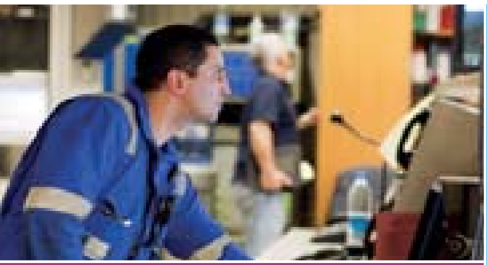
centrica

AT CENTRICA, WE UNDERSTAND THAT ENERGY IS ESSENTIAL FOR ALL OF US, BOTH NOW AND FOR THE FUTURE →

Annual Review and Summary Financial Statements 2011

CENTRICA AT A GLANCE



OUR VISION IS TO BE THE LEADING INTEGRATED ENERGY COMPANY IN OUR CHOSEN MARKETS

WHAT WE DO

WE PLAY A PART AT EVERY STAGE OF THE ENERGY CHAIN, FROM SOURCING ENERGY TO SAVING IT

WE SOURCE IT
By finding and producing new gas reserves across the world

WE GENERATE IT
Through our highly efficient gas fired power stations and wind farms

WE PROCESS IT
At our onshore gas terminals to make it safe for our customers to use

WE STORE IT
At our Rough gas storage facility – the largest storage operation in the UK

WE TRADE IT
In the UK, North America and Europe and sign contracts to secure gas for our customers

WE SUPPLY IT
To millions of residential and commercial customers in the UK and North America

WE SERVICE IT
Through our energy services and installations businesses in the UK and North America

WE SAVE IT
By offering innovative low carbon products and services to our customers

WHERE WE OPERATE

OUR CHOSEN MARKETS ARE THE UK AND NORTH AMERICA

IN THE UK
British Gas is the leading residential and business energy and services provider. Our upstream Centrica Energy and Centrica Storage operations are working to provide energy security for our customers sourcing, storing and supplying the energy that millions of homes rely on every day

centrica energy

Business Review **pg 18**

centrica storage

Business Review **pg 21**

IN NORTH AMERICA
Direct Energy is one of the largest energy and services providers, supporting and managing our customers' energy needs with innovative products, services and increasing gas reserves

Direct Energy.

Business Review **pg 23**

OUR STRATEGIC PRIORITIES

British Gas

Business Review pg 14

OUR STRATEGIC PRIORITIES ENSURE WE ARE ON COURSE TO DELIVER OUR VISION

GROW BRITISH GAS
Leading the transition to low carbon homes and businesses

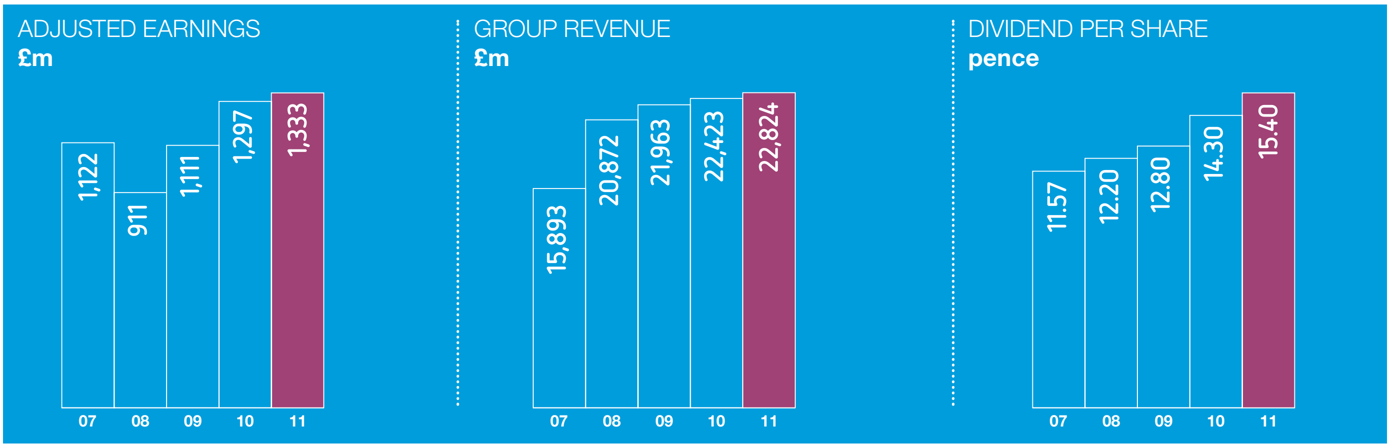
DELIVER VALUE FROM OUR GROWING UPSTREAM BUSINESS
Securing sustainable energy for our customers

BUILD AN INTEGRATED NORTH AMERICAN BUSINESS
With leading positions in deregulated markets

DRIVE SUPERIOR FINANCIAL RETURNS
Through operating performance and our unique investment choices

TO DELIVER LONG-TERM VALUE TO OUR CUSTOMERS AND SHAREHOLDERS

PERFORMANCE HIGHLIGHTS



Financial highlights	**2011**	2010
Revenue‡	**£22.8bn**	£22.4bn
Total adjusted operating profit‡*	**£2,415m**	£2,390m
Total adjusted taxation charge^	**£891m**	£761m
Total adjusted effective tax rate^	**40%**	37%
Adjusted earnings◊	**£1,333m**	£1,297m
Adjusted basic earnings per share◊	**25.8p**	25.2p
Full-year dividend per share	**15.4p**	14.3p
Statutory results		
Operating profit‡	**£1,414m**	£3,074m
Earnings	**£421m**	£1,942m
Basic earnings per ordinary share	**8.2p**	37.6p
Group capital and acquisition expenditure	**£1,601m**	£1,669m

Earnings include exceptional items relating to provisions for onerous contracts, impairments, restructuring costs, contract migration, a change in the UK upstream tax rate, an exceptional credit relating to pension curtailment and a loss on disposal of Oxxio. The total impact is a charge of £522 million after taxation

Throughout this document, reference is made to a number of different profit measures, which are defined as follows:

Terms and explanation	**2011 £m**	2010 £m
Adjusted operating profit* – the principal operational profit measure used by management and used throughout the Operating Review	**2,415**	2,390
Impact of fair value uplifts – depreciation of fair value uplifts to property, plant and equipment of Strategic Investments	**(105)**	(118)
Interest and taxation on joint ventures and associates and other costs	**(102)**	(78)
Group operating profit‡ – operating profit from continuing operations before exceptional items and certain re-measurements	**2,208**	2,194
Group profit‡ – profit from continuing operations before exceptional items and certain re-measurements	**1,252**	1,221
Statutory profit/(loss) – profit/(loss) including discontinued operations, exceptional items and certain re-measurements	**421**	1,942

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

◊ As above, except joint ventures and associates stated after interest and taxation

^ Includes taxation on profit from continuing operations and tax from joint ventures and associates as reconciled in the Group Financial Review

‡ From continuing operations including share of joint ventures and associates stated after interest and taxation, and before exceptional items and certain re-measurements

At Centrica, we understand that energy is essential for all of us, both now and for the future.

That's why we are active in each stage of the energy lifecycle: from sourcing and generating to processing and storing; from trading and supplying to servicing and, crucially, to saving energy.

We want current and future generations to be able to rely on secure energy supplies. So, we are making vital investments across the whole energy spectrum – in nuclear and gas-fired power stations, wind farms, liquefied natural gas and in global exploration for new sources of gas.

At the same time, because we know we must reduce our dependence on carbon, we are working hard to supply cleaner energy. We are also investing in advanced technology to deliver products and services to help customers use energy more efficiently, for today and tomorrow.

Contents

ONLINE

This report can be viewed online. To see more go to www.centrica.com/report2011

CHAIRMAN'S STATEMENT

Economic headwinds continue to prevail as we enter 2012 but I remain confident that the management are both appropriately skilled and suitably determined to meet the challenges that lie ahead.

REVIEW OF THE YEAR

2011 was a year of turbulence and challenge. At the beginning of the year there was little indication how dramatically events would unfold for the world in general or for Centrica in particular.

The Japanese nuclear power disaster at Fukushima in March cast a shadow over the industry as nuclear plants across the globe were shut down, driving up demand for gas and resulting in higher wholesale prices worldwide. Events in the Middle East and North Africa created further political and economic uncertainty as the unrest spread in the spring and energy prices reacted again to the increased risk to supplies.

In the wake of a 30% increase in wholesale gas prices and escalating losses in British Gas, we were faced with the need to implement a significant price increase, in the knowledge that any rise in the cost of living would be very difficult for hard pressed customers, already struggling in a severe economic downturn.

In an effort to mitigate the scale of the increase, whilst preserving a 6% pre-tax residential energy profit margin for the year, management conducted a thorough reappraisal of the cost structure of the Group. With considerable cooperation from employees and unions, we were able to improve engineers' rostering and customer service, lower future pension costs and reduce overheads through the loss of some 2,300 roles across the Group. This was painful but necessary to support our competitive position in challenging markets.

Maintaining an efficient cost structure, however, was not done at the expense of building talent for the future. British Gas continued to invest more than £25 million during the year in academies and apprenticeships, helping to train the young and re-skill older employees.

In parallel, we focused on securing long-term supplies of gas to provide security of supply for our customers. This was achieved by the completion of a ground breaking liquefied natural gas (LNG) agreement with Qatar, the acquisition of new gas fields for exploration and production and towards the end of the year, a long-term supply agreement with Statoil in Norway.

In March however, our investment plans for the UK sector of the North Sea were undermined by the sudden imposition of higher taxes on production of oil and, most harmfully, gas. In spite of the representations made by ourselves and the rest of the industry to Government, no change was forthcoming to this damaging decision.

Centrica, together with other members of the industry, made it clear to Government ministers that capital intensive industries must have long-term certainty of both regulatory and tax regimes if they are to be major investors in the UK energy infrastructure. Our own major shareholders echoed this view. As one of the UK's largest taxpayers, with Centrica contributing around £800 million a year to the Treasury, it is hoped that our case has been heard.

On a more positive note, we have welcomed the Government's proposals for electricity market reform and the carbon floor price, as well as its commitment to the new nuclear programme. However, the detail still needs to be agreed, the pace of progress needs to accelerate and economic returns must be in keeping with our commitment to shareholder value.

Whilst the upstream team were securing the Group's future energy requirements, the downstream team continued to work with customers to help reduce consumption.

Household surveys and home insulation were provided free of charge to British Gas customers and new smart meters helped people monitor and manage their energy usage. We continue to pay particular care to the more vulnerable members of society.

As inflation increased and economic conditions became more difficult, energy companies found themselves the target of public criticism. British Gas, as the largest UK supplier, was at the forefront of the debate. The scale of price increases, driven by factors entirely beyond the control of the energy suppliers, were considered by much of the public to be unsupportable whatever the rationale for the increase.

It was for this reason that British Gas decided to embark on its 'honest conversation' campaign with customers in the late autumn.

The campaign sought to explain the factors that have given rise to increases in the energy bill, which are faced by all energy suppliers. We also reiterated Ofgem's findings that there is no collusion in the sector and our view that pre-tax profits averaging 6-7% through the cycle are both modest and necessary to sustain the multi-billion pound investment programme required to secure UK energy supplies and deliver energy efficiency. In parallel, British Gas led the way in tariff simplification.

Continued on **pg 04**

OUR ROBUST GOVERNANCE STRUCTURE

For more information on our approach to Governance, go to www.centrica.com/report2011/governance

ENSURING THE BUSINESS IS RUN THE RIGHT WAY

Sound corporate governance – the building blocks to ongoing success

The composition of the Board continues to evolve. Recently appointed members are already bringing new dynamics to the Board and, together with the existing Directors, have formed a diverse and dedicated team who take their responsibilities seriously.

In late 2010, we were pleased to recruit Ian Meakins, the CEO of Wolseley plc, to bring seasoned operational experience at the highest level to the Board. We subsequently appointed Margherita Della Valle, the Group Financial Controller of Vodafone Group Plc, with an invaluable history of both finance and consumer brand marketing in a world class business. The appointments proved to be excellent additions bringing both current operational experience and fresh perspectives to Board discussion.

In December 2011, after nine years, Dame Helen Alexander stepped down from the Board. Dame Helen made a material contribution to the Group, both as a Director and as Chairman of the Remuneration Committee, and will be much missed.

We were particularly fortunate, however, to recruit Lesley Knox, an experienced non-executive director and current Chairman of Alliance Trust Plc, to replace Dame Helen as both a Director and as Chairman of the Remuneration Committee with effect from 1 January 2012. Lesley brings a wealth of strategic and financial experience across a range of businesses which will help in the delivery of Centrica's strategic objectives.

Board Members   Senior Executives

CHAIRMAN'S STATEMENT CONTINUED

There are signs that these actions are starting to resonate with the public and I hope that all commentators and the Regulator will take a more balanced view in the year to come.

We ended the year in the UK with the warmest last quarter on record which reduced consumption and meant that average customer bills for the year were lower than 2010, despite the higher unit prices. Inevitably, there was also an adverse impact on British Gas' profits.

The challenges in the UK were different from those faced in North America, where the increase in production of shale gas has dramatically reduced wholesale gas prices and unusual weather patterns also caused high volatility in electricity prices. A change in attitude to deregulation eroded our position in Ontario but we continued to increase market share and expanded our services business in the United States, while deploying our upstream capability to good effect.

In spite of everything, through a mixture of tenacity, innovation and endeavour, the management team, led by Sam Laidlaw, delivered a 3% increase in adjusted earnings which facilitated a further 8% increase in the full-year dividend to our shareholders of 15.4 pence per share.

Against that background, I am enormously grateful to all the employees of Centrica for their commitment, flexibility and considerable effort in a testing period. I also appreciate the continued support of our shareholders in an uncertain environment and the loyalty of our customers who we continue to serve with dedicated resolve, providing total service with a competitive edge.

During the course of the year, I have taken measures to refresh the Board, review its effectiveness and ensure continued achievement of the highest corporate standards.

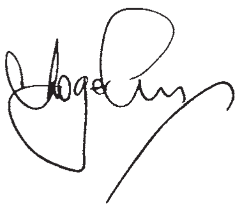
Following the departure of Dame Helen Alexander, the Board will have a total of 12 directors of which five are Executive and six Non-Executive, in addition to myself as Chairman. The skill set of the Non-Executive Directors includes financial, consumer, marketing and upstream energy expertise. Non-Executive nationalities include British, Australian and Italian. Twenty-five per cent of the Board are women, with Non-Executive Directors, excluding the Chairman, being equally balanced between male and female.

The Executive Committee that operates one level beneath the Board has one female member and it is our ambition over time that both the Board and Executive Committee will have a more balanced executive gender mix.

Earlier in the year we confirmed our support for the recommendation made by Lord Davies following his review into Women on Boards which set an aspirational target of 25% of Board positions of FTSE 100 companies to be filled by women by 2015. Whilst it is our intention to maintain or exceed this ratio, we are, however, against the implementation of quotas. We recognise the benefits of greater diversity, not just gender specific, however, appointments within Centrica will continue to be made on merit.

Looking forward at our Board composition, our plan will be to reflect the increasing upstream content of our business mix with the recruitment of a Non-Executive Director who has both upstream and operating experience in North America. Longer term, we will seek to replace two further members of the Board who will complete their nine year term in 2013. According to circumstances at that time, we may choose to stagger their departure to ensure we retain appropriate corporate memory and a gradual infusion of new thinking.

Economic headwinds continue to prevail as we enter 2012 but I remain confident that the management are both appropriately skilled and suitably determined to meet the challenges that lie ahead. We are closely focused on delivering cost efficiencies, for the benefit of both our customers and our shareholders, while maintaining high levels of service and innovation. In parallel we will continue to invest for the future, driving long-term growth across the Group.



Sir Roger Carr
Chairman
23 February 2012

OUR BUSINESS PRINCIPLES

Our Group-wide business principles create a framework to help us make decisions in line with a consistent set of operating behaviours based on trust, integrity and openness.

1. Demonstrating integrity in corporate conduct
2. Ensuring openness and transparency
3. Respecting human rights
4. Enhancing customer experiences and business partnerships
5. Valuing our people
6. Focusing on health, safety and security
7. Protecting the environment
8. Investing in communities

Our ongoing campaign to communicate these principles will help our employees, business partners and external audiences understand the standards we expect. For more information, go to **www.centrica.com/businessprinciples**.

