centrica

INTEGRATED ENERGY

Annual Review and Summary Financial Statements 2012

INTEGRATED ENERGY IS WHAT WE DO.

It means constantly exploring new ways to source, procure and generate an affordable supply of energy.

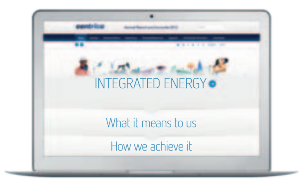
It means integrating innovation and technology into the home, giving our customers access to energy and services, whenever they need it.

It means working with governments, regulators and partners to make the right things happen at the right time.

Most important of all, it means empowering our customers to take control of their energy needs as we work towards a low carbon future.

INTEGRATED ENERGY FROM CENTRICA.

ONLINE



Use your smartphone or tablet to scan this QR code for instant access to the Centrica Annual Report 2012 online

Introduction
You can find here a short summary of our business together with the Group's financial performance.

Business Review
We discuss here how we have delivered our vision and strategy in 2012 and take the opportunity to introduce the next step of our strategic direction.

Summary Financial Statements
Here you can find the summarised Group Financial Statements.

Summary Governance
Read here a summary of our corporate governance and remuneration arrangements.

Appendix
The Directors' biographies can be found here.

Shareholder Information
If you need help with managing your shareholding or you want to know more about our financial calendar and share register, then this information can be found here.

DELIVERING OUR VISION

Read about our strategic priorities on page **10**

OUR INTEGRATED BUSINESS MODEL

See how we deliver at every stage of the energy chain on page **12**

Introduction

CENTRICA AT A GLANCE

The markets we operate in

The energy world is constantly evolving.

DOWNSTREAM

British Gas is the leading residential energy and services provider in Britain and Direct Energy is one of North America's largest energy and energy related services providers.

UPSTREAM

Centrica Energy has upstream gas and oil operations in the UK, Norway, the Netherlands, North America and Trinidad and Tobago. The Company also owns gas-fired power stations and has interests in nuclear and renewable generation in the UK. Centrica Storage operates more than 70% of the UK's total gas storage capacity. Securing our customers' energy needs, sustainably and affordably, is at the core of what we do.

MARKET PLACE PAGE 9

Our strategic priorities

We have refreshed our strategy to ensure we deliver our vision.

INNOVATE to drive growth and service excellence

INTEGRATE our natural gas business, linked to our core markets

INCREASE our returns through efficiency and continued capital discipline

STRATEGIC PRIORITIES PAGE 10

Our business model

A resilient, integrated business model is key to our success.

WE SOURCE IT

by finding and developing new gas reserves across the world.

WE GENERATE IT

through our fleet of gas-fired power stations and wind farms.

WE PROCESS IT

at our onshore gas terminals, making it safe for our customers to use.

WE STORE IT

at our Rough storage field, the largest gas storage facility in the UK.

WE TRADE IT

in the UK, North America and Europe to secure gas and power for our customers.

WE SUPPLY IT

to our residential and commercial customers in the UK and North America.

WE SERVICE IT

through our energy services and installation businesses.

WE SAVE IT

by offering a range of low carbon products and services to our customers.

BUSINESS MODEL PAGE 12

Introduction

Our vision is to be the leading integrated energy company with customers at our core

Measuring our progress

Our key performance indicators monitor our progress and keep our focus on delivery.

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 linked to the remuneration arrangements of our Executive Directors and senior executives.

FINANCIAL KPIs

- Adjusted operating profit
- Adjusted basic earnings per share
- Total shareholder return
- Dividends per share

NON-FINANCIAL KPIs

- Lost time injury frequency rate
- Process safety
- Customer trust
- Employee engagement

KEY PERFORMANCE INDICATORS PAGE 18

Responsibility

The impact our business activities have on society and the environment.

Our corporate responsibility ambition is to be the most trusted energy company. We need to be trusted by our customers, governments, regulators and investors by effectively managing our social and environmental impacts. In achieving a broad foundation of stakeholder trust, we can ensure long-term sustainable business success.

