Governance

Directors' and Corporate Governance Report

Dear Shareholder

I am pleased to introduce the Directors' and Corporate Governance Report for 2021. This report describes the activities of the Board during the year, along with Centrica's governance arrangements.

This year, the Board has focused on: ensuring the health and safety of our colleagues and customers; delivering value in the supply of heat and light to our customers in challenging market conditions; accelerating Centrica's actions and commitments to achieving net zero; maintaining robust corporate governance practices; and enhancing value for stakeholders. This report describes our governance framework; the composition and operation of the Board and its Committees; and how the Board discharged its responsibilities, including the application of the relevant provisions of the UK Corporate Governance Code (UK Code) (details of our compliance with the UK Code can be found on page 55 and our application of the UK Code on page 60).

The year in review

2021 has been a challenging time for the industry. We saw the collapse of many of the UK's retail energy suppliers and the recapitalisation of one very large energy supplier. In spite of the challenges, the Board continues to drive the Company's strategy forward and deliver value for the long-term benefit of the Company.

Working closely with the executive team, the Board and the Company have been focused on delivering value to customers, while making strides to deliver net zero by 2045 and support customers in making the transition to net zero by 2050 at the latest. As the largest energy services and solutions company in the UK and Ireland, we have an opportunity to reshape our future to one that is more sustainable, yet affordable for our customers. Our Climate Transition Plan available at centrica.com/climatetransition, outlines how we propose to achieve this.

We announced on 30 July 2019 our intention to exit Exploration and Production activity (E&P) and focus on our customer-facing businesses. On 8 December 2021, we announced the proposed sale of Spirit Energy's Norway and Statfjord UK asset. The Board believes this is an important step towards the decarbonisation of the Group and will continue to assess opportunities to exit from our remaining E&P activities.

Governance and culture

The Board plays a critical role in defining the right culture for the Group, by setting the tone from the top and monitoring how the Group's culture and values are communicated, lived and evolve. Our enduring values at Centrica underpin our culture. While priorities may change the values are firmly embedded in who we are and give direction to everything we do. They are aspirational and allows us to focus on delivering our purposes: being sustainable, simple and affordable for our customers. They create a shared understanding of what we think is important to deliver success.

As a Board, we remain committed to high standards of corporate governance and compliance. We believe that these practices are fundamental to driving the long-term success of the Company and value creation for our stakeholders. I am grateful for the support and guidance of the members of the Board, whose diverse backgrounds, skills and experience have enabled us to deliver some outstanding achievements in difficult times.

We are pleased with the work undertaken by the Centrica Leadership Team (CLT) to develop the Company's culture (details can be found on pages 26 to 36 of the Strategic Report). The report from the engagement undertaken by the CLT is directly fed to the Board at the subsequent Board meeting. An example are the results from 'Our Voice' quarterly engagement survey, which provides the Board with insight into the tone of the culture. Further information about the survey and the improvement in colleague engagement can be found on pages 4, 15 and 26 to 27 and 36. The Board will continue to focus on the development of the Company's culture, which includes people development and digital enablement, to ensure Centrica is prepared for the future.

Throughout the year, the Board reflected on and developed its understanding of the Company's culture, thereby ensuring that we continue to strengthen the trust and confidence of our stakeholders as our culture evolves in line with our commitment to care for our people, planet and communities, all of which matters to our shareholders and stakeholders. Our Code, which reflects our culture, sets out our minimum expectations for all those we work with or alongside. It is a guide to making good choices and represents our commitment to doing the right thing and act with integrity. Information on our Code can be found in our People and Planet section on pages 36 and 37.

Board changes

As stated in last year's report, during the financial year, for personal reasons, Johnathan Ford stepped down from his role as Group Chief Financial Officer and from the Board on 18 January 2021 and resigned from the Company on 31 January 2021. Following recommendation by the Nominations Committee, the Board was pleased to approve the appointment of Kate Ringrose as Group Chief Financial Officer and Executive Director on 18 January 2021. Kate has been with Centrica since 2005, latterly in the position of Group Financial Controller, and brings a wealth of experience from a wide range of finance roles across Centrica. Additionally, Joan Gillman stepped down from the Board on 8 February 2021.

In January 2022, the Company appointed Amber Rudd as a Non-Executive Director. Also, in January, the Company announced that Stephen Hester, Senior Independent Director and a member of the Company's Audit & Risk, Nominations and Remuneration Committees, has notified the Board of his intention not to stand for re-election as a Non-Executive Director at Centrica's Annual General Meeting later this year having served six years on the Company's Board. On behalf of the Board, I would like to thank Stephen for his service to the Company over the last six years.

Further information about Board changes is provided on page 69.

Board and Committee evaluation and effectiveness

The 2021 Board evaluation, an external review, was conducted in conjunction with Independent Board Evaluation, led by me, as Chairman, and supported by the Group General Counsel & Company Secretary. Directors and certain senior executives were invited to complete questionnaires. The formal and rigorous evaluation process reviews the performance of the individual Board members, time commitment, performance and ability to continue to contribute to the Board taking account of the knowledge, skills and experience required. The results of the evaluation process were discussed by the Nominations Committee and the Board.

Further information about the 2021 Board and Committee evaluation process, including the outcome of the evaluation and the Board and Committee effectiveness is provided on page 58.

Responding to the COVID-19 pandemic and the energy crisis

The Board met more frequently than usual during the year to focus on the business response to the energy crisis and, where appropriate, to monitor the response to the COVID-19 pandemic. As the UK saw many retail energy suppliers cease trading, the Board focused on Centrica's response to meeting and serving customers' needs while protecting our business.

To ensure the safety of our colleagues, where appropriate, Board meetings were held virtually or with hybrid options where in-person meetings were possible. The Board continues to operate effectively in this way. Our commitment to supporting high standards of corporate governance and our strong governance framework enabled the Board to adjust its focus and priorities and take some important decisions to strengthen our balance sheet and protect the Company from the difficult market environment arising from the COVID-19 pandemic and energy crisis. Examples of principal decisions taken by the Board can be found in the Section 172 statement on pages 56 to 57.

Engagement with our stakeholders

By listening to, and collaborating with, our stakeholders we believe we can grow the business and deliver improvements for our customers and society over the long term. During 2021, together with the Group Chief Executive and Group Chief Financial Officer, we met regularly, and often remotely, with major shareholders, in order to update them and obtain their perspectives on performance, strategy and Environmental, Social and Governance matters.

To enhance the level of engagement with our colleagues, the Board sponsored setting up a Shadow Board. The Shadow Board is a unique partnership with the CLT to provide impartial and diverse insight, review, and assurance on strategic topics relating to colleagues, customers, and cash and to ensure Our Values and standards are upheld. Through the Shadow Board, colleagues will be able to influence decisions, positively disrupt assumptions, and challenge our Executives' thinking, to support customer-focused and colleague-centred decision-making in the Boardroom. The CLT in return act as mentors to the Shadow Board and offer support through the Senior Leadership Teams.

The Board's current approach regarding colleague engagement is one of shared responsibility amongst Board members. The Board considers that there is benefit from all of the Board being involved in colleague engagement activities, particularly in an environment of face-to-face activity becoming more possible prospectively with the easing of COVID-19 restrictions. This approach to colleague engagement will remain under ongoing review to ensure it is effective.

Further details of our methods of engagement with our colleagues and other stakeholders are provided on page 9. How the Board has sought to discharge its duties under Section 172 of the Companies Act 2006 during the year, including in relation to the COVID-19 pandemic, the energy crisis and its engagement with stakeholders, is covered in more detail in our Section 172 statement on page 8, 56 and 57 and Stakeholder Engagement section on pages 8 to 9.

Diversity and inclusion

Diversity and inclusion continues to be a top priority of the Board, and the Company remains committed to putting diversity, inclusion, care and respect at the heart of what we do. The Company operates a diversity and inclusion policy at Board level and a Group diversity and inclusion policy which applies to the Company's administrative, management and supervisory bodies. Further information about the Board diversity and inclusion policy and our Group diversity and inclusion policy, including how it is implemented, can be found at centrica.com/policies.

In line with our People & Planet Plan we are working to ensure that all Company and senior leaders represent the full diversity of our communities. We strive for greater representation targeted across gender, ethnicity, disability and sexuality which is more in line with Census data for working populations, as well as creating a culture where everyone can be themselves and achieve their full potential irrespective of their age, gender, culture, race, religion, sexual orientation, disability or background. Read more on pages 28 to 31 for further information about how we are progressing with our goals.

We have, and are, making positive changes to the way we attract, promote and develop diverse talent across the business. We will remain committed to reporting on our progress, including closing our gender and ethnicity pay gaps. We will continue to report the diversity of all colleagues, alongside our existing focus on gender and ethnicity pay gaps.

Conclusion

The Directors' and Corporate Governance Report which follows has been prepared to provide stakeholders with a comprehensive explanation of the Company's governance framework under the UK Corporate Governance Code 2018, the Companies Act 2006, the UK Listing Rules and the Disclosure Guidance and Transparency Rules.

Scott Wheway
Chairman
23 February 2022

Board of Directors*

Scott Wheway
Chairman

C NC SC

Scott joined the Board on 1 May 2016 and became Chairman of the Board on 17 March 2020.

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

Previous experience
Scott worked in retail for 27 years both in the UK and internationally. He is the former chief executive officer of Best Buy Europe (retail services), director of The Boots Company plc, managing director and retail director of Boots the Chemist at Alliance Boots plc and a director of the British Retail Consortium. He formerly held a number of senior executive positions at Tesco plc (retail services), including chief executive of Tesco in Japan, served as non-executive director of Aviva plc until December 2016, and as the senior independent director of Santander UK plc until 30 September 2020.

External appointments
Chairman of AXA UK plc.

Chris O'Shea
Group Chief Executive

DC

Chris joined Centrica in 2018 as Group Chief Financial Officer and was appointed as Group Chief Executive on 14 April 2020. Chris is also Chair of the Disclosure Committee and Chairman of Spirit Energy.

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

Previous experience
Chris was appointed Group Chief Executive in early 2020 having previously been Group Chief Financial Officer. Prior to joining Centrica, Chris was group chief financial officer of UK listed Smiths Group plc and Vesuvius plc, and a non-executive director of Indian listed Foseco India Ltd. From 2006 to 2012 Chris held various senior finance roles with BG Group plc, including chief financial officer of Africa Middle East & Asia and Europe & Central Asia, prior to which he held a number of senior roles with Shell living and working in the UK, the US and Nigeria, and with Ernst & Young. Chris studied Accounting and Finance at the University of Glasgow, is a Chartered Accountant, and holds an MBA from the Fuqua School of Business at Duke University.

External appointments
None.

Kate Ringrose
Group Chief Financial Officer

DC

Kate joined Centrica in 2005 and was appointed as Group Chief Financial Officer on 18 January 2021.

Relevant skills and experience
Kate's most recent role was Group Financial Controller, and she has also held a wide variety of positions across the Group, including in Centrica's energy supply, services, solutions and trading businesses, and in finance operations.

Previous experience
Prior to joining Centrica, Kate qualified as a chartered accountant with KPMG South Africa, before moving to the UK, and rejoining the KPMG London office. Kate was also Non-Executive Director of EDF Energy Nuclear Generation Group Limited (representing Centrica).

External appointments
None.

Carol Arrowsmith
Non-Executive Director

AC NC RC

Carol joined the Board on 11 June 2020.

Relevant skills and experience
Carol brings extensive advisory experience, especially of advising boards on executive remuneration across a range of sectors, and is a Fellow of the Chartered Institute of Personnel and Development.

Previous experience
Carol is a former Deputy Chair and Senior Partner of Deloitte LLP. She was a member of the Advisory Group for Spencer Stuart, Global Partner of Arthur Andersen and Managing Director of New Bridge Street Consultants.

External appointments
Non-executive director of Compass Group Plc and non-executive director of Vivo Energy Plc, director and trustee of Northern Ballet Limited.

Stephen Hester
Senior Independent Director

AC NC RC

Stephen joined the Board on 1 June 2016.

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

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

External appointments
Chair of easyJet plc and lead independent director of Kyndryl Holdings, Inc.

Committee membership key

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

Skills and experience key

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

*as at 23 February 2022

Pam Kaur
Non-Executive
Director

AC NC SC

Pam joined the Board on 1 February 2019.

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

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

External appointments
Group chief risk and compliance officer at HSBC Holdings plc.

Heidi Mottram
Non-Executive
Director

NC RC SC

Heidi joined the Board on 1 January 2020.

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

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

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

Kevin O'Byrne
Non-Executive
Director

AC NC

Kevin joined the Board on 13 May 2019.

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

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

External appointments
Group chief financial officer of J Sainsbury plc.

Rt Hon. Amber Rudd
Non-Executive Director

RC SC

Amber joined the Board on 10 January 2022.

Relevant skills and experience
Amber brings a wealth of experience in energy, policy and business.

Previous experience
After around 20 years working in business, Amber served as a Member of Parliament between 2010 and 2019. In addition to holding the roles of Home Secretary, Secretary of State for Work and Pensions and Minister for Women and Equalities, Amber served as Secretary of State for Energy and Climate Change from 2015 to 2016 after having been Parliamentary Under Secretary of State at the Department of Energy and Climate Change from July 2014 until May 2015. Amber led the UK team to the successful completion of the Paris Climate Change Agreement. This UN sponsored 2015 Conference of the Parties (COP 21) achieved a landmark global commitment to reduce national carbon emissions.

External appointments
Amber is a non-executive director of Pinwheel. Amber also acts as an advisor to businesses including Equinor, Darktrace, Finsbury Glover Hering, Island Green Power, Centreview Partners and Phoenix Group. Amber is a trustee of The Climate Group, RUSI and Action Against Gambling Harms.

Raj Roy
Group General Counsel & Company Secretary

DC

Raj was appointed Group General Counsel & Company Secretary on 3 March 2021 having been appointed Interim Group General Counsel & Company Secretary with effect from 1 October 2020.

Relevant skills and experience
Raj has overall responsibility for legal, regulatory, compliance and secretariat activities across the Group, the effective operating of Centrica plc's Board and advising on key issues of corporate governance and compliance. Raj joined Centrica in 2014 as the Legal Director for Residential Energy, before becoming General Counsel for the UK and Ireland region in 2017. He has led legal, regulatory and compliance teams at Centrica in various formations across the UK and Ireland region and the Consumer division.

Previous experience
Prior to joining Centrica, Raj spent 9 years at Vodafone, holding a number of senior in-house legal roles in the Group and UK legal functions. Raj started his career in private practice, qualifying as a solicitor at Slaughter and May in London and subsequently working for Freshfields in Brussels.

External appointments
None.

The Board considers that each of the Directors continues to contribute effectively to the work and deliberations of the Board.

Reasons for the (re-)election of each of our Directors at the forthcoming AGM can be found within the Centrica plc Notice of Annual General Meeting 2022 which will be made available on our website centrica.com/agm22.

Full biographies can be found at centrica.com/board

Committee membership key
- C Chairman of the Board
- AC Audit and Risk Committee
- DC Disclosure Committee
- NC Nominations Committee
- RC Remuneration Committee
- SC Safety, Environment and Sustainability Committee
- Denotes Committee Chairman

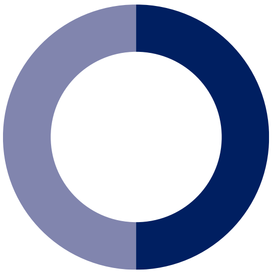
Skills and experience key
- Consumer Services
- Energy Sector
- Engineering/Safety
- Finance/M&A
- Financial Services
- Government/Regulatory
- Technology

*as at 23 February 2022

Board Diversity and Meeting Attendance

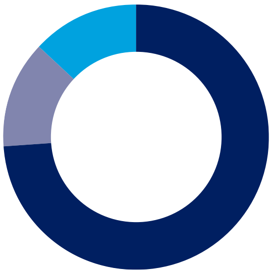
Board diversity as at 31 December 2021*

By gender



- Male 50%
- Female 50%

By nationality

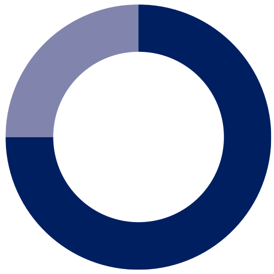


- British 74%
- Irish 13%
- South African 13%

By ethnicity

- White British 63%
- White Irish 13%
- White South African 13%
- British Indian 13%

By tenure



- 0-3 years 75%
- 4-6 years 25%

During 2021, the Company exceeded the Hampton-Alexander target of 33% female representation on the Board (with 50% being female) and met the Parker Review target of at least one director being from an ethnic minority background.

*Following the appointment of Amber Rudd in January 2022, the data as at 23 February 2022 is:
(i) by gender: Male: 44%, Female: 56%;
(ii) by nationality: British: 78%, Irish: 11%, South African: 11%;
(iii) by ethnicity: White British: 67%, White Irish: 11%, White South African: 11%, British Indian: 11%
(iv) by tenure: 0-3 years: 78 %, 4-6 years: 22%

Read more about Board diversity on Page 69

Board and Committee meeting attendance during 2021[1]:

Name	Role	Joined the Board	Tenure[2]	Nationality	Gender/ identity	Board	AC	NC	RC	SC
Scott Wheway	Chairman	01/05/2016	5 years, 8 months	British	M	13	N/A	4	8	3
Chris O'Shea	Group Chief Executive	01/11/2018	3 years, 2 months	British	M	13	N/A	N/A	N/A	N/A
Kate Ringrose	Group Chief Financial Officer	18/01/2021	0 years, 11 months	South African, British	F	12	N/A	N/A	N/A	N/A
Carol Arrowsmith	Independent Non-Executive Director	11/06/2020	1 years, 7 months	British	F	13	4	4	8	N/A
Stephen Hester	Senior Independent Director	01/06/2016	5 years, 7 months	British	M	13	4	4	8	N/A
Pam Kaur	Independent Non-Executive Director	01/02/2019	2 years, 11 months	British	F	12	4	4	N/A	3
Heidi Mottram	Independent Non-Executive Director	01/01/2020	2 years, 0 months	British	F	12	N/A	4	8	3
Kevin O'Byrne	Independent Non-Executive Director	13/05/2019	2 years, 7 months	Irish	M	13	4	4	N/A	3

(1) Any Director who is unable to attend a Board meeting provides feedback to the Chairman on the matters to be discussed in advance of the meeting.
(2) Data as at 31 December 2021.

Corporate Governance Statement

The Board is committed to high standards of corporate governance and is pleased to confirm that throughout the year ended 31 December 2021, the Company has, with the exception of provisions 40 and 41 of the UK Corporate Governance Code (UK Code), complied with all other relevant provisions of the UK Code. Further details explaining our non-compliance with provisions 40 and 41 can be found on page 92. The UK Code and associated guidance are available on the Financial Reporting Council's website at frc.org.uk.

The index on page 96 sets out where to find each of the required disclosures in respect of Listing Rule 9.8.4 and Disclosure Guidance and Transparency Rules 4.1.5R and 7.2.1.

Governance framework

In order to facilitate its oversight role, and to ensure that it retains decision-making power over matters considered to be material to the current or future financial performance of the Group, the Board has put in place the governance framework to support the creation of long-term value for stakeholders. This is achieved through a schedule of matters reserved for the Board. In order to allow the Board to focus on its priorities, a number of its oversight responsibilities have been delegated to four principal committees. These responsibilities are set out in the terms of reference for each committee. The Board regularly reviews the remit, authority, composition and terms of reference of each committee.

The Board has also delegated authority to the Group Chief Executive for the execution of the strategy and day-to-day management of the Group. The Centrica Leadership Team (CLT) supports the Group Chief Executive in the performance of his duties. The Board oversees, challenges and supports executive management in the execution of the strategy and management of the Group.

