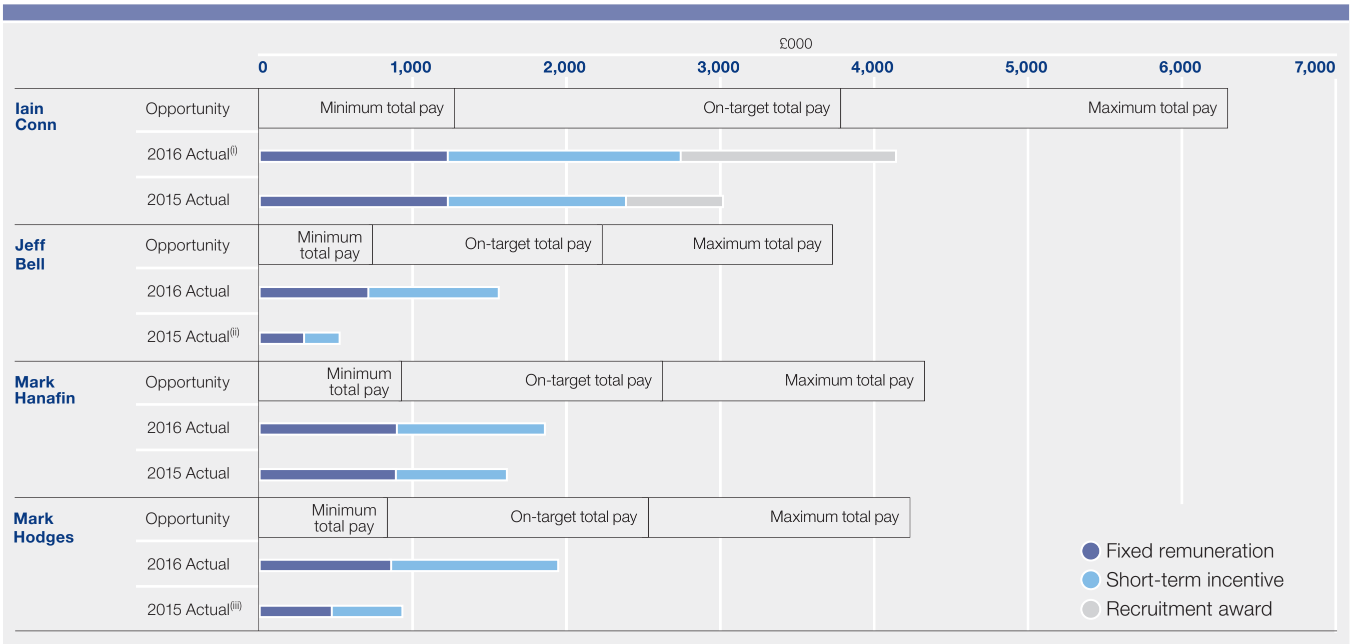
#### Mark Hanafin



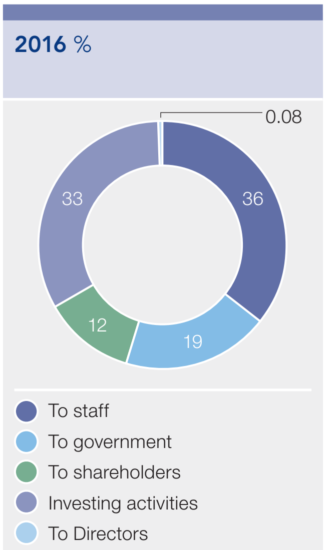

- Group EP
- EPS
- Non-financial KPIs

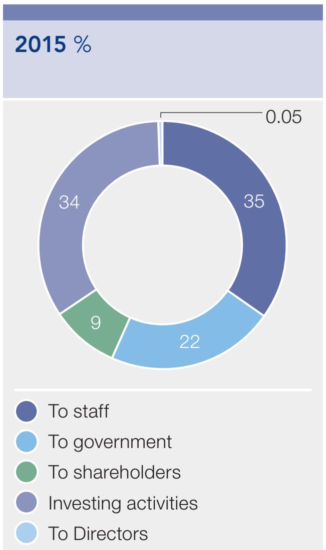
## MAXIMUM TOTAL REMUNERATION OPPORTUNITY AND TOTAL REMUNERATION RECEIVED IN 2016

The chart below sets out the total remuneration received for the year for each Executive Director on the Board during 2016, prepared on the same basis as the single figure for total remuneration table set out on page 92. In addition, for comparison purposes, the chart provides an indication of minimum, on-target and maximum total remuneration opportunity, prepared on the same basis.




(i) Achievement against the performance conditions set for the final tranche of the recruitment award is disclosed on page 95.
(ii) Jeff Bell was appointed to the Board on 1 August 2015. His 2015 remuneration therefore represents 42% of a full year.
(iii) Mark Hodges was appointed to the Board on 1 June 2015. His 2015 remuneration therefore represents 58% of a full year.




## 2016 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 0.08% (2015: 0.05%) of the Group's operating cash flow.

# Remuneration Policy

Set out over the following pages is a summary of the Remuneration Policy that was approved by shareholders on 27 April 2015. The full Remuneration Policy can be found at centrica.com.

## EXECUTIVE DIRECTORS' REMUNERATION

The Committee believes that the remuneration arrangements are completely aligned with the Executives' underlying commitment to act in the best interests of sustainable shareholder value creation, whilst ensuring behaviours remain consistent with the governance and values of the business.

### Key objectives of reward framework

The Policy aims to deliver a remuneration package:

- to attract and retain high calibre Executives in a challenging and competitive business environment;
- that delivers an appropriate balance between fixed and variable compensation for each Executive;
- that places a strong emphasis on performance, both the short term and long term;
- strongly aligned to the achievement of strategic objectives and the delivery of sustainable value to shareholders; and
- that seeks to avoid creating excessive risks in the achievement of performance targets.

### Reward framework

The core design of the total remuneration framework for Executives ensures that a substantial portion of the maximum opportunity is dependent upon performance as indicated in the chart below. 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).

Short-term incentives relate to awards under the Annual Incentive Plan (AIP) which is described on page 87. Long-term incentives relate to awards under the Long Term Incentive Plan (LTIP) which is described on page 88.