Go to centrica.com to see our responsibility process in more detail.

CORPORATE RESPONSIBILITY PAGE 36

Our principal risks

To achieve our priorities, we need to be aware of the principal risks that affect our business.

The risks we face in a rapidly changing energy landscape continue to evolve over time. A number of measures helped to mitigate those factors in 2012 while 2013 presents our organisation with more challenges. Robust governance and a clear risk strategy prepare us for any uncertainties ahead.

PRINCIPAL RISKS

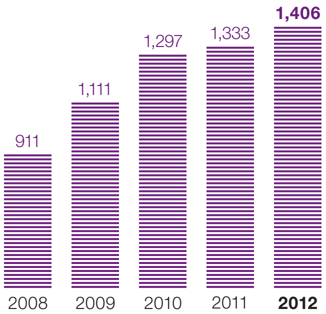
- Health, safety, security and environment
- Brand and reputation
- Legislation and regulation
- Strategic growth
- Commodity costs
- Change management
- Information security
- People

PRINCIPAL RISKS PAGE 38

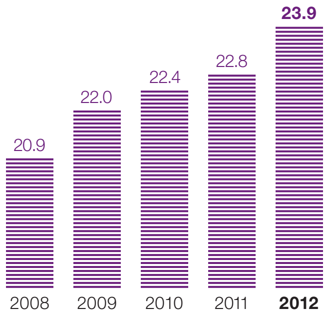
Introduction

PERFORMANCE HIGHLIGHTS

Adjusted earnings
£m

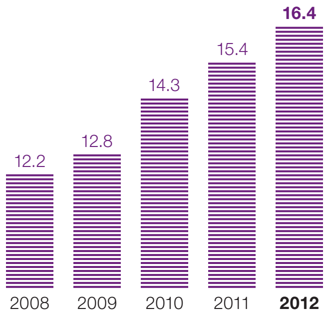


Group revenue‡
£bn



‡ From continuing operations

Dividend per share
pence



- Adjusted earnings up 5% to £1,406 million; 27.1 pence adjusted basic EPS
- Statutory earnings £1,273 million
- Cooler weather saw average domestic gas consumption increase by 12%
- Centrica Energy and Direct Energy benefiting from enhanced scale
- Adjusted Group tax charge of £1.1 billion
- Share repurchase of £500 million announced and full year dividend up 6%
- £2.7 billion invested in 2012

	2012			2011		
	Business performance £m	**Exceptional items and certain re-measurements £m**	**Statutory result £m**	Business performance £m	Exceptional items and certain re-measurements £m	Statutory result £m
Adjusted operating profit:						
British Gas	**1,093**			1,005		
Centrica Energy	**1,230**			1,023		
Centrica Storage	**89**			75		
Direct Energy	**331**			312		
Total adjusted operating profit	**2,743**			2,415		
Depreciation of fair value uplifts from Strategic Investments, before tax	**(96)**			(105)		
Interest and taxation on joint ventures and associates	**(85)**			(102)		
Group operating profit	**2,562**	**63**	**2,625**	2,208	(794)	1,414
Net interest expense	**(183)**	**–**	**(183)**	(146)	–	(146)
Taxation	**(1,029)**	**(140)**	**(1,169)**	(810)	(16)	(826)
Profit from continuing operations after taxation	**1,350**	**(77)**	**1,273**	1,252	(810)	442
Discontinued operations	**–**	**–**	**–**	13	(34)	(21)
Profit for the year	**1,350**	**(77)**	**1,273**	1,265	(844)	421
Depreciation of fair value uplifts from Strategic Investments, after taxation	**56**			68		
Adjusted earnings	**1,406**			1,333		

Unless otherwise stated, all references to operating profit or loss, taxation and earnings numbers throughout the report are adjusted figures, as reconciled to their statutory equivalents in the table above.

CHAIRMAN'S STATEMENT

Centrica is one of the UK's most important companies

Sir Roger Carr
Chairman

Our strategic vision is to be the leading integrated energy company, with customers at our core.