Earnings and operating profit numbers are stated, throughout the Annual Review, before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and before exceptional items and certain re-measurements where applicable. In addition, all references to profit and loss are stated before share of joint venture and associate interest and tax. The Directors believe these measures assist with better understanding the underlying performance of the Group. All references to 'the prior period', 'the prior year', '2010' and 'last year' mean the year ended 31 December 2010 unless otherwise specified.

Business Review

CHIEF EXECUTIVE'S REVIEW

BUILDING GREATER TRUST BETWEEN SUPPLIER AND CUSTOMER

2011 was a tough year, both for Centrica and our customers. But the strength of our integrated business and balance sheet means we've been able to take the lead in helping customers through these difficult times, as well as delivering growth and making the investments on which Britain's energy future depends.

Centrica faced very difficult market conditions in 2011. Sharply rising wholesale commodity prices in the first half of the year meant that the UK residential energy supply business had become loss making, necessitating a significant increase in retail tariffs in August. Record mild weather, both in the Spring and in the Autumn, led to a 21% reduction in average household gas consumption and a 4% fall in average electricity consumption. As a result, the average domestic customer bill was some 4% lower in 2011 than the year before, despite the increase in unit prices. The squeeze on household disposable income has also put pressure on our residential services business, with customers deferring discretionary spending, especially on new central heating systems.

Upstream in the UK, the business delivered higher profits. This reflects good operational reliability from our assets and the effect of higher commodity prices, with a much improved performance from the nuclear fleet in particular. However, market conditions remained difficult for our gas-fired generation and gas storage businesses. In addition, the unexpected increase in upstream taxation announced in March reduced our upstream earnings. It also, unfortunately, came at a time when the UK needs to offer a stable tax regime if it is to attract the investment required to meet the country's future energy needs.

In North America, we delivered significantly higher operating profits, reflecting both the operational improvements we have made and the contribution from acquisitions. Direct Energy provides a strong platform for growth, using our expertise in deregulated markets to add scale upstream and downstream, where we see attractive opportunities.

Despite the difficult economic and political backdrop, which resulted in the business incurring a number of exceptional charges, we are pleased to have delivered further adjusted earnings growth, following a very strong result in 2010. Throughout the challenges faced during the year, we have demonstrated the resilience of the Centrica integrated business model. In addition, the total value of our commitments to secure gas for the UK now stands at more than £50 billion. We can only shoulder responsibilities on this scale with the financial security provided by our growing upstream asset base and a profitable downstream business.

STRATEGIC PRIORITIES AND DIRECTION UNCHANGED

Health and safety is our first priority – a message reinforced through regular management communication, operational practice, corporate policy, procedures and reward structures. During the year, we further strengthened our procedures around both customer safety and process safety and achieved a 42% reduction in our lost time injury frequency rate to 0.25 per 100,000 hours worked.

In these tough economic conditions, we remain focused on maximising the returns from our existing assets, while taking a disciplined approach to investment. We will also maintain a healthy balance between upstream and downstream activities as well as across generation types and geographies. Centrica remains, at its heart, a customer facing business.

Business Review

Upstream, we continue to focus on reliability, both in gas and oil production and in power generation; and we are making good progress on our investment programme, deploying our expertise to bring new projects on line. We are now widely recognised for our expertise across the energy value chain and have entered into strategic partnerships with other leading players in their field – in gas and oil, in offshore wind and in nuclear. In December we announced an intention to increase our upstream gas and oil production by 50% to 75 million barrels of oil equivalent (mmboe) per annum and to treble our offshore wind capacity, retaining investment options in new nuclear, biomass, new build CCGT and gas storage.

Downstream, the priority is to maintain the efficiency of the business and to benefit fully from our scale and brand, while maintaining high levels of customer service. In North America, we continue to increase the scale of the business, through organic growth and through acquisitions in key competitive markets. We are making good progress towards our goal of doubling the profitability of the business by 2014, seeking further opportunities for growth where we see value, both upstream and downstream.

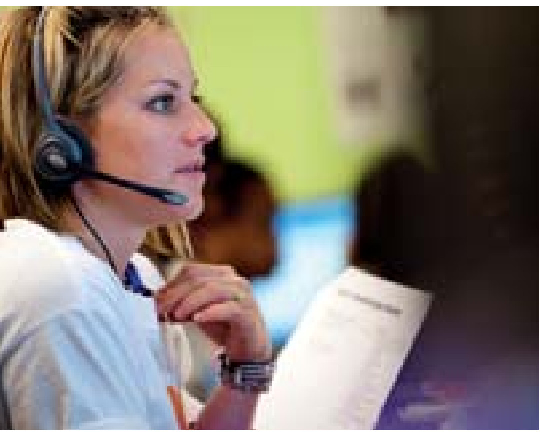
Given the need to remain competitive in all our divisions, we are undergoing a Group-wide process to sharpen the business for the benefit of our customers and our shareholders. We expect to deliver £500 million of cost savings over the next two years, allowing us to continue to invest for further growth within the existing cost base. The programme to identify efficiencies is already well under way, and we expect to realise around half of these savings in 2012. As part of these measures, we have taken out 2,300 roles across the business and implemented a pay freeze across much of the Group, including the Board; however, we remain committed to investing in the skills and the people we need to achieve our growth ambitions.

HONEST CONVERSATION

During the year, the energy supply sector faced increased regulatory and political scrutiny, as well as uncertainty surrounding Ofgem's proposals for retail market reform. We led the way in taking measures to help build customer trust by making the purchase of gas and electricity simpler, more transparent and fairer for consumers. We have simplified our tariffs and have also written to each of our customers, inviting them to check that they are on the most appropriate tariff. We are setting out the facts about energy prices, providing each customer with a breakdown on their bill of the actual costs of providing the energy they consume. We have also made sure that our most vulnerable customers receive the £120 Warm Home Discount, with the widest eligibility criteria of any major supplier.

However, there is still much to be done before consumer confidence can be fully restored. This will mean being much clearer about the cost of producing and providing energy to the customer's home, the rising cost of green levies, the impact of growing international demand for gas and the profits the industry makes. All of us – the industry, the Government and the Regulator – have a vital role to play in fostering an honest debate about energy, with affordability now a key issue for our customers.

In January 2012, we were the first of the major energy suppliers to implement a price reduction, with an immediate 5% cut in our standard electricity tariff. Nonetheless, the longer-term trend in wholesale energy prices and non-commodity costs remains upwards. That is why the work we are doing to help customers take control of their energy usage is so important – including free loft or cavity wall insulation, a free home energy survey and leading the way on the installation of smart meters for all our customers.



2011 INVESTMENT

We invested £1.6 billion of capital in 2011 across the Group, mainly in upstream gas and oil, in power generation and in North America. We have also already announced a further £1.4 billion of acquisitions which are expected to complete in 2012.

Upstream, expenditure included investment in our Ensign and York projects and our ongoing exploration programme. Construction of the Lincs offshore wind farm is making good progress and work is ongoing on new nuclear, prior to a final investment decision. In North America, we have made significant progress in growing the scale of the business both upstream and downstream, increasing our gas and liquid reserves by 14% and adding over 750,000 customers in our core growth markets, Texas and the US North East.

Building the geographic diversity of our asset portfolio is a key priority, and an increasing proportion of our investment now falls outside the UK. In November, we announced a new 10-year supply contract with Statoil and the acquisition of a package of Norwegian gas and oil assets. This marked a significant step change in the scale of our business, both in terms of production volumes and development opportunities, as well as forging a long-term working relationship with one of the leading players in the Norwegian market. Already in 2012, we have announced further upstream investments to increase our share in the Norwegian Statfjord field and acquire a package of UK North Sea assets from Total, providing further gas reserves for our customers.

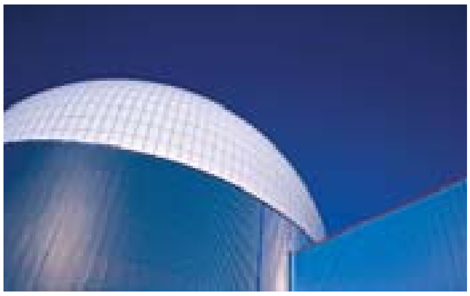
Centrica is now seen to fill a key role on the global energy stage, enjoying close working relationships with major partners: in LNG, in nuclear, in offshore wind and in upstream gas and oil. At a time when many British companies are reluctant to invest because of economic uncertainty, we are deploying our capital to generate growth and returns for shareholders.

FUTURE INVESTMENT

Significant investment decisions lie ahead, both for the UK and for Centrica. It is vital that the Government provides the clarity and assurance that will be needed if the industry is to step up and deliver the massive investment – an estimated £200 billion in total by 2020 – that the country requires to secure its energy future and build a low carbon power industry.

Following the publication of the UK Government's White Paper on Electricity Market Reform, there remains much detail to be resolved to ensure the right framework for investment. We also look

Business Review



WE ARE MAKING GOOD PROGRESS ON OUR CAPITAL INVESTMENT PROGRAMME, AND EXPECT TO SPEND A FURTHER £1.4 BILLION ON ORGANIC INVESTMENT IN 2012, WITH AROUND HALF IN THE UPSTREAM GAS AND OIL BUSINESS

to the Government to explain the importance of these investments to the country, balancing energy security, environmental goals and crucially, affordability, for this generation and for generations to come.

The Regulator too has a vital role to play in ensuring that the UK offers a stable and attractive investment climate, both in the upstream and the downstream. The proposed retail market reforms need to encourage investment in propositions for customers and smart meter technologies to improve energy efficiency, reduce complexity and increase customer choice.

The combination of strong cash flows and an attractive range of investment opportunities is a key attribute of the Centrica business model – with options to invest across the energy value chain and in different geographies, to deepen our customer relationships and secure the energy requirements of the Group for the future. We will only deploy capital where we see a strong strategic fit, together with attractive returns commensurate with the risks being undertaken.

OUTLOOK

As we look ahead, the external environment remains challenging. However, the past year has shown our business model to be robust, delivering year-on-year growth in a very difficult trading environment. Against this backdrop, we are taking positive action to sharpen our activities, with Group-wide initiatives already in progress to reduce costs and maintain our competitive edge. We are successfully bringing new investment projects on-stream, and will begin to see a contribution from recent acquisitions as we integrate them into our portfolio. Overall, we plan to deliver improved year-on-year adjusted earnings growth in 2012, subject to the usual variables of weather patterns and commodity price movements, although we continue to face some of the same headwinds as in 2011, in particular the effects of continued economic pressure on household and business budgets.

Downstream in the UK, we expect further progress in residential services, together with a positive contribution from our new energy activities. In the highly competitive market for residential energy supply, the outcome, as ever, depends on wholesale prices and the weather. In our Upstream UK business, we will progressively benefit from the higher wholesale commodity price environment, although the outlook for gas-fired generation remains weak and market conditions for new gas storage projects remain challenging. We will also benefit from the recently acquired gas and oil assets in the Norwegian and UK sectors of the North Sea. In North America, we expect to see the positive effect of organic improvements in the business, together with a contribution from recent acquisitions, both upstream and downstream. However, we continue to see customer losses in the Ontario energy supply business, as the regulatory environment has become less conducive to competition.

We are making good progress on our capital investment programme, and expect to spend a further £1.4 billion on organic investment in 2012, with around half expected to be in the upstream gas and oil business. This is in addition to the £1.4 billion already committed for the Statoil assets, the additional stake in Statfjord and the package of UK North Sea assets from Total. In the coming year, we expect the Ensign, Seven Seas, Rhyl and Atla fields all to produce first gas and our Lincs offshore wind farm to generate first power. We also expect to make a final investment decision on the development of the Cygnus gas field towards the middle of 2012, with a decision on the Race Bank offshore wind project expected around the end of the year, in each case subject to appropriate returns. On new nuclear, a final investment decision on Hinkley Point C is targeted for the end of 2012, although much remains to be achieved before this decision can be taken and the economics must prove to be sound. In gas storage, our Caythorpe project remains on hold and we continue to assess the Baird project.

In summary, the Centrica business model remains resilient, underpinned by strong cash flows and an attractive pipeline of investment projects. The business is well placed for the long term and we will continue to improve the service offering for our customers, both in the UK and North America. We will also drive further cost savings across the Group to enhance our competitiveness, and deliver increasing value through the efficient deployment of capital, in order to continue to enhance returns for shareholders.

Sam Laidlaw
Chief Executive
23 February 2012

Business Review

1 WE SOURCE IT

by finding and producing new gas reserves from the seas around the UK, our natural gas assets in North America and a unique contract with Qatar

Centrica Energy Business Review on **pg 18**

2 WE GENERATE IT

through our combined cycle gas turbine (CCGT) power stations in the UK and North America and from an increasing number of wind farms offshore from the UK in the North and East Irish Seas

Direct Energy Business Review on **pg 23**

CHIEF EXECUTIVE'S REVIEW

A BUSINESS MODEL BUILT FOR THE ENERGY DEMANDS OF THE 21ST CENTURY

5 WE TRADE IT

in the UK, North America and Europe, as part of our strategy to maintain energy security ensuring there is always sufficient gas and power for our customers' warm and well lit homes and businesses

6 WE SUPPLY IT

to millions of residential and business customers in the UK and North America. We are leading the way with smart meter technology; bringing an end to estimated bills, providing accurate, real-time information on energy consumption and costs

British Gas Business Review on **pg 14**

Business Review

3 WE PROCESS IT

to ensure high quality gas enters the transmission system from onshore gas terminals in Easington and Barrow. Easington takes gas from our Rough storage facility and the Langeled pipeline from Norway

4 WE STORE IT

in the Rough natural gas field; for our own customers, other utilities, gas producers and gas traders. This facility, off the east coast of the UK, represents over 70% of the country's total gas storage capacity

Centrica Storage Business Review on **pg 21**

The energy chain demonstrates how Centrica plays a major part in every aspect of energy from sourcing it to saving it. Each of the eight links in the energy chain is critical to our success and helps us to deliver our vision to be the leading integrated energy company in our chosen markets.

7 WE SERVICE IT

providing peace of mind, delivered to millions of residential and business customers in the UK and North America with our pioneering products for central heating, boiler and cooling maintenance and breakdown cover

8 WE SAVE IT

by offering an increasing number of innovative low carbon, energy efficiency products and services; installing solar PV panels, insulation, ground and air source heating and solar canopies to charge the first fully-electric cars in the UK

Corporate Responsibility on **pg 26**

CHIEF EXECUTIVE'S REVIEW

DELIVERING OUR VISION

HOW WE'RE DELIVERING OUR VISION TO BE THE LEADING INTEGRATED ENERGY COMPANY IN OUR CHOSEN MARKETS

OUR STRATEGIC PRIORITIES

1

GROW BRITISH GAS

Despite a reduction in operating profit*, British Gas delivered a solid financial performance in 2011 in challenging market conditions, underpinned by our scale, our service and our drive for innovation. Despite the current economic challenges, operational improvements and investment for the next phase of growth leave us well placed for the long term.

2

DELIVER VALUE FROM OUR GROWING UPSTREAM BUSINESS

Centrica Energy delivered a significant increase in operating profit* in 2011. Our focus will remain on growing our upstream gas and oil business, through acquisition and organic development, and on expanding the scale of our offshore wind operations.

3

BUILD AN INTEGRATED NORTH AMERICAN BUSINESS

Direct Energy's operating profit* in 2011 benefited from operational improvements and cost efficiencies, and the impact of acquisitions. The business outlook remains positive and we expect continued growth across the business, both upstream and downstream.

4

DRIVE SUPERIOR FINANCIAL RETURNS

In tough economic conditions, our priority is to maximise returns from our existing assets, while maintaining a disciplined approach to investment. By streamlining our operations to create an improved, cost-efficient organisation, we expect to deliver £500 million of cost savings over the next two years, allowing us to continue to invest for further growth within the existing cost base.

£50BN

The total value of our commitments to secure gas for the UK now stands at more than £50 billion

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Business Review

DELIVERING AGAINST OUR PRIORITIES

- Improved delivery for customers with Nectar, Sainsbury's and online.
- 4 star rating from Consumer Focus.
- First to reduce residential energy tariffs in 2012, regaining the cheapest electricity position.
- Services continued to see growth in accounts.
- Improved service flexibility.
- Further progress in new markets including social housing, insulation, microgeneration and smart meters.