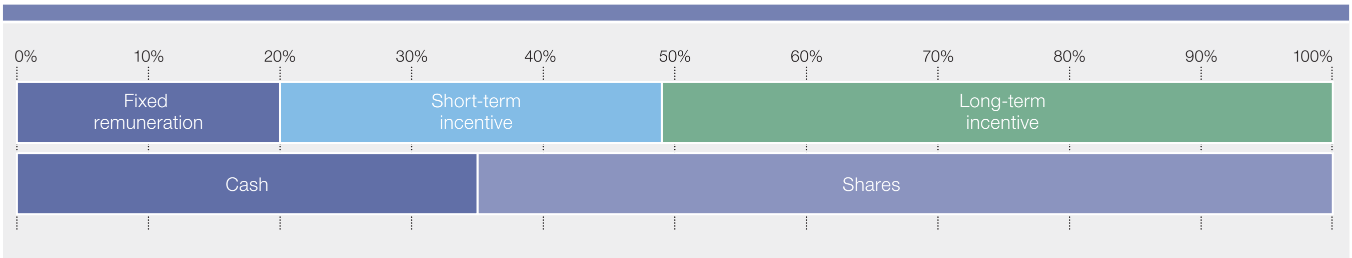
KPIs have been selected that align with our purpose: to deliver energy and services to satisfy the changing needs of our customers, and also support our long-term financial goals. In addition, our underlying principles of operating safely and with an engaged workforce are included.

The KPIs, set out in detail on pages 18 and 19, influence the design and underpin the selection of performance criteria used within the incentive arrangements as demonstrated in the KPIs and incentives table below. If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee.

In addition, Executives are subject to a minimum shareholding guideline. Under the LTIP there are mandatory holding periods of three to five years from grant or award date, to provide further alignment with the returns to our shareholders.

### Remuneration principles

- the potential maximum remuneration that Executives could receive is a key consideration when agreeing the level of base pay and the performance related elements of the remuneration package;
- the Committee takes account of, and is sensitive to, shareholder views, market changes, skills availability, competitive pressure and/or the economic climate when considering Executive remuneration. In so doing, the Committee follows similar principles that apply when remuneration is considered for all other employees within the Group; and
- benchmarking against UK cross-industry comparator organisations of similar size and complexity is used to assist the Committee in evaluating market movement and the relative competitive position of Executive remuneration to ensure that packages offered support the attraction and retention of high calibre individuals.




## KPIs and incentives

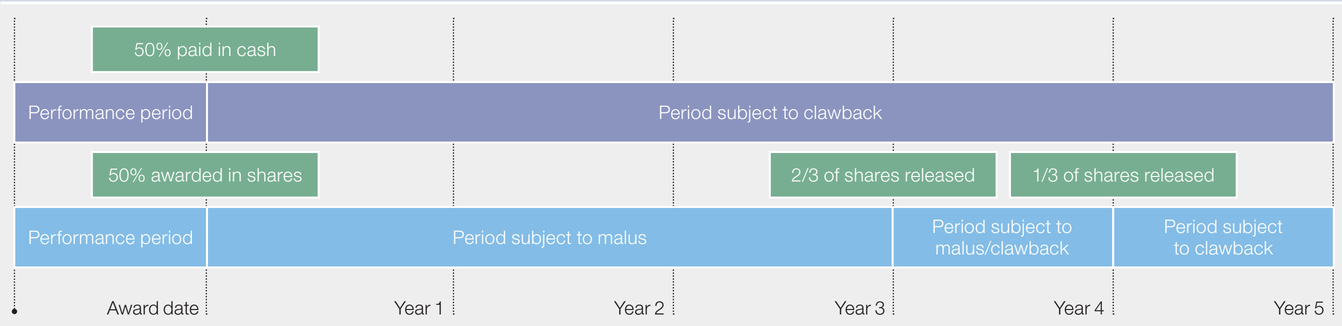
| KPI | Incentive link |
|---|---|
| Adjusted operating cash flow (AOCF) | AIP primary financial measure |
| Adjusted operating profit | LTIP EP three-year measure |
| Adjusted basic earnings per share (EPS) | LTIP EPS growth measure |
| Total shareholder return (TSR) | AIP deferred share investment and minimum shareholding requirement |
| Lost time injury frequency rate (LTIFR) | LTIP non-financial KPI dashboard |
| Process safety | LTIP non-financial KPI dashboard |
| Customer satisfaction | LTIP non-financial KPI dashboard |
| Employee engagement | LTIP non-financial KPI dashboard |

## Remuneration Policy table

The table below sets out the Remuneration Policy that was approved at the AGM on 27 April 2015 and 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.<br><br>Salaries are set at a level sufficient to allow the Company to compete for international talent and to recruit, motivate and retain individuals of the correct calibre to execute our strategy. | Base salaries are reviewed annually, taking account of performance, market conditions and pay in the Group as a whole. Changes are usually effective from 1 April each year.<br><br>This is consistent with the previously approved policy. | Ordinarily, base salary increases in percentage terms will be in line with increases awarded to other employees of the Group.<br><br>Increases may be made above this level to take account of individual circumstances such as a change in responsibility, progression in the role or a significant increase in the scale or size of the role.<br><br>The base salary for an Executive will not exceed £1 million per annum.<br><br>This is consistent with the previously approved policy. | Not applicable. |
| **SHORT-TERM INCENTIVE PLAN** | | | |
| Designed to reward the delivery of key strategic priorities for the year.<br><br>These priorities position the Group for strong short-term financial performance, in service of longer-term strategic goals. | The AIP, together with the LTIP, replaces the previous Annual Incentive Scheme (AIS), Deferred and Matching Share Scheme (DMSS) and Long Term Incentive Scheme (LTIS).<br><br>The AIP is designed to incentivise and reward the achievement of demanding financial and individual strategically aligned performance objectives.<br><br>Following measurement of the performance outcome, half of the AIP award is paid in cash. The other half is required to be deferred into shares, two-thirds of which are released after three years and the remaining third after four years. Dividends are payable on the shares during the restricted period.<br><br>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.<br><br>Malus and clawback apply to the cash and share awards (see policy table notes on page 90). | Maximum of 200% of base salary.<br><br>Half the maximum is payable for on-target performance. The minimum award is 0%.<br><br>The maximum was 180% of base salary under the previously approved policy.<br><br>The 20% of base salary increase in maximum opportunity is offset by the 80% of base salary reduction in maximum long-term incentive opportunity and longer deferral periods. | Up to 75% of base salary based on individual strategic objectives aligned to the Group's strategic priorities, with the remainder based on adjusted operating cash flow.<br><br>Assessed over one financial year.<br><br>Up to 72% of base salary was based on individual strategic objectives under the previously approved policy. |