Review of the year

It is now three years since we defined our strategic objectives to build a more sustainable, vertically integrated, cost effective and customer focused business with meaningful geographic diversity. We were clear that to achieve this objective we would need to grow British Gas, acquire upstream assets on value creative terms and expand the scale of our North American activity.

I am pleased to confirm that in 2012 we demonstrated, through strong operational performance and acquisition, our considerable progress in achieving these strategic goals.

In the UK the year brought many challenges, with periods of colder weather compared to the very mild conditions of 2011 contributing to higher energy bills, and with material changes in the regulatory environment. The management team dealt with all of the turbulence with great professionalism and commitment.

British Gas took the lead in simplifying tariffs and implemented changes consistent with Ofgem's proposals for retail market reform. In parallel we continued to innovate with smart metering, to help consumers manage their energy usage, and to support customers with free insulation to reduce their consumption.

A relentless focus on cost management helped British Gas implement the lowest tariff increase of all the major energy suppliers, necessitated by higher wholesale energy costs, Government driven green energy costs and the imposition of additional infrastructure charges. Nevertheless, the very real concerns of hard pressed consumers, fuelled by external commentary, has impacted public trust in the industry and in British Gas as the nation's largest energy supplier in particular.

Centrica is one of the UK's most important companies, employing around 40,000 people, keeping homes warm and well lit, securing future energy supplies, innovating and investing and paying substantial amounts of tax to the Treasury each year. We also have over 700,000 individual shareholders, all of whom benefit from the dividends the Company pays. Through our larger shareholders, many of them pension funds, our dividends also feed into the retirement savings of millions of people. It is important therefore that the Group continues to grow and invest. The 5% increase in adjusted earnings we achieved in 2012 enabled us to invest more and to continue to grow our dividend in real terms. The importance of winning recognition for our contribution to the UK economy and building public trust continue to be priority items on our agenda.

Upstream we invested around £2 billion in helping secure gas supplies for the UK. In parallel, we achieved first power from our Lincs offshore wind farm and worked with our partners in extending the life of our existing nuclear fleet. We took the decision not to participate in new nuclear construction with EDF due to higher anticipated costs and a lengthened construction schedule. This will enable us to return some of the capital we had raised for this purpose through a £500 million share repurchase programme.

In North America, a carefully executed strategy of operational efficiencies, organic growth and customer acquisition helped us to further expand our business – and we are well on the way to doubling profitability since 2009. With a change in the centre of gravity in our North American activities we moved the corporate headquarters from Toronto to Houston and our ambition to extend further our role in this market remains a strategic priority. The impact of shale gas in North America cannot be overstated and whilst its immediate effect has been to lower wholesale gas prices in the US market, there is no doubt it will influence global energy markets over time.

Our strategic vision is to be the leading integrated energy company, with customers at our core. The way in which we achieve this must reflect the changes in markets and sources of supply together with a constant assessment of costs and return for shareholders.

CHAIRMAN'S STATEMENT CONTINUED

Our aim in 2013 and beyond will be to focus on three strategic priorities – innovate to drive growth and service excellence, integrate our natural gas business linked to our core markets and increase our returns through efficiency and continued capital discipline.

We will achieve these goals by differentiating our UK business through our systems and innovation to provide a competitive edge and investing upstream for value, while maintaining our structural hedge. In North America we will grow our customer base and service business and seek to enhance our midstream and upstream position by acquisition when strategic fit and returns are attractive.

We believe that under the leadership of Sam Laidlaw we have developed a strong platform on which we can build a rewarding future for both customers and shareholders. This has been achieved with the considerable commitment of the management team and the skills and enthusiastic support of colleagues on both sides of the Atlantic.

The period ahead will bring new challenges. In order to ensure the organisation of our management team is appropriate for the task ahead, with effect from 1 July 2013 the Group will migrate from a regional structure to an international functional structure. Chris Weston will assume responsibility for downstream operations and Mark Hanafin will assume responsibility for upstream operations across the Group.