Our Board

The Role of the Board

The Centrica Board is collectively responsible for corporate governance, developing strategy and major policies, reviewing management performance, approving financials and for providing entrepreneurial leadership to the Company within a framework of prudent and effective controls which enable risk to be assessed and managed. It is also responsible for setting the Company's culture, values and the behaviours it wishes to promote in conducting its business. The Board's role and responsibilities are reviewed against the UK Code to ensure that it is meeting all of its responsibilities.

Matters reserved exclusively for the Board

There are certain key responsibilities that the Board does not delegate, and which are reserved for its consideration. The Board's responsibilities include: the development of strategy; acquisition and divestment policy; the approval of major capital expenditure; the Group's capital structure; the consideration of significant financing matters; and oversight and independent assurance of policies and procedures. The full schedule of matters reserved is available on the governance page of our website centrica.com.

Board composition and roles

The Board comprised of the Non-Executive Chairman (independent on appointment), two Executive Directors (Group Chief Executive and Group Chief Financial Officer), and five Independent Non-Executive Directors, increasing to six Independent Non-Executive Directors following the appointment of Amber Rudd in January 2022. A list of our Directors' biographies can be found on pages 50 to 53.

There is a clear division of responsibilities between the Chairman and Group Chief Executive, reflected in the schedule of matters reserved for the Board.

The Chairman is 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 and ensuring that Directors receive accurate, timely and clear information.

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

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

Independent Non-Executive Directors are 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.

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

The Group General Counsel & Company Secretary advises the Chairman and the Board on matters of corporate governance, induction, training and the efficient management of Board and Committee meetings, with responsibility for ensuring the effectiveness of the Company's governance framework. The Board relies on the Group General Counsel & Company Secretary for facilitating the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Board Committees

In keeping with best practice, our Board oversees the Group's operations through a unitary Board and four separate principal Committees – Audit and Risk Committee, Nominations Committee, Remuneration Committee, and Safety, Environment and Sustainability Committee (SESC).

The terms of reference of these Committees can be found on our website. The Committee reports can be found on pages 61 to 94. Attendance at Committee meetings in 2021 can be found on page 54.

Board meetings

The Board held 13 formal meetings in 2021. In addition, supplementary meetings were called for specific approvals. The table showing the attendance of Directors at Board meetings in 2021 can be found on page 54. If Directors are unable to attend a meeting, they have the opportunity beforehand to discuss any agenda items with the Chairman.

The agendas for Board meetings are agreed in advance by the Chairman, Group Chief Executive and Group General Counsel & Company Secretary. The agenda typically consists of regular standing items, such as reports on financial performance, and in-depth examination or analysis of a topic, facilitating exchanges of views and robust debate.

During the year, the Non-Executive Directors, including the Chairman, met frequently without management present. The Non-Executive Directors met once during the year without the Chairman present.

Board activity including Section 172(1) considerations

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, Board meetings regularly feature in-depth reviews of specific topics. The Directors confirm that the deliberations of the Board, which underpin its decisions, incorporated appropriate consideration with due regard to the matters detailed in Section 172 of the Companies Act 2006.

In 2021, the Board reflected on strategic decisions made during 2020, resulting from the COVID-19 pandemic, to protect the Company in the long term and maintain cash flow, such as decisions to not pay a dividend, and reduce consultancy spend.

As stewards of the Company, the Board recognises that being aware of the needs and expectations of stakeholders is crucial, as it ensures that the Company is well-positioned to achieve long-term sustainable success and deliver value for all our different but interrelated stakeholder groups and society as a whole.

Board discussions held during the year included:

Strategy and business plan

The Board considered and oversaw the delivery of the strategic initiatives to Strategic reviews, updates, and stress testing.
The Board also considered the following matters:

- Strategic reviews, updates, and stress testing.
- Sale of Spirit Energy's Norwegian assets.
- Cancellation of 2020 final dividend.
- Group Annual Plan 2021.
- Energy Transition and Energy price risk Directors' Training.
- Energy Supply Market.
- Climate Transition Plan.
- COP26.
- Capital Markets Day.

Stakeholders considered:

Cu Co I G S C

Governance

The Board receives regular reports from the Group General Counsel and Company Secretary on governance and regulatory matters, as well as regular updates and insights on market trends from the Investor Relations function. During the year, the Board took time to consider or oversee the following key governance activities/matters:

- Annual Report and Accounts.
- General Meetings.
- Board evaluation.
- Succession planning for the Board.
- Committee composition.
- Reports from Committee Chairs.
- Conflicts of interest reviews.
- Terms of reference reviews.
- Director independence.
- Workforce engagement.
- All-Employee Share Plan.

Stakeholders considered:

Co I

Political and regulatory environment

During the year, the Board considered the following matters:

- COVID-19 crisis management and mitigation.
- UK Government energy policy proposals.
- Modern Slavery Act Statement.
- Annual tax update.
- Treasury risk management annual update.
- Insurance update.

Stakeholders considered:

I G S C

Performance and risk

Financial performance and Risks, as well as risk controls and processes are regularly reported to the Board and to the Audit and Risk Committee. Risks are also brought to the attention of the Board through reports from the Group Chief Executive, Group Chief Financial Officer, heads of business and functional subject matter experts.

- Group Performance Reports.
- Business reviews.
- Periodic results.
- Direct Energy Sale proceeds.
- Going concern and viability statements.
- Portfolio reshaping including Pensions.
- Issuer Call Option.
- 2021 Group Shape review.

Stakeholders considered:

Cu Co I G S

Culture and stakeholders

The Board recognises that understanding the views and interests of the Company's diverse community of stakeholders is important. The views and interests of stakeholders are considered in the development, delivery and oversight of the Group's business model, strategy and culture. During the year, the Board considered the following matters:

- 2021 cultural transformation review.
- Purpose and vision update.
- Investor updates and feedback.
- Industrial Action update.
- Voice of the Customer.
- Diversity & Inclusion Strategy.

Stakeholders considered:

Cu Co I G S C

Stakeholders

Customers	Colleagues	Investors
Cu	Co	I
Government and Regulators	Suppliers	Communities and NGOs
G	S	C

Stated below are some examples of the decision-making of the Board during the year demonstrating key stakeholders and their interests, and how our Section 172 duties influenced the matters considered by, and the decision-making of, the Board during the year.

Consideration of stakeholders and outcomes:

Decisions considered by the Board	Key stakeholder interests considered	Outcomes
Sale of Spirit Energy's Norwegian oil and gas assets and run-off strategy for the remaining Spirit Energy business (the 'Sales')	**Customers:** Centrica's strategy to reduce its exposure to carbon intensive oil and gas exploration and production in a way that maximises shareholder value. **Investors:** allow for increased focus on the customer-facing activities in Centrica's core home markets of the UK and Ireland where we have leading market positions.	The Sales represented a significant step towards Centrica delivering on its strategy to decarbonise its portfolio and reduce its exposure to oil and gas production, and further simplify and de-risk Centrica's business model while strengthening the balance sheet and reducing earnings and cashflow volatility.
General Meeting (held in January 2022) for shareholders to approve the Sales	**Colleagues:** in order to protect the health and safety of our shareholders and our colleagues, the Board issued an update to all investors via an announcement, an update on its website and with a supplementary mailing strongly advising all shareholders to participate virtually in the General Meeting. **Investors:** Shareholders' views are important. Shareholders were strongly encouraged to exercise their votes by submitting their proxy forms, invited to submit questions in advance of the meeting, and provided access to participate in the meeting, and vote, via an online portal.	Shareholders successfully participated in the General Meeting where they heard answers to their questions and the resolution was passed. The format of the Meeting not only reduced the risk of impact to public health by minimising the spread of COVID-19 but also embraced the opportunities provided by virtual participation including reducing the carbon footprint of the Meeting.
Centrica developed and published its Climate Transition Plan setting out the key steps we plan to take to help our business, our customers and the wider energy system decarbonise	Ongoing dialogue with key stakeholders confirms a growing desire to understand more about how companies are strategically responding to climate change, including how they'll mitigate climate impact whilst enhancing long-term commercial resilience. For example: **Investors:** Institutional investors requested that Centrica develop and publish a Climate Transition Plan. **Customers:** Our goal is to help our customers be net zero by 2050. **Colleagues:** Taking a lead role in the growth of green jobs whilst continuing to embrace a diverse mix of people and skills needed for a greener future. **Suppliers:** Part of future-proofing our business against climate change is to ensure we have a reliable and responsible supply chain for customers. **Government and Regulators:** We want and need governments, regulators and policymakers to work with us to deliver the necessary changes that'll be needed to achieve our climate change goals, and specifically help us get our customers to net zero in a way that's affordable and fair. We engage responsibly with key decision makers on issues we believe are critical for shaping the energy landscape our customers need. **Communities and NGOs:** Community action and engagement is essential for ensuring a successful transition.	Centrica's strategy and purpose are rooted in providing energy services and solutions that'll help our customers live sustainably, simply and affordably. In support of this, our People & Planet Plan sets out our net zero targets, and how we'll continue to develop the diverse and inclusive team that'll help us get there. Our Climate Transition Plan is the next step, explaining how we intend to achieve these goals to become a net zero business by 2045 and help our customers be net zero by 2050, while ensuring a fair and affordable transition for all.

The outcome from the key engagements, stated above, are fed back to the Board through the appropriate forum.

Woven throughout this report and on our website are further examples and evidence of how the Directors have performed their fiduciary duty under Section 172.

Section 172	Evidence
The likely consequences of any decision in the long term	Please see page 6, 8 to 9, 10 to 11, 28 to 37, and 56 to 57
The interests of our colleagues	Please see page 8 to 9, 26-27, 29-31, 56-57, 59 and 96
The need to foster relationships with suppliers, customers and others	Please see page 8 to 9, 70
The impact of the Company's operations on the community and the environment	Please see pages 32 to 37, 70
The desirability of the Company maintaining a reputation for high standards of business conduct	Please see pages 36, 70 and 96, and visit our website centrica.com
The need to act fairly between members of the Company	Please see pages 56 and 57, and visit our website centrica.com

Board strategic planning

During the year, the Board continued to review the Group's operating model and strategic plan, stress testing its resilience under a number of different scenarios. The Board also continues to regularly review various elements of strategy at Board meetings.

Site visits

The Directors recognise the importance of, and benefits gained by, visiting the Group's operations. The Directors endeavour to make a couple of visits to Centrica sites each year. For the first time in the last two years, the Board undertook a site visit to the British Gas sites at Spinneyside and Aylestone Road in Leicester, including meeting with apprentices at the British Gas Academy and visiting the British Gas innovations laboratory.

Evaluation and effectiveness of the Board, Committees and the Directors

The 2021 external Board Effectiveness Review was conducted according to the principles of the UK Code and was facilitated by Independent Board Evaluation (IBE). IBE has no other connection with the Company. The Company's last externally facilitated Board Effectiveness Review occurred in 2018, with internal self-assessments having been conducted in 2019 and 2020.

In May 2021, a comprehensive brief was given to IBE by the Chairman, Group Chief Executive, the Senior Independent Director and the Group General Counsel & Company Secretary. In June 2021, detailed interviews were conducted with every Board member. All participants were interviewed for 1.5 hours by IBE. In addition, IBE interviewed members of senior management and advisers. The lead evaluator observed Board and Committee meetings in July 2021 and reviewed the associated Board and Committee papers.

Draft conclusions were discussed with the Chairman and subsequently discussed by the Board on 23 September 2021 in the presence of IBE. IBE then gave feedback to Committee Chairs on the performance of each Committee and discussed the Board's feedback for the Chairman with the Senior Independent Director. In addition, the Chairman received a report with feedback on individual Director's performance as an input to the regular annual performance review process.

Based on the results of the external evaluation, the Board concluded that it and the Board Committees continue to operate effectively with, amongst other strengths, a strong culture of performance evaluation and governance. In addition, each Director continues to contribute effectively, with high levels of commitment and a strong determination to increase value for stakeholders.

In 2022, the Board's action plan for further enhancing its effectiveness includes focusing on talent development (particularly Board and senior management succession planning and plans for developing high potential individuals).

Board appointments

The report of the Nominations Committee on pages 69 describes the work of the Committee in relation to Board appointments and recommendations for (re-)election.

All Directors are subject to annual re-election. The Board sets out in the Notice of Annual General Meeting the specific reasons why each Director's contribution is, and continues to be, valuable to the Company's long-term sustainable success.

Directors' induction

The Board has in place processes for the Directors' induction and ongoing training. The Directors' induction programme is led by the Chairman and supported by the Group General Counsel & Company Secretary. It is tailored to meet the individual's needs, providing all the information and support required in a structured way to allow them to be effective in their role.

Directors are asked to provide input on how their induction should be tailored, in relation to both content and delivery, with the opportunity for periodic subsequent review with the Chairman.

Training and development for Directors

It is important to ensure that Directors' skills and knowledge are refreshed and updated regularly, given the dynamic business and regulatory environment in which the Company operates.

The Chairman, supported by the Group General Counsel & Company Secretary, is responsible for the ongoing development of all Directors and discusses with each Director any individual training and development needs, such as formal and informal briefings, meetings with management and visits to the Group's operations. During 2021, the Directors received training on net zero, climate change and the energy transition.

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

Directors' independence and conflicts

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

The Non-Executive Directors' Letters of Appointment state that they must inform the Group General Counsel & Company Secretary of any other businesses, directorships, appointments, advisory roles, or other relevant connections (including any relevant changes, and a broad indication of the time involved). Directors also confirm that they will inform the Board of any subsequent changes to their circumstances which may affect the time they can commit to their duties. The agreement of the Chairman must be obtained before accepting additional commitments that might affect the time Non-Executive Directors are able to devote to their appointment.

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

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

Engaging with our stakeholders

Workforce engagement

Following Joan Gillman stepping down from the Board in February 2021 and ceasing her role as designated non-executive director, the Board shared responsibility for workforce engagement amongst Board members.

As well as this approach of shared responsibility being one of the recognised approaches to colleague engagement that Boards may pursue, the Board considered that there is benefit from all of the Board being involved in colleague engagement activities, particularly in an environment of face-to-face activity becoming more possible prospectively with the easing of COVID-19 restrictions.

During 2021, the Chairman and Non-Executive Directors engaged with members of the workforce in various ways, including meeting with engineers and apprentices at the British Gas Academy during the site visit held there in September 2021 and regular Board breakfast engagement sessions held virtually or in person immediately prior to selected Board meetings in 2021. These engagements undertaken by the Board during the year contributed to some of the decision-making of the Board. Further information on the decision-making of the Board can be found on pages 56 and 57.

The Executive Directors and senior leadership team dedicated significant time and focus on meeting with and listening to the views of colleagues.

This has made good progress in changing the leadership tone from the top and facilitating the cultural shifts the business needs. The work undertaken is set out in the Chief People Officer's Report on pages 26 to 27. Further information can also be found in People and Planet on pages 28 to 37.

Shareholder engagement

The Board is committed to maintaining open channels of communication with all of the Company's stakeholders. An important part of this is providing a clear explanation of the Company's strategy and objectives, and ensuring feedback is acknowledged, considered and, where appropriate, acted upon. During 2021, the Chairman held 20 one-to-one meetings with investors.

Meetings, roadshows and conferences

The Group Chief Executive and Group Chief Financial Officer typically meet with our major institutional shareholders twice a year, following the Company's Preliminary and Interim results, which provides an opportunity for a review of the Company's strategy and performance. In addition, management and/or Investor Relations attend a number of investor conferences throughout the year, giving shareholders further opportunity to meet and receive updates directly from Company representatives, while senior management are also available to meet on an ad hoc basis with major shareholders if requested. The Company was due to hold a Capital Markets Event in November. However it announced in October the decision to postpone the event, with the focus on looking after customers during the unprecedented commodity environment.

Engagement themes with our institutional shareholders

During the year, engagement themes included:

- Centrica's strategic refresh and organisational restructure;
- Interim results;
- Sale of Direct Energy in North America;
- Progress on the planned divestments of Nuclear and Spirit Energy;
- The regulatory and political environment for UK energy;
- Impact of rising commodity prices;
- Ongoing impacts of the COVID-19 pandemic;
- Terms and Conditions changes;
- Board succession; and
- Environmental, Social and Governance (ESG) matters.

General Meetings

The Company holds an Annual General Meeting (AGM) each year and, as required, holds General Meetings. At the AGM, the Chairman gives his thoughts on governance aspects of the preceding year and the Group Chief Executive reviews the performance of the Group over the last year.

Shareholders are encouraged to participate in these meetings and to ask questions at, or in advance of, these meetings.

Although shareholders were not able to attend the 2021 AGM in person, their views remained important to us. All shareholders were encouraged to exercise their votes by submitting their proxy forms either electronically or by post. We also invited shareholders to submit their questions via a dedicated question facility on our website and the answers were published on our website.

Our 2021 AGM was well supported with voting in favour of the resolutions ranging from 94% to 99% and with 62% of issued share capital voted.

The 2022 AGM is due to take place on 7 June 2022 at 10.00am. Information about the format of the 2022 AGM will be provided in the Notice of Meeting. Further information pertaining to the 2022 AGM will be available at centrica.com/agm22. Voting on the resolutions will generally be conducted by a poll and the voting results will be announced through the Regulatory News Service of the London Stock Exchange and also made available on the Company's website.

Centrica.com

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

Our application of the UK Corporate Governance Code

It is the view of the Board that Centrica has applied the principles of the UK Corporate Governance Code throughout the year. As set out below, there are examples throughout this report of how we do this.

Section 1: Board Leadership and Company Purpose

Principle	Pages
Principle A: A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	Pages 50 to 53
Principle B: The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	Pages 6, 10 to 11, and 48
Principle C: The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls.	Pages 12 to 15 38 to 43
Principle D: In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	Pages 8 to 9 56 to 57
Principle E: The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	Pages 36, and 96

Section 2: Division of Responsibilities

Principle	Pages
Principle F: The chair leads the board and is responsible for its overall effectiveness in directing the company. The chair should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	Page 55
Principle G: The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.	Page 55
Principle H: Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	Pages 55 and 69
Principle I: The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	Page 55

Section 3: Composition, Succession and Evaluation

Principle	Pages
Principle J: Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	Pages 58 and 69
Principle K: The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.	Pages 50 to 53 69
Principle L: Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	Page 58 and 69

Section 4: Audit, Risk and Internal Control

Principle	Pages
Principle M: The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	Pages 61 to 63
Principle N: The board should present a fair, balanced and understandable assessment of the company's position and prospects.	Page 62
Principle O: The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	Pages 62 and 64 to 68

Section 5: Remuneration

Principle	Pages
Principle P: Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.	Pages 82 to 94
Principle Q: A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	Pages 82 to 94
Principle R: Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	Pages 88 to 89

Audit and Risk Committee

Dear Shareholder

I am pleased to present the Audit and Risk Committee's report for the year ended 31 December 2021 which provides an insight into the work carried out by the Committee, our areas of focus and key activities in what has been another demanding year.

During the year, the Committee focused on ensuring the integrity of the Group's published financial information and the effectiveness of the Group's risk management and internal controls framework.

The Committee considered a range of matters during the year, which are disclosed in this report.

As a standing item on the Committee's agenda, the Committee considered the enterprise risk and control framework, the management of cyber risks and legal and regulatory matters.

I hope you find this report a helpful explanation of our work during the year. It should be read in conjunction with our UK Corporate Governance Code application section on page 60, Our Principal Risks and Uncertainties on pages 38 to 43 and our Viability Statement on pages 44 to 46. I would like to thank the members of the Committee and the functional support teams across the business for their effort, time and commitment during what was a testing year for the industry.