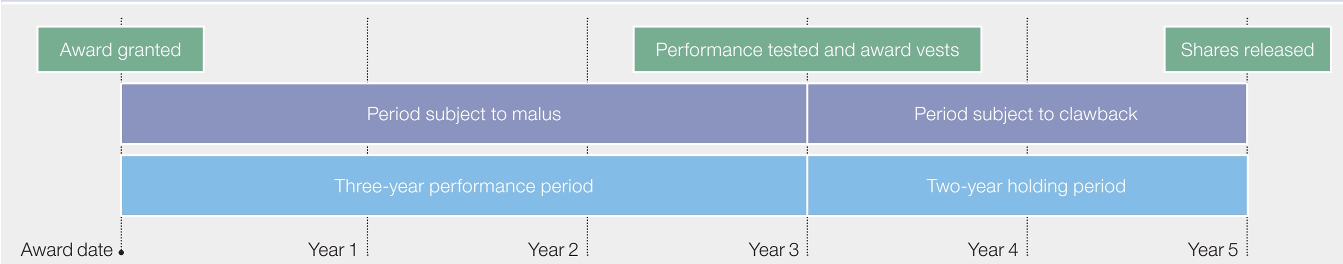
### AIP timeline



# Remuneration Policy
continued

| Purpose and link to strategy | Operation and clawback | Maximum opportunity | Performance measures |
|---|---|---|---|
| **LONG-TERM INCENTIVE PLAN** | | | |
| Assists with Executive retention and incentivises an appropriate balance between short-term performance and long-term value creation for shareholders.<br>Encourages sustainable high performance.<br>Provides a direct link between remuneration and KPIs, reinforcing the desire for sustainable high performance over the long term. | The LTIP simplifies the previous long-term incentive arrangements which were delivered under two separate schemes.<br>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 Company performance targets, but are not released until the fifth anniversary of the award date.<br>LTIP awards are usually delivered as conditional shares which vest at the end of the three-year performance period. Awards may also be granted as nil-cost options with a seven-year exercise period. It is a requirement of the LTIP that the net shares are held for a further two years following the vesting date. Malus applies to the shares during the three-year performance period and clawback applies to the shares during the two-year retention period (see policy table notes on page 90).<br>Dividend equivalents are calculated at the end of the performance period on any conditional LTIP share awards or nil-cost options. Dividend equivalents are paid as additional shares or as cash.<br>If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee. | Maximum of 300% of base salary plus dividend equivalents. The minimum vesting level is 0%.<br>The maximum was 380% of base salary plus dividend equivalents under the previously approved policy. | One-third based on EPS over the three-year performance period.<br>One-third based on absolute aggregate EP over the three-year performance period.<br>One-third based on non-financial KPI dashboard.<br>Where performance falls between stated points, vesting is calculated on a straight-line basis.<br>The weighting to non-financial KPIs has marginally increased from 30% to 33.3% compared with the long-term incentive arrangements in the previously approved policy.<br>This reflects the Committee's view of the appropriate balance between financial and non-financial measures at two-thirds/one-third respectively. |

## LTIP timeline



| Purpose and link to strategy | Operation and clawback | Maximum opportunity | Performance measures |
| --- | --- | --- | --- |
| **PENSION** | | | |
| Positioned to provide a competitive post-retirement benefit, in a way that manages the overall cost to the Company. | Incoming 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.<br>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.<br>This is consistent with the previously approved policy. | 30% salary supplement for Chief Executive and 25% salary supplement for all other Executives.<br>This is consistent with the previously approved policy. | Not applicable. |
| | Executives employed prior to 2013 are entitled to participate in a Centrica pension arrangement or to receive a fixed salary supplement in lieu of pension entitlement in accordance with the terms of their contracts.<br>Mark Hanafin is entitled to receive a salary supplement equal to 40% of his base salary in lieu of pension or to participate in a Company money purchase pension arrangement.<br>We would continue to honour defined benefit pension arrangements in the event of an individual being promoted to the Board who retains a contractual entitlement to such a pension benefit.<br>This is consistent with the previously approved policy. | 40% salary supplement for Executives employed prior to 2013.<br>This is consistent with the previously approved policy. | |
| **BENEFITS** | | | |
| Positioned to ensure competitiveness with market practice. | The Group offers Executives a range of benefits including some or all of:<br>• a company-provided car and fuel, or a cash allowance in lieu;<br>• life assurance and personal accident insurance;<br>• health and medical insurance for the Executive and their dependants;<br>• health screening; and<br>• a contribution towards financial planning advice.<br>This is consistent with the previously approved policy. | Cash allowance in lieu of company car – £22,000 per annum.<br>The benefit in kind value of other benefits will not exceed 5% of base salary.<br>This is consistent with the previously approved policy. | Not applicable. |
| **RELOCATION AND EXPATRIATE ASSISTANCE** | | | |
| To enable the Group to recruit or promote the right 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.<br>This is consistent with the previously approved policy. | Maximum of 100% of base salary.<br>This is consistent with the previously approved policy. | Not applicable. |
| **ALL-EMPLOYEE SHARE PLANS** | | | |
| Provide an opportunity for employees to voluntarily invest in the Company. | UK-based Executives are entitled to participate in the HMRC-approved Sharesave and Share Incentive Plan (SIP) on the same terms as all other eligible employees. The Sharesave plan offers a three or five-year savings period, with up to a 20% discount to the market value of the shares at the point of grant.<br>The SIP currently offers partnership and matching shares.<br>Dividends paid on SIP shares may be reinvested in the plan.<br>This is consistent with the previously approved policy. | Maximum contribution limits are set by legislation. Levels of participation allowed by the Board are within these limits and apply to all participants. The SIP currently awards one free matching share for every two partnership shares purchased, up to a maximum of 22 matching shares per month, although the plan allows for higher levels of matching award.<br>This is consistent with the previously approved policy. | Not applicable. |

# Remuneration Policy
continued

## 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 Remuneration 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 set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

### PENSION ARRANGEMENTS APPLYING TO EXECUTIVES

#### Centrica Unfunded Pension Scheme (CUPS)

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

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

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

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

### PERFORMANCE MEASURES

#### Adjusted earnings per share (EPS)

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

#### Adjusted operating cash flow (AOCF)

AOCF is the 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.

#### Economic profit (EP)

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

Where appropriate, expenditure on assets (and related costs) that are not yet in use (pre-productive capital) is excluded from capital employed.

Further details of these performance measures are provided in notes 2, 4(f) and 10 of the financial statements.

#### Non-financial KPI dashboard

The non-financial KPI dashboard is designed to reward sustained high performance over the entire three-year performance period. The equally weighted measures are:

- lost time injury frequency rate (LTIFR);
- significant process safety event;
- British Gas net promoter score (NPS);
- Direct Energy NPS; and
- employee engagement.

Employee engagement survey data is collected by an external provider and compared against an independent benchmark database.

Deloitte LLP reviewed the non-financial KPIs linked to executive remuneration and provided limited assurance using the International Standard on Assurance Engagements ISAE 3000 (Revised). The 2016 assurance statement and the Basis of Reporting, are available at centrica.com/assurance.

For each measure, three performance zones have been established, represented by the following indicators:

High performance zone

Median performance zone

Low performance zone

### 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.

## NON-EXECUTIVE DIRECTORS' REMUNERATION

### Remuneration Policy

Centrica's policy on Non-Executive Directors' (Non-Executives) fees takes into account the need to attract high quality individuals, their responsibilities, time commitment and market practice.