After a successful career spanning 12 years with Centrica, Phil Bentley will be stepping down from his role as Managing Director of British Gas, and Board member of Centrica, on 30 June 2013 and will leave the Company by 31 December 2013.

Phil Bentley has made a substantial contribution to the development of the business, initially as Finance Director and for the last six years as Managing Director of British Gas.

In his most recent role he has been instrumental in restructuring, reinvigorating and materially improving the performance of the business by raising customer service, lowering costs and increasing productivity. As Chairman, and on behalf of the Board, I thank him for all that he has achieved and wish him every success for the future.

I am confident that the bench strength we enjoy, the mindset we have, the new management structure and business model we have created will continue to deliver strong cashflows, enabling us to invest in customer service, supply security and shareholder reward.

Corporate culture

The Centrica business model is both wide ranging and complex, but its culture is simple and straightforward – professionalism, openness and transparency in the way we do things, together with integrity and honesty in how we do them.

An organisation is dependent upon its management and structure for the execution of strategy and its culture for the way in which its results are achieved.

Our Board members

1. Sir Roger Carr
Chairman

2. Sam Laidlaw
Chief Executive

3. Phil Bentley
Managing Director, British Gas

4. Margherita Della Valle
Non-Executive Director

5. Mary Francis CBE
Senior Independent Director

6. Mark Hanafin
Managing Director, Centrica Energy

7. Lesley Knox
Non-Executive Director

8. Nick Luff
Group Finance Director

9. Andrew Mackenzie
Non-Executive Director

10. Ian Meakins
Non-Executive Director

11. Paul Rayner
Non-Executive Director

12. Chris Weston
Managing Director, North America

Senior Executives

13. Grant Dawson
General Counsel & Company Secretary

14. Jill Shedden
Group Director, Human Resources

Business Review – Chairman's Statement

SUMMARY GOVERNANCE PAGE **42**
BIOGRAPHIES PAGE **46**

As a customer-facing business, respect for the individual, commitment to good service and adherence to the highest standards of behaviour in the customers' homes or place of work are at the heart of what we do. Our core values seek to ensure our people are welcome and trusted wherever they go.

We employ around 40,000 people working in many countries and different environments from offshore rigs, to onshore plants, in administrative locations, on the road, in office premises and in customers' homes. Caring for the welfare of our people wherever they are is our absolute priority.

In our health and safety policy no corners may be cut, nor costs trimmed, if it is at the expense of our people, customers, suppliers or contractors. This message is transmitted direct from the boardroom through management and reinforced in clear procedures, rigorous training and our incentive reward structure.

As a Board our focus is not simply on how much money the Company makes but how the Company makes money.

Corporate practice

In keeping with best practice, we oversee the Group worldwide through a unitary Board and six separate Committees – Audit, Nominations, Remuneration, Corporate Responsibility, Executive and Disclosure. Each Committee has agreed terms of reference and schedules a series of meetings throughout the year with disciplined agendas. Each Committee is professionally chaired and populated by an appropriate mix of Non-Executive and/or Executive Directors.

In addition to normal business, the work of the Committees is supported by training sessions on topics of particular relevance when Non-Executives require a more detailed understanding. Training is given by both members of the Centrica management team and external advisors.

The Corporate Responsibility Committee is also informed by an external advisory body of specialists in energy and consumer affairs who are able to give objective comment on policy, performance and governance standards of the Company from an outsider's perspective.

Each Committee reports to the Board after every meeting to ensure a comprehensive briefing is given to Board members on progress in all areas.

Board composition

The Board comprises myself as Non-Executive Chairman and eleven other Directors of which six are Non-Executive.

We have sought to ensure we have a balanced Board where individual merit and relevance are the key entry requirements but collectively we have an appropriate mix of gender, nationalities and skills to ensure constructive debate and thoughtful decision making. In addition, we believe it is important to maintain a blend within the Non-Executive group where some are in full time executive employment and others are pursuing a portfolio non-executive career path.

