Remuneration Policy

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

Executive Directors' remuneration

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

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

Objectives

The Policy aims to deliver remuneration arrangements that:

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

Remuneration framework

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

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

Fixed remuneration includes base salary, benefits and pension. Short-term incentive is delivered through the Annual Incentive Plan (AIP) which is described on page 105. Long-term incentive is delivered through the Long Term Incentive Plan (LTIP) which is described on page 106. Both plans are underpinned by stretching performance measures and targets that closely link to our strategy.

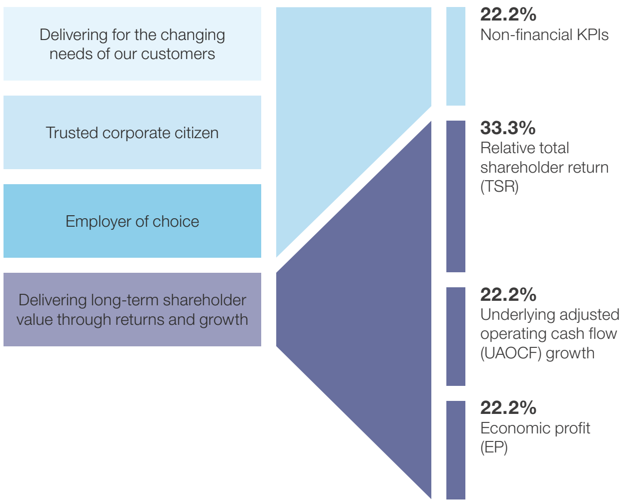
Performance measures

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

How the LTIP measures link to our strategy

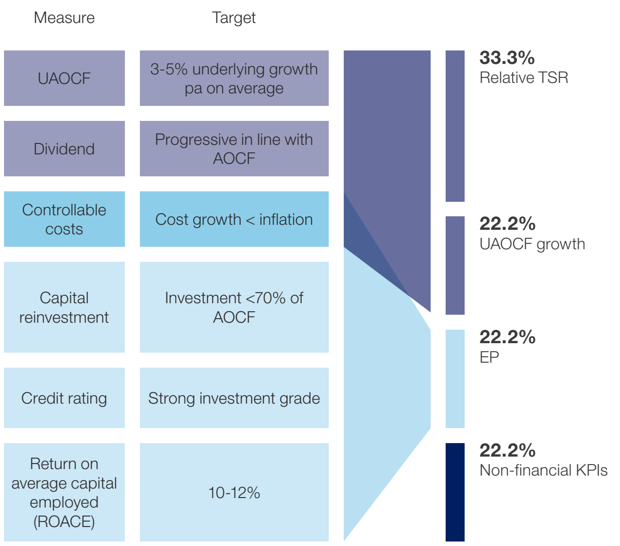
The chart below shows our strategy linked to the LTIP measures. Our strategy is set out in more detail on pages 14 and 15.

Centrica's strategy **LTIP measures**

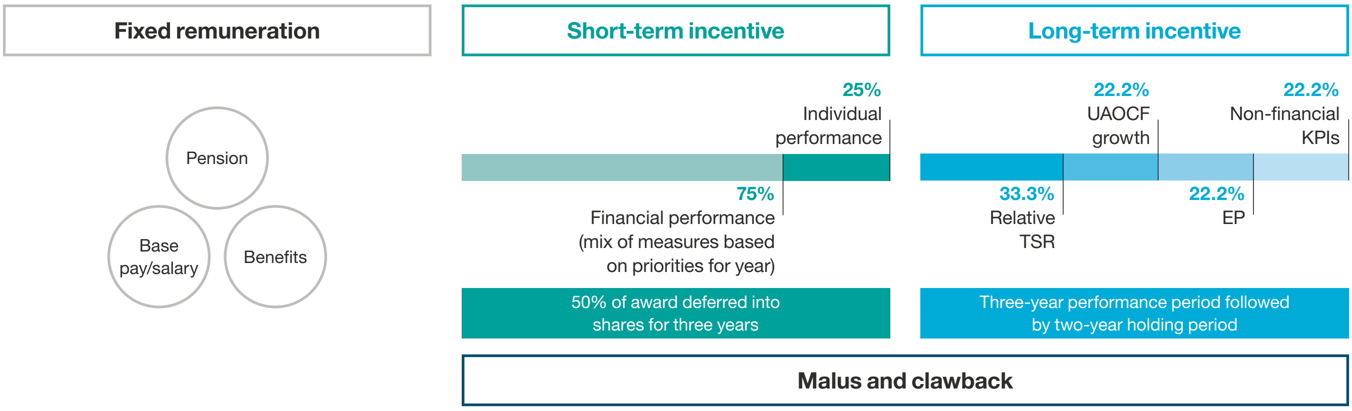


The chart below shows our long-term financial goals linked to the LTIP measures. Our financial goals are set out in more detail on page 17.