Role of the Committee

The Committee's terms of reference are available on our website centrica.com. We review these terms of reference annually.

The core responsibilities of the Committee are to:

- monitor and review the adequacy and effectiveness of the governance and oversight of the Company's financial processing and reporting, internal controls and risk management;
- provide advice and assurance to the Board on whether it has discharged its duties and whether the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders to assess the Company's position, performance, business model and strategy;
- monitor and review the operation and effectiveness of the Group's Internal Audit function, including its independence, strategic focus, activities, plans and resources;
- supervise the appointment of the Chief Risk & Audit Officer;
- manage the relationship, including appointment, independence, effectiveness and remuneration of the Group's external auditors on behalf of the Board;
- conduct a tender for the external audit contract at least every 10 years and make appointment recommendations to the Board;
- review the Company's arrangements for its workforce/ stakeholders to raise concerns in confidence about possible improprieties in financial reporting or other matters; and
- consider and review material legal and regulatory policy compliance issues or risks, and maintain oversight of the arrangements in place for the management of statutory and regulatory compliance in areas such as financial crime.

Membership of the Committee and attendance at meetings

The Committee is comprised solely of independent Non-Executive Directors. Kevin O'Byrne, the chairman of the Committee and group chief financial officer of J Sainsbury plc, is considered by the Board to have recent and relevant financial experience. The members of the Committee are Carol Arrowsmith, Stephen Hester and Pam Kaur. Carol Arrowsmith is connected to Deloitte ('the Firm') as historically, she was a partner there but she had left the Firm prior to their appointment as the Group's external auditor. In addition to this, the Firm provides her with services in a personal capacity. The Committee deems that this does not affect the independence and judgement of Deloitte nor the Committee's oversight of Deloitte's performance. Biographical details of the Committee Chairman and members can be found on pages 50 to 53. Meeting attendance of the Committee members can be found on page 54. 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 Financial Controller and the Chief Risk & Audit Officer, none of whom do so as a right. Other Senior Executives will attend as required to provide information on matters being discussed which fall within their area of responsibility. The external auditors, Deloitte LLP (Deloitte), also attended each meeting. The Committee meets individually with the external auditors, the Group Chief Financial Officer and the Chief Risk & Audit Officer without other Executive Directors present.

The Committee met four times in 2021.

The Committee has a yearly agenda which is linked to the Company's financial calendar. The agenda is flexible, facilitating deep dives into topics of particular importance to the Committee.

Main activities of the Committee during 2021

During the year, the Committee:

- reviewed business risk areas, accounting judgements and effectiveness of the finance function and control environment. Details of key judgements and financial reporting matters in 2021 are set out on pages 64 to 68;
- reviewed the approach taken to assess credit risk exposure to wholesale and large industrial and commercial customers affected by COVID-19 and the changes in the energy market;
- reviewed accounting judgements in particular, those relating to the impact of COVID-19, the sale of Direct Energy and the proposed sale of Spirit Energy's Norwegian assets and interests in the Statfjord field;
- reviewed Going Concern and viability work and associated disclosures;
- reviewed the future working capital requirements of the Group following the disposal of Direct Energy;
- reviewed the 2020 financial results, 2020 Annual Report and Accounts and 2021 Interim results, having regard to any matters that may have been communicated by Deloitte;

- reviewed the structure of the 2021 Annual Report and Accounts to best reflect the Group's operations in line with the strategic update in 2021;
- effectiveness review of the external audit process;
- continued oversight of the maintenance and development of the control environment particularly in light of organisation design changes and their impact on the oversight of the control environment;
- external review of the internal audit function;
- reviewed the approach taken to assess credit risk exposure amidst the collapse of some energy suppliers in the UK energy supply market during 2021;
- considered the wider impact of the exceptionally volatile commodity prices;
- reviewed regular reports and recommendations from the Internal and External Audit on Risk, Assurance and Controls; and
- carried out deep dives of British Gas Energy's risks and controls as well as the Group-wide financial risk and Group definitions of capital employed.

Effectiveness of the Committee

Read more about the Committee's effectiveness on page 58.

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 Chief Risk & Audit Officer has direct access to the Chairman of the Board and to the Committee Chairman, and is accountable to the Committee.

The Committee reviewed and approved the Group's annual Internal Audit plan (the plan). The plan is designed with reference to the Group's Principal Risks, which regularly evolve. Further information on the Principal Risks is available on pages 38 to 43. During the year, the Committee receives regular updates on the Internal Audit team's findings and the business units' action on the findings and on the plan. The progress made on the plans, which are ranked according to significance, is monitored to ensure each plan is completed satisfactorily.

During the year, the Internal Audit function was benchmarked against the Internal Audit Code of Practice 2021. No material gaps were noted and some opportunities to strengthen existing operating practices were identified. The Committee remains satisfied that the Internal Audit function has the necessary integrity, objectivity, and competency to fulfil its mandate. It has also satisfied itself that the Internal Audit function has adequate standing and is free from management or other restrictions.

Review of the System of Risk Management and Internal Controls

Our risk management and internal controls, including compliance with Our Code, and policies are assessed through a self-certification process. We also have a programme to assess the Group's Entity Level Controls. The results of the annual process, together with the conclusions of the internal reviews by Internal Audit, enable the Committee, on behalf of the Board, to form and report their view on effectiveness.

During 2021, the Committee oversaw the work of Internal Audit and the functional support teams, alongside the management teams. As part of its oversight, the Committee received verbal and written reports on movements in the Group Principal Risks, as well as updates on other Group frameworks such as Legal and Regulatory Compliance. The Committee has confidence in their ability to identify issues that arise and the business units' ability to remediate control gaps in the business, where necessary, in line with our risk appetite. The Committee noted the risk management process and internal controls have been in place throughout the year and remain effective, though we recognise the need for ongoing and continuous review or, where necessary, improvement.

Fair, balanced and understandable

In line with the UK Code, the Committee, on behalf of the Board, reviews the Annual Report, to determine if, when taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders and stakeholders to assess the Company's position and performance, culture, business model and strategy. Additionally, the Committee considers the processes and controls involved in the production of the Annual Report, as well as the financial responsibilities of the Directors. There is a robust governance framework around the production of the Annual Report which ensures it is critically reviewed and signed off by the key teams in the relevant businesses and functions.

External auditors

The Committee manages the relationship with the Group's external auditors on behalf of the Board. The Committee considers annually the scope, fee, audit plan, performance objectivity and independence of the external auditors.

To ensure objectivity, key members of the external audit team rotate off the Company's audit. To safeguard the independence of the Company's external auditors and the integrity of the audit process, the recruitment of senior colleagues from the Company's auditors is not permitted for a period of at least two years after they cease to be involved in the provision of services to the Company.

Following a competitive external audit process in 2016, Deloitte was appointed as the Company's auditors at the beginning of 2017 and will this year perform their fifth full audit. In accordance with applicable audit independence standards, the lead audit partner, James Leigh, will rotate off the audit at the conclusion of this year's audit, and Jane Boardman has been selected as his replacement. In accordance with the CMA order on Statutory Audit Services for large companies, the Committee has considered the appropriate time to put the audit out to competitive tender. Given the complexity of the business it is important to balance the benefits of a fresh perspective from a new audit firm, with the negative effects of the disruption and educational time requirements from both tendering and onboarding. The Committee considers that the Deloitte lead audit partner rotation goes some way to providing a fresh perspective and accordingly believe it is in the best interests of shareholders for the company to plan for a competitive audit tender in 2026 (the ten-year legal threshold) with the successful firm taking over for the 2027 financial year. The re-appointment of Deloitte as auditors for the 2021 financial year was approved by shareholders at the AGM in May 2021 and Deloitte has been recommended for re-appointment again in 2022.

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

Effectiveness of the external audit process and the independence and objectivity of the external auditors

To assess the effectiveness of the external audit process and independence and objectivity of the external auditors, the Committee carried out an assessment, primarily looking at the key areas of:

- robustness of the audit process;
- quality of people and service;
- quality of delivery;
- independence and objectivity; and
- value added advice.

This assessment included an internal questionnaire, which was completed by the Chairman of the Board, Committee members and senior members of management on their views of Deloitte's performance. The questionnaire covered a review of the audit partner and team, the audit scope and approach, audit plan execution, auditor independence and objectivity and robustness of challenge of management. Separately, Deloitte also provided an assessment, via an internal management questionnaire, of management's controls, judgements and engagement throughout the audit process. The feedback received was reviewed by management and reported to the Committee. The Committee and the Board confirm that they have taken all the necessary steps to become aware of any relevant audit information and to pass that information onto Deloitte. The Committee was satisfied with the external auditors' commitment to audit quality, the robust and professional working relationship with management and demonstration of strong technical knowledge and professional scepticism. In addition, to ensure the independence of the external auditors, and in accordance with International Standards on Auditing (UK & Ireland) 260 and Ethical Standard 2019 issued by the Accounting Practices Board and as a matter of best practice, Deloitte has confirmed its independence as auditors of the Company. On the basis of Deloitte's confirmation and report on their approach to audit quality and transparency, the Committee concluded that: Deloitte possesses the appropriate qualifications and expertise; remains independent of the Group; and, coupled with effective management engagement, that the audit process was effective.

The Committee is aware of, and has noted, the FRC's July 2021 report on Deloitte's Audit Quality Inspection and Supervision. The Committee has also reviewed the findings of the FRC's Audit Quality Review (AQR) in respect of Deloitte's audit of the Group's 2019 financial statements, which was received in May 2021. The report included key findings in one area of the audit, together with an identified area of good practice. The Committee reviewed Deloitte's responses to the AQR's findings, noting areas which were addressed in the completed 2020 audit, and areas to be addressed in the 2021 audit. The Committee was satisfied with Deloitte's responses to the matters raised.

Corporate Reporting Review

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

Non-audit fees

To safeguard the objectivity and independence of the external auditors, 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 centrica.com. The Chairman of the Audit and Risk Committee must approve all requests to utilise Deloitte for non-audit services. There is an annual cap on non-audit work during the ordinary course of business of £1 million, which is assessed each year for appropriateness in the context of external guidance and regulation.

During 2021, work on the divestment of Spirit Energy's Norwegian assets and the Statfjord field required additional services from Deloitte to facilitate the sale, pushing fees above the overall cap of £1 million. The work related to the Reporting Accountant services in respect of the disposal Class 1 Circular. Deloitte were clearly best placed to undertake this engagement given their knowledge of the business and the required time frame. Fees for this service amounted to £0.9 million. Overall total non-audit fees incurred in the year was £1.7 million (2020: £4.3 million), including £0.5 million for the review of the interim results and £0.3 million for the audit of the Ofgem consolidated segmental statements. In line with the non-audit fees policy, approval for this expenditure was sought and received from the Committee in advance of the work commencing. The amount incurred in the year is well below the legal cap of 70% of non-audit fees (for service not required by regulation) compared to the three-year average of statutory audit fees, amounting to approximately 19%.

In normal circumstances, all significant non-audit work is put out to tender and Deloitte are only ever appointed if their experience and knowledge makes them the most appropriate supplier and it is clear another firm could not undertake the work without adversely impacting the business.

Kevin O'Byrne
on behalf of the Audit and Risk Committee
23 February 2022

Key judgements and financial reporting matters in 2021	Audit and Risk Committee reviews and conclusions
Supplier of Last Resort (SoLR) Accounting Following the unprecedented rise in commodity prices in the second half of 2021, a number of UK energy suppliers were unable to continue trading and the Group was appointed as the Supplier of Last Resort for the customers of eight suppliers. Under Ofgem's licence conditions, the Group is entitled to make a Last Resort Supplier Payment claim for the shortfall between costs reasonably incurred in supplying gas and electricity to premises under the Last Resort Supply Direction, and the charges recovered from customers (which are limited by the tariff cap). The Group submitted an initial claim, covering a six month period from the date of appointment, and received confirmation of Ofgem's acceptance in December 2021. The claim primarily covers incremental commodity costs, incurred as a result of procuring gas and electricity to supply affected customers. The Group will submit a second claim to Ofgem by Autumn 2022, recognising both actual commodity costs incurred, and additional costs which were not included in the initial claim. This includes the recovery of customer credit balances, where the Group has not waived the right to do so. The value recognised for the receivable at 31 December 2021 is £234 million, offsetting losses incurred and customer credit balances recognised. The Group judges that the Last Resort Supplier Payment process represents an Ofgem support mechanism, enabling energy suppliers to provide stability to the customers of failed suppliers. The Group determines this is within the scope of IAS 20 'Government Grants' and amounts receivable under the mechanism are deemed virtually certain and are recognised as the related expenses are incurred or liabilities recognised.	The Committee has considered the judgement made by the Group and concurs that the recognition of the SoLR receivable is appropriate and matches the costs and liabilities incurred or recognised by the Group during the year. The Committee held discussions with the external auditors to verify the approach being taken and were further re-assured that the proposed accounting treatment aligns with expected industry practice.
Determination of forecast commodity prices and their use in valuing long-lived assets and derivative contracts Commodity price forecasts are a key assumption in the valuation of the Group's long-lived assets and derivative contracts. For short-term commodity prices over the next 4 years, observable liquid market prices (as at 31 December 2021) are taken as the best view of expected price. For the longer-term period thereafter, the Group uses a "P50" median price curve, derived from a collection of third-party forecasts. This approach is deemed to align to pricing that a reasonable market participant would use and so other external data points (e.g. consensus view of impact of climate change and geopolitical events) are expected to be factored into these prices. The Group has used these price curves in its asset impairment testing and contract valuations. The Group has also obtained commodity price forecasts which are intended to be consistent with net zero by 2050. These are lower than the "P50" curves the Group has adopted for NBP Gas and Brent Oil but are higher for Baseload power. The Group has shown the impact of such price forecasts on the gas and oil, and Nuclear assets in note 7 of the financial statements.	The Committee noted the unprecedented rise in short-term prices and the wider impact/causation this had on other judgements. It reconfirmed continued support for the longer-term "P50" median curve (derived from third parties) approach. The Committee noted that the "P50" long-term commodity price forecasts were slightly down year-on-year for all commodities, although this was dwarfed by the near-term increases. The external auditors provided detailed reporting and held discussions with the Committee on the impact of the commodity curves. As a result of the above, the Committee were comfortable the curves were reasonable. Sensitivities of the asset impairment tests to changes in price forecasts are provided in note 7 on page 134 to 138. The Committee noted the use of a price curve intended to be consistent with the net zero by 2050 in the impairment sensitivities and believed the output provided useful information to readers of the accounts.
Assets held for sale and discontinued operations The Group announced on 8 December 2021 that it had agreed to dispose of the Spirit Energy Norwegian and Statfjord fields to Sval Energi and Equinor respectively. At the year-end, the disposal was subject to shareholder approvals. The Group's shareholders approved the transaction at a general meeting on 13 January 2022, and SWM, our Spirit Energy partner, are expected to complete their approval process shortly, with completion of the deal due in Q2 2022. The Group judged that the assets and liabilities of the Spirit Energy Norwegian and Statfjord disposal group should be classified as held for sale as at 8 December 2021 because disposal was highly probable at that point. Furthermore, as the disposal group did not represent a separate major line of business or geographical operation, because the Upstream segment will retain other European oil and gas fields post-completion, its results have not been presented as discontinued operations. The disposal of Direct Energy completed on 5 January 2021. This business was treated as a discontinued operation in both 2020 and 2021 because it represented a separate major line of business.	The Committee concurred that the disposal of Spirit Energy's Norwegian and Statfjord fields was highly probable on 8 December 2021 and should be reflected as a disposal group held for sale in this year's financial statements. It also noted the shareholder approval on 13 January 2022 and the expected completion date in Q2 2022. The Committee agreed that classification as a discontinued operation was not appropriate because the Group will retain the Spirit Energy UK and Netherlands business, post-completion. The Committee re-confirmed its support for Direct Energy being treated as a discontinued operation.

Key judgements and financial reporting matters in 2021	Audit and Risk Committee reviews and conclusions
Impairment and Reversals of long-lived assets The Group makes judgements and estimates in considering whether the carrying amounts of its assets are recoverable: ***Spirit Energy Norwegian and Statfjord field Disposal Groups*** An impairment test must be conducted immediately prior to the transfer of assets and liabilities to held for sale categorisation. At the same time, Goodwill associated with the wider Exploration and Production cash generating unit must be allocated between the retained business and the disposal group. The Group has judged that all of the Goodwill (£408 million) should be allocated to the Norwegian disposal group because historically it was only these fields and this geographic area that had justified the recoverable amount. Subsequently, the disposal group impairment test, comparing the net asset carrying value to the expected proceeds, has led to an exceptional Goodwill impairment of £198 million. At the year-end, the Group has also considered the value of its retained exploration and evaluation ('E&E') assets. As a result of the proposed Norwegian/Statfjord disposal, Spirit Energy's strategic direction has changed such that there is now limited appetite to explore or develop new fields. Consequently, the E&E assets (and related contractual positions) have been written off and led to an exceptional cost of £37 million. ***Retained Upstream (Exploration and Production ('E&P') and Power assets)*** For retained Upstream assets, discounted cashflows are prepared from projected production profiles of each field or power asset, taking into account forecast future commodity prices, to assess their recoverable amount. When deriving forecast cashflows, market prices are used for the period when a commodity is liquid. For the longer-term illiquid period, the "P50" median price curve is used (see "Determination of forecast commodity prices and their use valuing long-lived assets and derivatives", above). Judgement is also required around production volumes. For E&P, each field has specific reservoir and field characteristics and is modelled independently. For Nuclear, recent availability issues at a number of stations and early closure of Dungeness have been factored in and implications considered for the wider fleet. The expected operating life of Sizewell has continued to be reflected to 2055 in the modelling, beyond the original design life. At the year-end, pre-tax net exceptional impairment reversals of E&P gas and oil fields (including decommissioning and small disposal adjustments). of £838 million were booked, relating to a number of fields. A pre-tax exceptional impairment reversal of £747 million in relation the Nuclear investment was also booked. Both these reversals were predominantly driven by the dramatic increase in short-term commodity prices. As a result, extra sensitivity analysis has been provided in the financial statement to show the impact if there was a 50% reduction in short-term liquid prices. ***Centrica Business Solutions – energy solutions*** For Centrica Business Solutions – energy solutions customer cash generating unit (i.e. excluding energy supply), the recoverable amount of the business is calculated using a discounted cashflow. Cashflows are projected over a 5-year period, based on Board-approved business plans, and a terminal value calculated based on year 5 and an appropriate growth rate. Judgement is required in assessing the achievement of Board-approved business plans, the long-term projected cash flows, and macroeconomic assumptions such as the growth and discount rates. During the year, Centrica Business Solutions has made a number of strategic changes, re-focusing the business in core locations and leading to revised growth forecasts. As a result, a £123 million exceptional asset impairment (including the entire Goodwill balance of £103 million) has been booked at the year-end.	The Committee reviewed the recoverable amount assessment of the Norwegian and Statfjord disposal groups. It concurred with the allocation of the entire E&P Goodwill balance to the Norwegian group and the consequent write-off booked. The Committee also understood the rationale for writing off the remaining exploration and evaluation assets. The Committee reviewed management reports detailing the retained E&P assets requiring impairment reversal and the key judgements and estimates used. The Committee noted that the reversals were driven by the increase in short-term commodity prices offset by a modest fall in "P50" longer-term prices. It also observed that the asset write-backs were generally restricted to depreciated historic cost and therefore there is some headroom maintained over the updated carrying values. The Committee noted the Nuclear investment write-back was also primarily driven by the price increases noted above, offset by the small reduction on "P50" longer term prices, as well as a reduction in production volume assumptions, following a number of availability issues during the year and the early closure of Dungeness. It observed that due to the backwardation of forecast commodity prices, the Nuclear investment would likely need to be impaired again in 2022. The Audit and Risk Committee challenged management and the external auditors on the key inputs to the impairment models including price, outage rates, assumed lives and discount rates, and were comfortable with the conclusions reached. The Committee were pleased that further price sensitivity disclosures have been included in the financial statements. The Committee also noted the methodology used in valuing the Centrica Business Solutions – energy solutions. It concurred with management's ultimate assessment of the level of impairment required for Centrica Business Solutions. Further detail on impairment arising and the assumptions used in determining the recoverable amounts is provided in notes 7, 12 and S2 on pages 134 to 138, 145 to 147 and 175 to 187.