In addition to myself as Chairman, our current Non-Executives comprise one Australian, one Italian and four British nationals – three are women and three men, three in full time executive employment and three who have a number of non-executive roles in both public and private companies.

Our most recent appointments to the Board over the last 24 months have brought both current operational experience and fresh perspective, and reinvigorated the debate and discussion.

Diversity

Centrica is strongly committed to the merits of diversity in all its forms at Board level and throughout the Group.

Twenty five percent of the Board are women. As a founding Chairman of the 30% Club, I have long believed that the attainment of any role must be by merit, but that gender diversity can be an added value. Centrica is committed to maintaining its current level of women on the Board and would increase the percentage if the skills of the individual were appropriate and in keeping with the business need. This commitment is not a function of governance box-ticking but a belief that it is in the best interests of the business.

Our success in achieving a desirable mix at the Executive Committee level has been less successful with currently only one woman on a Committee of seven. We are working hard to address this issue through a variety of measures and I am confident we will increase the appointment of women in executive roles at the highest level.

CHAIRMAN'S STATEMENT CONTINUED

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.

CORPORATE RESPONSIBILITY PAGE 36

Board composition planning

Over the last two years we have completed the first phase of refreshing the Board in keeping with the requirement for ensuring independence of mind and relevance of skills. Our last three appointments have included two with full time executive roles to bring relevant operational and financial experience to the Board and one with a broader non-executive skillset drawn from her experience in finance and as a non-executive and chairman of other boards. These appointments have assisted a generational change in Board membership and provided required replacement chairmanship skills in both remuneration and audit.

Following the announcement by BHP Billiton in February 2013 of the appointment of Andrew Mackenzie as CEO it is with regret that we have accepted Andrew's resignation as a Non-Executive Director of Centrica with effect from 10 May 2013. Andrew will not, therefore, seek re-election as a Director at the Annual General Meeting to be held on 13 May 2013.

In light of the increased content of upstream activity and our wider presence in North America, we have commenced a search for an additional Non-Executive with strong upstream credentials in North America. It is hoped that this appointment will be made in the first half of 2013.

Sadly two of our Non-Executives, Mary Francis and Paul Rayner, will complete their nine-year term of office in 2013. Both have made a material contribution to the Board and both will ultimately be a loss to the business. To preserve corporate memory and avoid undue disruption at one time, I intend to stagger their departure such that Paul Rayner remains on the Board to 31 December 2013 and Mary Francis continues in her capacity as Senior Independent Director during 2014. Whilst technically this exceeds their nine-year term, the Board has confirmed that they remain independent in character and judgement and I believe taking this approach to be in the best interests of the Company.

With these changes in mind, the role of Chairman of the Audit Committee, which has been undertaken by Paul Rayner, will be handed over to Margherita Della Valle at the time of the half year results in 2013. Mary Francis will remain Chairman of the Corporate Responsibility Committee for the duration of 2013.

A search will be initiated for the replacement of both Paul Rayner and Mary Francis in the second half of 2013 with a specification of skills and background to be determined in keeping with the demand of the business model at that time.

Board evaluation

Our policy over many years has been to conduct a thorough review of Board process, practice and culture on an annual basis with the input of an external facilitator at least once every three years.

At the end of 2011 we appointed Independent Board Evaluations (IBE) to conduct an external review and carefully considered their findings that they recommended to 'make a good board great'. The main observation was on the importance of allocating sufficient time for strategic discussion over the course of the year's Board meetings rather than concentrating our efforts at an annual offsite strategic review session. IBE also recommended sharing more detail of the individual Committee meetings at Board updates and encouraging all Executive Directors to participate more fully in Board discussion on areas outside their day to day responsibility.

In 2012 we adopted all of these recommendations to good effect, resulting in fuller participation by all Board members and a more regular review of the strategic development of the Group in a rapidly changing external environment. In December 2012, we conducted an internal Board evaluation comprising a written questionnaire followed by discussion in order to evaluate the success of the changes made and identify points to be addressed in the next twelve months. Based on the responses, all Directors concluded that there had been considerable improvement in both the quality and frequency of strategic discussion. All were now satisfied with the progress made and the contribution of all Board members. Looking forward, there were no issues on process or divisions on strategy.