### 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.

### Remuneration Policy table

| Purpose and link to strategy | Operation | 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. | The fee levels for the Chairman are reviewed every two years by the Remuneration Committee.<br>The fee levels of the Non-Executives are reviewed every two years by the Executive Committee.<br>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.<br>**Fee levels from 1 January 2016:**<br>Base fee £72,500 per annum.<br>The following additional fees apply:<br>• Chairman of Audit Committee – £25,000 per annum;<br>• Chairman of Remuneration Committee – £20,000 per annum;<br>• Chairman of Safety, Health, Environment, Security and Ethics Committee – £20,000 per annum; and<br>• Senior Independent Director – £20,000 per annum.<br>**Fee levels from May 2010 to 31 December 2015:**<br>Base fee £65,000 per annum.<br>The following additional fees applied:<br>• Chairman of Audit Committee – £23,000 per annum;<br>• Chairman of Remuneration Committee – £20,000 per annum;<br>• Chairman of Corporate Responsibility Committee – £20,000 per annum;<br>• Chairman of Safety, Health, Environment, Security and Ethics Committee (established July 2015) – £20,000 per annum; and<br>• Senior Independent Director – £20,000 per annum.<br>The Company reserves the right to pay a Committee membership fee in addition to the base fees.<br>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.<br>The Non-Executives, including the Chairman, do not participate in any of the Company's share schemes, incentive plans or pension schemes.<br>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. |

# Directors' Annual Remuneration Report

## DIRECTORS' REMUNERATION IN 2016

This report sets out information on the remuneration of the Directors for the financial year ended 31 December 2016.

### Single figure for total remuneration (audited)

| £000 | 2016 Salary/ fees | 2015 Salary/ fees | 2016 Bonus (cash) | 2015 Bonus (cash) | 2016 Bonus (deferred) | 2015 Bonus (deferred) | 2016 Benefits (viii) | 2015 Benefits | 2016 LTIPs (ix) | 2015 LTIPs | 2016 Recruit-ment award (x) | 2015 Recruit-ment award (xi) | 2016 Pension (xii)(xiii) | 2015 Pension | 2016 Total | 2015 Total (restated) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Executives** | | | | | | | | | | | | | | | | |
| Iain Conn | **925** | 925 | **759** | 581 | **759** | 581 | **29** | 29 | **–** | – | **1,402** | 632 | **277** | 277 | **4,151** | 3,025 |
| Jeff Bell[i] | **550** | 229 | **424** | 116 | **424** | 116 | **26** | 10 | **–** | – | **–** | – | **140** | 58 | **1,564** | 529 |
| Mark Hanafin | **625** | 621 | **481** | 361 | **481** | 361 | **25** | 24 | **–** | – | **–** | – | **267** | 249 | **1,879** | 1,616 |
| Mark Hodges[ii] | **625** | 365 | **544** | 230 | **544** | 230 | **82** | 20 | **–** | – | **–** | – | **156** | 91 | **1,951** | 936 |
| | | | | | | | | | | | | | | | **9,545** | 6,106 |
| **Non-Executives** | | | | | | | | | | | | | | | | |
| Rick Haythornthwaite | **495** | 495 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **495** | 495 |
| Margherita Della Valle | **98** | 88 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **98** | 88 |
| Joan Gillman[iii] | **16** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **16** | – |
| Stephen Hester[iv] | **47** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **47** | – |
| Lesley Knox | **93** | 85 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **93** | 85 |
| Mike Linn[v] | **28** | 73 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **28** | 73 |
| Ian Meakins[vi] | **70** | 85 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **70** | 85 |
| Carlos Pascual | **73** | 65 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **73** | 65 |
| Steve Pusey | **87** | 49 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **87** | 49 |
| Scott Wheway[vii] | **48** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **48** | – |
| | | | | | | | | | | | | | | | **1,055** | 940 |
| Total | | | | | | | | | | | | | | | **10,600** | 7,046 |

(i) Jeff Bell was appointed as an Executive Director on 1 August 2015. His 2015 remuneration therefore represents 42% of a full year.
(ii) Mark Hodges was appointed as an Executive Director on 1 June 2015. His 2015 remuneration therefore represents 58% of a full year.
(iii) Joan Gillman was appointed as a Non-Executive Director on 11 October 2016.
(iv) Stephen Hester was appointed as a Non-Executive Director on 1 June 2016.
(v) Mike Linn resigned as a Non-Executive Director on 18 April 2016.
(vi) Ian Meakins resigned as a Non-Executive Director on 1 October 2016.
(vii) Scott Wheway was appointed as a Non-Executive Director on 1 May 2016.
(viii) Taxable benefits include car allowance, health and medical benefits and financial planning advice. Non-taxable benefits include matching shares received under the SIP. Benefits paid to Mark Hodges in 2016 include relocation support paid in line with Centrica's relocation policy.
(ix) The long-term incentives include the value of the LTIS and DMSS matching awards due to vest in April 2017, relating to the three-year performance period ending in 2016. The performance targets have not been met and these awards therefore will not vest. Details of the performance outcomes are set out on page 94.
(x) The recruitment award shares vesting in April 2017 have been valued to calculate an estimated payout using the share price at 31 December 2016 which was 234.1p. The value of the estimated dividend equivalent shares has been included. The shares will be held until April 2018.
(xi) The value of the recruitment award shares vesting in April 2016 has been recalculated based on the share price on the date of vest which was 223.5p. The previous disclosure in the 2015 single figure table used an estimated share price.
(xii) Notional contributions to the CUPS DC scheme for Mark Hanafin and Jeff Bell (less an allowance for CPI inflation on this opening balance of 1.3% in 2015, no allowance applicable in 2016) have been included in this table as if CUPS DC were a cash balance scheme.
(xiii) Iain Conn and Mark Hodges are entitled to receive a salary supplement of 30% and 25% of base pay respectively.

## Base salary/fees

Base salaries for Executives were reviewed on 1 April 2016 and were not increased. The salaries will be reviewed during the course of 2017 as part of the normal annual cycle.

Base fees for Non-Executives were reviewed in November 2015 and were increased on 1 January 2016 from £65,000 to £72,500 per annum. The additional fee for the Chairman of the Audit Committee was also increased from £23,000 to £25,000 per annum. The increases were in line with the Remuneration Policy. Prior to this increase, Non-Executives' fees had been at the same level since 2010.

## Bonus – Annual Incentive Plan (AIP)

The financial performance targets for the 2016 AIP are set out in the Remuneration Summary. The charts on page 84 under short-term incentive outcomes indicate the extent of achievement for each Executive receiving a payment relating to 2016, for each component of the AIP.

## Performance against individual strategic objectives in 2016

In line with the Group's annual performance management process, each Executive had a set of stretching individual objectives aligned to the Group's strategic priorities, for 2016. Set out below is the Committee's assessment of the achievement against these objectives for each Executive.

### Iain Conn

Iain Conn delivered an outstanding performance, laying the agreed strategic foundation for growth at a pace and to an extent that far exceeded the stretching expectations of the Board while ensuring that all financial outputs were met or exceeded in a year when commodity prices continued to be a strong drag on cash flows.