Operating profit* in British Gas residential services increased by 10% to £264 million with increased operating margins, despite the challenging economic environment.

- Good asset performance.
- Deploying distinctive capabilities enabled a production replacement ratio of 112% reflecting upgrades of existing fields.
- North Sea reserve additions through agreements to acquire 175mmboe of reserves in Norway and the UK continental shelf.
- Signed a new 10-year supply contract with Statoil.
- First delivery of LNG to Isle of Grain under Qatargas contract.
- Nuclear output up 16% and wind output up 21%.

In December, we announced an intention to increase our upstream gas and oil production by 50% to 75mmboe a year and to treble our offshore wind capacity.

- Increased scale in residential energy with Gateway, First Choice Power and Vectren Retail acquisitions plus organic growth in US North East.
- Further volume growth and sustained margins in business energy.
- Integration of Clockwork completed.
- Acquired insurance capability in the US through Home Warranty of America (HWA).
- Improved performance upstream with 14% increase in proven and probable reserves.

We delivered significantly higher operating profits* in North America, reflecting both the operational improvements we have made and the contribution from acquisitions. Direct Energy provides a strong platform for future growth.

- Strong returns from existing assets.
- Maintained efficiency and service levels downstream – leadership through scale and brand.
- Disciplined approach to investment, aligned with strategy and capabilities.
- Healthy balance between upstream and downstream.
- Strengthened the hedge, adding scale and value.
- Customer remained at the heart of everything we do.

Strong cash flows and an attractive range of investment opportunities is a key attribute of our business model. We will only deploy capital where we see a strong strategic fit, together with attractive returns commensurate to the risks being undertaken.

Business Review

KEY PERFORMANCE INDICATORS
MEASURING OUR PERFORMANCE

We monitor our performance by measuring and tracking key performance indicators (KPIs) that we believe are important to our longer-term success. Long-term sustainable performance of these KPIs is also linked to our executive and senior management remuneration arrangements.

FINANCIAL

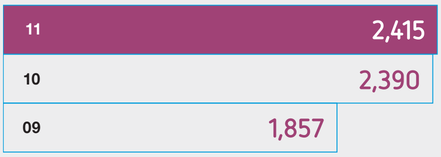
Adjusted operating profit

Operating profit is our key measure for financial performance.

For remuneration target purposes, and due to the Group's wide range of tax rates and use of capital, adjusted operating profit is further reduced to a post tax basis and by a charge on capital.

Source: Adjusted operating profit is reported in note 4 of the audited Financial Statements.

Adjusted operating profit (million)



Target for 2012

To generate operating profit that substantially exceeds tax charges and the cost of capital employed.

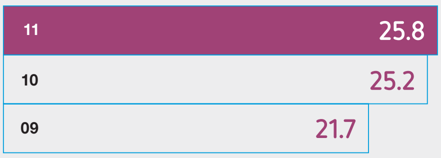
Adjusted basic earnings per share (EPS)

EPS is an industry standard determining corporate profitability for shareholders. EPS is adjusted to better reflect the performance of the business. 2011 saw growth in our EPS despite the challenging economic conditions during the year.

This measure of performance is calculated as profit before other costs and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements for the year, attributable to equity shareholders of the parent company, divided by the weighted average number of shares in issue during the year.

Source: The measure of adjusted basic EPS is reported in note 11 of the audited Financial Statements

Adjusted basic earnings per share (pence)



Target for 2012

To deliver real growth in adjusted EPS over successive three-year periods. This measure is used as one of the performance conditions in the Long Term Incentive Scheme.

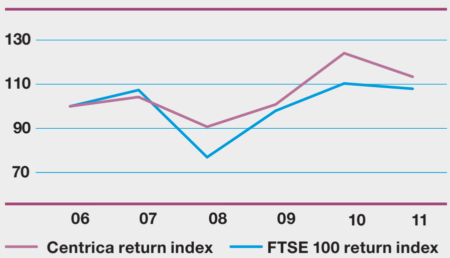
Total shareholder return (TSR)

The Board continues to believe that TSR is a valuable KPI to assess the Company's performance in the delivery of shareholder value. Centrica has outperformed the FTSE 100 Index by 5% over the previous five years.

Total shareholder return measures the return to shareholders in terms of the growth of a £100 investment in the Company's shares, assuming that dividends and returns of capital are reinvested. We compare our TSR with those of the other 99 members of the FTSE 100.

Source: Alithos Limited, 31 December 2006 = 100.

Total shareholder return indices – Centrica and FTSE 100 Index for the five years ended 31 December 2011



Target for 2012

To deliver improved levels of relative TSR as a measure of performance over successive three-year periods. This measure is used as one of the performance conditions in the Long Term Incentive Scheme.

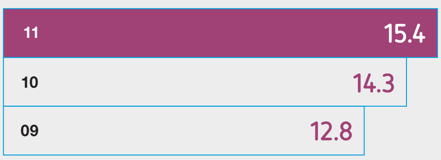
Dividends per share

Dividends per share indicate the level of earnings distributed to Centrica shareholders. The 2011 dividend shows an increase of 8% on the 2010 dividend.

This is the total dividend per share (excluding special dividends) paid in respect of each financial year.

Source: The dividend is reported on the Group Income Statement, part of the audited Financial Statements.

Ordinary dividend (pence)



Target for 2012

To deliver real growth each year. Dividends paid contribute to relative TSR as utilised as a measure of performance over successive three-year periods in the Long Term Incentive Scheme.

Business Review

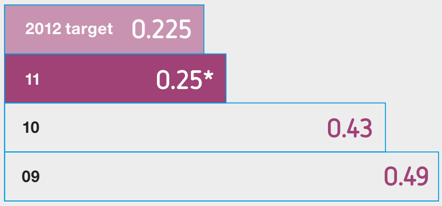
NON-FINANCIAL

Lost time injury rate (LTIR)

Safety is the top priority for Centrica as we believe that all work-related injuries and process safety incidents can be prevented. We want to develop a culture where all safety risks are tackled with a determination to improve performance, people look out for each other and we share learnings and successes. Initiatives across the Group led to a reduction in our LTIR per 100,000 hours worked in 2011 to 0.25. Pursuing a best practice safety culture we broadened the scope of LTIR to include third-party managed individuals.

A lost time injury is defined as an incident arising out of Centrica's operations which leads to an injury where the employee or contractor is not available to work for one day or more, excluding the day that the injury occurred.
Source: Internal data collection.

LTIR per 100,000 hours worked



*2011 figure includes third-party managed contractors for the first time and is not directly comparable with 2010 data

Target for 2012

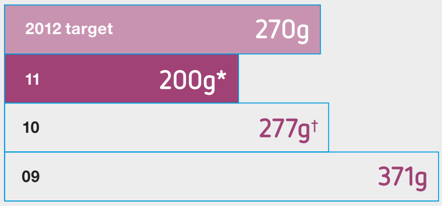
LTIR and process safety feature as measures of performance over successive three-year periods in the Long Term Incentive Scheme.

Carbon intensity

We continued to reduce the carbon intensity of our UK power generation fleet in 2011, achieving 200g CO_2/kWh. This reduction is mainly attributable to a full 12-month offtake in nuclear power from our 20% stake in EDF Energy Nuclear Generation (formerly British Energy) and the effect of placing a number of gas-fired power stations into preservation mode for periods of the year. Our global carbon intensity reduced to 221g CO_2/kWh in 2011.

Carbon intensity measures the amount of carbon dioxide (CO_2) emitted per unit of electricity generated. Our figures are based on average annual emissions from all wholly owned or partially owned UK power generation assets and all other power generation assets from which Centrica is entitled to output under site-specific contracts.
Source: Based on verified emissions data under the requirements of the EU Emissions Trading Scheme (ETS).

Carbon intensity g CO_2/kWh



* 2011 data subject to final EU ETS verification
† restated to represent 2010 figure verified by EU ETS

Further information on carbon intensity is at www.centrica.com/carbonintensity

Target for 2012

Decarbonising power generation is a critical enabler for other sectors of the economy to meet the UK's CO_2 targets and our strategy is to invest in lower carbon generation, such as high-efficiency gas-fired power stations, nuclear energy and offshore wind farms. This strategic aim is reflected in the objectives of key members of senior management. Strategic objectives feature as a measure in the Annual Incentive Scheme.

Customer trust

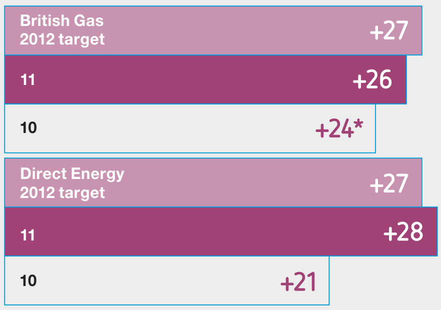
We track our performance using net promoter scores (NPS) for our two customer-facing businesses: British Gas in the UK and Direct Energy in North American markets.

*British Gas NPS calculation methodology and scope has altered in 2011, 2010 data has been restated at the new scope. NPS improved in 2011 with an annual average score of +26, despite cutomer concerns around increasing energy prices.

Direct Energy NPS rose to +28, up from +21 in 2010.

The NPS measures customers' responses to the question 'How likely would you be to recommend us (0-10 scale)?' The score is calculated by the percentage of customers defined as promoters (scoring 9-10) minus the percentage defined as detractors (0-6).
Source: Internal calculations combining figures for residential, services and business divisions. Net promoter scores are collected through a combination of customer feedback forms and customer telephone interviews conducted by a third-party supplier.

Net promoter scores



Further information on net promoter scores is at www.centrica.com/nps

For British Gas, a blend of brand and contact NPS has been provided in place of previous brand NPS. This is believed to be more reflective of the actual services that customers experience from British Gas.

Target for 2012

To achieve British Gas NPS of +27 in 2012 and Direct Energy NPS of +27 in 2012.

British Gas NPS and Direct Energy NPS are measures of performance over successive three-year periods in the Long Term Incentive Scheme.

Employee engagement

We use a Group-wide employee survey to measure engagement and to receive feedback on how we can create a positive and challenging work environment. In 2011, we did not conduct a Group-wide survey but took the opportunity to undertake a strategic review of how we measure employee engagement as a tool to drive business performance. The outputs of this review are being used to inform how we continue to measure engagement in 2012 and beyond, including the delivery of a survey in 2012.

Employee engagement features in the non-financial KPI dashboard and is a measure of performance over successive three-year periods in the Long Term Incentive Scheme. We aim to have employee engagement scores in the top quartile of the external benchmark of similar companies.

Business Review

For the year ended 31 December	2011	2010
Adjusted operating profit* (£m)		
Residential energy supply	522	742
Residential services	264	241
Business energy supply and services	219	233
Customer numbers (year end, '000)		
Residential energy customer accounts	15,881	15,978
Residential services product holdings	8,862	8,718
Business energy supply points	999	1,044

DOWNSTREAM UK
BRITISH GAS

British Gas

Phil Bentley
Managing Director, British Gas

Our vision for British Gas is simple; by deepening our relationships with our customers through value for money, better service and innovation, we aim to be the number one choice for energy and services today, as well as in the smarter homes and businesses of tomorrow.

However, we can't ignore the economic reality we're facing in Britain – household and business budgets are stretched, and, as the long-term wholesale cost of energy prices continue to rise, customers want to know that they are getting a fair deal and the best value for their money.

Trust in the energy industry needs to be rebuilt. Customers want simple tariffs, transparent bills and a fair deal on energy. Responding to this challenge, we announced in November a series of initiatives, making it easier for customers to buy their energy (just two simple tariff types – fixed and variable) and helping customers save money on a better deal.

But we also need an honest conversation about the future of energy in Britain. This means being much clearer about the cost of producing and providing energy to customers' homes, the rising cost of green and social levies, the impact of rising demand in international markets, and the profits and investments the energy industry makes. British Gas is the only energy supplier to include a breakdown of these on customer bills.

British Gas serves around 12 million homes – half the homes in Britain. This is both a strength, and a responsibility. Service excellence is critical and will remain at the heart of all our offers. Our challenge in 2012, as an energy industry, is to continue to work hard to win our customers' trust. We are leading the way – working with our customers to change British Gas for the better.

Business Review

DOWNSTREAM UK

British Gas experienced challenging market conditions in 2011. Rising wholesale gas and power prices during the first half of the year necessitated an increase in residential gas and electricity tariffs in August. And although wholesale prices fell at the end of the year, enabling a reduction in residential electricity tariffs in January 2012, the longer-term trends remain upwards. The UK also experienced warmer than normal weather in 2011, compared to exceptionally cold weather in 2010 and the economic environment continues to be challenging, particularly impacting residential services and business energy supply. Against this background, our 2011 performance was good.

In the current economic and political climate it is important that energy suppliers help to build trust in the industry, which is why we launched the 'honest conversation' campaign with customers. As part of a series of industry leading measures we wrote to our customers, highlighting how they could ensure that they were on the best deal with British Gas, and we provide a complete breakdown of costs on our customers' energy bills. These are important measures, coming on top of our commitment not to raise prices throughout the winter for residential customers. We also continue to lead the industry in helping our customers reduce their energy usage and in helping the most vulnerable customers. Our free insulation offer remains available to all our customers and we now have over 700,000 EnergySmart accounts, a product which helps customers monitor their energy usage. Our social spend in the year exceeded the minimum requirement set out by Government. We now have over 500,000 customer accounts on our Essentials tariff and are actively helping vulnerable customers claim the Warm Home Discount, where we have the broadest eligibility criteria of any major supplier.

400,000

Our insulation workforce has now completed 400,000 jobs, achieving growth through organic recruitment and acquisitions

The number of residential energy accounts on supply fell slightly, reducing by 97,000 to 15.9 million. We delivered account growth in the first half of the year. However, the increase in wholesale commodity prices during the first half of the year and rising non-commodity costs led to an increase in our residential gas and electricity tariffs in August, by an average of 18% and 16% respectively. This resulted in an increase in churn in the second half of the year. In January 2012, we were the first of the major energy suppliers to reduce our standard residential electricity tariff. This 5% reduction once again placed us as the cheapest major supplier of electricity, on average, in Britain.

In the competitive energy supply market it is important to remain innovative. Our partnerships with Nectar and Sainsbury's have been highly successful, with over 4 million of our customers now enrolled on the Nectar loyalty programme. These new channels are delivering high value customers, with the Nectar scheme also helping to shape customer behaviour, and more customers are now submitting meter readings online, moving to paperless billing and choosing to pay by Direct Debit. British Gas also appeared top of the best buy league tables for online switching for more weeks in 2011 than any other supplier.

Our online platform is also proving increasingly popular with both energy and services customers. In 2011, over 20 million transactions were carried out online, more than double the number from 2010, with increasing levels of meter readings, payments and Annual Service Visit bookings being submitted online. As well as reducing our cost to serve, this change in customer behaviour is also helping to deepen the customer relationship, enabling greater interaction with the customer. Our levels of customer service also remained high in residential energy supply and we were awarded a 4 star service rating from Consumer Focus for the first time.

In residential services, the number of contract holdings increased by 144,000 to 8.9 million, benefiting from stronger customer retention. However, the challenging economy is creating an adverse climate for major consumer purchases, particularly in our central heating installations business and accordingly, the number of central heating systems installed was 15% lower than 2010. Despite this, we made good progress during the year. The roll-over to insurance-based products is now complete, allowing us to offer a more flexible range of products, while the agreement we reached with our service and repair engineers in 2010 means we are able to meet increased customer demand

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

DOWNSTREAM UK BRITISH GAS

for evening and weekend appointments. This increased engineer flexibility meant that we were able to visit the vast majority of our customers on the day they reported a fault. Maintaining a high quality of customer service is vital and the contact NPS for our services business grew to 55.

In business energy supply, the number of customer supply points reduced by 45,000 over the year, to 1.00 million (2010: 1.04 million). This reflects our volume to value strategy and also the challenging market conditions. Recognising the impact on our customers, we will continue to focus on delivering high levels of service for each of our customer segments, at competitive prices. Our business services division made further progress during the year with the successful integration of the acquired Connaught services team and the average order value on installations up 16% on 2010. Over time, this will allow us to grow a differentiated position in this competitive market.