Key judgements and financial reporting matters in 2021	Audit and Risk Committee reviews and conclusions
Energy derivatives – classification and valuation The Group enters into numerous commodity contracts in its ordinary course of business. This can be to procure load for its downstream business, sell output from its upstream assets, to trade around its other commodity exposures or to make money from proprietary activities. On entering into these contracts, the business assesses each of the individual trades and classifies them as either: (i) Out of scope of IFRS 9: For "own use" contracts (i.e. customer contracts, contracts to take delivery and meet customer demand or sell upstream output) and contracts that cannot be net settled (ii) In scope of IFRS 9: Contracts for commodities which have the ability to be and practice of being net settled Energy contracts outside the scope of IFRS 9 are accruals accounted. Those contracts considered to be within the scope of IFRS 9 are treated as derivatives and are marked-to-market (fair valued). If the derivatives are for proprietary energy trading, they are recorded in the business performance column of the Group Income Statement. If they are entered into to protect and optimise the value of underlying assets/contracts or to meet the future downstream demand needs, they are recorded as certain re-measurements. The fair-value of derivatives are estimated by reference to published liquid price quotations for the relevant commodity. Where the derivative extends into illiquid periods, the valuation typically uses the "P50" median price curves (see Determination of long-term commodity prices and their use valuing long-lived assets). Judgement is required in all aspects of both the classifications and valuations. One of the Group's critical accounting judgements is that its LNG contracts are outside the scope of IFRS 9 because they are entered into for its own purchase and sale requirements ("own use").	The Committee noted that the Group's policy and methodologies in classifying and valuing energy derivatives were unchanged from previous periods. The Committee also reviewed and understood the breakdown by business, of the movement in IFRS 9 energy derivative valuations in the Group Income Statement. They reflected on the fact the Group is generally a net buyer of commodity and that the certain re-measurement derivative net gain of £1.3 billion (being £3.9 billion gain for UK Supply book trades, offset by £2.6 billion loss for Upstream, EM&T and other books) was predominantly a result of the increase in short-term commodity prices. The Committee noted the link between the derivative certain re-measurements for the UK supply books and the new onerous supply contract provision certain re-measurements, as discussed below. Further detail is provided in notes 1, 2 and 7 on pages 117 to 120 and 134 to 138. The Committee noted and continued to concur with the specific judgement around LNG contract own use classifications.
Onerous Energy supply contract provision The Group's residential and business energy supply contracts are accruals accounted. The Group operates and manages a hedging strategy to ensure that the future costs of supplying these customer portfolios are appropriately managed. These hedges are generally in the scope of IFRS 9 and are measured at fair value (see "Energy Derivatives – classification and valuation" above). They are recognised as certain re-measurements in the Group's income statement until the point at which the related costs to purchase electricity and gas are incurred. Following the substantial increase in near-term commodity prices, significant gains have arisen on these procurement hedges as they are marked-to-market. Because of this hedge value recognition, the assessment of whether the supply contracts are onerous must be calculated based on the cost of fulfilling these arrangements, including the reversal of previous mark to market gains. The Group determines that at the reporting date, the future costs to fulfil customer contracts including market-to-market reversals, will exceed the charges recovered from customers because the associated hedging gains have already been recognised in the income statement. The Group has recognised an onerous supply contract provision of £2.5 billion at the year-end date. This has been calculated by estimating the expected margins from energy supply customers, and deducting from this margin the expected costs to fulfil those arrangements, including energy purchase costs reflecting the mark to market gains, and directly attributable overhead costs. For customers where this results in a loss, an onerous contract provision is recorded. The movement in the onerous provision has been reflected as a certain re-measurement in the Income Statement because these supply contracts are economically related to the fair value movements on the hedges.	The Committee understood the rationale for including an onerous energy supply contract provision. The Committee observed that this was required because of the unprecedented movement in energy prices and that the onerous provision would expect to predominantly unwind in 2022. The Committee reviewed the key assumptions used in the calculation and noted the sensitivity to margin and customer churn assumptions. It noted the disclosures included in the financial statements to highlight this sensitivity. The Committee held discussions with the external auditor to confirm the appropriateness of the accounting treatment and to confirm their views of the assumptions used. Further detail is provided in notes 1, 2, 3 and 7 on pages 117 to 124 and 134 to 138.

Key judgements and financial reporting matters in 2021	Audit and Risk Committee reviews and conclusions
Classification and presentation of exceptional items and certain re-measurements The Group reflects its underlying financial results in the business performance column of the Group Income Statement. To be able to provide this in a clear and consistent presentation, the effects of certain re-measurements of financial instruments and onerous supply contract provisions, and exceptional items are reported separately in a different column in the Group Income Statement. The classification of items as exceptional and specific trades as certain re-measurements (see "Onerous energy supply contract provision" and "Energy Derivatives – classification and valuation" sections above) are subject to defined Group policies. These policies are reviewed annually by management. At the year-end, exceptional items included the impairments and reversals noted above, as well as a restructuring net credit predominantly from the reversal of a prior period over-provision of £14 million and a fair value gain of £15 million on a minority investment. Certain re-measurements totalled an overall c £1.2 billion loss – being £1.3 billion gain from derivatives and £2.5 billion loss from the onerous supply contract provisions.	The Committee had formally reviewed and approved the Group's policy on exceptional items in previous years and, in the current year, it used this policy to help inform the appropriateness of the proposed classifications. The Committee challenged the items classified as exceptional items, considering their size, nature and incidence and in the context of the Group policy. The Committee concluded that separate disclosure of these items as exceptional was appropriate in the Financial Statements. The Committee also noted that the Group policy on certain re-measurements had been updated to include the onerous supply contract provisions. It noted the link between these provisions and the derivatives associated with procuring downstream supply. Accordingly, the Committee agreed that this presentation continues to allow underlying performance to be reflected on a consistent and comparable basis. Further detail is provided in notes 1, 2, 3 and 7 on pages 117 to 124 and 134 to 138.
Energy supply revenue recognition The Group's revenue for energy supply activities includes an estimate of energy supplied to customers between the date of the last meter reading and an estimated year-end position. This is estimated through the billing systems, using historical consumption patterns, on a customer- by-customer basis, taking into account weather patterns, load forecasts and the differences between actual meter readings being returned and system estimates. An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits which will flow to the Group, including bill cancellation and re-bill rates. To the extent that the economic benefits are not expected to flow to the Group, revenue is not recognised. At the year-end, unread energy income for the continuing supply businesses was £1.7 billion (2020: £1.5 billion).	The Committee has reviewed the level of unread revenue and unbilled accrual made during the year and discussed with management and the external auditors. The Committee noted that the unread revenue and unbilled accrual had followed the same estimation process as in previous years and that the external auditors had independently reperformed this calculation to within an immaterial difference. More details of unread energy income are provided in note 3 on pages 121 to 124 and on unbilled energy income in note 17 on pages 153 to 159.
Pensions The assets and liabilities, and the cost 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. The net Group pension deficit was £nil (2020: £601 million). The UK defined benefit schemes used a nominal discount rate of 1.8% (2020: 1.5%) and inflation of 3.1% (2020: 2.8%).	The Committee noted the key pension assumptions and disclosures in the Financial Statements. The Committee also noted that the Group had removed a 15 basis point adjustment to the discount rate, thereby becoming marginally more conservative. All other key defined benefit assumptions were derived using a consistent year-on-year methodology. All rates remained within comparator range. The Committee recognised the role of the independent actuary, who are consulted on the appropriateness of the assumptions, and discussions were also held with the external auditors. Further details on pensions are set out in note 22 on pages 164 to 168.

Key judgements and financial reporting matters in 2021	Audit and Risk Committee reviews and conclusions
Credit Provisions for Trade and Other Receivables The IFRS 9 impairment model requires credit provisions ("bad debt") for trade and other receivables to be based on an expected credit loss model, as opposed to an incurred loss basis. The economic effects of the inflationary pressures on household income, not least energy prices, will likely impact the ability of the Group's customers to pay amounts due. Accordingly, there is significant judgement around the levels of forecast bad debt and the provisioning required at the year-end. The Group's residential and business energy supply customers account for the majority of Group's credit exposure (with balances associated with our trading business generally received within 30 days). Expected default rates in these areas are calculated initially on a matrix basis by considering recent historical loss experience, the nature of the customer, payment method selected and, where relevant, the sector in which they operate. Management have then also factored in forward looking economic assumptions, taking into account inflation and affordability forecasts. In the prior year, the Group increased its level of bad debt provisioning by £30m in response to the risks associated with COVID-19. In 2021, the deemed quality and relative aging of the Group's debt has improved compared with last year, reducing the underlying modelled provision output. High-level macroeconomic provisions have been maintained to cover inflationary concerns. For UK Downstream energy supply, the closing bad debt provision moved to 29% (2020: 34%) of UK energy supply gross receivables. Due to the significant estimation uncertainty in this area, management continue to provide detailed analysis and sensitivities in note 17 to the Annual Report and Accounts.	The Committee reviewed management's groupings of receivables by the key factors affecting recoverability (e.g. payment method, nature of customers) and considered the levels of provisions booked against each grouping, at the year-end. The Committee discussed the approach with the external auditors. The Committee were comfortable with the provisions booked, including the macroeconomic provisions, whilst noting the significant estimation uncertainty in this area. The Committee welcomed the enhanced disclosure in note 17, setting out the judgemental nature of the provisioning and the sensitivity analysis to allow users of the accounts to model different outcome scenarios.
Fair, Balanced and Understandable The Board is required to confirm that the Annual Report and Financial Statements are fair, balanced and understandable. To enable the Board to make this declaration, there is a year-end review process to ensure that the Committee and the Board have access to all relevant information, including management's papers on significant issues.	The Committee reviewed the key factors considered in determining whether the Annual Report is fair, balanced and understandable. The Committee and all Board members received a draft of the Annual Report and Financial Statements in sufficient time to review and challenge the disclosures therein. In addition, the Committee took into consideration the external auditor's reviews of the consistency between the reporting narrative of the Annual Report and the Financial Statements.
Ofgem Consolidated Segmental Statement The Group is required to prepare an annual regulatory statement (Consolidated Segmental Statement (CSS)) for Ofgem which breaks down our licensed activities for the financial year into a generation, domestic and non-domestic and electricity and gas result. The CSS is reconciled to our externally reported International Financial Reporting Standards Annual Report and Accounts. The Group publishes the CSS at the same time as the full year Annual Report and Accounts and the CSS is independently audited. In preparing the CSS, judgement is required in the allocation of non-specific costs between domestic and non-domestic and electricity and gas and the distinction between licensed and non-licensed activities.	The Committee reviewed the Ofgem Consolidated Segmental Statement and the key judgements and disclosures made in its preparation. The external auditor also provided a report on the work on the CSS and held discussions with the Committee. The full CSS and the independent audit opinion are set out on pages 225 to 236.

Nominations Committee

Dear Shareholder

On behalf of the Board, I am pleased to present the Nominations Committee report for 2021 which explains the Committee's focus and activities during the year.

This year the Committee focused on succession planning specifically on the membership of the Board and ensuring the Board is of the appropriate size and has the right composition as the Company builds for the future, as well the evaluation of the Board's effectiveness.

Role of the Committee

The Nominations Committee is responsible for ensuring that the Board and its Committees have the appropriate balance of skills, knowledge, and experience to effectively lead the Company both now and in the future. This is achieved through effective succession planning, reviewing Board composition and assessing training requirements for Board members.

In identifying and nominating candidates to fill Board vacancies, the Committee considers candidates from a wide range of backgrounds, assessing them on merit against objective criteria and with due regard for the benefits of diversity on the Board. The Committee embraces the importance of diversity and inclusion and supports the recommendations of the Hampton-Alexander and Parker Reviews in relation to gender and ethnic diversity respectively.

In line with the Board's Diversity Policy, adopted by the Board in July 2019, the Committee remains committed to enhancing the diversity of the Board, with broad search criteria used to encourage a diverse range of candidates. As at 31 December 2021, 50% of the Board and three out of five independent Non-Executive Directors (60%) were women. The Board comprised nationals of three different countries (the UK, Ireland and South Africa), with a wide range of backgrounds and experience. Further information on our Board can be found on pages 54 and 55.

The current Board composition meets the target ethnic minority representation set by the Parker Review. We are pleased with the progress that we have made. However, as a Committee we recognise that this is only one aspect in our strategy of achieving a diverse and inclusive business. In this respect, our senior leaders are also required to support our Board Diversity Policy in developing diversity in the business. Further information on the steps that the Company is taking to create a diverse workplace and develop the appropriate culture to enable all of our colleagues to achieve their full potential, together with information on the diversity and ethnicity of our management and colleagues is provided on pages 29 and 30.

The Committee reviews its Terms of Reference annually to ensure that they remain appropriate and the Committee continues to operate effectively.

Main activities for the Committee during 2021

During the year, the Committee met on four occasions and its main areas of focus were:

- the process for the selection and appointment of Kate Ringrose as Group Chief Financial Officer;
- the process for the selection and appointment of Raj Roy as Group General Counsel and Company Secretary;
- Board composition post-completion of the divestment of the Direct energy business in North America in January 2021;
- approach to Workforce Engagement; and
- Board Evaluation assessment (see page 58).

Board succession

It is the role of the Nominations Committee to ensure there is a formal procedure for the appointment of new Directors to the Board. The Committee is responsible for leading the succession planning process and making recommendations to the Board. The Committee, during the year, focused on the skills the Board required, to support the Company's goals and objectives. As part of its focus, the Committee considers the diversity of gender, cultural background and experience, within the Board. The Company is proud of the progress made so far. However, we recognise there is more work to be done to support our commitment to putting diversity, inclusion, care and respect at the heart of what we do.

Executive Directors

In January 2021, Johnathan Ford stepped down as Group Chief Financial Officer and Executive Director, leaving on 31 January 2021. In line with the succession plans in place, Kate Ringrose was appointed Group Chief Financial Officer with effect from 18 January 2021.

Non-Executive Directors

Centrica has a thorough and robust search process for the selection of new Non-Executive Directors. Except for Spencer Stuart, where Carol Arrowsmith was a member of its Advisory Group during 2021 and early 2022, there are no other connections between search firms, the Company and its individual directors. A shortlist of candidates is shared with the Committee, meetings are scheduled with Directors and members of management, and then once the candidates have been identified, and their ability to meet the necessary time commitment is confirmed, a recommendation is made to the Board.

To ensure that Directors will continue to have sufficient time to commit to their Centrica responsibilities, any additional external appointments taken up require advance approval by the Board. During the year, the Committee considered and approved Stephen Hester, appointment as chair of easyJet plc and lead independent director of Kyndryl Holdings, Inc.

Joan Gillman stood down as a Non-Executive Director with effect from 8 February 2021. On 7 January 2022, the Board announced the appointment of Amber Rudd, with effect from 10 January 2022. Spencer Stuart supported the search process for Amber who brings a wealth of experience in energy, policy and business, which will be invaluable as the Company faces the challenge of delivering net zero and helping our customers live more sustainably and affordably. In addition, through other roles she has held, including as Home Secretary and Secretary of State for Work and Pensions and Minister for Women and Equalities, she brings a diverse range of expertise which will complement the skills and capabilities of the existing Board and leadership team.

Committee memberships

The Nominations Committee comprises of five Non-Executive Directors and Scott Wheway as Chairman. The members of the Committee and their attendance for the year is reported on page 54. During the year, the Committee considered the composition of the Board and its committees, taking into account the skills and experience of Directors. The Committee was satisfied and did not recommend any changes to the membership of the Committees.

Effectiveness of the Committee

Read more about the Committee's effectiveness on page 58.

Scott Wheway
on behalf of the Nominations Committee
23 February 2022

Safety, Environment and Sustainability Committee

Dear Shareholder

On behalf of the Board, I present the Safety, Environment and Sustainability Committee (SESC) report for the year ended 31 December 2021 which explains the Committee's focus on, and activities relating to, a breadth of Health and Safety and wider ESG (Environmental, Social and Governance) matters during the year.

It was an important year for the SESC. As part of our review of the People & Planet Plan, we oversaw the development of Centrica's Climate Transition Plan, which sets out our ambition to become a net zero business by 2045 and to help our customers be net zero by 2050, whilst ensuring a fair and affordable transition for all.

Role of the Committee

The purpose of the Committee is to assist the Board in reviewing the practices and performance of Centrica with respect to safety, environment and broader sustainability. This is achieved through a regular and rigorous review of activities relating to the responsible and sustainable activities undertaken by the Company which includes significant incidents that impact safety, as well as key progress and performance against our People & Planet Plan. As part of its focus, the Committee also provides input to and review of the Company's annual reporting and disclosures.

The Committee regularly undertakes annual reviews of its terms of reference to ensure that they accurately reflect the role carried out by the Committee and that they take account of new external developments.

Committee memberships

The Committee is comprised solely of Non-Executive Directors with Heidi Mottram as Chair, and members include Pam Kaur and Scott Wheway. Amber Rudd became a member on 10 January 2022.

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

During the year, the Audit and Risk Committee Chair, the Remuneration Committee Chair, the Group Chief Executive, the Group General Counsel & Company Secretary and the Group Chief People Officer attended all Committee meetings, as did other key executives on relevant issues. The Committee met three times in 2021.

Main activities of the Committee during 2021

During the year, the Committee focused on ESG issues relevant to Centrica, as well as reviewing health and safety risks.

At the start of the year, the Committee oversaw the launch of Centrica's new People & Planet Plan. The People & Planet Plan was introduced to help create a more inclusive and sustainable future that supports communities, our planet and each other, in alignment with our purpose of 'helping you live sustainably, simply and affordably'. During the year, the Committee reviewed progress against the Company's climate targets as well as the stated diversity and inclusion and community goals (see pages 29 to 35).

With strong net zero goals in place via the People & Planet Plan, the goal of the Board and Management was to develop and adopt a climate transition plan for the business. The Committee has therefore engaged with, and reviewed, the Group's climate ambitions alongside the risks associated with the transition to net zero. The Committee also assessed the supporting scenario analysis. The Climate Transition Plan was subsequently published in October 2021 and supplements the progress we have already made to address environmental and sustainability areas that are critical to our stakeholders, and highlights where we are well placed to make the greatest difference (see pages 28 to 35).

The Committee takes an active role in supporting the Company with its disclosures and credentials. For example, following the announcement by the Chancellor of the Exchequer in 2020 regarding the UK's plan to be the first country in the world to make TCFD (Task Force on Climate-related Financial Disclosures) aligned disclosures mandatory across the economy by 2025, Centrica began reporting on this in its 2020 annual report and has enhanced disclosure further having fully complied with the framework in 2021 annual reporting and with the Listing Rules (see pages 33 to 35). The TCFD importantly provides information to investors about the action companies are taking to mitigate the risks of climate change, as well as be transparent about the way in which they are governed. To ensure we remain in-line with best practice as we move to net zero, the SESC supports Centrica's decision to join the UN's global campaign, 'Race to Zero'.