Iain has established a strong leadership tone in matters of safety, ethics, compliance and management discipline with a commensurate improvement in the performance potential, resilience and risk profile of Centrica. This underpinned delivery of very strong momentum in the drive for greater efficiency resulting in greater than planned cost reductions and the leeway to follow differentiated strategies in the customer-facing businesses.

Under his guidance, material progress has been made in repositioning the portfolio with a focus on creating a future pathway for Exploration & Production and the establishment of strong momentum in the new customer-facing business units. The repositioning required shifts in organisation, capabilities, systems, processes and culture of a scale that required very considerable skill, diligence and imagination to achieve. Although employee engagement suffered modestly during this difficult period of change, personnel safety levels, customer satisfaction and complaints levels all started to strongly move in the right direction.

Iain is proving to be a very strong CEO, well suited to the challenges faced by Centrica in terms of its need to adapt rapidly to deliver profitable growth in a significantly changed strategic context while establishing a reputation as a company that is fully in tune with the expectation of its stakeholders and society at large.

### Jeff Bell

Jeff Bell played a key role in delivering against the financial targets and accelerating the realisation of the group cost efficiency targets. Along with the improvements in the debt position, and working capital recovery, he also engaged proactively with the rating agencies with the result that strong investment grade credit ratings were maintained.

He led a tightening up of core finance management processes and improved the capability of the Finance function through a number of critical senior appointments. Jeff has made real progress in implementing and leading new performance management and review processes, with added functional quarterly performance reviews, new KPIs for internal and external use, a new Group Performance Report and improved quality of management information generally.

Through his leadership of the Centrica Pensions Committee the triennial pensions valuation process reached a successful conclusion within the proposed boundary conditions.

Overall, Jeff has grown confidently into his role as Chief Financial Officer and exceeded expectations in what was a very challenging year.

### Mark Hanafin

Mark Hanafin expertly guided the successful establishment of the new global Distributed Energy & Power business and ensured a strong set-up for the future with some excellent hires and the acquisition of ENER-G Cogen.

Energy Marketing & Trading beat its plan by some margin. The new organisation following a smooth relocation is working well, and material growth was delivered through the Neas Energy acquisition and the expansion of the LNG book.

Mark showed skilled handling of strategic disposals and acquisitions. As well as the two key acquisitions, both wind farms and Trinidad and Tobago have been successfully divested, with Canada also on track for sale.

Mark's overall portfolio exceeded its cash flow targets. This was particularly impressive in Exploration & Production which experienced the most challenging environment in 20 years.

He ensured that cost efficiency targets were met or exceeded. There was excellent progress in reducing E&P lifting and other cash production costs.

Strong safety standards were maintained and significant progress was made in tightening discipline, improving reporting and developing capability.

Overall, Mark made significant progress in reshaping the business in line with the Group Operating Model against a difficult market backdrop.

### Mark Hodges

Mark Hodges has more than delivered on all fronts, managing by far the largest change agenda in the Group's history, delivering excellent financial outcomes, building capability and changing the organisation, behaviours and mind-set. His leadership style has been pragmatic, Group-minded and delivery-oriented.

Mark has effectively grasped the challenges and helped to ensure an enhanced customer experience at reduced cost, with significant efficiencies delivered and customer outcomes improved materially, with complaints down 31% in UK Home and 22% in UK Business.

A new business-to-consumer participation strategy was agreed with clear pathways established for the growth of Hive and our wider technological capability. Downstream profits were maintained during delivery of the cost efficiency programme, despite a reduction in customer holdings and gross margin compression.

He showed strong leadership in the drive towards an incident free workplace, with employee injury frequency rates and customer injuries both declining significantly.

Under Mark's direction, Connected Home has been successfully established as a rapidly growing global business unit with a NPS of +65 for customers with multi-connected products. Overall, Mark has exceeded the financial plan for his portfolio in a challenging environment, as well as building a constructive relationship with our regulators and reinforcing British Gas as a responsible market participant.

# Directors' Annual Remuneration Report
continued

## Long-term incentive plans vesting in 2017

### Performance conditions

The performance conditions relating to the LTIS awards vesting in 2017 are set out below, together with an explanation of the achievement against these performance conditions.

| Vesting criteria | Performance conditions over three-year period |
|---|---|
| 35% on EPS growth against RPI growth | Full vesting for EPS growth exceeding RPI growth by 30%<br>Zero vesting if EPS growth does not exceed RPI growth by 9%<br>Vesting will increase on a straight-line basis between 25% and 100% between these points |
| 35% on absolute aggregate EP | Full vesting for aggregate EP of £3,400 million<br>Zero vesting if aggregate EP is below £2,600 million<br>Vesting will increase on a straight-line basis between 25% and 100% between these points |
| 30% on non-financial KPI dashboard | As disclosed below |
| Positive/negative multiplier on TSR performance against the FTSE 100 Index | 0.667 multiplier for Index -7% per annum and 1.5 multiplier for Index +7% per annum, subject to a cap at the face value of the award. Where performance falls between stated points, vesting is calculated on a straight-line basis |

### Performance outcome

#### Earnings per share (EPS)

EPS growth during the three-year period ending with 2016 did not exceed RPI growth by 9%. Consequently, the EPS portion of the 2014 LTIS award will not vest.

#### Economic Profit (EP)

Aggregate EP achieved during the three-year period ending with 2016 was £1,891 million when compared to a threshold level of £2,600 million and a maximum level of £3,400 million. Consequently, the EP portion of the 2014 LTIS awards, and the DMSS matching awards, will not vest.

### LTIS non-financial KPI dashboard

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

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

The non-financial KPI results in 2014, 2015 and 2016 are as follows:

| Measure | Performance period – LTIS awards granted in 2014 and due to vest in 2017 | | |
|---|---|---|---|
| | Year 1 2014 | Year 2 2015 | Year 3 2016 |
| Lost time injury frequency rate (LTIFR) | High | High | High |
| Significant process safety event | High | High | High |
| British Gas net promoter score (NPS)(i) (ii) | Median | High | Median |
| Direct Energy NPS(ii) | High | High | High |
| Employee engagement | Median | Median | Low |

Performance against the non-financial KPI dashboard for the three-year period ending with 2016 resulted in 70% of the KPI portion of the 2014 LTIS award becoming eligible for vesting.

As a result of the EP performance target not being met for the three-year period ending with 2016, the KPI portion of the 2014 LTIS award will not vest. There will therefore be no payout under the LTIS in 2017.