Sir Roger Carr
Chairman
27 February 2013

CHIEF EXECUTIVE'S REVIEW: MARKETPLACE

World gas markets are evolving and we have to evolve with them

Sam Laidlaw
Chief Executive

Securing our customers' energy needs, sustainably and affordably, is at the core of what we do. But the energy world is changing. By 2020:

- almost three quarters of the UK's gas will be imported;
- more of the UK's electricity will be generated from capital intensive, low carbon technologies;
- every home in the UK will have a smart meter; and
- in the US, shale will provide well over a third of natural gas production, having already transformed the US energy market.

Our vision remains to be the leading integrated energy company, with customers at our core. We are refreshing our strategy to deliver that vision.

We will deploy our skills and capabilities so that we can benefit from the trends in our markets, growing and strengthening the business to fulfil our responsibilities to shareholders, customers and stakeholders.

IN MORE DETAIL

Refreshed strategic priorities to deliver our vision on page **10**

Business model built for the evolving energy world on page **12**

Review of the year on page **14**

OUR VISION AND STRATEGIC PRIORITIES

We have been working hard for the past three years to realise our strategic priorities

Strategy delivered over the last three years

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

- Stable profits and strong customer retention in the residential business and reduced customer churn
- Increased profitability in British Gas Services
- Clear leadership established in systems, online and smart

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

- Significantly larger and more geographically diverse business
- Increased gas and oil reserves and production up by around 50%
- Strong nuclear performance with life extensions creating additional value

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

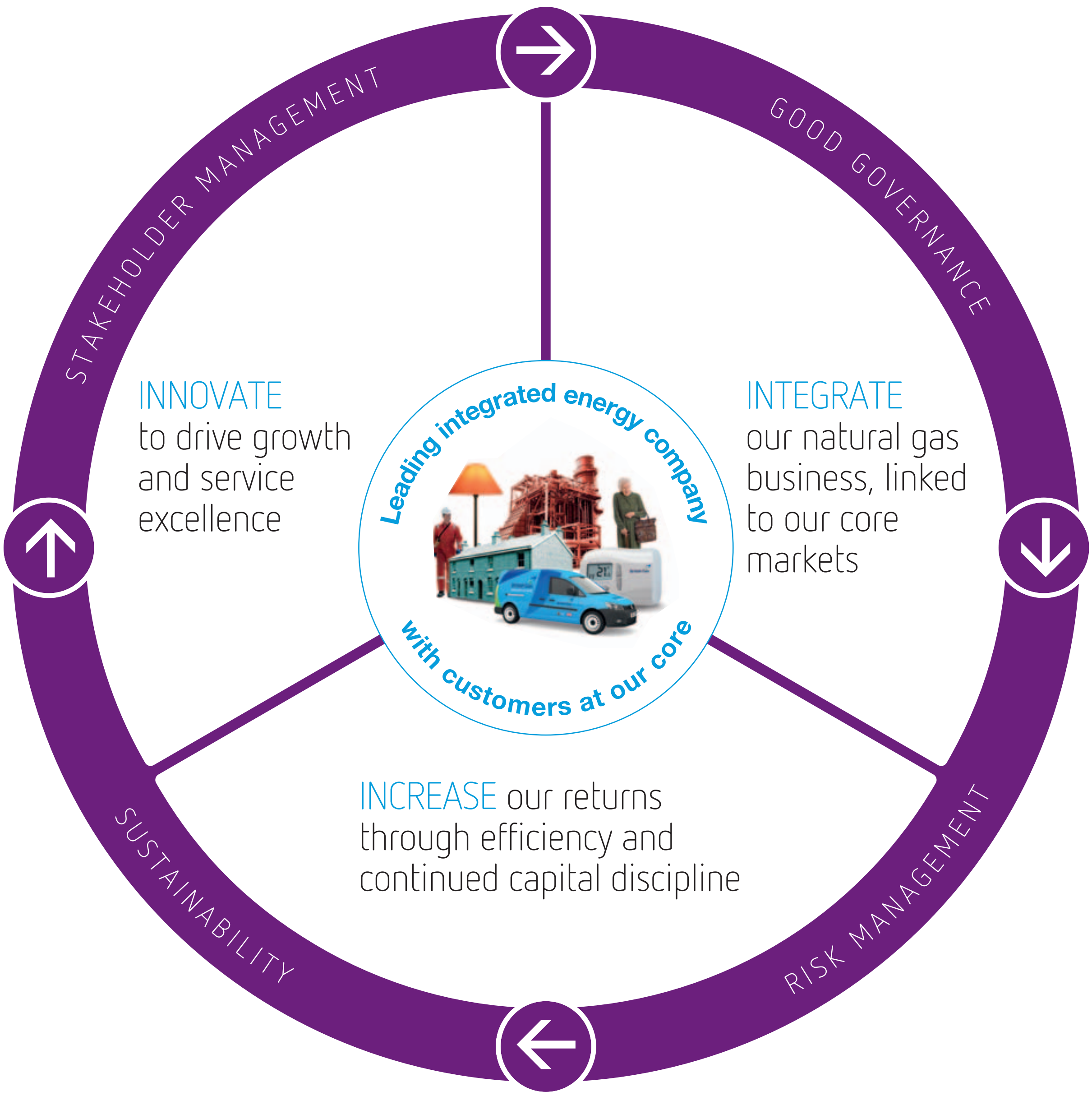
- Increased scale in both upstream and downstream
- Improved return on capital in North American downstream
- Upstream resource trebled and production doubled