Centrica's financial framework **LTIP measures**



Summary of Policy design



Remuneration Policy table

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

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

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
Long-term incentive plan Designed to retain Executives and to encourage sustainable high performance. Provides an incentive that aligns with the Group's strategy to deliver long-term shareholder value through returns and growth. Provides a direct link between executive remuneration and the Group's long-term financial goals and priorities.	Long Term Incentive Plan (LTIP) awards are granted to Executives each year based on a percentage of base salary at the point of award. Shares vest at the end of a three-year performance period, depending on the achievement against the performance targets, but are not released until the fifth anniversary of the award date. LTIP awards are usually delivered as conditional shares. Awards may also be granted as nil-cost options with a seven-year exercise period. It is a requirement of the LTIP that the net shares are held for a further two years following the vesting date. Malus applies to the shares during the three-year performance period and clawback applies to the shares during the two-year holding period (see policy table notes). Dividend equivalents are calculated at the end of the performance period on any conditional LTIP share awards or nil-cost options. Dividend equivalents are paid as additional shares or as cash. If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee.	Maximum of 300% of base salary plus dividend equivalents. This is consistent with the previously approved policy. The amount payable for achieving the minimum level of performance is 5.55% of award. Under the previously approved policy, the minimum level was 0%.	33.3% based on relative total shareholder return (TSR) with the remainder equally weighted and based on underlying adjusted operating cash flow (UAOCF) growth, absolute aggregate economic profit (EP) and non-financial KPIs, all measured over a three-year performance period. Under the previously approved policy, performance measures were equally weighted and based on earnings per share (EPS), absolute aggregate EP and non-financial KPIs, measured over a three-year performance period.
Pension Positioned to provide a market-competitive post-retirement benefit, in a way that manages the overall cost to the Company.	Executives are entitled to participate in a Company money purchase pension arrangement or to take a fixed salary supplement (calculated as a percentage of base salary, which is excluded from any bonus calculation) in lieu of pension entitlement. The Group's policy is not to offer defined benefit arrangements to new employees at any level, unless this is specifically required by applicable legislation or an existing contractual agreement.	For newly recruited Executives the maximum benefit is 25% of base salary. For existing Executives appointed between 2015 and 2017, the maximum benefit is 30% of base salary for the Group Chief Executive and 25% of base salary for all other Executives.	Not applicable.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
	Executives appointed prior to 2015 are entitled to participate in a Centrica pension arrangement or to receive a fixed salary supplement in lieu of pension entitlement in accordance with the terms of their contracts. We would only continue to honour defined benefit pension arrangements in the event of an individual being promoted to the Board who retains a contractual entitlement to such benefit. In late 2018, it was agreed that the pension contributions for existing Executives would reduce to a maximum of 15% with effect from 1 June 2019 to move towards alignment with the wider UK workforce.	For Executives appointed prior to 2015, the maximum benefit is 40% of base salary.	Not applicable.
Benefits Positioned to support health and wellbeing and to provide a competitive package of benefits that is aligned with market practice.	The Group offers Executives a range of benefits including some or all of: • a company-provided car and fuel, or a cash allowance in lieu; • life assurance and personal accident insurance; • health and medical insurance for the Executive and their dependants; • health screening and wellbeing services; and • a contribution towards financial planning advice.	Cash allowance in lieu of company car – £22,000 per annum. The benefit in kind value of other benefits will not exceed 5% of base salary. This is consistent with the previously approved policy.	Not applicable.
Relocation and expatriate assistance Enable the Group to recruit or promote the appropriate individual into a role, to retain key skills and to provide career opportunities.	Assistance may include (but is not limited to) removal and other relocation costs, housing or temporary accommodation, education, home leave, repatriation and tax equalisation.	Maximum of 100% of base salary. This is consistent with the previously approved policy.	Not applicable.
All-employee share plans Provide an opportunity for employees to voluntarily invest in the Company.	Executives are entitled to participate in all-employee share plans on the same terms as all other eligible employees.	Maximum contribution limits are set by legislation or by the rules of each plan. Levels of participation apply equally to all participants. This is consistent with the previously approved policy.	Not applicable.

Policy table notes

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

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

Performance measures

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

Relative total shareholder return (TSR)

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

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

Underlying adjusted operating cash flow (UAOCF) growth

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

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

Economic profit (EP)

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

Further details of these performance measures are provided in notes 2, 4 and 10 of the Financial Statements, in the Annual Report and Accounts 2018. In addition, see page 236 for an explanation of UAOCF.

Non-financial KPIs

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

Malus and clawback

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

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

Pension arrangements applying to Executives

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.

Non-Executive Directors' remuneration

Remuneration Policy

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

Terms of appointment

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

Remuneration Policy table

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
Chairman and Non-Executive Director fees Sufficient level to secure the services of individuals possessing the skills, knowledge and experience to support and oversee the Executive Directors in their execution of the Board's approved strategies and operational plans. Fees reflect market practice as well as the responsibilities and time commitment required by our Non-Executives.	The fee levels for the Chairman are reviewed every two years by the Remuneration Committee. The fee levels of the Non-Executives are reviewed every two years by the Executive Committee. Non-Executives are paid a base fee for their services. Where individuals serve as Chairman of a Committee of the Board, additional fees are payable. The Senior Independent Director also receives an additional fee. **Current fee levels (applying from 1 January 2016)** Chairman of the Board – up to £495,000 per annum. Base fee for Non-Executives – £72,500 per annum. The following additional fees apply: • Chairman of Audit Committee – £25,000 per annum; • Chairman of Remuneration Committee – £20,000 per annum; • Chairman of Safety, Health, Environment, Security and Ethics Committee – £20,000 per annum; and • Senior Independent Director – £20,000 per annum. The Company reserves the right to pay a Committee membership fee in addition to the base fees. Non-Executives are able to use 50% of their fees, after appropriate payroll withholdings, to purchase Centrica shares. Dealing commission and stamp duty is paid by the Non-Executive. The Non-Executives, including the Chairman, do not participate in any of the Company's share schemes, incentive plans or pension schemes. Non-Executives will be reimbursed for business expenses relating to the performance of their duties including travel, accommodation and subsistence. In certain circumstances these, or other incidental items, may be considered a 'benefit in kind' and if so may be grossed up for any tax due.	The maximum level of fees payable to Non-Executives, in aggregate, is set out in the Articles of Association.	Not applicable.

Recruitment policy

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