Health and safety is critical to the success of British Gas and we have a good safety record, with the lost time injury frequency rate (LTIFR) falling by 48% this year and the number of lost time incidents reducing by 35%. We continue to monitor employee engagement closely, and are pleased to see that absence and attrition rates were both substantially lower than in 2010. We were also recognised by the Great Places to Work Institute as one of the 'UK's 50 Best Workplaces', for the third year in a row.

We continue to grow our new markets business, which now has gross revenue of over £250 million, capitalising on our broad range of expertise to take advantage of attractive opportunities. Our insulation workforce has now completed 400,000 jobs, achieving growth through organic recruitment and the acquisitions of Hillserve Ltd and ECL Contracts Ltd in 2010. We have also recently entered into our first affinity partnership in the water sector, with an agreement with Thames Water to promote both energy and water saving products – including solar panels, heat pumps, energy efficient boilers, shower savers and free insulation.

On new technologies, we secured contracts with Nissan, Renault, Toyota and Hitachi Capital to become the preferred partner for home charging solutions for their electric vehicles. We also completed substantially more solar installations for both residential and business customers, with 2,400 installations and 12.8 Megawatts-peak (MWp) installed. With the announcement of a halving of the Feed-in Tariff for solar installations, demand is expected to reduce, although falling panel prices may help ensure that solar continues to be an attractive investment for residential, business and public sector customers. In December we acquired the remaining 81% of Econergy Ltd, a market leader in biomass heating, while we continue to hold positions in a wide range of other technologies, with capabilities in biomethane gas, heat pump installation and fuel cell boilers.

We continue to lead the industry in the roll-out of smart meters, having insourced our metering operations and installed over 450,000 smart meters for homes and businesses to date. However, we await confirmation from Government of the smart meter national implementation programme and from the Regulator regarding its plans for retail market reform, before we proceed to full scale roll-out. Our focus in the social housing sector continues and we now manage a portfolio in excess of 275,000 homes and in 2011 we acquired PH Jones Group Ltd, a provider of central heating services to the social housing market. We are also undertaking work on the Welsh Assembly Government's new fuel poverty programme, in addition to the Scottish Government's Energy Assistance Programme which we won last year. Together, these contracts are expected to generate revenue of over £200 million over the next five years.

£470,000

We are committed to encouraging and enabling our employees to participate in volunteering activities to support their personal development and help build a great place to work.

Employees are entitled to take up to two days of work time per annum to get involved in volunteering activities of their choice.

In addition to volunteering, many employees are also active charity fundraisers and, in September, 34 climbers from British Gas successfully scaled Mount Kilimanjaro raising £134,000 for Make-A-Wish, our 2010-2011 Charity of the Year.

They elected to take one of the more challenging routes up the 19,340-foot (5,895 metre) mountain and completed the task within seven days by trekking for over 10 hours on the final approach to ensure they reached the summit.

The group – which included British Gas Managing Director Phil Bentley – overcame a number of challenges during the week, not least the range of temperatures and climatic zones they encountered, but also the possibility of altitude sickness. Climbers were randomly selected from across the business, with each required to raise a minimum of £2,500 to participate in the challenge.

By the end of the partnership, more than £470,000 was raised by British Gas employees in support of children and young people fighting life-threatening conditions.

Read more @ **www.britishgas.co.uk**

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Overall, gross revenue in the period fell to £12,319 million (2010: £12,730 million), with higher average retail tariffs for both residential and business energy being more than offset by lower gas and electricity consumption. Operating profit* for residential energy supply fell by 30% and for the operating segment as a whole decreased by 17% to £1,005 million (2010: £1,216 million).

Residential energy supply operating profit* decreased 30% to £522 million (2010: £742 million) and operating margin fell to 6.4% (2010: 8.9%), as the favourable combination of extremely cold weather and low commodity costs in 2010 reversed. Average gas consumption reduced by 21% and average electricity consumption reduced by 4% due to the warmer weather and as energy efficiency measures continue to deliver underlying reductions. Gross revenue decreased to £8,113 million (2010: £8,359 million), reflecting the decline in consumption. Consequently, despite the increase in retail tariffs implemented in August, the average customer bill fell by 4%. In these current market conditions it is important that we focus on reducing our cost base and as a result of improved processes and close management attention, our bad debt charge fell 26% compared to 2010.

Residential services operating profit* increased by 10% to £264 million (2010: £241 million) with the operating margin increasing to 17.6% (2010: 16.5%) in a challenging economic environment, which requires us to remain closely focused on driving cost efficiencies in the business.

During the first half of the year, warmer weather resulted in reduced breakdown call out costs compared to the first half of 2010, but we incurred additional costs to complete annual service visits deferred from the prior year, as we had prioritised our workload during the cold weather in late 2010. Gross revenue rose by 3% to £1,504 million (2010: £1,464 million) reflecting a slight increase in the average number of customers and average prices.

Business energy supply and services operating profit* fell by 6% to £219 million (2010: £233 million) while gross revenue fell by 7% to £2,702 million (2010: £2,907 million), reflecting the impact of much warmer weather and the economic environment, partially offset by credits arising from improved revenue and billing processes. As a result, the operating margin remained broadly flat at 8.1% (2010: 8.0%).

OUTLOOK

Our business model remains strong and British Gas delivered a solid financial performance in 2011 in challenging market conditions, underpinned by our scale, our service and our drive for innovation. In residential energy supply, it is critical to maintain a competitive advantage, underpinning our ability to achieve sustained profit. In services, we aim to deliver double digit profit growth, even in an environment of low economic growth, achieving this through cost efficiencies, attractive customer propositions and excellent levels of service. In business energy supply trading conditions remain tough, although operational improvements, opportunities in B2B services and investment for the next phase of growth will leave the business well placed for the long term.

As part of the Group-wide programme to sharpen the business and reduce costs, we are targeting substantial cost reductions in British Gas, with absolute underlying operating costs expected to reduce by 10% over the next two years. We have already announced some 1,800 role reductions across the business, while maintaining our frontline capability and high levels of customer service. We have announced the cessation of our field sales activities, and the scaling down of our solar business. In addition, we have reached agreement with our employees and Trade Unions on restructuring pension benefits and have implemented a pay freeze across the whole of British Gas. These measures will help the business to remain competitive, while also enabling investment for future growth.

WINNING

Having won ‘European Contact Centre of the Year’ for two years running our Cardiff office won silver in the large contact centre category of the 2011 World Contact Centre Awards

1.25P PER MILE

We secured contracts with Nissan, Renault, Toyota and Hitachi Capital to become the preferred partner for home charging solutions for their electric vehicles

Business Review

For the year ended 31 December	2011	2010
Adjusted operating profit* (£m)		
Gas	769	566
Power	254	205
Gas and power		
Gas production (mmth)	2,160	2,550
Liquids production (mmboe)	12.5	11.8
Proven and probable reserves (mmboe)	440	434
Power generated (TWh)	26.7	32.9

UPSTREAM UK
CENTRICA ENERGY

Mark Hanafin
Managing Director, Centrica Energy

Centrica Energy's mission is to secure the UK's energy needs, making sure the country has warm, well-lit homes, factories and offices at the same time as generating attractive returns for the Group.

As we look to the future, we see considerable potential to deliver further growth and value. There are opportunities both in upstream gas, building on the Norwegian transaction we announced in late 2011, and in power generation, with offshore wind, nuclear and biomass.

Various major international events affected the energy industry in 2011, reminding us that we now operate in a truly global market. In my view, it is one in which gas has a pivotal role to play for many years to come.

Against this backdrop, we see tremendous opportunity for our upstream business: a market in which we are well positioned, with distinctive capabilities and a strong portfolio of asset options. Our objective is to increase production by 50% to around 75mmboe over the next three to five years by strengthening our existing portfolio through greater geographic diversity. In power generation the landscape is changing but supportive of our strategy to invest in low carbon technologies.

We expect to invest a billion pounds on our power business over the next four years, with the main focus on wind farm generation. But we have investment options in all areas of generation, giving us the ability to pursue those options that offer the best returns, aligned with UK Government energy policy.

Centrica Energy continues to make excellent progress, consistently delivering on its strategy over the last two years with a business that is well-balanced between gas and oil production, and power generation. Whilst our immediate focus is on maximising returns from our existing assets and investment programme, we also see considerable potential for further growth and value over the medium term. We aim to enlarge significantly the scale of our activities, adding further gas production assets and offshore wind capacity and evaluating options in biomass and new nuclear.

Business Review

UPSTREAM UK

Centrica Energy delivered a significant increase in operating profit* in 2011, up 33% to £1,023 million (2010: £771 million). The impact of higher wholesale commodity prices and good asset performance more than offset the effect of difficult market conditions for our CCGT fleet, resulting in impairment charges being recorded, as described in the Group Financial Review on page 26. The business also made a strong contribution to both Group earnings and cash flow, despite the increase in supplementary corporation tax (SCT) during the year.

We continue to see attractive returns upstream and invested over £600 million in our upstream gas and oil business during 2011. We also invested £300 million in our power business, the majority in our Lincs offshore wind farm. Health and safety remains of paramount importance, and we continued to invest in the reliability and safety of our gas and power assets.

GAS

Total gas production volumes reduced by 15% to 2,160 million therms (mmth) (2010: 2,550mmth), with gas volumes from Morecambe down by 41% to 817mmth (2010: 1,381mmth), reflecting the natural decline of the field and the decisions to shut-in South Morecambe for commercial reasons more often than in 2010. Gas production from other fields increased by 15% to 1,343mmth (2010: 1,169mmth) and oil and condensate volumes increased by 6% to 12.5mmboe (2010: 11.8mmboe) with strong performance from existing assets, such as Grove and Chiswick, and incremental production from new fields and our enlarged stake in Statfjord.

Upstream gas and oil is an attractive area in which to deploy capital. During 2011 we produced first volumes from F3-FA and the Goosander Crestal well, while the non-operated Babbage field is now fully operational. Our Ensign project is expected to produce first gas in the first half of 2012, with first gas from Seven Seas expected in mid-2012. We are targeting first gas from our Rhyl and Atla projects in the second half of 2012, with first gas from the York project in early 2013. These five developments combined are expected to bring around 50mmboe of reserves into production. Development of the Valemon field, in which we are acquiring an interest as part of the Statoil transaction, is on track with first gas anticipated towards the end of 2014.

50 BCM

We signed a strategic agreement with Statoil which begins in 2015 and will supply 50 billion cubic metres of gas to the UK over 10 years, enough for 3.5 million homes

On the Cygnus development, where our share of reserves is 51mmboe, we are working closely with the operator, GdF Suez, to optimise the development plan for the field. Subject to acceptable returns we expect to make a final investment decision around the middle of 2012. We are progressing development of the Kew field and also expect to make final investment decisions on the Annabel East and Olympus developments in 2012. Combined, these three fields are expected to bring around 20mmboe into production.

Our drilling programme delivered good results once again in 2011. We successfully drilled production wells at Chestnut, F3-FA and Goosander. There were also successes at the non-operated North West Seymour field and two wells at the West Brae field. However, one of the wells at Ensign failed, and will be re-drilled following completion of our other planned Ensign development wells. We had exploration discoveries at the Pegasus prospect in the UK North Sea and the Butch discovery in Norway, both operated by Centrica. However we were unsuccessful with our drilling at the Whitethroat prospect in the UK North Sea.

We added 54mmboe of proven and probable reserves during 2011 primarily due to upgrades of producing fields, such as Grove and Chiswick and bringing new fields, such as Maria, into the development pipeline. After taking account of production during the year, our production replacement ratio was 112% and we ended the year with total reserves of 440mmboe.

The average achieved gas sales price, net of the impact of hedging, increased by 24% to 51.6 pence per therm (p/th) (2010: 41.6p/th), reflecting higher wholesale UK gas prices. The achieved price also reflects production from our activities in Trinidad and Tobago, for which prices are linked to Henry Hub. The average achieved oil and condensate price, net of the impact of hedging, increased by 22% to £57.2 per barrel of oil equivalent (boe) (2010: £46.8/boe), reflecting higher worldwide oil prices. Production costs increased by 15% to £1,127 million (2010: £980 million) reflecting inflationary cost increases, new gas and oil fields coming into production and the full-year impact of the acquisitions of an additional stake in Statfjord and some Trinidad and Tobago assets in the second half of 2010. On a per unit of production basis, lifting costs increased to £9.9/boe (2010: £6.6/boe) while depreciation, depletion and amortisation (DDA) costs increased to £10.1/boe (2010: £8.9/boe), reflecting a reduced proportion of low cost Morecambe production in the mix.

In February we entered into a Memorandum of Understanding (MOU) with Qatargas, leading to a three-year contract for the delivery of 2.4 million tonnes of LNG per annum, and in December we signed an MOU with Qatar Petroleum International to examine other joint energy-related investment opportunities. In June we took delivery of our first cargo under the Qatargas contract. In November, alongside the acquisition of a package of

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Business Review

UPSTREAM UK CENTRICA ENERGY

assets, we signed a new 10-year, NBP-linked gas supply contract with Statoil. The 5 billion cubic metres per annum gas supply contract starts in October 2015 and will replace the existing supply contract with Statoil. In addition we also signed an MOU with Statoil to consider partnering on gas focused exploration opportunities in Norway and the UK.

Overall operating profit* for the gas segment increased by 36% to £769 million (2010: £566 million) with higher achieved prices more than offsetting the impact of reduced gas volumes and higher production costs.

POWER

Strong performance from our share of nuclear assets more than offset the impact of weak market conditions for our gas-fired power stations. Our share of nuclear output increased by 16% to 11.2 terawatt hours (TWh) (2010: 9.7TWh), with fewer unplanned outages during the year. Our average achieved nuclear power price, net of the impact of hedging, increased by 13% to £48.5 per megawatt hour (MWh) (2010: £42.9/MWh) reflecting the impact of higher baseload market power prices. As a result of the higher volumes and higher achieved price, nuclear profitability* was much improved compared to 2010.

Our wind assets again benefited from availability of over 90%, and with weather conditions generally more favourable than in 2010, generated volumes increased by 21% to 596 gigawatt hours (GWh) (2010: 493GWh), with the load factor improving to 36% (2010: 29%). The construction of the 270MW Lincs wind farm project is proceeding to schedule, although unfavourable weather conditions at the end of 2011 and early in 2012 delayed installation of the foundations. 48 out of 75 foundations are now complete, while the offshore substation has been installed and commissioning is ongoing. Lincs is expected to generate first power in the second half of 2012 and is expected to be fully operational in the first half of 2013.

Weak market conditions for our gas-fired CCGT fleet resulted in a 34% reduction in generation volume to 15.0TWh (2010: 22.8TWh) and a lower load factor of 35% (2010: 56%). The average spark spread achieved fell to £10.1/MWh (2010: £11.6/MWh) but was still well above the average baseload market spread, reflecting volumes sold at peak times. Plant reliability remained high at 98% (2010: 97%). As a result of the weak market conditions we are in the process of restructuring our CCGT portfolio and are proposing to close two of our plants, at Barry and Kings Lynn, with a total capacity of 555MW. Our plants at Peterborough, Brigg and Roosecote are now configured to run more flexibly and operate in the Short Term Operating Reserve (STOR) market, resulting in lower operating costs.

Overall operating profit* for the power segment increased by 24% to £254 million (2010: £205 million) with higher volumes and achieved prices from our nuclear and wind assets more than offsetting the impact of lower gas-fired generation volumes.

OUTLOOK

Further increases in wholesale gas and power prices would be positive for our upstream gas and oil, nuclear and wind businesses, although market conditions for our gas-fired generation assets are likely to remain challenging and load factors are expected to remain low. In addition, the business will face a full-year's impact from the higher upstream gas and oil taxes in 2012.

Production of both gas and liquids is expected to increase by over 25% in 2012 following the acquisitions of a package of assets in the Norwegian North Sea from Statoil, announced in November, an additional stake in the Statfjord field, announced in January 2012 and a package of UK North Sea assets from Total, announced in February 2012. The Statoil and Statfjord transactions are expected to close in May 2012, with the Total transaction expected to close in July 2012 and in aggregate these three acquisitions are expected to add around 13mmboe of gas and liquids production in 2012.