READ MORE ABOUT OUR KPIS ON PAGES 18 AND 19

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

### KPI performance under the LTIP

Set out below is the achievement against the KPI dashboard for the first two years of measurement for LTIP awards granted in 2015 and 2016.

| Measure | Performance period – LTIP awards granted in 2015 and due to vest in 2018 | | |
|---|---|---|---|
| | Year 1 2015 | Year 2 2016 | Year 3 2017 |
| Lost time injury frequency rate (LTIFR) | High | High | |
| Significant process safety event | High | High | |
| British Gas net promoter score (NPS)(i) (ii) | Median | Low | |
| Direct Energy NPS(ii) | High | High | |
| Employee engagement | Median | Low | |

| Measure | Performance period – LTIP awards granted in 2016 and due to vest in 2019 | | |
|---|---|---|---|
| | Year 1 2016 | Year 2 2017 | Year 3 2018 |
| Lost time injury frequency rate (LTIFR) | High | | |
| Significant process safety event | High | | |
| British Gas net promoter score (NPS)(i) (ii) | Low | | |
| Direct Energy NPS(ii) | High | | |
| Employee engagement | Low | | |

(i) In 2015, British Gas NPS methodology changed to focus on experiences at the end of key customer journeys which is the LTIP NPS KPI. In 2016, British Gas journey NPS decreased to -1 (low performance zone), from an originally reported 2015 score of +4 (median performance zone) which has subsequently been restated to +1 following survey changes that refocused measurement on key customer journeys. The outgoing British Gas methodology based on contact and brand scores used under the former LTIS, with the last cycle ending in 2016, was +25 (median performance zone), down from +28 (high performance zone). For Direct Energy NPS, under both LTIP and LTIS, performance rose strongly to +43 (high performance zone), from +37 (high performance zone).

(ii) The NPS disclosed on this page are the former metrics, used for executive remuneration, and differ from the new Brand NPS reported elsewhere in the Annual Report and in financial reporting (see page 19 for more information). The new Brand NPS are seen as important operational metrics and they improved across all geographies in 2016.

## Group Chief Executive recruitment award granted in 2015

In accordance with the Company's approved recruitment policy and as previously announced, the Committee agreed to provide compensation to Iain Conn for the forfeiture of existing unvested long-term incentive awards in the form of conditional Centrica shares.

Two awards of conditional shares were granted to Iain Conn in April 2015 (see below), the first with a face value equal to £925,000 vesting on the first anniversary of the award date and the second with a face value equal to £1,850,000 vesting on the second anniversary of the award date and released in April 2018.

| |
|---|
| First award – 282,634 shares vested in April 2016 |
| Second award – 718,223 shares due to vest April 2017, subject to performance achievement |

In accordance with the minimum shareholding guidelines, any shares released (following the sale of sufficient shares to cover the income tax and National Insurance contributions due on vesting) will be held until his shareholding is above the minimum guideline for Executives.

The vesting of both awards is subject to the achievement of personal strategic objectives. Three-quarters of each award will vest if the Committee is satisfied that Iain Conn's performance, in relation to the objectives set, has at least matched the expectations of the Board. Each award may vest in full if the Committee considers his performance to have significantly exceeded expectations. If the Committee considers his performance to have been below expectations, the shares will not vest and the award will be forfeit.

In reviewing Iain Conn's performance, the Committee stated that it would consider progress against the following objectives:

- strategy: to establish a sustainable growth strategy for Centrica that is attractive to and earns the support of all key stakeholders (expected by end Q3 2015);
- organisational structure: to consider organisational structure, processes, systems, culture and costs and effect any change deemed appropriate (expected by end Q4 2015);
- capability: to ensure that all the capabilities crucial to the success of the growth strategy have robust development plans that can be delivered at a pace commensurate with competitive demands (expected by end Q2 2016); and
- reputation: to build relationships with society necessary to achieve a demonstrable improvement in the external belief in Centrica as a consumer-centric company, UK national leader, influential in Europe and North America and a responsible market participant (expected by end Q4 2016).

These measures are in addition to but complement the objectives set in respect of the AIP.

## Performance achievement

As previously explained, the Committee made a two-part award as part of the CEO recruitment process in order to secure the appointment of the Board's strongly favoured candidate. The Committee considered carefully investor feedback on the use of subjective criteria in respect of these awards. After reflection the Committee believes that in this case they have served their purpose as intended. However, although Iain Conn's performance since his appointment has surpassed expectations, we have determined the vesting level in deference to the external sensitivity to the making of such awards and total remuneration for the year.

Under Iain's leadership, a new organisational model was developed for the whole Group, including the move to three new global growth business units and more centralised functions. He has led the recruitment of a number of key individuals and overall capability was materially repositioned during the year to drive the new Group strategy. Improved succession plans have also been put in place.

Gaps in capability in the areas of Technology & Engineering, Group Marketing, and Ethics and Compliance were identified and these functions established. The need to establish a Group Information Systems (IS) function with digital capability was identified, resulting in centralisation of IS.

In the business unit that will now be known as the Centrica Consumer division British Gas has been completely reorganised, the largest restructuring since Centrica was incorporated in 1997, and significant efficiency, cultural and capability changes have been identified and delivered, all heavily influenced by Iain's focus on satisfying the changing needs of the customer and founded on a new common operating model. A new leadership structure was established and new senior hires made. Connected Home was established as a global business unit and capability built for the technology pipeline and business development including the successful acquisition of Flowgem.

The business unit that will now be known as the Centrica Business division has also seen fundamental redesign, with the establishment of Distributed Energy & Power and reshaping of Energy Marketing & Trading. With direction from Iain, targeted strategic acquisitions were pursued and secured, including Panoramic Power, ENER-G Cogen and Neas Energy.

Iain established a new reputation framework during the year, which was reviewed by the Board. Quarterly standardised reputation measurement was put in place with the Reputation Institute, and the Group now has a clear Corporate Affairs Engagement Plan to drive reputation.

There has been a demonstrable improvement in the external belief in Centrica as a consumer-centric company as evidenced by higher net promoter scores, significant interest in partnering from high profile competitors and the ability to attract talent in customer-focused areas.

Engagement with the UK Government, regulators and opinion formers has been very proactive and Iain has personally participated through bilateral meetings, speeches, blogs on subjects such as energy policy, the EU, Brexit and industrial strategy, all of this is building Centrica's reputation as a leading, serious, professional and forward-thinking company.

Under Iain's guidance, we continue to develop an open and constructive relationship with our key regulators. The two-year CMA investigation into the UK energy market was handled with huge effort and expertise, underlining the Group's role as a responsible market participant.

In the energy supply business, our shift in pricing stance and focus on improved customer service has resulted in a material reduction in complaints and NPS results at or exceeding plan. Iain has also driven an increased focus on our work with vulnerable customers and our apprenticeship and recruitment schemes.

Investors are supportive of the Group strategy. Communication regarding the equity placing was not as well managed as it should have been but feedback from investors suggests that they remain positive about the Group's direction and progress.

In light of these achievements, the Committee is satisfied that Iain Conn has met the expectations of the Board as set out in the objectives and as a result 75% (the "on-target" level) of the second and final tranche of the recruitment award will vest. The shares will vest in April 2017 and will be released in April 2018. The estimated value of the shares due to vest, including dividend equivalents, has been included in the single figure table on page 92.