In support of these efforts to create a more inclusive and sustainable future, the Committee also reviewed the Company's role in, and contribution to, communities through its charitable partnerships (see page 31). The Committee additionally supported an enhanced Responsible Sourcing Strategy; continued its focus on the monitoring and improvement of the Company's reputation; reviewed the Company's approach to the Modern Slavery Act (MSA) and recommended the adoption of the MSA Statement to the Board.

As part of a key standing item on the agenda, the Committee furthermore maintained its focus on safety performance. This includes, improving the business' approach to benchmarking; understanding the root causes for any underperformance; and the associated remedial actions. The Committee expects to see the further impact, and benefit, of the remedial actions on Group health and safety performance in 2022.

The Committee considered stakeholders' views on various matters. In particular, customer insights regarding net zero; investor expectations on the Climate Transition Plan; and perspectives of Government and Regulators in respect of joining the Race to Zero.

Committee effectiveness

I believe the Committee has continued to perform effectively with renewed focus and enhanced responsibilities. Read more about our Committee's effectiveness on page 58.

Heidi Mottram
on behalf of the Safety, Environment and Sustainability Committee
23 February 2022

Read more about our safety performance on Pages 15 and 36

Read more about Our Code and the Speak Up helpline on Page 36 or centrica.com/ourcode

Read more about our People & Planet Plan's net zero goals on Pages 28 to 35

Remuneration Report

Dear Shareholder

This is my second Remuneration Report since joining the Board in June 2020. Last year I outlined the progress the Executives were making in starting to build the foundations to transform the Centrica business. This year, turning around our business against the backdrop of the ongoing COVID-19 pandemic, and an increasingly volatile energy market was never going to be easy, but I believe our leaders and colleagues have responded well to these challenges.

Reflecting on the year, it's pleasing to see the progress we've made to simplify and stabilise our company. We've materially strengthened the balance sheet, eliminating net debt by completing the Direct Energy disposal for £2.7bn and by focusing on operational cash generation. We took some big steps towards a simpler business model by continuing to delayer the organisation and by splitting the British Gas business into separate Services & Solutions and Energy businesses to allow better focus on the different challenges faced by each business.

We've also taken a major step towards moving away from exploration and production by agreeing the sale of the Norwegian assets in Spirit Energy in a way which removes a substantial element of decommissioning liabilities and keeps assets that may serve the UK on its green journey. This is a great example of delivering the right outcome for shareholders and wider stakeholders.

Modernising the complex legacy of colleagues' terms and conditions has proved the most challenging step in our transformation to date. The scale of change needed to permit more customer focussed ways of working was always going to be difficult. We sought to be fair and reasonable but recognise and regret the impact on some of our colleagues and customers.

Through this challenging year the Executive team has continued to promote quality engagement with our colleagues which is crucial to delivering our turnaround. We set ourselves a very stretching cumulative target of increasing engagement by 30 percentage points over three years. I am delighted that we have managed to increase engagement to 55% at the end of the fourth quarter, an increase of 13 percentage points. Our target remains to get to 70% by the end of 2023.

It was also pleasing to see that over 2021, the company's total shareholder return grew significantly, rising by 53% compared to the FTSE 100 index increasing 18% over the same time period, as all the various changes start to restore the company's value.

Performance outcomes for the year

The Centrica leadership team has navigated a volatile wholesale market, rescuing over 700,000 customers from failed suppliers, whilst continuing to face the disruption caused by the global pandemic. The assessment of annual performance for this team is 75% based on business performance and the remaining 25% based on strategic and individual targets. The business element for the year was split equally between a financial target, earnings per share (EPS), and the outcome of the balanced business scorecard. EPS for 2021 was 4.1p which was the level set by the Committee for maximum achievement. The balanced scorecard has 9 financial measures and 6 strategic measures – of these 15 measures, 12 were met and 3 were missed.

Despite the raw numbers supporting a higher number, management and the Committee agreed that a downward adjustment was appropriate, given the uplift from higher commodity prices. Therefore, the Committee has agreed the group performance outcome is between target and maximum. This results in an outcome for the Executive Directors of 150% of maximum for the financial element of the annual bonus plan.

Two Executive Directors were eligible to be considered for a bonus payment in respect of 2021, the Group Chief Executive, Chris O'Shea and the Group Chief Financial Officer, Kate Ringrose.

Our Group Chief Executive, Chris O'Shea, has driven the performance of the business and the Board considered that he had performed exceptionally well throughout 2021. In addition to the achievements set out above, Chris has been instrumental in reshaping the business, divesting Direct Energy at the beginning of the year and progressing the planned disposal of Spirit Energy's Norwegian business towards the end of the year. This has allowed Chris to focus on the core businesses, establishing a new leadership team who will drive performance in the remaining businesses through 2022. Chris has also played a key role working with stakeholders to ensure the smooth transition of customers from failing suppliers. Based on an assessment of personal objectives over the year which covered leadership, balance sheet stability, repositioning the remainder of the portfolio and driving a performance culture, the Committee determined that an outcome of above target, at 150%, under the personal objectives element of the annual bonus was appropriate.

Our Group Chief Financial Officer, Kate Ringrose, has settled into her new role well in what has been a very volatile year, building on her deep, detailed knowledge of the business. She has been a key contributor to the leadership team and has done well in establishing herself as a credible CFO both with the Board and the financial markets. Kate's enthusiasm, willingness to listen, and ability to act on feedback augurs well for 2022.

Based on an assessment of personal objectives over the year which covered leadership, building strength in the finance function, ensuring the balance sheet finished the year in a strong position maintaining the credit rating and pension covenant ratings, Kate performed strongly. Active management of credit and cash flexibility have been used to good effect in the volatile commodity environment and the Committee determined that an outcome of above target, at 125%, under the personal objectives element of the annual bonus was appropriate.

Upon careful consideration, and review of the external environment including the increasing energy costs to our customers, Chris has decided that his own bonus should not be paid given the hardships faced by our customers. The Committee and I would like to thank Chris for this selfless act. This is particularly commendable as he earned a bonus for 2019 that was not paid as the pandemic emerged and he would have been entitled to a payment last year in respect of 2020 which was also not paid.

However, it is important to recognise that this is not sustainable and the Committee is clear that if performance justifies a bonus in the coming year it is our intention to pay that bonus.

Long Term Incentive Plan (LTIP) 2019-2021

For the third year in succession, the Committee exercised its discretion to reduce to zero the overall vesting of the 2019-2021 LTIP award as, although a number of the non-financial KPI targets had been achieved, the financial measures were not met over the three-year performance period.

New Executive Remuneration Policy

In last year's letter to shareholders, I noted that it was our intention to submit a Policy for approval at the 2021 AGM that was largely unchanged, with the exception of small changes to reflect the UK Code requirements and a better alignment of our Policy with best practice. I am pleased that we received a vote in favour of this Policy of over 94%. We committed to conduct a thorough review of remuneration for the Executive Directors and the senior leadership team during 2021 and to seek approval for a new Policy at the 2022 AGM.

Over the past year, the Committee has undertaken a detailed review of Executive Director remuneration, in particular the long-term incentive structure.

At the outset the Committee considered a number of alternative long-term remuneration structures. Over the summer, we carried out an initial consultation with our major shareholders. To ensure we received appropriate input as we determined the best approach, we included all the models but guided our shareholders to two principal models for the long-term incentive. These were: retaining the current structure of long-term share awards with a three-year performance period and a maximum award of 300% of salary for the Group Chief Executive or introducing a restricted share plan with annual awards of up to 150% of salary for the Group Chief Executive. The latter would provide an exceptional application of discretion to avoid the circumstances of a full payment when the experience of stakeholders was very poor. The conversations with shareholders were immensely helpful to guide our decision-making process and I am very grateful for all the views provided.

A number of our shareholders are keen advocates of the use of restricted shares providing the important design considerations around a reduction in quantum of 50% and an acceptable vesting and holding period are applied.

We believe that this needs to be coupled with an accelerated build-up of shareholding where the Executive Directors would be required to hold all incentive shares, post-tax, until their shareholding requirement was reached. The shareholding requirements themselves are set at levels above the value of an allocation of shares and above market practice for businesses of our size.

Having taken into account the input provided by our major shareholders during our initial consultation, the Committee determined that a Restricted Share Plan (RSP) was the most appropriate structure for Centrica's Executive Directors going forward.

After further work and consideration, the Committee refined the proposed Policy detail and in November, we provided a more final version of our proposals to our major shareholders for their input and feedback. We, once more, received very helpful contributions to allow us to progress and finalise the Policy.

Proposed long-term incentive structure

It is proposed that the RSP will vest over three years, subject to a performance underpin framework, with a further two year holding period.

Our rationale for this approach is:

- As we restore shareholder value and work to deliver growth in both customers and profit, the RSP would ensure a large proportion of our executives' pay is based on direct and uninhibited share price movement. The simplification of pay in this manner also aligns to our overall strategic goal of simplification across all aspects of the business.
- Potential pay-outs from restricted shares are far less variable than conventional long-term incentives. We believe this is more appropriate given the regulatory environment within which Centrica operates with a more limited acceptable range of performance outcomes than in many other companies.
- The next few years are likely to represent significant uncertainty for the business, as we continue to reshape, re-prioritise and drive towards net zero. Setting long-term performance targets within this context that appropriately accommodate this volatility and uncertainty will be very challenging.
- We operate an RSP for our colleagues below senior management and this approach therefore creates alignment between our Executive Directors and our senior colleagues.

It is proposed that vesting be contingent on the satisfaction of a discretionary underpin, assessed over a three-year period.

In assessing the underpin, the Committee will consider the Company's overall performance, including financial and non-financial performance measures over the course of the vesting period, as well as any material risk or regulatory failures identified. Financial performance will include elements such as revenue, profitability, shareholder experience and return on capital. Non-financial performance will include a range of operational and strategic measures critical to the Company's long-term sustainable success and progress towards our Climate Transition Plan.

Other changes to the Remuneration Policy

The Committee proposes to make the following changes to shareholding requirements to further increase alignment between our Executive Directors and shareholders:

- Executive Directors will be required to hold 100% of vested incentive shares until the shareholding requirement is met, increased from 75% under the current Policy. The current shareholding requirement of 300% of salary for the Group Chief Executive is above comparative market levels but will remain as is. The shareholding requirement for the Group Chief Financial Officer will be set at 200% of salary.
- The post-employment shareholding requirement will be increased to 100% of the in-role shareholding requirement (or actual shareholding on departure if lower) for a period of 2 years post-employment, increased from 50% in the current Policy.
- Only shares earned from vested incentives will be included within the post-employment shareholding requirement so as not to disincentivise Executives from purchasing additional shares in the company.

We believe the proposed changes to our Policy are in the best interests of our shareholders and will allow us to appropriately motivate and recognise executive performance within the context of the challenges ahead of us, whilst ensuring that their experience is aligned to yours.

The Committee is dedicated to an open and transparent dialogue with our shareholders and therefore I welcome views on any part of our remuneration arrangements.

Carol Arrowsmith
on behalf of the Remuneration Committee
23 February 2022

Role of the Remuneration Committee

The role of the Committee continues to be ensuring that the Directors, the Senior Executive Group and the Chairman of the Board are appropriately rewarded, through making recommendations regarding remuneration policy and framework. The Terms of Reference further extend the Committee's remit to include greater responsibility for understanding how pay and conditions align across the Group.

The Committee monitors and reviews the effectiveness of the Remuneration Policy and considers its impact and compatibility with remuneration policies across the wider workforce. To facilitate this remit, the Committee is provided with information and context on pay, benefits and incentive structures in place across the Group to support its decision-making.

Membership and attendance

The Committee is chaired by Carol Arrowsmith, an Independent Non-Executive Director. Each member of the Committee is independent. No Director is involved in the determination of, or votes on, any matters relating to his or her own remuneration.

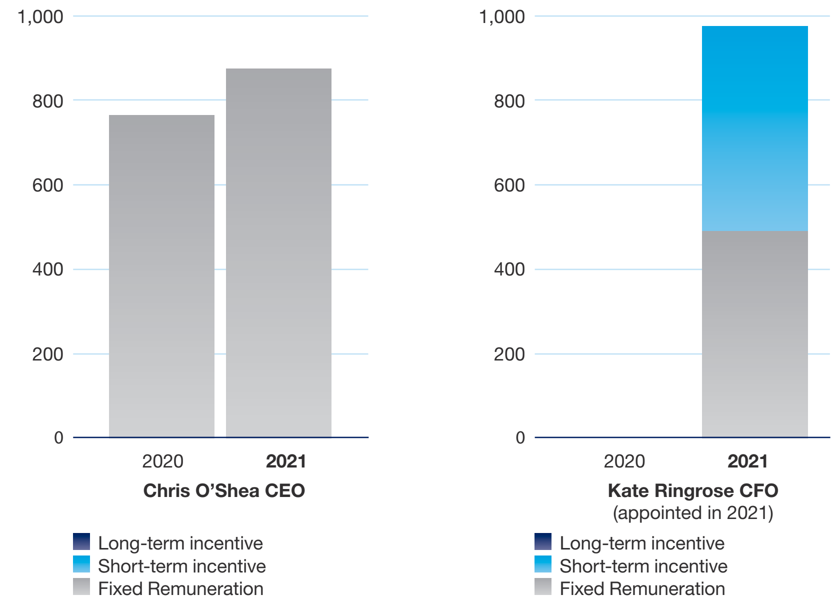
The Chairman of the Board, the Group Chief Executive, the Chief People Officer and the Group Head of Reward are normally invited to attend each Committee meeting to provide advice and guidance, other than in respect of their own remuneration.

Directors' Annual Remuneration Report

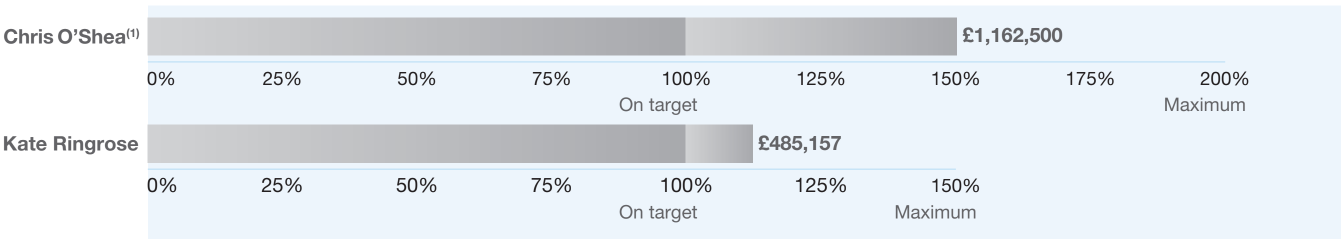
Directors' remuneration in 2021

This report sets out information on the remuneration of the Directors for the financial year ended 31 December 2021.

Summary of total remuneration received in 2020 and 2021 (£000)



Annual Incentive Plan Outcomes for 2021



(1) As disclosed on page 71 and 72, after careful consideration, Chris O'Shea has decided that his own bonus should not be paid given the hardships faced by our customers.

Single figure for total remuneration (audited)

Executives £000	Salary/ fees	Bonus (cash)	Bonus (deferred)	Benefits(1)	LTIPs(2)	Pension(3)(4)	Total	Total fixed remuneration	Total variable remuneration
2021									
Chris O'Shea	**775**	**–**	**–**	**18**	**–**	**82**	**875**	**875**	**–**
Johnathan Ford(5)	**24**	**–**	**–**	**1**	**–**	**2**	**27**	**27**	**–**
Kate Ringrose(6)	**432**	**243**	**243**	**15**	**–**	**44**	**977**	**491**	**486**
Total	**1,231**	**243**	**243**	**34**	**–**	**128**	**1,879**	**1,393**	**486**
2020									
Chris O'Shea	659	–	–	25	–	81	765	765	–
Johnathan Ford(5)	275	–	–	10	–	28	313	313	–
Kate Ringrose(6)	–	–	–	–	–	–	–	–	–
Total	934	–	–	35	–	109	1,078	1,078	–

(1) Taxable benefits include car allowance, health and medical benefits. Non-taxable benefits include matching shares received under the Share Incentive Plan (SIP). Both taxable and non-taxable benefits are included in the table.
(2) The LTIP award for the 2019-21 performance period will lapse. Further details are set out on page 76.
(3) Notional contributions to the Centrica Unapproved Pension Scheme defined contribution section (CUPS DC) for Chris O'Shea and Kate Ringrose have been included in this table as if CUPS DC was a cash balance scheme. This includes a deduction in respect of an allowance for CPI inflation on the opening balances of 0.7% in 2021 (1.5% in 2020).
(4) Johnathan Ford received a salary supplement in lieu of a pension contribution, of 10% of base salary.
(5) Johnathan Ford stepped down from the Board on 18 January 2021.
(6) Kate Ringrose was appointed to the Board on 18 January 2021.

Single figure for total remuneration (audited)

£000	Salary/fees 2021	Salary/fees 2020	Total 2021	Total 2020
Non-Executives				
Scott Wheway	**410**	343	**410**	343
Carol Arrowsmith	**93**	51	**93**	51
Joan Gillman[1]	**10**	93	**10**	93
Stephen Hester	**93**	93	**93**	93
Pam Kaur	**73**	73	**73**	73
Heidi Mottram	**93**	73	**93**	73
Kevin O'Byrne	**98**	98	**98**	98
Total	**870**	824	**870**	824

(1) Joan Gillman stepped down from the Board on 8 February 2021.

Payments for loss of office (audited)

No payments for loss of office were made in 2021.

Base salary/fees

Base fees for the Group Chief Executive (CEO) and the Group Chief Financial Officer (CFO) were reviewed by the Committee in February 2022. At that time, the expected average level of salary increases across the wider UK workforce was 2.5% with some restrictions in place for colleagues who were currently paid above the median of the salary range for their job profile, or for collective colleagues who were currently paid above the payspine rate for their role.

Taking into consideration the increases across the wider workforce, and salary benchmarking data for similar Executive roles commensurate in size and complexity with Centrica, the Committee determined that the salary for the CEO would be increased by 2.5% to £794,375 and the salary for the CFO would be increased by 2.5% to £461,250.

Non-Executive Director fee levels were reviewed in December 2021 and it was agreed that no changes would be made to the base fees or the Committee Chairman fees.

Base fees for Non-Executives were last increased on 1st January 2016 and will continue to be reviewed at least every two years.

Bonus – Annual Incentive Plan (AIP)

In line with the Remuneration Policy, 75% of the award was based on a mix of financial measures based on Centrica's priorities for 2021 and 25% was based on strategic and personal objectives.

The Committee agreed that half of the financial performance measures for 2021 would be based on an Earnings per Share (EPS) target with a defined threshold, target and maximum, as follows:

	Threshold	Target	Max	Outcome
EPS	2.1p	3.1p	4.1p	4.1p

The EPS outcome was 4.1p which was the level for maximum achievement set by the Committee.

In addition, the Committee agreed a balanced scorecard for the remaining financial element of the annual bonus plans plus additional measures to be considered in the determination of individual strategic objectives for the AIP. It was agreed that there would be no formula to translate the scorecard to a bonus outcome and no formal weighting of individual measures. Instead, the Committee, with management, would consider the overall outcome against the balanced scorecard to determine the remaining half of the financial measures for the AIP.

The balanced scorecard of measures, targets and outcomes were as follows:

	Measure	Target	Outcome	
Group	Adjusted Operating Profit	£522m	£948m	▲
	Free Cash Flow	£633m	£873m[1]	▲
	Net (Debt)/ Cash	£(726)m	£680m	▲
	Credit Rating	Maintain credit rating required to support business activities	Maintained and negative watch removed	▲
Bord Gáis	Cost to serve	€84 per customer	€90	▼
BG S&S	Cost per customer	£329 per customer	£338	▼
BG Energy	Cost to serve	£101 per customer	£93	▲
CBS	Order Intake	£463m	£490m	▲
EM&T	Opex: GM Ratio	60%	52%	▲

(1) Free cash flow has been adjusted downwards to reflect tax payable in 2022 for 2021 profits, relating to the upstream business.