We will continue to invest in the upstream business where we see value. The focus will remain on growing our upstream gas and oil business, through acquisition and organic development, and on expanding the scale of our offshore wind operations. We expect to make a final investment decision on the Cygnus gas development around the middle of 2012, subject to suitable returns, with a final investment decision expected on the Race Bank offshore wind farm around the end of the year. We also retain further investment options – in new nuclear build, biomass and new build CCGT. With all of our investment options, we will only proceed if appropriate returns are achievable.

CE WAY

In 2010, we launched 'The CE Way', a programme for all employees focusing on the way we want our business to be run, the way we want people to act and the way we want it to feel working for Centrica Energy. It is composed of three ways – high performance, pioneering spirit and safety.

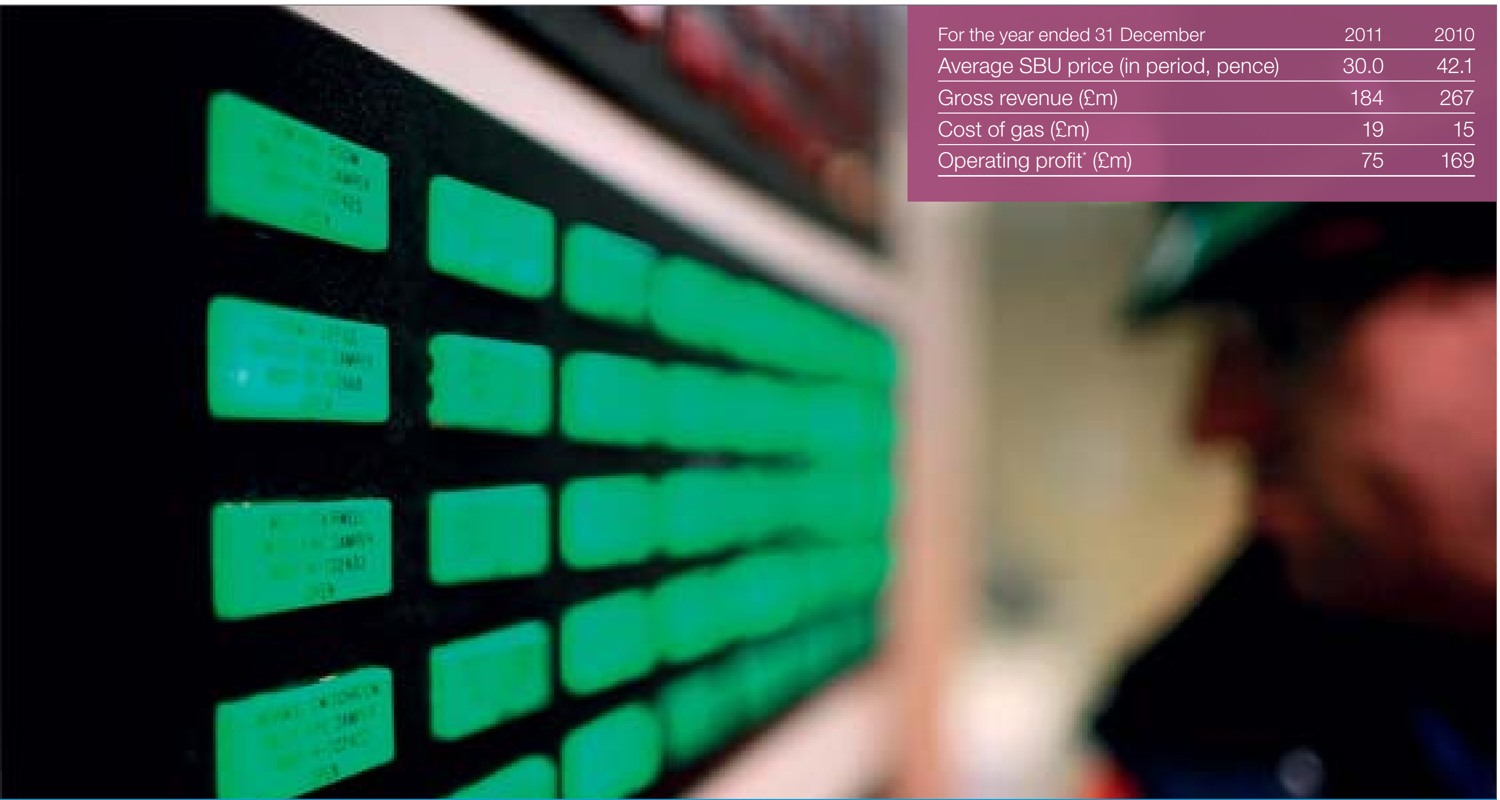
Building on the successful introduction, we focused on embedding the CE Way during 2011 and in helping our people bring it to life and make sense of it.

One of the most successful interventions of 2011, were the CE Way Labs. These were highly interactive events designed to equip 250 of our people leaders with skills, insights and knowledge to help them create team environments where high performance, pioneering spirit and safety are inevitable. Not only did the people leaders attend workshops at these labs but they also had a chance to experiment with what they learnt.

Read more @ **www.centricaenergy.com**

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Business Review



For the year ended 31 December	2011	2010
Average SBU price (in period, pence)	30.0	42.1
Gross revenue (£m)	184	267
Cost of gas (£m)	19	15
Operating profit* (£m)	75	169

STORAGE UK
CENTRICA STORAGE

Grant Dawson
Chairman, Centrica Storage

The Centrica Storage vision is to become the leading multi-asset, multi-product gas storage business in the UK.

With the UK increasingly dependent on imported gas, increasing the country's gas storage capacity remains key to ensuring security of supply for businesses and homes. This remains the case despite limited usage through the winter of 2011/12 due to warm weather.

We are making good progress towards our market-leading vision and our two new storage projects – at Baird and Caythorpe – have both completed their engineering design phase. The economic viability of both projects remains critical and we will continue to review market conditions.

Gas storage prices, as reflected in standard bundled unit (SBU) prices, remained low in 2011 with the differential between summer and winter gas prices narrower than in recent years. This challenges the economics of new storage construction and has reduced the profitability of our existing storage facilities. We will maintain financial discipline, only making the required investments when there are attractive commercial opportunities. Should the market fail to provide the necessary investment signals, as we progress these projects towards a final investment decision, we will discuss the market mechanisms required with the UK Government to support investment in increased storage build.

The Rough storage field continues to provide more than 70% of UK gas storage and remains a critical national asset. We will need to continue to invest significant sums of money to protect the long-term future of the field – it remains a key part of the Group's integrated energy business.

During 2012, we will continue to strengthen our business across all areas, in preparation for a multi-asset storage future. It will be a year when we focus on driving efficiency and improving underlying business processes.

Business Review

STORAGE UK
CENTRICA STORAGE

STORAGE UK

Centrica Storage faced difficult trading conditions in 2011, with the differential between summer and winter gas prices remaining narrow for much of the year reflecting an increasing amount of LNG coming to the UK during the winter months.

The Rough asset continued to perform well, with reliability of 96% (2010: 98%) impacted by a small number of disruptions at the Easington terminal in January and essential offshore maintenance work on the asset in June. Warmer weather in the first quarter of the year meant that injection started earlier than usual and further mild weather throughout spring and summer resulted in Rough reaching a record Net Reservoir Volume (NRV) of 132 billion cubic feet (BCF) early in the fourth quarter. Health and safety remains our top priority and during the year we undertook a number of process safety related initiatives, with further work planned in 2012.

Gross revenue fell by 31% to £184 million (2010: £267 million). The narrowing of seasonal spreads resulted in an average SBU price of 30.0 pence (2010: 42.1 pence). In addition, revenue from optimisation and additional space sales was lower, again reflecting the narrowing of seasonal spreads, as well as reduced market volatility. After taking account of higher fuel-gas costs, higher depreciation resulting from previous investment in Rough and inflationary cost increases, operating profit* fell by 56% to £75 million (2010: £169 million).

We have taken the decision to terminate our Bains storage project, following a review of the results of 3D seismic survey data which indicated that the reservoir would not be sufficiently attractive to convert into a storage facility. Centrica Energy now plan to return the field to production, with work expected to commence in the first half of 2012.

We continue to assess our Baird storage project, which remains an attractive investment option subject to an improvement in market conditions. Our Caythorpe fast-cycle project remains on hold and we will continue to monitor market conditions going forward.

In April, the Competition Commission published its final decision on our request for a review of the Undertakings given to the Secretary of State following the acquisition of Rough. A number of variations have been agreed to the Undertakings to reflect the changes in the market, including an increase in the proportion of capacity that Centrica is allowed to acquire for its own use to 25% (from 15%). We expect to sign the revised Undertakings shortly.

While the seasonal spread for the 2012/13 storage year showed some improvement over the fourth quarter of 2011, the forward curve further out indicates that spreads are expected to remain tight for the medium term. With the UK importing an increasing proportion of its gas requirements, there is a general recognition that the UK is in need of further storage capacity; however, we will only invest in new projects if returns are appropriate for the level of risk undertaken.

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

300 HRS

In 2011 Centrica Storage employees provided more than 300 hours of volunteering support to the communities in which we operate.

In partnership with the Marine Conservation Society's (MCS) Adopt-a-Beach Scheme, we adopted Easington beach which stretches in front of our Easington terminal. Employees spent more than 50 hours collecting and disposing of rubbish on the beach, not only making it a much better place for visitors, but they also provided vital information by recording what was found to assist MCS with tackling marine pollution.

Time was also spent helping the South Holderness Countryside Society (SHCS) restore Ivy House in Hollym in Yorkshire near to Easington. The SHCS are working to turn Ivy House and its land into a nature reserve for visitors and school children. Activities that our people have helped with include removal of building rubble, cabling for an IT room, carpentry and painting. Centrica Storage apprentices and electrical technicians have also helped to rewire Ivy House.

Read more @ **www.centrica-sl.co.uk**

70%

The Rough storage field continues to provide more than 70% of UK gas storage and remains a critical national asset

For the year ended 31 December	2011	2010
Adjusted operating profit* (£m)	312	234
Residential customer accounts (year end, '000)	3,364	2,855
Proven and probable reserves (year end, mmboe)	109	96

NORTH AMERICA
DIRECT ENERGY

Chris Weston
Managing Director, North America

Our strategic priority is to build an integrated North American business with leading positions in deregulated markets; our ambition is to become the most recommended energy and services provider.

We are pursuing several growth areas: further acquisitions upstream and downstream, additional market entries for our retail supply business, growing our current market share in energy and services, and additional cross-selling opportunities between the energy and services businesses.

Natural gas will continue to play an important role in North America; gas production is 26 trillion cubic feet per annum with shale gas already driving more than 20% of domestic production and expected to continue to grow. There is growth in domestic demand, largely from power generation, but current low prices for gas could create new sources of demand as customers switch fuels for appliances and vehicles, and as commercial customers reinvest in manufacturing.

Our Clockwork acquisition has been transformational; we are now the largest services business in North America, with 3 million residential and business customer relationships.

We see opportunities to convert these customers to protection plan or contract customers and to build our cross-sell proposition and customer base.

We continue to pursue value creating opportunities in both power generation and upstream gas, as we did with our recent Wildcat Hills and Carrot Creek asset acquisitions. Vertical integration is a key source of value in North America, as it is in the UK, and we have seen how it can drive good results, as it did during the extreme weather we experienced in the US last year.

In summary, we're making good progress across all of our lines of business, we're driving organic improvements to deliver efficiencies, and we have established a strong financial track record. We're well-placed to grow organically, building on our existing base and strong market positions.

Business Review

NORTH AMERICA
DIRECT ENERGY

NORTH AMERICA

Direct Energy achieved strong growth in operating profit* in 2011, benefiting from operational improvements and cost efficiencies, both upstream and downstream, and the impact of acquisitions. This improvement came despite more challenging market conditions for the retail energy supply business and continued low gas and power prices in our core geographies.

Gross revenue increased slightly to £6,117 million (2010: £5,997 million) as the impact of lower wholesale energy prices was more than offset by customer growth in residential energy supply and higher volumes in both business energy supply and upstream and wholesale energy. Operating profit* increased by 33% to £312 million (2010: £234 million), with stronger performance from our business energy supply, residential and business services and upstream and wholesale energy divisions. The impact of currency movements on the reported results was not significant in 2011.

RESIDENTIAL ENERGY SUPPLY

Direct Energy Residential delivered a good performance in a consolidating competitive landscape, with less favourable market conditions and more extreme weather than in 2010. The total number of customer accounts increased by 18% over the year further building on our leading position in competitive markets in North America, as we significantly expanded the scale of the business through acquisitions and organic growth. We made three acquisitions in residential energy supply in 2011, Gateway Energy Services, First Choice Power and Vectren Retail. These transactions added over 750,000 customer accounts and built on a successful strategy of acquiring smaller suppliers, increasing our market share in deregulated markets, leveraging our existing systems and removing costs.

In the US North East, the acquisitions of Gateway in the first half of the year and Vectren Retail in December have contributed to an almost doubling of the size of our customer base, enhancing our scale in the key states of New York and Ohio, and further consolidating our top three market position in this important region. Our investment in the US North East is delivering returns well in excess of our cost of capital.

The Texas business performed well despite price spikes during extremely cold weather in February and the hottest August on record. After taking account of higher prices and load factors achieved in our upstream power business, profitability* in Texas was not materially impacted by the weather. Our transformation programme has simplified our systems and platforms and is delivering real results. We are making more efficient use of sales channels, our consolidated billing platform and prepaid offering are helping to reduce bad debt and operating costs, and we have improved levels of customer satisfaction and reduced customer churn. Our enhanced segmentation approach has also contributed to improved returns in Texas and we are expanding this approach to our other markets. In addition, the acquisition of First Choice Power, which added 220,000 customer accounts, further strengthens our position as the third largest energy retailer in the state.

In Ontario, the market structure is no longer conducive to competition and has been made even more challenging by the Energy Consumer Protection Act, which makes it substantially more difficult to acquire and retain customers. As expected, the number of customer accounts in the province has fallen significantly and we continue to aggressively manage our cost base in the region, in order to minimise the impact. Although we expect our customer base and profit* to continue to reduce in Ontario as a result, over time we expect this to be offset by growth in the US North East and Texas.

Gross revenue fell by 3% to £2,416 million (2010: £2,502 million) reflecting lower average retail tariffs. Operating profit* fell by 9% to £161 million (2010: £177 million), reflecting the less favourable market conditions, particularly in Ontario, and the spikes in Texas power prices. These impacts were partially offset by US customer growth and operational efficiencies across all core geographies. Operating margin fell slightly to 6.7% (2010: 7.1%).

BUSINESS ENERGY SUPPLY

Direct Energy Business had another strong year with further volume growth and sustained margins. Electricity volumes increased by 17% to 46.4TWh (2010: 39.7TWh) reflecting high sales productivity, the targeting of key customer segments and high levels of customer service, further consolidating our position as the third largest business energy supplier in North America. During the year we also established ourselves as a leading channel partner in KEMA's 2011 annual broker satisfaction survey.

Competition in this segment is intensifying, as competitors continue their pursuit of vertical integration and increasingly focus on the small business segment. Our established position and expertise in this area leaves the business well placed. In addition, we continued to focus on operational and scale efficiencies.

Gross revenue increased by 2.5% to £2,748 million (2010: £2,682 million) as volume growth offset the impact of the lower commodity price environment. Operating

36% UP

Power generation volumes at our three Energy Centers in Texas increased by 36% to 5,247GWh with improved asset availability and optimisation performance

* Including share of joint ventures and associates stated gross of interest and taxation, and before other costs and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Business Review

margin improved to 4.0% (2010: 3.3%) reflecting operational improvements and the benefits of scale, while operating profit* increased by 25% to £110 million (2010: £88 million).

RESIDENTIAL AND BUSINESS SERVICES

The integration of Clockwork is complete and the business is positioning itself to grow in the highly fragmented North American services market, through expansion of the franchise network and further penetration of the largest metropolitan areas. The announcement in November of the acquisition of the home services protection plan business, Home Warranty of America (HWA), provides a further platform for growth and enhances our ability to cross-sell energy and services. HWA is one of the few home warranty providers with the necessary licences to operate across the United States and the acquisition will allow Direct Energy to build an extensive protection plan business, complementing Clockwork's current nationwide on-demand offering.