# Directors' Annual Remuneration Report
continued

## Pension

Iain Conn and Mark Hodges elected to receive salary supplements of 30% and 25% of base salary respectively, in lieu of participating in a Centrica pension plan. These salary supplements are included in the single figure for total remuneration table on page 92.

Jeff Bell is entitled to receive a salary supplement of 25% of base pay or participate in the CUPS DC Scheme. As Mark Hanafin was an Executive prior to 2013, he is entitled to receive a salary supplement of 40% of base pay or participate in the CUPS DC Scheme. During the year, they both participated in the CUPS DC Scheme and received an unfunded promise equal to 25% and 40% of base pay respectively.

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

### Pension benefits earned by Directors in the CUPS DC Scheme (audited)

| CUPS DC Scheme[i] | **Total notional pension fund as at 31 December 2016 £** | Total notional pension fund as at 31 December 2015 £ |
|---|---|---|
| Jeff Bell | **197,101** | 57,600 |
| Mark Hanafin | **1,085,701** | 818,860 |

(i) The retirement age for the CUPS DC Scheme is 62.

## Awards granted in 2016

### LTIP awards granted in 2016 (audited)

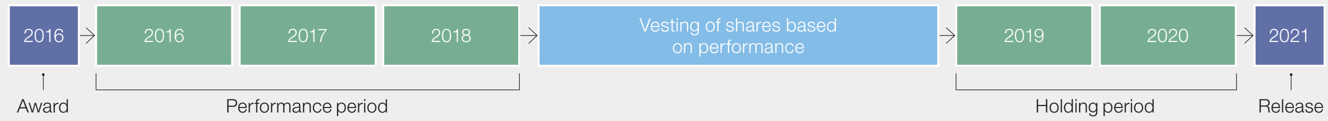
| | **Number of shares** | **Value £000 (i) (ii)** | Vesting date |
|---|---|---|---|
| Iain Conn | **1,221,498** | **2,775** | April 2019 |
| Jeff Bell | **726,296** | **1,650** | April 2019 |
| Mark Hanafin | **825,336** | **1,875** | April 2019 |
| Mark Hodges | **825,336** | **1,875** | April 2019 |

(i) Awards were made in 2016 to Executives based on a value of 300% of salary. The performance conditions relating to these awards are set out below.
(ii) The share price used to calculate the number of shares granted was 227.18p, being the average closing share price over five business days immediately preceding the grant date of 1 April 2016.

### LTIP performance conditions for awards granted in 2016

| Vesting criteria | Performance conditions over three-year period |
|---|---|
| 1/3 based on EPS growth over the 3-year period 2016–18 | Full vesting for EPS growth of 24% or more<br>Zero vesting if EPS growth does not exceed 9%<br>Vesting will increase on a straight-line basis between 0% and 100% between these points |
| 1/3 based on absolute aggregate EP over the 3-year period 2016–18 | Full vesting for aggregate EP of £3,500 million<br>Zero vesting if aggregate EP is below £1,500 million<br>Vesting will increase on a straight-line basis between 0% and 100% between these points |
| 1/3 based on non-financial KPI dashboard over the 3-year period 2016–18 | As disclosed on page 94 |

### LTIP timeline




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

The table below shows the interests in the ordinary shares of the Company of the Directors on the Board at the end of the year together with the minimum shareholding guideline for the Executives, which is 200% of salary, and the achievement against the guideline.

Also included to provide full disclosure (but not included as part of the minimum shareholder guideline calculation) are details of shares owned by the Executives that are subject to continued service, unvested share awards that are subject to company performance conditions and fully vested unexercised nil-cost share options.

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

| | Shares owned outright as at 31 December 2015 (i) | **Shares owned outright as at 31 December 2016 (i)** | Minimum shareholding guideline (% of salary) | **Achievement as at 31 December 2016 (% of salary)** | **Shares owned (subject to continued service) as at 31 December 2016 (ii)** | **Unvested share awards subject to company performance conditions (incl awards granted in 2016) as at 31 December 2016 (iii)** | **Fully vested unexercised options as at 31 December 2016** |
|---|---|---|---|---|---|---|---|
| **Executives** | | | | | | | |
| Iain Conn[iv] | 140,812 | **663,219** | 200 | **168** | **–** | **2,882,733** | **–** |
| Jeff Bell[v] | 87,910 | **238,416** | 200 | **101** | **209,962** | **1,333,898** | **–** |
| Mark Hanafin[vi] | 363,863 | **518,550** | 200 | **194** | **99,992** | **2,293,203** | **215,261** |
| Mark Hodges[vii] | 320 | **125,817** | 200 | **47** | **374** | **1,462,506** | **–** |
| **Non-Executives** | | | | | | | |
| Rick Haythornthwaite | 33,476 | **34,721** | – | **–** | **–** | **–** | **–** |
| Margherita Della Valle | 24,653 | **37,308** | – | **–** | **–** | **–** | **–** |
| Joan Gillman | – | **–** | – | **–** | **–** | **–** | **–** |
| Stephen Hester | – | **20,700** | – | **–** | **–** | **–** | **–** |
| Lesley Knox | 14,427 | **15,076** | – | **–** | **–** | **–** | **–** |
| Carlos Pascual | – | **–** | – | **–** | **–** | **–** | **–** |
| Steve Pusey | 21,570 | **35,151** | – | **–** | **–** | **–** | **–** |
| Scott Wheway | – | **10,187** | – | **–** | **–** | **–** | **–** |

(i) These shares are owned outright by the Director or a connected person and they are not subject to continued service or performance conditions. They include shares purchased in April 2016 with deferred Annual Incentive Plan (AIP) funds which have mandatory holding periods of 3 and 4 years.

(ii) Shares owned subject to continued service are DMSS deferred awards, SIP matching shares that have not yet been held for the 3 year holding period and for Jeff Bell, shares that were awarded in 2014 and 2015 under the Share Award Scheme and the On Track Incentive Plan, before he was appointed to the Board.

(iii) Shares and options that are subject to the achievement of long-term performance conditions are the awards granted under the LTIS in 2014, matching awards granted under the DMSS in 2014 and 2015, recruitment awards granted to Iain Conn, and include all awards granted in 2016 which are disclosed elsewhere in this Remuneration Report.

(iv) Shares owned outright include 100,000 shares purchased directly by Iain Conn during the year. Following the release and allotment of shares in April 2017, it is estimated that Iain Conn will hold shares with a value equal to 330% of salary.

(v) Following the release and allotment of shares in April 2017, it is estimated that Jeff Bell will hold shares with a value equal to 207% of salary.

(vi) Following the release and allotment of shares in April 2017, it is estimated that Mark Hanafin will hold shares with a value equal to 281% of salary.

(vii) Following the allotment of shares in April 2017, it is estimated that Mark Hodges will hold shares with a value equal to 134% of salary.