The Committee carefully considered the maximum result against the EPS target, and the achievement of the majority of the balanced scorecard measures, and determined that a downward adjustment to the overall outcome was appropriate, given the uplift received from higher commodity prices. Therefore, the Committee agreed that the group performance outcome would be halfway between target and maximum.

Each Executive had a set of stretching personal objectives which included key non-financial performance indicators (KPIs) that were critical to the success of the business in 2021. The KPIs were cascaded to the business and functional leaders to ensure a strong line of sight to key priorities through the organisation. The KPI metrics and outcomes were as follows:

Measure	Targets	Outcome	
Customer numbers	9,778,000 unique customers	10,067,000 unique customers	▲
Colleague engagement	Improve by 10 percentage points	Up 13 percentage points	▲
Transformation	Successfully conclude the Terms and Conditions change and the industrial relations dispute	Successfully concluded albeit with some industrial action	▲
Transformation	Progress the migration of UK energy customers from SAP to the new energy platform	Migration paused due to planning issues	▼
Pension Valuation	Progress the 2021 Triennial Pension Valuation in a way which balances the interests of the Company, members and pensioners	Good progress made	▲
M&A	Deliver M&A programme in a way that maximises value for the Company and advances the strategic simplification of Centrica	Completion of Direct Energy and Peterborough Power Station Sale and progress on delivery of Spirit transaction	▲

Governance

In addition to the performance set out above, Chris O'Shea has been instrumental in reshaping and simplifying the business. He has established a new leadership team that will drive performance in the remaining core businesses through 2022 and beyond. Chris has also played a key role working with stakeholders to ensure the smooth transition of customers from failing suppliers. Based on an assessment of achievement against strategic and personal objectives during the year, including leadership, balance sheet stability and driving a performance culture, the Committee determined that an outcome of above target, at 150% of maximum, under the personal objectives element of the annual bonus was appropriate. The overall bonus outcome for the CEO was therefore a payment of £1,162,500. As reported in the Chairman's letter, Chris has decided that this bonus should not be paid given the hardships faced by our customers as a result of the increasing energy costs.

Kate Ringrose has quickly established herself as a credible CFO both with the Centrica Board and the financial markets. During the year she strengthened the finance function, ensuring the balance sheet finished the year in a strong position and credit ratings were maintained. The management of cash and credit flexibility were optimised in the volatile commodity environment. Based on an assessment of achievement against strategic and personal objectives during the year, the Committee determined that an outcome of above target, at 125% of maximum, under the personal objectives element of the annual bonus was appropriate. The overall bonus outcome for the CFO was therefore a payment of £485,157.

Long-term incentive awards due to vest in 2022

Performance conditions

The performance conditions relating to the three-year period ending in 2021 are set out below, together with an explanation of the achievement against these performance conditions. Vesting between stated points is on a straight-line basis.

Financial targets and outcomes

Measures	Weightings	Targets Threshold (25%)	Targets Maximum (100%)	Outcomes
Relative Total Shareholder Return (TSR)	33.3%	FTSE 100 median	FTSE 100 upper quartile	Below median
Underlying adjusted operated cash flow (UAOCF) growth	22.2%	CAGR 2%(1)	CAGR 5%(1)	-13.9%
Absolute aggregate Economic Profit (EP)	22.2%	£1,625m	£2,125m	£673m
Non-financial KPI improvement	22.2%	See below	See below	See below

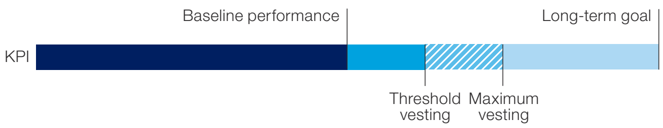
(1) Compound annual growth rate.

Centrica's TSR during the three-year performance period was -49.8%, compared with the required threshold level of 19.9%, therefore the TSR portion of the LTIP award granted in 2019 will not vest.

Both the UAOCF growth and the absolute aggregate EP threshold targets were not met and therefore these two portions of the LTIP award granted in 2019 will not vest.

Non-financial KPI targets and outcomes

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



For each LTIP cycle we expect the KPI performance gap to close by 25% for threshold vesting and 50% for maximum vesting. The KPI measures, targets and outcomes for the 2019-21 cycle were:

	Baseline performance 2021	Targets Threshold	Targets Maximum	Targets Long-term goal	Outcomes
Safety					
Total recordable injury frequency rate (TRIFR)(1)	**1.04**	0.85	0.45	0.25	1.07
Tier 1 and Tier 2 process safety event frequency rate(1)	**0.00**	0.073	0.065	0.05	0.20
Customer satisfaction Aggregate brand NPS across our customer businesses weighted by customer numbers	**+8.7**	+16.33	+17.55	+16	+13.0
Complaints per 100,000 customers across our customer businesses weighted by customer accounts	**3,040**	3,041	2,653	2,159	4,929
Colleague engagement (percentage favourable)	**41**	51.5	60.0	77	55

(1) Per 200,000 hours worked.

Overall performance outcome

Although a number of the non-financial KPI targets were achieved over the three-year period, the Committee exercised its discretion to reduce to zero the overall vesting of the 2019-21 LTIP award as the financial measures were not met over the performance period against each measure.

Pension

In 2020, it was agreed that the pension contributions for the new and existing Executive Directors would be 10% of base salary to align them with the wider UK workforce. In 2021 the average pension contribution rate was 10-13% of base salary.

Chris O'Shea and Kate Ringrose participated in the Centrica Unapproved Pension Scheme defined contribution section (CUPS DC).

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

CUPS DC Scheme[1]	**Total notional pension fund as at 31 December 2021 £**	Total notional pension fund as at 31 December 2020 £
Chris O'Shea[1]	**312,710**	229,466
Kate Ringrose[1][2]	**43,670**	–

(1) The retirement age for the CUPS DC scheme is 62.
(2) Kate Ringrose joined on 18 January 2021.

Executive Director recruitment and terminations

Johnathan Ford

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

Kate Ringrose

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

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

The table below shows the interests in the ordinary shares of the Company for all Directors on the Board at 31 December 2021.

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

Executive Directors have a period of five years from appointment to the Board, or from any material change in the minimum shareholding requirement, to build up the required shareholding. Given the remuneration decisions that have been taken over the past three years, the Committee recognises that achieving the level of shareholding, at 300% of salary, is challenging.

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

	Shares owned as at 31 December 2020[1]	**Shares owned as at 31 December 2021[1]**	Minimum shareholding guideline (% of salary)	**Achievement as at 31 December 2021 (% of salary)[2]**	**Shares owned (subject to continued service) as at 31 December 2021[3]**
Executives					
Chris O'Shea[4]	489,251	**580,574**	300	**54**	**792**
Kate Ringrose[4]	–	**40,796**	300	**6**	**792**

	Shares owned as at 31 December 2020[1]	**Shares owned as at 31 December 2021[1]**
Non–Executives		
Scott Wheway	110,187	**110,187**
Carol Arrowsmith	–	**49,286**
Stephen Hester	20,700	**20,700**
Pam Kaur	–	**–**
Heidi Mottram	–	**–**
Kevin O'Byrne	40,000	**40,000**

(1) These shares are owned by the Director or a connected person and they are not, save for exceptional circumstances, subject to continued service or the achievement of performance conditions. They include for Executives shares purchased in April 2019 with deferred AIP funds which have mandatory holding periods of three years and which will be subject to tax at the end of the holding periods.
(2) The share price used to calculate the achievement against the guideline was 71.50 pence, the price on 31 December 2021.
(3) Shares owned subject to continued service include SIP matching shares that have not yet been held for the three-year holding period.
(4) During the period from 1 January 2022 to 10 February 2022 both Chris O'Shea and Kate Ringrose acquired 435 shares through the SIP.

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

The table below shows the performance share awards that were granted in respect of 2020 and 2021 to Executive Directors under the LTIP. These awards are subject to the achievement of Company performance conditions before vesting and there is a mandatory two-year holding period following the vesting date before the shares can be released.

	Plan	Number of shares	Basis of award % of salary	Face value of award £000	Vesting date	Release date
Chris O'Shea	LTIP	3,522,471	250%	1,938	May 2024	May 2026
	LTIP	4,431,948	300%	2,325	June 2024	June 2026
Kate Ringrose	LTIP	1,501,143	175%	788	June 2024	June 2026

Share awards granted in respect of 2021 (audited)

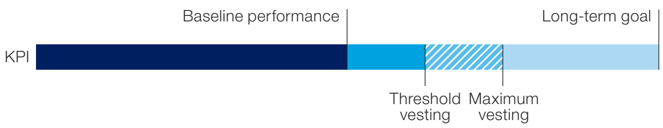
The following targets will apply to the LTIP awards for the three-year performance period 2021-23.

		Targets	
Measures	Weightings	Threshold (25%)	Maximum (100%)
TSR	33.3%	median	upper quartile
Cumulative EPS	22.2%	7.5p	10.5p(1)
Cash conversion	22.2%	EBITDA to OCF of 85%	EBITDA to OCF of 100%
Non-financial KPI improvement	22.2%	See below	See below

(1) 3 year cumulative EPS

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

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



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

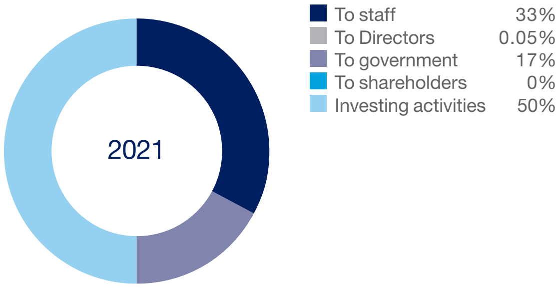
The KPI measures and targets are:

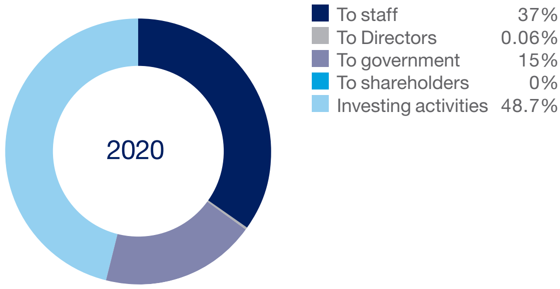
		Targets		
	Current performance	Threshold	Maximum	Long-term goal
Safety				
Total recordable injury frequency rate (TRIFR)(1)	**1.03**	0.85	0.65	0.25
Customer satisfaction				
Aggregate brand NPS across our customer businesses weighted by customer numbers	**+8.69**	+10.52	+12.35	+16
Complaints per 100,000 customers across our customer businesses weighted by customer accounts	**3,040**	2,820	2,600	2,159
Colleague engagement	**41%**	45%	54%	77%

(1) Per 200,000 hours worked.

2021 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 0.05% (2020: 0.06%) of the Group's operating cash flow.





Annual percentage change in remuneration of directors and employees

The table below shows the percentage changes (on a full-time equivalent basis) in the Executive and Non-Executive Directors' remuneration between the financial years ended 31 December 2020 and 31 December 2021 compared to the amounts for full-time employees of the Group for each of the following elements of pay:

	Percentage change from 2019 to 2020			Percentage change from 2020 to 2021		
Executive Directors	Salary/fees	Benefits	Bonus	Salary/fees	Benefits	Bonus
Chris O'Shea(1)	6.3	0	0	0	-28.0	0
Kate Ringrose(2)	–	–	–	–	–	–
Non-Executive Directors						
Scott Wheway	268.8	–	–	0	–	–
Carol Arrowsmith	–	–	–	0	–	–
Joan Gillman	0	–	–	0	–	–
Stephen Hester	0	–	–	0	–	–
Pam Kaur	0	–	–	0	–	–
Heidi Mottram(3)	–	–	–	27.8	–	–
Kevin O'Byrne	0	–	–	0	–	–
Average per employee (excluding Directors)(4)	0	1.1	236.4	1.77	-10.27	16.25

(1) Chris O'Shea was appointed to the Centrica Board as Group Chief Financial Officer on 1 November 2018 and became interim Group Chief Executive with effect from 17 March 2020. He was appointed as Group Chief Executive on 14 April 2020. From 17 March until 31 December 2020, he elected to waive £100,000 of his salary.
(2) Kate Ringrose was appointed as Group Chief Financial Officer on 18 January 2021.
(3) Heidi Mottram was appointed SESC Chair on 1 January 2021.
(4) The comparator group includes all management and technical or specialist employees based in the UK in Level 2 to Level 6 (where Level 1 is the Executive and Non-Executive Directors). There are insufficient employees in the Centrica plc employing entity to provide a meaningful comparison. The employees selected have been employed in their role for full years to give meaningful comparison. The group has been chosen because the employees have a remuneration package with a similar structure to the Executive Directors, including base salary, benefits and annual bonus. The increase in the benefits between 2019 and 2020 represents the increase in the healthcare plan costs. The increase in the bonus between 2019 and 2020 is due to the fact that cash bonuses relating to 2019 for non-customer facing employees were cancelled. The bonus number relating to 2021 is an estimate of the payments due to be made in March/April 2022.

Governance

The chart below shows the ratio of remuneration of the CEO to the average UK employee of the Group.

CEO pay ratio	25th percentile	50th percentile	75th percentile
2021	29:1	24:1	15:1
2020	32:1	15:1	14:1
2019	34:1	29:1	22:1
2018	72:1	59:1	44:1

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

The Company has used its gender pay gap data (Option B in the Directors' Reporting Regulations) to determine the employees whose remuneration packages sit at the lower, median and upper quartile positions across the UK workforce. This is deemed the most appropriate methodology for Centrica given the different pension and benefit arrangements across the diverse UK workforce. To ensure this data accurately reflects individuals at each quartile position, a sensitivity analysis has been performed. The approach has been to review the total pay and benefits for a number of employees immediately above and below the identified employee at each quartile within the gender pay gap analysis.

The annual remuneration for the three identified employees has been calculated on the same basis as the CEO's total remuneration for the same period in the single figure table on page 74 to produce the ratios.

The ratios in 2021 are broadly in line with the ratios for 2020. The 25th percentile is now mainly customer experience roles as the engineer roles previously at this level have moved to the median which has meant a change at both the 25th percentile and 50th percentile.

Pay for performance

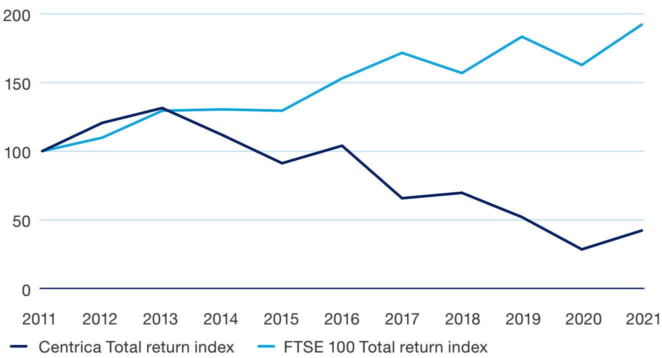
The table below shows the CEO's total remuneration over the last ten years and the achieved annual short-term and long-term incentive pay awards as a percentage of the plan maximum.

	Chief Executive single figure for total remuneration £000	Annual short-term incentive payout against max opportunity %	Long-term incentive vesting against max opportunity %
Chris O'Shea			
2021	875	0	0
2020	765	0	0
Iain Conn			
2020	239	0	0
2019	1,186	0	0
2018	2,335	41	18
2017	1,678	0	26
2016	4,040	82	0
2015	3,025	63	0
Sam Laidlaw			
2014	3,272	34	35
2013	2,235	50	0
2012	5,709	61	67

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

The performance graph below shows Centrica's TSR performance against the performance of the FTSE 100 Index over the 10-year period to 31 December 2021. The FTSE 100 Index has been chosen as it is an index of similar-sized companies and Centrica has been a constituent member throughout the majority of the period.

Total return indices – Centrica and FTSE 100



Source: Datastream from Refinitiv

Fees received for external appointments of Executive Directors

There were no fees received for external appointments. Kate Ringrose represented Centrica as a non-executive director of EDF Energy Nuclear Generation Group Limited and Lake Acquisitions Limited. She received no fees or remuneration relating to these external appointments in 2021.

Relative importance of spend on pay

The table below shows the percentage change in total remuneration paid to all employees compared to expenditure on dividends and share buyback for the years ended 31 December 2020 and 2021. There are no share buyback arrangements.

	2021 £m	2020 £m	% Change
Dividends	**0**	0	0
Staff and employee costs[1]	**1,247**	1,577	-21

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

Payments to past Directors (audited)

During 2021, no payments were made to past Directors with the exception of the payments disclosed in the single figure for total remuneration table on page 74.

Advice to the Remuneration Committee

Following a competitive tender process, PwC was appointed as independent external adviser to the Committee in May 2017.

PwC also provided advice to Centrica globally during 2021 in the areas of employment taxes, regulatory risk and compliance issues and additional consultancy services.

PwC's fees for advice to the Committee during 2021 amounted to £166,150 which included the preparation for and attendance at Committee meetings. The fees were charged on a time spent basis in delivering advice that materially assisted the Committee in its consideration of matters relating to executive remuneration.

The Committee takes into account the Remuneration Consultants Group's (RCG) Code of Conduct when dealing with its advisers. PwC is a member of the RCG and the Committee is satisfied that the advice it received during the year was objective and independent and that the provision of any other services by PwC in no way compromises their independence.

Statement of voting

Shareholder voting on the resolutions to approve the Directors' Remuneration Policy, and the Directors' Remuneration Report, put to the 2021 AGM, was as follows:

Directors' Remuneration Policy

Votes for	%	Votes against	%
3,452,985,721	94.30	208,890,057	5.70

38,449,626 votes were withheld.

Directors' Remuneration Report

Votes for	%	Votes against	%
3,516,916,505	95.16	178,887,714	4.84

4,457,830 votes were withheld.

Implementation in the next financial year

Base salaries for Executive Directors were reviewed in February 2022 and the Committee determined that an increase of 2.5% would be applied to the salary of the Group Chief Executive and the Group Chief Financial Officer on 1st April 2022. This aligns with increases being awarded across the wider workforce.

AIP awards will be in line with the limits set out in the Remuneration Policy table, not exceeding 200% of base salary. At least 75% of the award will be based on a mix of financial measures based on Centrica's priorities for the forthcoming year and up to 25% will be based on strategic and personal objectives. The financial targets will align with the Group Annual Plan.

The targets are considered commercially sensitive until the end of the financial year and will therefore be disclosed retrospectively in the Remuneration Report for 2022.

Subject to the approval of the new Remuneration Policy, set out on pages 82 to 94, at the AGM in 2022, Restricted Share Plan (RSP) awards will be granted to the Executives. It is proposed that the awards will be 150% of salary for the Group Chief Executive and 125% of salary for the Group Chief Financial Officer.

While our previous policy stated the maximum opportunity under the Long-Term Incentive Plan (LTIP) was 300% of salary for all Executive Directors, in practice, in both 2018 and 2019, CFO LTIP awards were 250% of annual salary. In 2020 there was no incumbent at the point of grant.

When our CFO came into role the first LTIP award granted in 2021 of 175% of salary was set at a level below market and below historic Centrica CFO levels. Had we proposed to retain the LTIP, the Committee intended to return to the historic approach to the LTIP award level of 250% of salary. To this end, the Committee determined the 50% discount be applied to this award level resulting in a RSP award level of 125% of salary.