Overall, the number of customer accounts was broadly flat, with the number of installations and on-demand jobs up materially, largely as a result of the full-year impact of the Clockwork acquisition. In Canada, we continued to improve retention in our water heater customer base and drive broader cost efficiencies in a challenging market environment. Although weak economic conditions in North America and a slow housing market have continued to impact our business, including our legacy new construction business in the United States, customer satisfaction remained high, with an NPS of 58, and customer retention remained strong.

Gross revenue increased by 7% to £520 million (2010: £485 million) and operating profit* nearly doubled to £28 million (2010: £15 million), mainly as a result of a full-year's impact from the Clockwork acquisition in July 2010 and cost efficiencies, partially offset by the impact of the continued weak housing market and the removal of some energy efficiency tax incentives.

UPSTREAM AND WHOLESALE ENERGY

Profitability* in our Direct Energy Upstream business improved significantly compared to 2010, despite the impact of low natural gas prices. This improvement was driven by a full-year's contribution from the Wildcat Hills assets in Alberta and improved power asset performance in Texas, particularly during the price spikes in February and August.

Gas production volumes increased by 39% to 567mmth (2010: 409mmth) while unit costs fell by 10%, reflecting the impact of the Wildcat Hills acquisition, completed in 2010, with a subsequent interest acquired in March 2011. Our North America 2P reserves increased by 14% over the year, reflecting this acquisition and operational improvements. We have also now completed the acquisition of a package of liquids-rich natural gas assets in the Carrot Creek region of Alberta.

Power generation volumes increased by 36% to 5,247GWh (2010: 3,851GWh), with improved asset availability and optimisation performance allowing the upstream business to benefit from the spikes in power prices experienced during the extremely cold weather in February and during the record high temperatures in August. As a result, the power generation business broke-even in 2011.

Overall, the upstream and wholesale division made an operating profit* of £13 million (2010: operating loss* of £46 million) reflecting improved performance from both our gas and power businesses.

OUTLOOK

The outlook for Direct Energy remains positive. Our residential energy supply business is making good progress in Texas and the US North East, although a mild winter may affect first half profitability, while the unfavourable market conditions in Ontario will continue to impact both our business and residential energy supply activities in the region. We will continue to pursue our successful strategy of acquiring energy retailers, to deliver cost synergies and scale, while at the same time improving the efficiency of our operations. We expect continued growth in both our business energy supply and services divisions, although both are significantly affected by the strength of the US economic recovery.

132,716

During 'Walktober', 1,752 employees walked 132,716 miles as part of the Wellbeing programme launched in 2011.

The programme offers a broad range of wellness services to all employees in North America. The goal is to help them improve their health and fitness, create a stronger link with field employees, involve families and make a lasting and beneficial difference in workplace culture.

Read more @ **www.directenergy.com**

In services, we will use the platform created by Clockwork and HWA to drive organic growth and over time increasingly cross-sell to our energy customer base.

Our upstream business continues to be impacted by low gas prices in Alberta and spark spreads in Texas. With shale gas in plentiful supply, gas prices are expected to remain low across North America. In power generation, the outlook for Texas spreads will depend on the outlook for reserve margins, which was lowered last year by ERCOT, and to a certain extent on the impact of United States Environmental Protection Agency (EPA) legislation on regional power markets. The benefits of vertical integration were clearly seen during 2011, as the business coped well during periods of high power prices in Texas. We continue to seek opportunities in both upstream gas and power, subject to investments delivering appropriate returns.

We also continue to drive organic improvements across the business, streamlining our operations to create an improved, cost-efficient organisation, while seeking investment opportunities both downstream and upstream for further growth. We have therefore announced the relocation of our North American head office from Toronto to Houston, to enable us to focus more attention on our growth opportunities, in Texas and the US North East.

CORPORATE RESPONSIBILITY

BUILDING TRUST IN OUR BUSINESS

Centrica's corporate responsibility (CR) ambition is to be the most trusted energy company.

This objective is rooted in sound business sense. We need to be trusted by our customers for them to continue to choose us as their supplier, and by governments and regulators for our views and recommendations to carry weight.

In achieving a broad foundation of trust we can build customer confidence in our products and services, and maintain sustainable business success in challenging times. To achieve this, we realise we must communicate better and deliver on our commitments.

In 2011, we continued to focus on our most material CR issues: treating customers with fairness, securing future energy supplies and reducing carbon emissions.

TREATING CUSTOMERS WITH FAIRNESS

In the UK, concerns about pricing have affected the reputation of our industry. Although more than 80% of a customer's bill is outside our immediate control, we understand customer concerns about prices.

We review all price changes with great care to ensure that they are fair and transparent. In January 2012, an independent review of suppliers' energy accounts, by the accountancy firm BDO LLP, commissioned by the UK Regulator, Ofgem, found that the financial information provided by suppliers was fair, appropriate and consistent with official numbers. We had already welcomed Ofgem's moves to increase transparency on the reporting of energy company profits as this is important in building customer trust. We also note that Ofgem has found no evidence of price collusion in the market in successive industry investigations.

In November 2011, we opened the 'honest conversation'; making a commitment to UK customers to explain energy price movements and help reduce their energy costs. We introduced an online tariff checker www.britishgas.co.uk/betterdeal to help customers find the best tariff for their needs.

HELPING VULNERABLE CUSTOMERS

In 2011, 1.7 million vulnerable households were helped by British Gas initiatives, mainly through energy efficiency and financial support schemes, as well as targeted initiatives. In nearly two years, no UK customer has been disconnected for debt, and fewer customers were in debt at the end of the year than in 2010, despite the worsening economy.

In Texas, we committed $425,000 to Direct Energy's 'Neighbor-to-Neighbor' programme, which supports customers facing financial hardships.

Business Review

IMPROVING CUSTOMER SERVICE

After reviewing our sales operation, in 2011 we announced that British Gas would end unsolicited doorstep selling. Overall, there were 28 accepted sales complaints (62 in 2010). In North America, we are working with legislators to implement consistent consumer protection laws.

Our customer service innovations included addressing queries through social media and providing 'how to' videos on basic central heating maintenance.

TOWARDS A LOW CARBON WORLD

In 2011, Group activities emitted 7.9 million tonnes of carbon dioxide (CO_2) equivalent emissions, the most significant emissions being associated with customers' gas and electricity usage. Promoting customer energy efficiency is fundamental to achieving a low carbon society. We offer a range of services to help business and residential customers become more energy efficient.

We are investing in low carbon alternatives to fossil fuels, such as offshore wind generation and evaluating options in new nuclear and biomass. We measure progress in decarbonising energy by monitoring the carbon intensity of the power we generate. In 2011, our Group carbon intensity was 221g CO_2/kWh (277g CO_2/kWh in 2010). Our UK power generation fleet achieved 200g CO_2/kWh, mainly as a result of nuclear power from our 20% stake in EDF Energy Nuclear Generation and through placing some gas-fired stations into preservation mode.

We are reducing our internal carbon footprint by raising employee awareness, improving energy efficiency in our offices, investing in lower-carbon vehicles and providing alternatives to business travel.

SAFETY

Health and safety is our first priority. In 2011, we expanded our reporting scope, incorporating safety performance for third-party managed activities. Group initiatives led to a reduction in our lost time injury rate (LTIR) per 100,000 hours to 0.25 (0.43 in 2010). There were no fatal incidents among employees or associated third parties.

Driving is one of the most hazardous activities many employees face. We prioritise high mileage employees, together with new drivers, those changing vehicle type and other high-risk drivers, to complete driver development training. We are also enforcing a policy to prevent the use of any form of mobile phone while driving on company business.

After reviewing our systems and procedures in high-hazard operations, we enhanced safety performance monitoring among contractors and further promoted a culture in which employees and contractors feel empowered to challenge unsafe practices. With our nuclear partner we will proactively implement the 26 recommendations from the 2011 Weightman report into the safety of the UK nuclear industry.

OUR PEOPLE

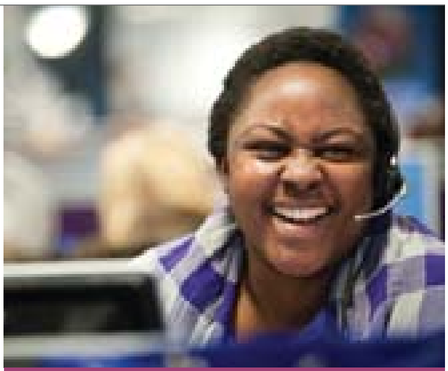
In 2011, we assessed how we measure employee engagement to drive business performance. The outputs of this review will inform how we use future survey results to improve and increase the quality of our future engagement.

We also reviewed our organisation; concluding that accountability for decision-making should lie with our operating businesses, supported by a leaner corporate centre. As a result, we made some difficult decisions that led to some employees leaving the business. This is never an easy process and we made every effort to support those affected.

Learning and development are essential to ensure employees fulfil their potential and help implement our strategy. In 2011, our talent boards, general management programme and leadership master classes continued to identify and nurture high-potential managers. British Gas' engineering academies will offer up to 500 new apprenticeships in 'smart' technologies in 2012.

We aim to provide an inclusive and diverse workplace and are committed to making the principle of equal opportunity a reality in our business. British Gas has taken a leading role in removing upper age limits for apprenticeships and a dedicated diversity and inclusion team at our British Gas Academy is working to improve the representation of female engineers.

We communicate and consult regularly with employees, most of whom are eligible to participate in employee share schemes. In 2011 we employed an average of 39,432 people, with a retention rate of 89.5% (89.9% in 2010).



1.7m

During 2011, 1.7 million vulnerable households were helped by British Gas initiatives

20%

We aim to reduce the carbon footprint of our existing offices, company vehicles and travel by 20% by 2015

In 2011, we achieved a 5% year-on-year reduction

MORE CR

READ MORE ABOUT OUR CR ACTIVITIES AT CENTRICA.COM

Other significant aspects of our businesses and CR activities include management of the supply chain, environmental management and community engagement and investment. Please see our online CR Report for more information: www.centrica.com/responsibility

Full key performance measures can be found at **www.centrica.com/report2011/performance**

Summary Governance

BOARD OF DIRECTORS AND SENIOR EXECUTIVES


1 Sir Roger Carr


2 Sam Laidlaw


3 Dame Helen Alexander DBE


4 Phil Bentley


5 Margherita Della Valle


6 Mary Francis CBE


7 Mark Hanafin


8 Lesley Knox

1. Sir Roger Carr
Chairman (65)

Sir Roger joined the Board as a Non-Executive Director in 2001. He was appointed Chairman of the Board in May 2004 and is Chairman of the Nominations Committee. During 2011, he was appointed president of the CBI and a member of the UK Prime Minister's Business Advisory Group. He remains deputy chairman and senior independent director of the Court of the Bank of England and is also a senior adviser to Kohlberg Kravis Roberts. He has previously held a number of senior appointments including chairman of Mitchells & Butlers plc and Cadbury plc. He is a fellow of the Royal Society for the encouragement of the Arts, Manufacturers and Commerce and a visiting fellow to the Said Business School, Oxford. Throughout his career he has served on a number of external committees including the Higgs Committee on Corporate Governance and Business for New Europe.

2. Sam Laidlaw
Chief Executive (56)

Sam joined Centrica as Chief Executive in July 2006. He is Chairman of the Executive Committee and the Disclosure Committee. In January 2008, he was appointed a non-executive director of HSBC Holdings plc and in December 2010 he was appointed as the lead non-executive director on the board of the Department for Transport. He is also a member of the UK Prime Minister's Business Advisory Group. Previously he was executive vice president of the Chevron Corporation, chief executive officer at Enterprise Oil and president and chief operating officer at Amerada Hess. He is a trustee of the medical charity RAFT.

3. Dame Helen Alexander DBE
Non-Executive Director (55)

Dame Helen joined the Board in January 2003 and stepped down on 31 December 2011. She was Chairman of the Remuneration Committee. At the date of her departure, she was deputy chairman of Esure Group Holdings Ltd, chairman of the Port of London Authority and of Incisive Media and senior adviser to Bain Capital. She was deputy president of the CBI and a non-executive director of Rolls Royce plc. She was also chancellor of the University of Southampton. She was chief executive of the Economist Group until 2008, having joined the company in 1985.

4. Phil Bentley
Managing Director, British Gas (53)

Phil joined Centrica as Group Finance Director in 2000, a position he held until the end of February 2007 when he was appointed Managing Director, British Gas. He was also Managing Director, Europe between July 2004 and September 2006. Formerly, he was finance director of UDV Guinness from 1999 and group treasurer and director of risk management of Diageo plc from 1997. Previously, he spent 15 years with BP plc in various international oil and gas exploration roles. Until March 2010, he was also a non-executive director and the chairman of the audit committee of Kingfisher plc.

5. Margherita Della Valle
Non-Executive Director (46)

Margherita joined the Board in January 2011 and is Deputy Chairman of the Audit Committee. In October 2010 she was appointed group financial controller of Vodafone Group Plc, prior to which she was chief financial officer for the group's European region from April 2007 to October 2010 and chief financial officer of Vodafone Italy from 2004 to 2007. Previously she joined Omnitel Pronto Italia in Italy in 1994 and held various consumer marketing positions in business analytics and customer base management prior to moving to finance. Omnitel was acquired by Vodafone Group in 2000.

6. Mary Francis CBE
Senior Independent Director (63)

Mary joined the Board in June 2004 and is Senior Independent Director, Chairman of the Corporate Responsibility Committee and Deputy Chairman of the Nominations Committee. She is a non-executive director of Aviva plc and Cable & Wireless Communications Plc, a senior adviser to Chatham House and chair of governors of James Allen's Girls' School. She is a former director general of the Association of British Insurers, a former non-executive director of the Bank of England, Alliance & Leicester plc and St. Modwen Properties plc and was a senior civil servant in the Treasury and the Prime Minister's Office.

7. Mark Hanafin
Managing Director, Centrica Energy (52)

Mark joined Centrica as Managing Director, Centrica Energy in July 2008. He was appointed as a non-executive director of EDF Energy Nuclear Generation Group Limited in November 2009. Previously he spent 21 years with Royal Dutch Shell, most recently as CEO of Shell Energy North America in Houston. Prior to joining Shell, he worked for General Electric Company (GEC) having qualified as a chartered engineer.

8. Lesley Knox
Non-Executive Director (58)

Lesley joined the Board on 1 January 2012 and is Chairman of the Remuneration Committee. She is chairman of Alliance Trust Plc, non-executive director of SABMiller Plc and is a trustee of the Grosvenor Estates and chairman of Grosvenor Group Limited. She was previously with British Linen Bank in 1997, becoming governor in 1999, and was subsequently a founder director of British Linen Advisers from 1999 to 2003. She was previously senior non-executive director of Hays Plc and also spent 15 years with Kleinwort Benson from 1981 to 1996, first in corporate finance and then as chief executive of the institutional asset management business.

Summary Governance


9 Nick Luff


10 Andrew Mackenzie


11 Ian Meakins


12 Paul Rayner


13 Chris Weston


14 Grant Dawson


15 Catherine May


16 Jill Shedden

9. Nick Luff
Group Finance Director (44)

Nick joined Centrica as Group Finance Director in March 2007. He was previously chief financial officer of The Peninsular & Oriental Steam Navigation Company (P&O) and has held a number of other senior financial roles at P&O, having qualified as a chartered accountant at KPMG. Until December 2010 he was a non-executive director of QinetiQ Group plc.

10. Andrew Mackenzie
Non-Executive Director (55)

Andrew joined the Board in September 2005. In November 2007, he was appointed group executive and chief executive of Non Ferrous at BHP Billiton, a position he took up in November 2008. From 2004, he was with Rio Tinto, latterly as chief executive of Diamonds and Minerals. Previously, he spent 22 years with BP plc in a range of senior technical and engineering positions and ultimately as group vice president, BP Petrochemicals.

11. Ian Meakins
Non-Executive Director (55)

Ian joined the Board in October 2010. In July 2009 he joined Wolseley plc as chief executive. He was previously chief executive of Travelex Holdings Limited and for two years prior to that he was CEO of Alliance Unichem plc until their merger with Boots in 2006. He spent 12 years with Diageo including four years as president European major markets and global supply, his early career was with Procter and Gamble.