# Directors' Annual Remuneration Report
continued

## Percentage change in Group Chief Executive's remuneration compared with other employees

The table below shows the percentage change in base pay/salary, taxable benefits and bonus (annual incentive) payments between 2015 and 2016 for Iain Conn, compared with a comparator group of UK employees, over the same period of time.

| | Group Chief Executive % change | Employees % change |
|---|---|---|
| Salary and fees | 0.00 | 1.75 |
| Taxable benefits | 0.00 | 0.99 |
| Annual incentive | 30.64 | 28.57 |

The comparator group includes management and technical or specialist employees based in the UK in Level 2 to Level 6 (where Level 1 is the Group Chief Executive). The employees selected have been employed in their role throughout 2015 and 2016 to give a meaningful comparison. The group has been chosen as the employees have a remuneration package with a similar structure to the Group Chief Executive, including base salary, benefits and annual bonus.

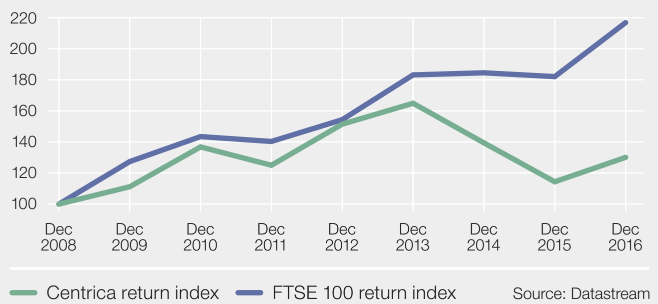
## Pay for performance

The table below shows the Group Chief Executive's total remuneration over the last eight years and the achieved annual variable and long-term incentive pay awards as a percentage of the plan maximum.

| Year | Group Chief Executive single figure of total remuneration £000 | Annual bonus payout against max opportunity % | Long-term incentive vesting against max opportunity % |
|---|---|---|---|
| Iain Conn | | | |
| 2016 | 4,151 | 82 | 0 |
| 2015 | 3,025 | 63 | 0 |
| Sam Laidlaw | | | |
| 2014 | 3,272 | 34 | 35 |
| 2013 | 2,235 | 50 | 0 |
| 2012 | 5,709 | 61 | 67 |
| 2011 | 5,047 | 50 | 59 |
| 2010 | 5,322 | 91 | 62 |
| 2009 | 4,627 | 92 | 73 |

The performance graph below shows Centrica's TSR performance against the performance of the FTSE 100 Index over the eight-year period to 31 December 2016. The FTSE 100 Index has been chosen as it is an index of similar sized companies and Centrica has been a constituent member throughout the period.

### Total return indices – Centrica and FTSE 100




Source: Datastream

## Fees received for external appointments of Executive Directors

In 2016, Iain Conn received £121,000 (£97,500 in 2015) as a non-executive director of BT Group plc.

## 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 2015 and 2016.

| | **2016 £m** | 2015 £m | % Change |
|---|---|---|---|
| Dividends | **532** | 387 | 37 |
| Staff and employee costs(i) | **2,183** | 2,126 | 3 |

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

## Payments for loss of office

During 2016, there were no payments made for loss of office.

## Funding of share schemes in 2016

During 2016, market purchased shares, held in trust, were used to satisfy outstanding allocations under DMSS (deferred and investment shares), LTIS 2014, the Restricted Share Scheme and the On Track Incentive Plan (conditional share plans for Centrica employees below the executive level). Treasury shares were used to satisfy the release of shares or exercise of options under the DMSS, LTIS, the Share Award Scheme and On Track Incentive Plan (conditional share plans for Centrica employees below the executive level), and Centrica's all-employee share plans. At 31 December 2016, 50,833,460 shares were held in treasury (2015: 58,705,016), following the share repurchase programme throughout 2013 and 2014.

## Advice to the Remuneration Committee

The membership of the Remuneration Committee during 2016 is set out in the Directors' and Corporate Governance Report on page 79.

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

The Committee also has access to detailed external information and research on market data and trends from independent consultants. Deloitte LLP (Deloitte) was appointed by the Committee in 2011, following a competitive tender process, as independent external adviser.

In addition, Deloitte was appointed by the Company in 2014 to provide a TSR monitoring and reporting service. The fees for TSR reports provided to the Committee on completion of the LTIS performance cycles during 2016 amounted to £1,200. Deloitte also provided quarterly TSR reports and updates to the Company which were used to keep the general LTIS population regularly updated with TSR performance.

Deloitte has also provided advice to Centrica globally during 2016 in the areas of employment taxes, share schemes, pensions, corporate finance, management consulting and internal audit.

During the year, Centrica announced its intention to tender for the audit contract in the second half of 2016. To avoid any independence restrictions, the Committee appointed New Bridge Street consultants, part of Aon Consulting Ltd (Aon), in March 2016 on an interim basis to provide training and insight as well as independent advice to the Committee until the outcome of the audit tender was announced.

The fees for the advice including preparation for and attendance at Committee meetings amounted to £16,200.

Aon has also provided advice and services to Centrica globally during 2016 in the areas of payroll and workforce administration as well as system and process implementation.

The Committee will consider the appointment of a permanent independent external adviser during the course of 2017.

The Committee takes into account the Remuneration Consultants Group's Code of Conduct when dealing with its advisers. 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 Deloitte and Aon in no way compromises their independence.

## 2016 VOTING

At the AGM held on 18 April 2016, shareholders approved the Directors' Annual Remuneration Report for the year ended 31 December 2015. Below are the results in respect of the resolution, which required a simple majority (of 50%) of the votes cast to be in favour in order for the resolution to be passed:

**Directors' Remuneration Report**

| Votes for | % | Votes against | % |
|---|---|---|---|
| 3,082,860,058 | 85.49 | 523,100,568 | 14.51 |

70,713,647 votes were withheld.

A full schedule in respect of shareholder voting on the above and all resolutions at the 2016 AGM is available at centrica.com.

## IMPLEMENTATION IN THE NEXT FINANCIAL YEAR

No changes to the Policy are anticipated in 2017. Awards will be granted in line with the limits set out in the Policy table. Performance measures and targets for the short and long-term incentive plans align with the Group's strategy and therefore will remain unchanged.

Adjusted operating cash flow targets are considered commercially sensitive until the year end and will therefore be disclosed retrospectively in the Remuneration Report for the year in question.

Base salaries for Executives will be reviewed during the course of 2017 as part of the normal annual cycle taking account of performance, market conditions and pay in the Group as a whole. No changes to pensions or benefits are anticipated.

## CHANGES SINCE 1 JANUARY 2017

### Share Incentive Plan (SIP)

During the period from 1 January 2017 to 23 February 2017, Mark Hanafin and Mark Hodges both acquired 174 shares and Iain Conn acquired 88 shares through the SIP.

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

**Grant Dawson**
**Group General Counsel & Company Secretary**
23 February 2017