The RSP awards will vest after three years, subject to a performance underpin, with an additional two-year post-vesting holding period.

It is proposed that vesting will be contingent on the satisfaction of a discretionary underpin, assessed over a three-year period. In assessing the underpin, the Committee will consider the Company's overall performance, including financial and non-financial performance measures over the course of the vesting period, as well as any material risk or regulatory failures identified. Financial performance will include elements such as revenue, profitability, shareholder experience and return on capital. Non-financial performance will include a range of operational and strategic measures critical to the Company's long-term sustainable success.

For the 2022 award, the factors that the Committee will consider include, but are not limited to the following:

- a review of overall financial performance over the three-year vesting period;
- whether there have been any sanctions or fines issued by a Regulatory Body (participant responsibility may be allocated collectively or individually);
- whether a major safety incident has occurred which may or may not have consequences for shareholders;
- whether there has been material damage to the reputation of the Company (participant responsibility may be allocated collectively or individually);
- whether there has been failure to make appropriate progress against our Climate Transition Plan which sets out our ambition to be a net zero business by 2045 and help our customers be net zero by 2050;
- return on capital with reference to the cost of capital;
- TSR performance over the vesting period, including with reference to the wider energy sector;
- management of customer numbers over the vesting period; and
- progress against broader ESG commitments.

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

Raj Roy
Group General Counsel & Company Secretary
23 February 2022

Director's Remuneration Policy

The Centrica Remuneration Policy was last approved by shareholders at the 2021 AGM. This was largely unchanged from the Policy approved in 2018, however at that time we indicated our intention to conduct a thorough review of remuneration for the Executive Directors and the senior leadership team during 2021.

This section contains Centrica's proposed Directors' Remuneration Policy (Policy) that will govern and guide the Group's future remuneration payments. The Policy described in this section is intended to apply for three years, subject to shareholder approval at Centrica's 2022 AGM.

Objectives of the Policy

The proposed 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.

Key changes to the Policy

In reviewing the Policy, the Committee consulted extensively with shareholders and aimed to devise a remuneration structure that would support our strategic direction, enable us to engage our leadership team in the continuing transformation of Centrica and support our requirement for a team capable of making those changes, whilst addressing the challenges our company and industry face going forward.

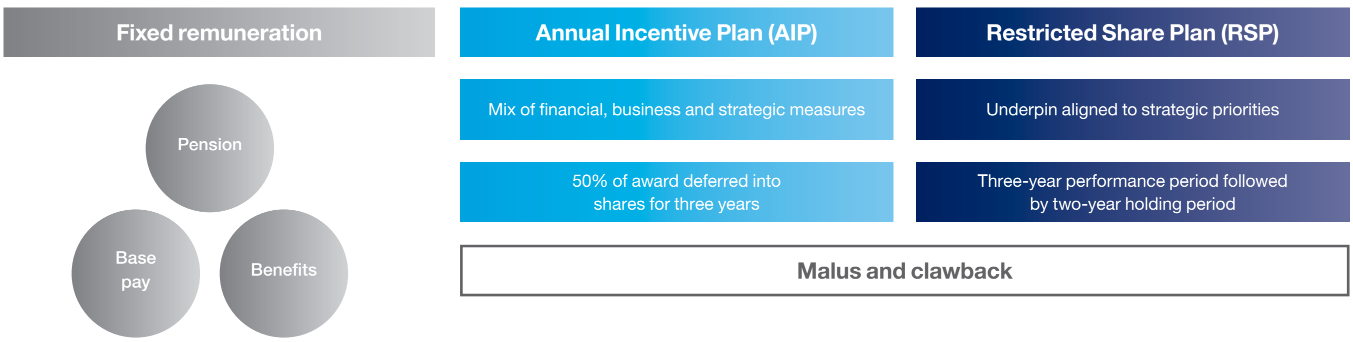
Further details on the rationale for the proposed changes are described in the Committee Chair's letter on pages 71 to 73. Details on how the Policy will be implemented in the coming financial year are provided on pages 82 to 94.

The main change to the Policy is the replacement of the Long Term Incentive Plan (LTIP) with a Restricted Share Plan (RSP), which reflects a reduction in quantum and for which vesting three years from grant is subject to the assessment of an underpin. Awards are subject to a two-year post-vest holding period. Further details are set out on page 85.

In addition to the above, the Committee will make the following changes to shareholding requirements to further increase alignment between our Executive Directors and shareholders:

- Executive Directors will be required to hold 100% of vested incentive shares (net of tax) until the shareholding requirement is met, increased from 75% under the current Policy. The current shareholding requirement of the CEO of 300% of salary is above comparative market levels and will remain as is. The shareholding requirement for the CFO will be set at 200% of salary.
- The post-employment requirement will be increased to 100% of the in-role shareholding requirement (or actual shareholding on departure if lower) for a period of 2 years post-employment, increased from 50% in the current Policy.

Summary of Policy design



How the policy links to our strategy

Our near-term strategic objectives are set out on page 11.

"We are focused on turning Centrica around resulting in a stronger core business with a robust balance sheet enabling us to build on our longer-term growth ambitions in the areas in which we have distinctive capabilities – energy supply, services and solutions, energy trading, optimisation and energy assets."

Our revised policy has been designed to support our strategic direction, to enable us to engage our leadership team in the continuing transformation of Centrica.

An RSP is the most appropriate incentive vehicle for our Executive Directors as it reduces the upper limit of payment and is aligned with our goal to simplify all aspects of our business. Potential payouts from restricted shares are far less variable than conventional long-term incentives.

As we restore shareholder value and work to deliver growth in both customers and profit, the RSP will ensure a large proportion of our Executives' pay is based on direct and uninhibited share price movement.

We operate an RSP for leaders below the most senior management and this approach therefore creates alignment between our Executives and our senior colleagues.

Remuneration Policy Table for Executive Directors

The following table summarises each element of the Remuneration Policy for the Executive Directors, explaining how each element operates and the link to the corporate strategy.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures	Changes
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. When determining base salary levels, the Committee will consider factors including: • remuneration practices within the Group; • change in scope, role and responsibilities; • the performance of the Group; • experience of the Executive Director; • the economic environment; and • when the Committee determines a benchmarking exercise is appropriate, salaries within the ranges paid by the companies which the Committee believe are appropriate comparators for the Group.	Usually, base salary increases in percentage terms will be within the range of 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.	Not applicable.	Removal of maximum salary for Executive Directors. Salary increases will usually be in line with the other employees of the Group.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures	Changes
Annual Incentive Plan (AIP) Designed to incentivise and reward the 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 for each financial year. Following the end of the financial year, to the extent that performance criteria have been met, up to half of the AIP award is paid in cash. To further align the interests of Executives with the long-term interests of shareholders, the remainder is paid in deferred shares which are held for three years. No further performance conditions will apply to the deferred element of the AIP award. Dividend equivalents may be paid as additional shares or cash. The Committee will have the discretion to adjust AIP outcome if it believes the outcome is not a fair and accurate reflection of the business' performance, the individual's personal performance and/or such other factors as the Board may consider appropriate. The exercise of this discretion may result in a downward or upward movement in the amount of AIP earned resulting from the application of the performance measures. In exceptional circumstances where the Committee believes the original measures and/or targets are no longer appropriate, the Committee has discretion to amend performance measures and targets during the financial year. Any discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report. Malus and clawback apply to the cash and share awards (see policy table notes).	Maximum of 200% of base salary earned during the financial year. For threshold performance, up to 25% of the maximum opportunity will pay out. For on-target performance, 50% of the maximum opportunity will pay out.	At least 75% based on a mix of financial performance and business measures aligned to Centrica's priorities for the forthcoming financial year and up to 25% based on individual objectives aligned to the Group's priorities and strategy. Performance is assessed over one financial year.	No changes to quantum. Up to 50% of the award is payable in cash and the remainder is paid in deferred shares which are held for a further three years. The majority of any short term incentive is based on a mix of financial and business measures aligned to Centrica's priorities for the forthcoming financial year and up to 25% is based on individual objectives aligned to the Group's performance and strategy.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures	Changes
Restricted share plan (RSP) Designed to reward and incentivise the delivery of long-term performance and shareholder value creation.	RSP awards granted to Executive Directors will normally vest after three years subject to the achievement of an underpin, and are subject to a two-year post-vesting holding period during which the Executive Directors may not normally dispose of their vested shares except as is necessary to pay tax and social security contributions arising in respect of their RSP awards. Dividend equivalents are accrued during the vesting period and calculated on vesting on any RSP share awards. Dividend equivalents are paid as additional shares or as cash. An award that vests in any year may be reduced or forfeited at the Committee's discretion if it believes that the outcome is not a fair and accurate reflection of the company's overall performance, the individual's personal performance and/or such other factors as the Board may consider appropriate including but not limited to share price performance. In exceptional circumstances where the Committee believes any underpin that may have been set at the beginning of the period is no longer appropriate, the Committee has discretion to amend the underpin. Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report. Malus and clawback apply to the awards (see policy table notes).	The maximum opportunity for RSP awards will be 150% of salary earned during the financial year for Executive Directors.	The RSP will be subject to an underpin framework. In assessing the underpin, the Committee will consider the Company's overall performance, including financial and non-financial performance measures over the course of the vesting period as well as any material risk or regulatory failures identified. Financial performance can include elements such as revenue, profitability, shareholder experience and return on capital. Non-financial performance can include a range of operational and strategic measures critical to the Company's long-term sustainable success. The Committee may scale back the awards (including to zero) if it is not satisfied the underpin has been met.	The previous long-term incentive has been replaced with a restricted share plan. Maximum opportunity under the new plan is 150% of salary for Executive Directors (compared to 300% of salary under the previous plan). The award is subject to an underpin framework. As we restore shareholder value and work to deliver growth in both customers and profit, the RSP ensures that a large proportion of our Executives' pay is based on direct and uninhibited share price movement. The simplification of pay in this manner also aligns to our overall strategic goal of simplification across all aspects of the business. Further rationale for this change is set out in the Chair's letter on pages 71 to 73.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures	Changes
Pensions 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 AIP calculation) in lieu of pension entitlement. The Group's policy is not to offer defined benefit arrangements to new employees at any level, unless this is specifically required by applicable legislation or an existing contractual agreement.	The maximum benefit for Executives is 10% of base salary earned during the financial year. This compares with the average pension benefit across the wider UK workforce, currently 10-13% of salary.	Not applicable.	No changes to Policy.
Benefits Positioned to support health and wellbeing and to provide a competitive package of benefits that is aligned with market practice.	The Group offers Executives a range of benefits including (but not limited to): • a company-provided car and fuel, or a cash allowance in lieu; • life assurance and personal accident insurance; • health and medical insurance for the Executive and their dependants; and • health screening and wellbeing services.	Cash allowance in lieu of company car – currently £15,120 per annum. The benefit in kind value of other benefits will not exceed 5% of base salary.	Not applicable.	No changes to Policy.
All-employee share plans Provides an opportunity for employees to voluntarily invest in the Company.	Executives are entitled to participate in all-employee share plans on the same terms as all other eligible employees.	Maximum contribution limits are set by legislation or by the rules of each plan. Levels of participation apply equally to all participants.	Not applicable.	No changes to Policy.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures	Changes
Shareholding requirements To align the interests of Executive Directors with shareholders over a long-term period including after departure from the Group.	**In-employment requirement** During employment, the CEO and CFO are required to build and maintain a minimum shareholding of 300% and 200% of their base salary respectively. Executives must also hold 100% of vested incentive shares (net of tax) until the shareholding requirement is met. **Post-employment requirement** Executive Directors are required to hold shares after cessation of employment to the full value of the shareholding requirement (or the existing shareholding if lower at the time) for a period of two years. Shares purchased by Executives with their own monies are excluded from the post-employment requirement.	**In-employment requirement** The current shareholding requirement is maintained at 300% of base salary for the CEO and 200% of base salary for the CFO. **Post-employment requirement** Executive Directors will be expected to retain the lower of the shares held at cessation of employment and shares to the value of 300% of base salary for the CEO and 200% of base salary for the CFO for a period of two years. Only shares earned from vested incentives will be included within the post-employment shareholding requirement.	Not applicable.	The current shareholding requirement of the CEO of 300% of base salary is above comparative market levels and will remain as is. The shareholding requirement for the CFO will be 200% of base salary. Executives must hold 100% of vested incentive shares until the shareholding requirement is met (this was previously set at 75%). The post-employment shareholding requirement now applies to 100% of the in-employment shareholding requirement (or actual if lower) for a period of two years post-employment (this was previously set at 50%). Shares purchased by Executives with their own monies are explicitly excluded from the post-employment shareholding requirement.

Notes to the Remuneration Policy table

The Committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the Policy set out on pages 82 to 94, 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. This includes satisfying LTIP awards granted in accordance with historic remuneration policies.

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.

Statement of consideration of shareholder views

In developing the Policy set out above, the Committee carried out an extensive shareholder consultation exercise, engaging directly with our top 20 shareholders making up approximately 50% of the shareholder register. After several rounds of consultation, we carefully considered the feedback received and proposals were refined in response.

One point that was raised by a number of shareholders was in respect of the underpin. It is important for the Committee to ensure that, in the removal of performance conditions from the long term incentive structure, any risk of "payment for failure" is mitigated, and this was a key discussion point in our consultation with shareholders. A number of shareholders requested further clarity in respect of the underpin and an indication of the type of factors that would be considered in assessing it and this has been set out in respect of the 2022 award on page 81 and will be disclosed in advance of each grant of RSP going forward. The assessment under the RSP underpin will also be disclosed on vesting. Further details on our consultation with shareholders is described in the Committee Chair's letter on pages 71 to 73.

Performance measures

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

AIP

Performance for the AIP will be measured against financial and non-financial measures with respective targets for each measure set by the Committee each financial year. The Policy provides the Committee with the flexibility to choose measures each financial year that are strongly linked to the specific strategic and financial priorities in any given financial year.

For financial measures, the targets are set with reference to internal forecasts, external forecasts and other circumstances as appropriate to ensure that targets are suitably stretching and motivational to executives.

Non-financial targets are set each financial year with reference to the key strategic objectives of the company and are linked to the long term success of the business.

RSP

The RSP is subject to an underpin assessed by the Committee to ensure any risk of "payment for failure" is mitigated. In assessing the underpin, the Committee will consider the Company's overall performance, including financial and non-financial performance measures, as well as any material risk or regulatory failures identified.

Financial performance can include elements such as revenue, profitability, shareholder experience and return on capital. Non-financial performance can include a range of operational and strategic measures critical to the Company's long-term sustainable success.

For example, for the 2022 RSP award (subject to shareholder approval of the Policy), the specific factors which the Committee will consider include, but are not limited to, the following:

- a review of overall financial performance over the three-year vesting period;
- whether there have been any sanctions or fines issued by a Regulatory Body (participant responsibility may be allocated collectively or individually);
- whether a major safety incident has occurred which may or may not have consequences for shareholders;
- whether there has been material damage to the reputation of the Company (participant responsibility may be allocated collectively or individually);
- whether there has been failure to meet a major milestone in our Climate Transition Plan which sets out our ambition to be a net zero business by 2045;
- return on capital with reference to the cost of capital;
- TSR performance over the vesting period, including with reference to the wider energy sector;
- management of appropriate customer numbers over the vesting period; and
- progress against broader ESG commitments.

The balance and weighting of these factors in the Committee's assessment may be adjusted as the key strategic objectives of the Group develop over time, and the Committee will continue to consider performance in the round to ensure there is a fair link between the remuneration outcomes and the shareholder experience.

Malus and clawback

In line with UK corporate governance best practice, 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. In addition, where an award has vested, the resulting shares will generally be held for a period during which they may be subject to clawback. The following provisions apply:

- AIP – cash awards: malus will apply up to the payment of the cash AIP award and clawback will apply for a period of 3 years after the cash AIP payment;
- AIP – deferred shares: clawback will apply during the vesting period of three years following the payment of the cash AIP award to which the deferred shares relate;
- historic LTIP awards: malus will apply during the vesting period and up to the date of vesting and clawback will apply for a period of two years post-vesting; and
- RSP awards: malus will apply during the vesting period and up to the date of vesting and clawback will apply for a period of two years post-vesting.

Legacy awards are governed by the malus and clawback provisions within the respective policy and plan rules. For awards granted under the proposed policy malus and clawback provisions may be applied in the following circumstances:

- material financial misstatement;
- where an award was granted, or performance was assessed, based on an error or inaccurate or misleading information;
- action or conduct of a participant amounts to fraud or gross misconduct;
- events or the behaviour of a participant have led to censure of the Company or Group by a regulatory authority or cause significant detrimental reputational damage;
- material failure of risk management; or
- corporate failure.

Pension arrangements applying to Executives

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

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

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

The Centrica Pension Plan (CPP) is a registered defined benefit plan which is closed to new members.

Discretion and judgement

It is important that the Committee maintains the flexibility to apply discretion and judgement to achieve fair outcomes as no remuneration policy and framework, however carefully designed and implemented, can pre-empt every possible scenario. The Committee needs to be able to exercise appropriate discretion to determine whether mechanistic or formulaic outcomes are fair, in context and can be applied in an upward or downward manner when required.

Judgement is applied appropriately by the Committee, for example when considering the political and social pressures on the business, the impact of significant movements in external factors such as commodity prices, in setting and evaluating delivery against individual and non-financial performance targets to ensure they are considered sufficiently stretching and that the maximum and minimum levels are appropriate and fair.

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

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

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

- determination of the result of any disputes relating to the interpretation of the rules;
- determining the appropriate choice of measures, weightings and time frame of any award, subject to the time frame being no less than set out in the policy table;
- alteration of the terms of the performance targets during or at the end of the measurement period if it feels that they are no longer a fair measure of the Company's performance, as long as the new targets are not materially less challenging than the original ones; and
- determination that any award is forfeit in whole or in part.

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

The Committee further has discretion over the determination of whether a leaver is a 'leaver by exception' for incentive plan purposes subject to the rules of each plan and has discretion over any adjustments required in certain circumstances.

Total remuneration by performance scenario

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

- **Minimum** – fixed remuneration only (base salary at current level, together with pension and benefits as set out in the Remuneration Policy table);
- **On-target** – fixed remuneration plus target AIP (as set out in the Remuneration Policy table) and value under the RSP on vesting of 100%;
- **Maximum** – fixed remuneration plus maximum AIP opportunity and value under the RSP on vesting of 100%; and
- **Maximum + 50% share price growth** – fixed remuneration plus maximum AIP opportunity and value under the RSP with 50% share price growth.