12. Paul Rayner
Non-Executive Director (57)

Paul joined the Board in September 2004 and is Chairman of the Audit Committee. In 2008, he was also appointed a non-executive director of Qantas Airways Limited and Boral Limited and in May 2011 he was appointed as a non-executive director of Treasury Wine Estates Limited in Australia. He was finance director of British American Tobacco plc from 2002 until April 2008. In 1991 he joined Rothmans Holdings Limited in Australia, holding senior executive appointments, and became chief operating officer of British American Tobacco Australasia Limited in September 1999.

13. Chris Weston
Managing Director, North America (48)

Chris was appointed to the Board in July 2009 upon his appointment as Managing Director, North America. He was previously Managing Director, British Gas Services from June 2005. Prior to this, he was Managing Director, British Gas Business from January 2002. He joined Centrica in November 2001, following the acquisition of One Tel where he was the Managing Director of Europe. Previously, he worked for Cable & Wireless and also spent seven years in the army with the Royal Artillery.

SENIOR EXECUTIVES

14. Grant Dawson
General Counsel & Company Secretary (52)

Grant has been General Counsel & Company Secretary of Centrica since the demerger from British Gas plc in February 1997, having joined British Gas in October 1996.

15. Catherine May
Group Director, Corporate Affairs (47)

Catherine joined Centrica as Group Director, Corporate Affairs in September 2006, having previously been group director of corporate relations for Reed Elsevier. She left Centrica at the end of 2011.

16. Jill Shedden
Group Director, Human Resources (46)

Jill was appointed Group Director, Human Resources on 1 July 2011 following the retirement of Anne Minto. Previously she was HR Director for Centrica Energy. She joined British Gas plc as a graduate in 1988 and has since held a wide range of roles across the Group including HR Director for British Gas Business and British Gas Residential.

COMMITTEE MEMBERSHIP

	Audit	Rem*	Noms*	CR*	Exec*	Dis*
Sir Roger Carr		Member	Chairman			
Sam Laidlaw			Member	Member	Chairman	Chairman
Phil Bentley				Member	Member	
Margherita Della Valle	Member	Member	Member	Member		
Mary Francis CBE	Member	Member	Member	Chairman		
Mark Hanafin					Member	
Lesley Knox	Member	Chairman	Member			
Nick Luff					Member	Member
Andrew Mackenzie		Member	Member	Member		
Ian Meakins	Member	Member	Member			
Paul Rayner	Chairman	Member	Member			
Chris Weston				Member	Member	
Grant Dawson				Member	Member	Member
Jill Shedden					Member	

* Remuneration, Nominations, Corporate Responsibility, Executive, Disclosure

● Chairman ● Member

Summary Financial Statements

SUMMARY GROUP INCOME STATEMENT

Year ended 31 December	2011 Business performance £m	2011 Exceptional items and certain re-measurements £m	2011 Results for the year £m	2010 Business performance £m	2010 Exceptional items and certain re-measurements £m	2010 Results for the year £m
Group revenue	**22,824**	**–**	**22,824**	22,423	–	22,423
Cost of sales before exceptional items and certain re-measurements	**(17,959)**	**–**	**(17,959)**	(17,595)	–	(17,595)
Exceptional items	**–**	**(221)**	**(221)**	–	(102)	(102)
Re-measurement of energy contracts	**–**	**(437)**	**(437)**	–	1,177	1,177
Gross profit	**4,865**	**(658)**	**4,207**	4,828	1,075	5,903
Operating costs before exceptional items	**(2,750)**	**–**	**(2,750)**	(2,641)	–	(2,641)
Exceptional items	**–**	**(110)**	**(110)**	–	(181)	(181)
Share of profits/(losses) in joint ventures and associates, net of interest and taxation	**93**	**(26)**	**67**	7	(14)	(7)
Group operating profit	**2,208**	**(794)**	**1,414**	2,194	880	3,074
Net interest expense	**(146)**	**–**	**(146)**	(265)	–	(265)
Profit from continuing operations before taxation	**2,062**	**(794)**	**1,268**	1,929	880	2,809
Taxation on profit from continuing operations	**(810)**	**(16)**	**(826)**	(708)	(221)	(929)
Profit from continuing operations after taxation	**1,252**	**(810)**	**442**	1,221	659	1,880
Profit/(loss) from discontinued operations	**13**	**22**	**35**	(8)	67	59
(Loss)/profit on disposal of discontinued operations	**–**	**(56)**	**(56)**	3	–	3
Profit for the year	**1,265**	**(844)**	**421**	1,216	726	1,942
Attributable to:						
Equity holders of the parent	**1,265**	**(844)**	**421**	1,209	726	1,935
Non-controlling interests	**–**	**–**	**–**	7	–	7
	1,265	**(844)**	**421**	1,216	726	1,942

Earnings per ordinary share	2011 Pence	2010 Pence
From continuing and discontinued operations:		
Basic	**8.2**	37.6
Diluted	**8.1**	37.3
From continuing operations:		
Basic	**8.6**	36.4
Diluted	**8.5**	36.1
Interim dividend paid per ordinary share	**4.29**	3.84
Final dividend proposed per ordinary share	**11.11**	10.46

	2011 £000	2010 £000
Directors' emoluments	**5,945**	8,394

Summary Financial Statements

SUMMARY GROUP BALANCE SHEET

31 December	2011 £m	2010 £m
Non-current assets	**13,973**	13,269
Current assets	**5,596**	5,551
Current liabilities	**(6,270)**	(5,268)
Net current assets	**(674)**	283
Non-current liabilities	**(7,699)**	(7,820)
Net assets of disposal groups classified as held for sale	**–**	87
Net assets	**5,600**	5,819
Shareholders' equity	**5,600**	5,819

SUMMARY GROUP STATEMENT OF CHANGES IN EQUITY

	2011 £m	2010 £m
1 January	**5,819**	4,255
Profit for the year	**421**	1,942
Other comprehensive income	**81**	268
	6,321	6,465
Employee share schemes	**57**	69
Purchase of non-controlling interest	**(7)**	–
Liquidation of subsidiaries	**–**	(70)
Dividends	**(762)**	(668)
Taxation	**(8)**	20
Exchange adjustments	**(1)**	3
31 December	**5,600**	5,819

SUMMARY GROUP CASH FLOW STATEMENT

31 December	2011 £m	2010 (restated) (i) £m
Cash generated from continuing operations	**3,229**	3,190
Net interest, taxation and other operating cash flows	**(892)**	(762)
Net cash flow from operating activities	**2,337**	2,428
Net cash flow from investing activities	**(1,400)**	(1,584)
Net cash flow from financing activities	**(907)**	(1,677)
Net increase/(decrease) in cash and cash equivalents	**30**	(833)
Cash and cash equivalents at 1 January	**451**	1,285
Effect of foreign exchange rate changes	**(2)**	(1)
Cash and cash equivalents at 31 December	**479**	451

(i) The 2010 comparatives have been restated for a change in presentation of emissions certificate/allowance cash flows.

The Summary Financial Statements on pages 30 to 31 were approved and authorised for issue by the Board of Directors on 23 February 2012 and were signed below on its behalf by:

Sam Laidlaw
Chief Executive

Nick Luff
Group Finance Director

Summary Governance

INDEPENDENT AUDITORS' STATEMENT TO THE MEMBERS OF CENTRICA PLC

We have examined the Summary Financial Statements which comprise the Summary Group Income Statement, Summary Group Balance Sheet, Summary Group Statement of Changes in Equity, Summary Group Cash Flow Statement and the Summary Remuneration Report.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Review and Summary Financial Statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statements within the Annual Review and Summary Financial Statements with the full Annual Financial Statements, the Directors' Report and the Directors' Remuneration Report, and their compliance with the relevant requirements of section 428 of the Companies Act 2006 and the regulations made thereunder.

We also read the other information contained in the Annual Review and Summary Financial Statements and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statements. The other information comprises only the Chairman's Statement and the other items listed on the contents page.

This statement, including the opinion, has been prepared for and only for the Company's members as a body in accordance with section 428 of the Companies Act 2006 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our reports on the Company's full Annual Financial Statements describe the basis of our audit opinions on those Financial Statements, the Directors' Report and the Directors' Remuneration Report.

Opinion

In our opinion the Summary Financial Statements are consistent with the full Annual Financial Statements, the Directors' Report and the Directors' Remuneration Report of Centrica plc for the year ended 31 December 2011 and comply with the applicable requirements of section 428 of the Companies Act 2006, and the regulations made thereunder.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 February 2012

ANNUAL REPORT

The Auditors have issued an unqualified report on the Annual Financial Statements and the auditable part of the Remuneration Report containing no statement under section 498 of the Companies Act 2006. The Auditors' Report in respect of consistency between the Directors' Report and the Group Financial Statements is also unqualified. These Summary Financial Statements are a summary of the Annual Report and Accounts and the narrative reports contain information from the Directors' Report but not the full text of that report. They do not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group and of its policies and arrangements concerning the Directors' remuneration as would be provided by the Annual Report and Accounts.

The Annual Report and Accounts can be downloaded from the Company's website at **www.centrica.com** or can be obtained, free of charge, from Equiniti, the Company's Registrars. Shareholders may also elect to receive the Annual Report and Accounts instead of the Summary Financial Statements for all future years. Contact details for Equiniti can be found on page 36.

DIVIDENDS

For 2011, an interim dividend of 4.29 pence per share was paid on 16 November 2011. The Directors propose that, subject to approval at the 2012 Annual General Meeting (AGM), a final dividend of 11.11 pence per share will be paid on 13 June 2012 to those shareholders registered on 27 April 2012. This would make a total dividend for the year of 15.4 pence per share (2010: 14.3 pence per share).

SUMMARY CORPORATE GOVERNANCE REPORT

The Board believes that good corporate governance contributes to Centrica's performance. A clearly defined framework of roles, responsibilities and delegated authorities is in place and this supports the Board's aim to deliver sustainable growth for the benefit of shareholders, employees and customers. A report on how the principles of the UK Corporate Governance Code (the Code) were applied is set out in the Corporate Governance Report in the Annual Report. Throughout the year, the Company complied fully with the provisions set out in the Code.

Board of Directors

The Directors consider that the Board leads and controls the Group effectively, has a robust governance structure and that no individual or small group of individuals dominate the Board's decision-making. The powers of the Directors are set out in the Company's Articles of Association (Articles), which are available on the Company's website. The Articles may be amended by special resolution. In addition, the Directors have responsibilities and duties under other legislation, in particular the Companies Act 2006.

The Board has a schedule of matters specifically reserved for its approval which it reviewed against best practice in July 2011 and approved minor changes. The full schedule is available on the Company's website. The Board operates six Committees to oversee the standards of the Group: Audit, Nominations, Remuneration, Corporate Responsibility, Executive and Disclosure. Each Committee is chaired professionally and rigorously and populated by an appropriate mix of Executive and Non-Executive Directors. The Board reviews annually each Committee's terms of reference and membership against best practice as well as taking into account any relevant changes in circumstances. The full written terms of reference for the Committees can be found on the Company's website and hard copies are available upon request.

Board appointments, evaluation and development

The Chairman's Statement on pages 2 to 4 discusses the Company's current approach to Board composition, diversity and succession planning. In accordance with the Code and the Articles, each Director shall stand for re-appointment at each AGM. Details of the Directors of the Company, including their biographies and their Board Committee memberships, are set out on pages 28 and 29. All new Directors appointed to the Board receive a comprehensive induction programme tailored to meet their individual needs. The Chairman and General Counsel & Company Secretary are responsible for delivering an effective induction programme for newly appointed Directors.

The full Governance and Remuneration Reports can be found on **pg 41 to 63 of the Annual Report**

Summary Governance

The Board considers the annual review of the Board, its Committees and Directors as an essential part of good corporate housekeeping, with the use of an external facilitator at least once every three years. This year, Independent Board Evaluations was appointed to bring a fresh pair of eyes to the appraisal. The scope of the evaluation was to assess how well the Board and its Committees operated as a unit and individually and covered key governance areas such as shareholder accountability, strategy, risk management, Board composition and succession planning and Board culture and decision making. The evaluation process and outcomes are described in the Corporate Governance Report in the Annual Report.

Internal Control

The Board is responsible for the Group's system of internal control and risk management and considers this to be fundamental to the achievement of the Group's strategic objectives. The key function of the Audit Committee is to review the effectiveness of the Company's financial reporting and internal controls together with the procedures for the identification, assessment and reporting of risks. A full description of the Group's risk management and internal control is detailed in the Corporate Governance Report in the Annual Report.

The Board, with the advice of the Audit Committee, has reviewed the effectiveness of the system of internal control, for the period from 1 January 2011 to the date of this Report, and is satisfied that the Group complies with the Turnbull Guidance. The Board will continue routinely to challenge management in order to ensure that the system of internal control is constantly improving and remains fit for purpose.

SUMMARY REMUNERATION REPORT

The principal role of the Remuneration Committee (the Committee) is to determine and make recommendations to the Board on the Company's framework and broad policy for the remuneration of the Chairman of the Board, the Company's Executive Directors and other senior executives (executives). The remuneration policy aims to deliver a competitive package which attracts and retains high quality executives, whilst placing a strong emphasis on performance, achieving strategic objectives and delivering sustainable value to shareholders. The remuneration framework reflects current best practice.

In 2011, executive remuneration comprised base pay, Annual Incentive Scheme (AIS), an allocation of shares under the Long Term Incentive Scheme (LTIS) and the Deferred and Matching Share Scheme (DMSS). No base pay increases were awarded to the Executive Directors in 2011.

As a matter of policy, notice periods in the Executive Directors' service contracts do not exceed one year.

The Committee firmly believes that Centrica's remuneration is and will remain in compliance with the principles of the Code and that its remuneration arrangements appropriately incentivise and reward shareholder value creation but do not encourage excessive risk-taking.

During the last quarter of 2011, the Committee revisited the reward structure in light of the development of the Centrica business model and evolving best practice and proposed modifications to measurement and weighting of the key performance drivers as set out in the table on page 34.

Targets under the revised scheme will remain stretching and aligned with the Group's strategic priorities. The key performance drivers will be based on simple measurements that are reported transparently and it will maintain the practice of substantial deferral of short-term reward. It will also introduce a formal mechanism for clawback of deferred rewards if it is subsequently discovered that results have been achieved by behaviour which fails to reflect the governance and values of the business.

In addition to the proposed modifications to the scheme, there will be no increase in Directors' base pay in 2012, thus maintaining the levels originally set in 2010.

The Committee believes that these proposals create a stronger link between pay, individual performance and corporate performance which respects both the social climate in which we operate and the demands of our business model.

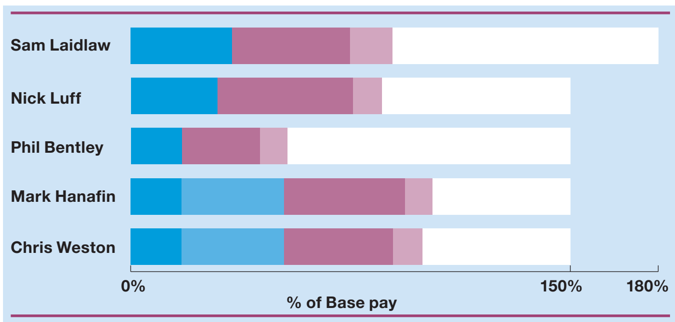
Components of Executive Remuneration

There was no change to the target and maximum bonus opportunity for 2011.

For 2011, the Committee set AIS targets to drive delivery of the annual operating plan. Delivery of the operating plan in each of the major business units and the Group as a whole would have resulted in AIS awards equivalent to half of the maximum opportunity. Achievement substantially in excess of the level required to meet the targets set would have been required to warrant the maximum award level.

Targets were set against a number of key measures including Group and business unit Economic profit (EP), operational metrics, Health Safety & Environment (HS&E) performance and individual objectives.

The chart below illustrates the extent to which the targets set were achieved and accordingly the aggregate AIS award for each Executive Director.



- Group EP
- Division EP
- KPI's
- Individual
- Not achieved

Part of the bonus earned under the AIS for the previous year is compulsorily deferred into Centrica shares (deferred shares). During 2011, 40% of AIS earned in respect of 2010 for the Chief Executive and 30% for the other executives was compulsorily deferred. Executives are also given the opportunity to make an additional voluntary deferral of AIS into Centrica shares (investment shares). The maximum total deferral that may be made, including the compulsory deferral, is 50% of the maximum AIS opportunity which may be earned for a year.

Summary Governance

Deferred and investment shares that are held for three years will be matched to the extent that a long-term performance condition is met.

For awards made from 2010, matching shares were structured as nil-cost options for all UK resident participants.

In 2011, LTIS allocations equal to 200% of base pay were awarded to Executive Directors and, at lower levels, to other senior executives.

In respect of LTIS awards from 2010 these were structured as nil-cost options for all UK resident participants.

The table below summarises the vesting criteria and performance conditions in respect of the DMSS and LTIS.

Phil Bentley and Chris Weston are members of the Centrica Pension Plan (a contributory final salary arrangement) and in the Centrica Unapproved Pension Scheme (an Employer Funded Retirement Benefits Scheme). Sam Laidlaw, Mark Hanafin and Nick Luff, who all joined the Company in recent years, are not members of any of Centrica's pension schemes and alternative arrangements are in place for them.

The Executive Directors are also eligible, on the same basis as other employees, to participate in the Company's HMRC-approved Sharesave Scheme and Share Incentive Plan.

Summary of core remuneration elements for Executive Directors for 2011

Element	Opportunity		Objective	Current performance measures	Changes for 2012
Base pay	Chief Executive Finance Director MD British Gas MD Centrica Energy MD North America	£950,000 £610,000 £635,000 £575,000 £510,000	Reflects the role and sustained value of the individual in terms of skills, experience and contribution	Benchmarked against a UK cross-industry comparator group of companies of similar size and complexity	No change – base pay remains fixed at levels set originally in 2010
Retirement benefits	Not applicable		Positioned to ensure broad competitiveness with market practice	Not applicable	No change
Annual Incentive Scheme (AIS)	Chief Executive 0–180% of base pay Other Executive Directors 0–150% of base pay Half the maximum is payable for on-target performance		The AIS provides a focus on delivery of the financial targets set out in the operating plan. It rewards the achievement of strategic priorities for the year that position the Group well for strong future performance	55% based on Economic Profit (EP), 33% on business metrics and 12% on individual objectives	No change to maximum opportunity 70% based on EP 30% based on strategic objectives aligned to business priorities, reinforcing the importance of balancing growth with EP returns in a business which is more vertically integrated and capital intensive
Deferred and Matching Share Scheme (DMSS)	Mandatory deferral of 40% of AIS award for Chief Executive and 30% for other Executive Directors Additional voluntary deferral up to 50% of maximum bonus opportunity Up to two matching shares for each deferred share subject to performance over three years		Assists with employee retention and incentivises an appropriate balance between short-term performance and long-term value creation for shareholders	Three-year growth in EP measured by comparing the EP before the start of the performance period with that at the end of the performance period ('point to point' growth)	No change to maximum opportunity Absolute aggregate EP over performance period set by the Remuneration Committee Encourages sustainable high performance and discourages peaks and troughs. All deferred reward can be clawed back if it is subsequently discovered that the results have been achieved by behaviour which fails to reflect the governance and values of the business
Long Term Incentive Scheme (LTIS)	Up to 200% of base pay		Provides a direct link between remuneration and Key Performance Indicators (KPIs), reinforcing the desire for sustainable high performance over the long term	50% based on Earnings per Share (EPS) with 25% vesting for achieving growth of RPI +9% and full vesting requiring RPI +30% 50% based on relative Total Shareholder Return (TSR) with 25% vesting for achieving out-performance of FTSE 100 Index by +0.1% per annum and full vesting requiring Index +7% per annum	No change to maximum opportunity 35% based on EPS with 25% vesting for achieving growth of RPI +9% and full vesting requiring RPI +30% 35% based on absolute aggregate EP over performance period set by the Committee 30% based on non-financial KPI dashboard Positive TSR outperformance of FTSE 100 Index acting as a multiplier with 1x multiple for Index +0.1% per annum and 1.5x multiple for Index +7% per annum subject to a cap of 200% of base pay Where performance falls between stated points, vesting is calculated on a straight line basis

Summary Governance

Directors' emoluments, pension benefits and interests in shares

As at 31 December	Total emoluments 2011 £000 (i)(ii)	Total emoluments 2010 £000 (iii)	Accrued pension 2011 £ pa (iv)	Shareholdings in 2011 (v)	DMSS total matching shares 2011 (vi) (viii)	LTIS total allocations of shares 2011 (vii) (viii)	Sharesave total options 2011 (ix)	ESOS and SESOS total options 2011 (x)
Chief Executive								
Sam Laidlaw	**1,292**	2,045	–	2,249,985	1,770,346	2,032,379	3,977	–
Executive Directors								
Phil Bentley	**681**	1,299	209,500	1,995,871	769,198	1,361,477	3,977	–
Mark Hanafin	**999**	1,427	–	488,941	859,269	1,209,126	4,727	336,012
Nick Luff	**940**	1,433	–	639,791	914,752	1,280,733	7,392	–
Chris Weston	**1,070**	1,380	114,300	591,361	762,580	1,086,610	4,727	630,816
	4,982	7,584						
Chairman								
Sir Roger Carr	**490**	470	–	58,361	–	–	–	–
Non–Executive Directors								
Dame Helen Alexander	**85**	79	–	3,465	–	–	–	–
Margherita Della Valle (xi)	**65**	–	–	5,000	–	–	–	–
Mary Francis	**105**	99	–	3,500	–	–	–	–
Andrew Mackenzie	**65**	63	–	28,875	–	–	–	–
Ian Meakins (xi)	**65**	16	–	5,000	–	–	–	–
Paul Rayner	**88**	83	–	56,875	–	–	–	–
	963	810						
Total emoluments	**5,945**	8,394						

(i) Total emoluments for Executive Directors include all taxable benefits arising from employment by the Company, including the provision of a car, life-assurance premiums, financial counselling and medical insurances. In addition, cash payments in lieu of pension to Sam Laidlaw, Mark Hanafin and Nick Luff and a cash payment to Chris Weston in respect of continued relocation expenses and Nick Luff in lieu of the provision of a company car are also included.

(ii) Each Executive Director has deferred up to 50% of their maximum AIS opportunity on a gross basis and invested in to the DMSS. Any balance paid in cash is included above.

(iii) The 2010 emoluments figure in respect of each Executive Director, includes the total cash payment made under the AIS, before voluntary deferral into the DMSS on a net basis.

(iv) Accrued pension is that which would be paid annually on retirement at age 62, based on eligible service to, and pensionable earnings at, 31 December 2011. Sam Laidlaw is contractually entitled to a salary supplement of 40% of base pay in lieu of any pension provision. £101,250 (2010:£ 252,500) (not included above) was paid directly by the Company into his personal pension plan. Mark Hanafin and Nick Luff are contractually entitled to a salary supplement of 40% of base pay respectively in lieu of any pension provision. Full details of the Directors' pension scheme arrangements can be found in the Annual Report.

(v) Executive Directors' shareholdings above include those held in the Share Incentive Plan and the deferred and investment shares held in the DMSS. Details of the DMSS can be found in the Annual Report. Due to local tax laws in Canada, shareholdings for Chris Weston include 117,256 notional deferred shares under the DMSS. Between 1 January 2012 and 23 February 2012, the Executive Directors' interests had increased as shares were acquired through the Share Incentive Plan as follows: 125 shares for Sam Laidlaw, 126 shares for Mark Hanafin, Nick Luff and Chris Weston and 127 shares for Phil Bentley.

(vi) Awards were made under the DMSS on 3 April 2009, 6 April 2010 and 4 April 2011. The aggregate value of shares vested to Executive Directors released from the DMSS in 2011 was £4,106,911 (2010: £2,852,299).

(vii) Allocations were made under the LTIS on 3 April 2009, 9 September 2009, 6 April 2010 and 4 April 2011. The aggregate value of shares vested to Executive Directors under the LTIS and Special Long Term Incentive Scheme was £2,284,993 (2010: £2,435,828).

(viii) From 2010, DMSS matching and LTIS awards, with the exception of Chris Weston who is resident in Canada, have been structured as nil-cost options, and subject to performance, will be exercisable until the tenth anniversary of the grant date.

(ix) Options were granted under the Sharesave Scheme on 3 April 2008, 7 April 2009 and 6 April 2010. No options were exercised in 2011. (Theoretical aggregate gains made on the exercise of Sharesave options in 2010 were £1,361).

(x) Options were granted under the Executive Share Option Scheme (ESOS) and Special Executive Share Option Scheme (SESOS) on 24 March 2003, 18 March 2004, 1 April 2005, 3 April 2006 and 26 September 2008 and have vested in full and are exercisable until the tenth anniversary of the grant date. No executive options were exercised by Executive Directors during 2011. (The aggregate gains made by Executive Directors on the exercise of executive share options in 2010 was £2,692,697.)

(xi) Ian Meakins and Margerherita Della Valle were appointed to the Board on 1 October 2010 and 1 January 2011, respectively.

2012 aggregate deferral amounts

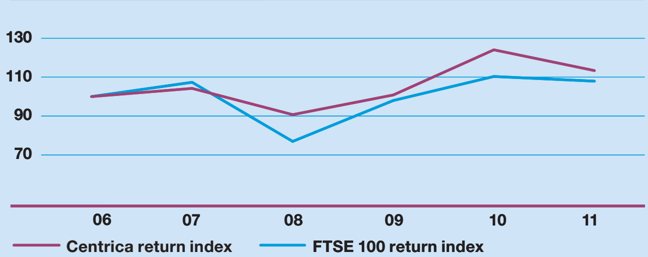
Executive Directors participated in the AIS during 2011 and will defer in aggregate as follows in 2012:

Director	Aggregate value of deferrals at award date £000
Sam Laidlaw	848
Phil Bentley	339
Mark Hanafin	431
Nick Luff	458
Chris Weston	383

TSR – five year FTSE 100 Index

The following compares the Company's TSR performance with that of the FTSE 100 Index for the five years ended 31 December 2011.

CENTRICA AND FTSE 100 INDEX



Source: Alithos Limited, 31 December 2006 = 100

SHAREHOLDER INFORMATION

MANAGING YOUR SHARES

Please contact our Registrar, Equiniti, to manage your shareholding. Further information is also available through the Shareholder Centre on our website, including frequently asked questions and forms available to download to assist in:

- transferring your shares;
- changing your registered name or address;
- registering a lost share certificate and obtaining a replacement;
- consolidating your share certificates;
- managing your dividend payments;
- buying, selling or transferring shares through Centrica FlexiShare;
- notifying the death of a shareholder; and
- registering for electronic communications.

You can also manage your shareholding online by registering for Shareview via the electronic communications section of the Shareholder Centre.

When calling Equiniti or registering online, you should have your shareholder reference number at hand. This can be found on your share certificate or dividend tax voucher. You should also include this on any correspondence.

If you hold less than 2,500 shares, you will be able to change your registered address or set up a dividend mandate instruction over the phone. For security, if you hold more than 2,500 shares, you will need to put this in writing.

You should note that if you receive more than one copy of documents that we send you, it is likely that you have more than one account on the share register, perhaps with a slightly different name or address. If you write to Equiniti and give them the shareholder reference numbers, they will be able to combine your accounts into one.

We are currently working with a specialist tracing agency, ProSearch, to identify shareholders whose details are not up to date and who have outstanding cash entitlements. Please notify Equiniti when you move house to ensure you continue to receive all our communications.

Centrica FlexiShare

FlexiShare is a convenient way to hold Centrica shares without a share certificate. Your shares would be held in a nominee company, Equiniti Corporate Nominees Limited, however your rights to attend and vote at general meetings are the same as if the shares were held in your own name. Holding your shares in this way is a free service and comes with a number of benefits:

- low cost share-dealing facilities, provided by three independent providers, full details of which are available on the Shareholder Centre together with dealing charges;
- quicker settlement periods for buying and selling shares; and
- the opportunity to elect for the Dividend Reinvestment Plan.

MANAGE MORE ONLINE

You can also view and manage your shareholding online. Go to the electronic communications section of the Shareholder Centre on our website at www.centrica.com/shareholdercentre

Dividends

Dividends on Centrica shares are usually paid in June and November. Details of the interim and final dividends for the year ended 31 December 2011 can be found on page 32.

You are encouraged to receive your dividends directly to your bank or building society account. This means that you will receive the money on the day it is paid and avoids any risk of missing cheques. If you do choose to receive your dividends in this way, a consolidated tax voucher will be sent to you in March each year.

CONTACT EQUINITI

CONTACT DETAILS FOR OUR REGISTRAR

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, United Kingdom

Telephone: 0871 384 2985* and outside the UK +44 121 415 7061
Textphone: 0871 384 2255* and outside the UK +44 121 415 7028

Email: centrica@equiniti.com

*Calls to this number are charged at 8 pence per minute from a BT landline. Other providers' telephony costs may vary. Lines are open 8.30am to 5.30pm, Monday to Friday (UK time) excluding UK public holidays.

Shareholder Information

FINANCIAL CALENDAR

25 April 2012	Ex-dividend date – 2011 final dividend
27 April 2012	Record date – 2011 final dividend
11 May 2012	AGM, Queen Elizabeth II Conference Centre, London SW1 (at 2pm)
13 June 2012	Payment date – 2011 final dividend
26 July 2012	2012 Half Year Results
14 November 2012*	Payment date – 2012 interim dividend

* Provisional

If you do not have a UK bank or building society account to receive dividend payments, Equiniti are able to pay dividends in local currencies in over 30 countries. For a small fee, you could have your dividends converted from sterling and paid into your designated bank account, usually within five days of the dividend being paid.

Shareholder communication

Due to changes in legislation, it is now possible for us to communicate to a greater extent with shareholders using our website. We strongly encourage our shareholders to receive communications electronically as it allows us to make considerable savings, both environmentally and financially, and allows you to:

- view the Annual Report and Annual Review on the day they are published;
- receive an email alert when shareholder communications are available;
- cast your AGM vote; and
- manage your shareholding quickly and securely.

Our website contains a wealth of other information, including:

- regular updates about our business;
- comprehensive share price information;
- financial results; and
- dividend payment dates and amounts.

Buying and selling shares with a share certificate

If you wish to buy or sell Centrica shares and hold a share certificate, you can do this:

- by using the services of a stockbroker or high street bank; or
- through telephone or online services.

In order to sell your shares in this way, you will need to present your share certificate at the time of sale.

Scams and frauds

You should be wary of any unsolicited communications, such as:

- offers to buy or sell shares at a discount;
- opportunities to receive free company reports;
- free financial advice; and
- chances to invest in carbon credit trading schemes.

These approaches may be part of financial scams and can be very persistent, using hard sell tactics to persuade you to buy or sell shares or invest in carbon credit schemes.

The FSA provide comprehensive advice in relation to scams and frauds. Detailed information can be found on their website **www.fsa.gov.uk/pages/consumerinformation**.

Any share-dealing facilities endorsed by the Company will be included in our mailings.

Disclaimer

This Annual Review does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Centrica shares or other securities.

This Annual Review contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Centrica plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts.

Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

ONLINE

This Annual Review can be viewed online. To see more go to www.centrica.com/report2011

ACCESSIBILITY

If you would like this Annual Review in an alternative format, such as large print, Braille or CD, you can request these in the following ways:

Telephone: 0800 111 4371 Textphone: 18001 0800 111 4371

Please note that these numbers should be used to request copies of alternative formats only. For general shareholder enquiries, please use the Centrica shareholder helpline 0871 384 2985*.

*Calls to this number are charged at 8 pence per minute from a BT landline. Other providers' telephony costs may vary. Lines are open from 8.30 am to 5.30 pm, Monday to Friday (UK time) excluding public holidays.

CENTRICA PLC
Registered office: Millstream,
Maidenhead Road, Windsor,
Berkshire SL4 5GD

Company registered in England
and Wales No. 3033654
www.centrica.com

This report is printed on Greencoat 80 Silk which is made from 80% recycled post-consumer fibre and 20% virgin fibre that is Elemental Chlorine Free. This paper has been independently certified according to the rules of the Forest Stewardship Council (FSC®).

Designed and produced by
CONRAN DESIGN GROUP

Photography by David Hares, Charlie Fawell, David Partner and Andy Wilson.

Printed by Fulmar Colour Printing Limited
ISO14001, FSC certified and CarbonNeutral®.

MIX
Paper from responsible sources
FSC® C016486