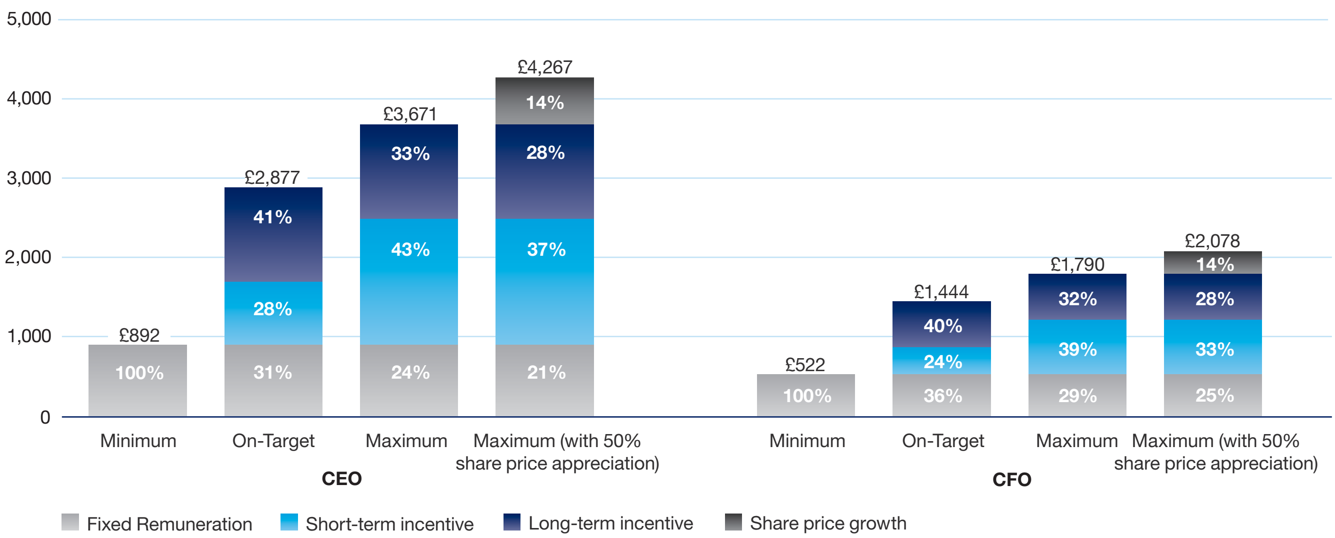
Recruitment Policy

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

Whilst the maximum level of remuneration which may be granted would be within plan rules and ordinarily subject to the maximum opportunity set out in the Remuneration Policy table, in certain circumstances, an arrangement may be established specifically to facilitate recruitment of a particular individual up to 25% above the maximum opportunity, albeit that any such arrangement would be made within the context of minimising the cost to the Company.

The policy for the recruitment of Executives during the policy period includes the opportunity to provide a level of compensation for forfeiture of annual bonus entitlements and/or unvested long-term incentive awards (at a value no greater than what is forfeit) from an existing employer, if any, and the additional provision of benefits in kind, pensions and other allowances, as may be required in order to achieve a successful recruitment. The Company has a clear preference to use shares wherever possible and will apply timescales at least as long as previous awards.

Total remuneration by performance scenario (£000)



Details of the relocation and expatriate assistance that may be available as part of the recruitment process can be found in the table below.

Relocation and expatriate assistance	
Purpose and link to strategy	Enables the Group to recruit or promote the appropriate individual into a role, to retain key skills and to provide career opportunities.
Operation and clawback	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 opportunity	Maximum of 100% of base salary.
Performance measures	Not applicable.
Changes	No changes.

Service contracts

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

Executive Director	Date of appointment to role	Date of current contract	Notice from the Group	Notice from the individual
Chris O'Shea	1 November 2018	10 December 2020	12 months	12 months
Kate Ringrose	18 January 2021	17 January 2021	12 months	12 months

Termination policy

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

Remuneration element	Scenario	Payment
Base salary, pension and other benefits	Dismissal with cause	No further payments made except those that an individual may be contractually entitled to.
	All other scenarios	Either continue to provide base salary, pension and other benefits for any unworked period of notice or, at the option of the Company, to make a payment in lieu of notice. Typically any payment in lieu of notice will be made in monthly installments and reduce, or cease completely, in the event that remuneration from new employment is received.
AIP	Dismissal with cause	AIP award and any deferred awards will be forfeit.
	Resignation	Executives leaving as a result of resignation will forfeit any potential AIP award for the performance year in which the resignation occurs.
	Change of control	The AIP award will be prorated for time (based on the proportion of the AIP period elapsed at the date of change of control). The Committee has discretion to determine that the AIP does not pay out on change of control and will continue under the terms of the acquiring entity. The Committee has discretion to dis-apply prorating in exceptional circumstances. Deferred awards may vest immediately or be exchanged for new equivalent awards in the acquirer where appropriate.
	Exceptions*	An AIP award for the year in which the termination occurs may be made following the normal year end assessment process, subject to achievement of the agreed performance measures and time apportioned for the period worked. Any award would normally be payable at the normal time with 50% a deferral in line with the remuneration policy table. The Committee has discretion to accelerate the vesting of deferred awards.
LTIP and RSP	Dismissal with cause or resignation	All unvested awards will lapse.
	Change of control	Existing awards will be exchanged on similar terms or vest to the extent that the performance conditions have been met at the date of the event and be time-apportioned to the date of the event or the vesting date, subject to the overriding discretion of the Committee.
	Exceptions*	Any outstanding awards will normally be prorated for time based on the proportion of the performance and/or vesting period elapsed. Performance will be measured at the end of the performance period. On death, awards may vest earlier than the normal date. The Committee has the discretion to dis-apply prorating or accelerate testing of performance conditions in exceptional circumstances.

* Exceptions are defined by the plan rules and include those leaving due to the following reasons: ill health, disability, redundancy, retirement (with agreement from the Company), death, or any other reason that the Committee determines appropriate.

Following termination, awards continue to be subject to malus and clawback provisions in line with those set out in the rules and the policy.

Governance

Pay fairness across the Group

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

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

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

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

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

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

External appointments of Executives

It is the Company's policy to allow each Executive to accept one non-executive directorship of another company, although the Board retains the discretion to vary this policy. Fees received in respect of external appointments are retained by the individual Executive and are set out in the Directors' Annual Remuneration Report each year.

Consideration of the UK Corporate Governance Code

As part of its review of the Policy, the Committee has considered the factors set out in provision 40 and provision 41 of the UK Corporate Governance Code (the "Code"). In the Committee's view, the proposed Policy addresses those factors as set out below:

Principles of the code	How the Policy aligns
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce	The Policy is simple and designed to support long-term, sustainable performance. Shareholders were extensively consulted in the design of the policy, and the key rationale for the changes that are to be made. The Committee proactively seeks engagement with shareholders on remuneration matters on an ongoing basis and whilst no direct engagement with the workforce occurred on the development of the Remuneration Policy this year, the proposed structure is aligned to that available to our Senior level employees. Additionally, in order to enhance the level of engagement with our employees going forward, a Shadow Board, comprising colleagues across the business and in different locations, has been launched. Through the Shadow Board, colleagues will be able to discuss and share views on Executive pay. Details of how the Committee has engaged with the Shadow Board will be disclosed in next year's Director's Remuneration Report and on an ongoing basis.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand	The latest policy results in a clear simplification of remuneration arrangements through the replacement of a performance share plan, with a simpler restricted share plan. We further operate an annual incentive (the AIP) with a straightforward deferral structure to allow it to be easily understood. The performance conditions for variable elements are clearly communicated to, and understood by, participants and aligned with the Group strategy.
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated	The majority of the Executive Directors' total remuneration is weighted towards variable pay (and provided in shares). The proposed changes result in a reduced risk of excessive reward, through lower quantum for the executive team alongside an increased discouragement of excessive risk taking behaviour through the use of a post-employment shareholding requirement. The Committee also retains discretion to override formulaic outcomes for incentive plans. Malus and clawback provisions mitigate behavioural risks by enabling payments to be reduced or reclaimed in specific circumstances.
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the Policy	The Policy sets out the maximum potential value for each element of remuneration subject to the achievement of performance conditions. The potential total remuneration outcomes are easily quantifiable and are set out in the illustrations provided in the Policy. As highlighted in Risk, the Committee has discretion to override formulaic outcomes if they were deemed to be inappropriate.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Group should be clear. Outcomes should not reward poor performance	Remuneration is appropriately balanced between fixed and variable pay. Short term performance targets are linked to the Group's strategy and the use of deferral in the AIP ensures a link to long-term performance through this element. The introduction of an RSP ensures a strong link to long-term performance as executive reward is directly linked to the share price of the company.
Alignment to culture Incentive schemes should drive behaviours consistent with the Group's purpose, values and strategy	The short term incentive plans are measured against performance measures which underpin the Group's culture and strategy. The incentive structure is cascaded through the top six levels of the organisation ensuring that it drives the same behaviours across the group.

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.

Remuneration Policy table

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures	Changes
Chair 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 at least every two years. Non-Executives are paid a base fee for their services. Where individuals serve as Chairman of a Committee of the Board, additional fees are payable. The Senior Independent Director also receives an additional fee. Current fee levels (applying from 1 January 2016): Chairman of the Board – up to £495,000 per annum. Base fee for Non-Executives – £72,500 per annum. The following additional fees apply: • Chairman of Audit and Risk Committee – £25,000 per annum; • Chairman of Remuneration Committee – £20,000 per annum; • Chairman of Safety, Environment and Sustainability Committee – £20,000 per annum; • Senior Independent Director – £20,000 per annum; and • Employee Champion – £20,000 per annum. The Company reserves the right to pay a Committee membership fee in addition to the base fees. Non-Executives are able to use 50% of their fees, after appropriate payroll withholdings, to purchase Centrica shares. Dealing commission and stamp duty is paid by the Non-Executive. The Non-Executives, including the Chairman, do not participate in any of the Company's share schemes, incentive plans or pension schemes. Non-Executives will be reimbursed for business expenses relating to the performance of their duties including travel, accommodation and subsistence. In certain circumstances these, or other incidental items, may be considered a 'benefit in kind' and if so may be grossed up for any tax due.	The maximum level of fees payable to Non-Executives, in aggregate, is set out in the Articles of Association.	Not applicable.	No changes to policy.

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.

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. The date of appointment and the most recent reappointment and the length of service for each NED are shown in the table below:

Non Executive Director	Date of appointment	Date of current letter of appointment	Notice from the Group	Notice from the individual
Scott Wheway	1 May 2016	10 May 2021	6 months	6 months
Carol Arrowsmith	11 June 2020	10 May 2021	3 months	3 months
Stephen Hester	1 June 2016	10 May 2021	3 months	3 months
Pam Kaur	1 February 2019	10 May 2021	3 months	3 months
Heidi Mottram	1 January 2020	10 May 2021	3 months	3 months
Kevin O’Byrne	13 May 2019	10 May 2021	3 months	3 months

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 2021. The Directors' Report required under the Companies Act 2006 (the Act) comprises this Directors' and Corporate Governance Report (pages 48 to 98) including the People and Planet section for disclosure of our carbon emissions in the Strategic Report (page 35). The management report required under Disclosure Guidance and Transparency Rule 4.1.5R comprises the Strategic Report (pages 2 to 46) (which includes the risks relating to our business), Shareholder Information (page 237) and details of acquisitions and disposals made by the Group during the year in note 12 (pages 145 to 147). The Strategic Report on pages 2 to 46 fulfils the requirements set out in section 414 of the Act. This Directors' and Corporate Governance Report fulfils the requirements of the corporate governance statement required under Disclosure Guidance and Transparency Rule 7.2.1.

Articles of Association (Articles)

The Company's Articles were adopted at the 2019 Annual General Meeting (AGM) and may only be amended by a special resolution of the shareholders. The Articles include various rules outlining the running and governing of the Company for example rules relating to the appointment and removal of the Directors and how the Directors can use all of the Company's powers (except where the articles or legislation says otherwise) for example in relation to issuing and buying back shares. The Articles can be found on our website centrica.com.

Centrica shares

Significant shareholdings

At 31 December 2021, Centrica had received notification of the following interests in voting rights pursuant to the Disclosure and Transparency Rules:

	Date notified	% of share capital[1]
Schroders Investment Management Limited	01.11.21	10.99
Bank of America Corporation	09.12.21	5.78
Ameriprise Financial, Inc.	22.12.21	5.07
BlackRock, Inc.	06.05.21	<5%
RWC Asset Management LLP	15.07.21	<5%

(1) 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 2022, the Company had received further notifications from Bank of America Corporation (23.02.22, <5%), Ameriprise Financial, Inc. (18.01.22, <5%) and Schroders Investment Management Limited (21.01.22, 9.82%). Copies of these, along with historic notifications and any notifications received since 23 February 2022, can be found on our website at centrica.com/rnsannouncements.

Share capital

The Company has a single share class which is divided into ordinary shares of $6^{14}/_{81}$ pence each. The Company was authorised at the 2021 AGM to allot up to 1,956,190,545 ordinary shares as permitted by the Act. A renewal of a similar authority will be proposed at the 2022 AGM. The Company's issued share capital as at 31 December 2021, together with details of shares issued during the year, is set out in note 25 to the Financial Statements on page 174.

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 centrica.com. There are no shareholder agreements or restrictions in 2021.

Purchase of shares

As permitted by the Articles, the Company obtained shareholder authority at the 2021 AGM to purchase its own shares up to a maximum of 586,857,163 ordinary shares. No shares were purchased under this authority in 2021. As at 31 December 2021, no shares were held as treasury shares.

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 Restricted Share Scheme. The Centrica plc Share Incentive Plan Trust (SIP Trust) is used to purchase shares on behalf of the Company for the benefit of employees, in connection with the SIP. Both the Trustees of the EBT and the SIP Trust, in accordance with best practice, have agreed not to vote any unallocated shares held in the EBT or SIP Trust at any general meeting and dividends are waived in respect of these shares. In respect of allocated shares in both the EBT and the SIP Trust, the Trustees shall vote in accordance with participants' instructions. In the absence of any instruction, the Trustees shall not vote.

Employee participation in share schemes

The Company's all-employee share schemes are a long established and successful part of our total reward package, encouraging the involvement of UK employees in the Company's performance through employee share ownership. We offer tax-advantaged Sharesave (SAYE) schemes in the UK and Ireland, and a Share Incentive Plan (SIP) in the UK, with good levels of take-up for all share plans across the Group. Currently, 20% of eligible employees participate in Sharesave and 31% of eligible employees participate in the SIP. From 2022 all eligible employees globally will be awarded a Profit Share award.

Index to Directors' Report and other disclosures

Workforce

Employee involvement

We remain committed to employee involvement throughout the Group and regularly consult colleagues to ensure we take account of their views in decision making. Colleagues are encouraged to participate via questions and are kept well informed of the performance and strategy, throughout the year, including financial and economic, of the Group and other matters of concern through personal briefings, regular meetings, town halls, email and broadcasts by the Group Chief Executive, Group Chief Finance Officer and members of the Centrica Leadership team at key points in the year.

Equal opportunities

The Group is committed to and has an active equal opportunities policy which includes, but is not limited to, recruitment and selection, training, career development, performance reviews and promotion to retirement. Our culture is to create an environment free from discrimination, harassment and victimisation. Our policies are in place to ensure everyone receives equal treatment regardless of gender, identity, race, ethnic or national origin, disability, age, marital status, sexual orientation or religion or any other characteristic protected by applicable laws.

We have created channels for colleagues to voice concerns confidentially, through a Speak Up support service, a confidential and anonymous helpline operated by an independent company. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit.

Employees with disabilities

It is our policy that colleagues with disabilities should have full and fair consideration for all vacancies. We continued to demonstrate our commitment to interviewing and enabling people with disabilities who fulfil the minimum criteria during the year. We also provide training, career development and promotion from which all of our colleagues can benefit and are working to develop initiatives within our strategy. We endeavour to retain colleagues in the workforce if they become disabled during employment.

This commitment was further recognised in December 2021 by our renewed level 1 Disability Confident Status and in 2017 we launched Diverse-Ability, a network that celebrates physiological and neurological diversity and abilities amongst our colleagues and helps them access the support they need to thrive at work. Diverse-Ability was re-launched earlier in 2021, with an increased emphasis on neurodiversity. We are proud to support The Valuable 500 initiative and champion disability inclusion throughout Centrica. Launched at the World Economic Forum's Annual Summit in 2020, The Valuable 500 seeks 500 global businesses to place disability inclusion on their board agendas as the first step to full inclusion for disabled people in business. We are members of the Business Disability Forum, which offers support, toolkits and advice to businesses around disability matters. We also partner with Scope.

Human rights

We are fully committed to upholding the fundamental human rights and freedoms of everyone who works for us, with us, or lives in the communities where we operate. We uphold the UN Guiding Principles on Business and Human Rights and are members of the United Nations Global Compact. As set out in Our Code, we therefore take steps to ensure that we never knowingly cause or contribute to human rights abuses through activities like employment checks and supplier due diligence. We also aim to contribute positively to global efforts to ensure human rights are understood and observed. For further information about our efforts can be found in our People and Planet section on Pages 28 to 37. Copies of our Modern Slavery Act (MSA) statement and our Human Rights Policy are available on our website centrica.com.

Other information

Directors' indemnities and insurance

In accordance with the Articles, the Company has granted a deed of indemnity, to the extent permitted by law, to the Directors of the Company. Qualifying third-party indemnity provisions (as defined by section 234 of the Act) were in force during the year ended 31 December 2021 and remain in force. The Company also maintains directors' and officers' liability insurance for its Directors and officers. The Company has granted qualifying pension scheme indemnities in the form permitted by the Companies Act 2006 to the directors of Centrica Pension Plan Trustees Limited, Centrica Engineers Pension Trustees Limited and Centrica Pension Trustees Limited, that act as trustees of the Company's UK pension schemes.

Political donations

The Company operates on a politically neutral basis. No political donations were made by the Group for political purposes during the year.

Significant agreements – change of control

There are a number of agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid.

The significant agreements of this kind include:

- those that relate to 2009, when the Company entered into certain transactions with EDF Group in relation to an investment in the former British Energy Group, which owned and operated a fleet of nuclear power stations in the UK. The transactions include rights for EDF Group and the Company to offtake power from these nuclear power stations. As part of the arrangements, on a change of control of the Company, the Group loses its right to participate on the boards of the companies in which it has invested. Furthermore, where the acquirer is not located in certain specified countries, EDF Group is able to require Centrica to sell out its investments to EDF Group; and
- committed facility agreements, subordinated fixed rate notes and bonds issued under the Company's medium term note programme.

The Remuneration Policy sets out on page 91 details on the treatment of the executive directors' pay arrangements, including the treatment of share schemes in the event of a change of control.

Payments policy

We recognise the importance of good supplier relationships to the overall success of our business. We manage dealings with suppliers in a fair, consistent and transparent manner.

Disclosures required under Listing Rule 9.8.4R

The Company is required to disclose certain information under Listing Rule 9.8.4R in the Directors' Report or advise where such relevant information is contained. All such disclosures are included in this Directors' and Corporate Governance Report, other than the following sections of the 2021 Annual Report and Accounts:

Information	Location in Annual Report	Page(s)
Capitalised interest (borrowing costs)	Financial Statements	139, note 8
Details of long-term incentive schemes	Remuneration Report	72 and 76
Waiver of emoluments by a Director	Remuneration Report	74

Directors' statements

Accounting standards require that Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare the Financial Statements on a going concern basis. The Group's business activities, together with factors that are likely to affect its future development and position, are set out in the Group Chief Executive's Statement on pages 4 to 6 and the Business Reviews on pages 23 to 25. After making enquiries, the Board has a reasonable expectation that Centrica and the Group as a whole have adequate resources to continue in operational existence and meet their liabilities as they fall due, for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the Financial Statements.

Additionally, the Directors' Viability Disclosure, which assesses the prospects for the Group over a longer period than the 12 months required for the going concern assessment, is set out on pages 44 to 46. Further details of the Group's liquidity position are provided in notes 24 and S3 to the Financial Statements on pages 171 and 192.

Directors' responsibilities statement

The Directors are responsible for preparing the Annual 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. Under that law, the Directors are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards, in conformity with the requirements of Companies Act 2006. The Directors have also chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework.

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 Company and of the profit or loss of the Company for that period.

In preparing the parent company 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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 enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Responsibility statement

The Directors confirm that to the best of their knowledge:

- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Information to the independent auditors

The Directors who held office at the date of this Report confirm that:

- 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; and
- there is no relevant audit information of which Deloitte LLP are unaware.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming AGM.

By order of the Board

Raj Roy
Group General Counsel & Company Secretary
23 February 2022