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

- Earnings per share growth of 25%
- Dividend per share growth of 28%
- Total shareholder return of 36% (FTSE 100: 21%)

We are now in a strong position to realise the next step of our strategic direction

Our refreshed strategic priorities



READ MORE ABOUT OUR NEW STRATEGIC PRIORITIES ON PAGES **16** TO **17**

OUR BUSINESS MODEL: AN INTEGRATED ENERGY LANDSCAPE

The energy chain demonstrates how Centrica plays a major part in every aspect of energy from sourcing it to saving it. Each link in the energy chain is critical to our success and helps us to deliver our vision to be the leading integrated energy company, with customers at our core.

WE SOURCE AND GENERATE IT

CENTRICA ENERGY PAGE **26**
DIRECT ENERGY PAGE **32**

We invest in gas and oil reserves from the seas around the UK to secure vital long-term energy resources. We have natural gas assets in the UK, Norway, the Netherlands, North America and Trinidad and Tobago.

We generate power through our fleet of combined cycle gas turbine power stations, with eight stations in the UK and three plants in Texas. We also generate power through our equity interest in EDF Energy Nuclear Generation which operates eight UK nuclear power stations.

Our five UK onshore and offshore wind farms generate renewable power. Lincs offshore wind farm generated its first power in the second half of 2012 and in 2013 it will provide energy to more than 200,000 homes. In North America, we secure the electrical output from numerous Texan wind farms.

66.8mmboe
gas and liquids produced

28TWh
power generated

31 million
customer accounts

Business Review – Chief Executive's Review

WE PROCESS, STORE AND TRADE IT

CENTRICA ENERGY PAGE **26**
CENTRICA STORAGE PAGE **30**
DIRECT ENERGY PAGE **32**

With the UK increasingly dependent on imported gas, our storage capability helps ensure security of gas supply to homes and businesses. Our Rough storage facility is the largest in the UK, making up more than 70% of national storage capacity and meeting around 10% of peak day demand. We store gas at Rough for a large number of customers, including utilities, gas traders and gas producers.

Our UK onshore gas terminals ensure high quality gas enters the UK's transmission system. The Barrow terminals process gas from our Morecambe fields in the East Irish Sea while the terminal at Easington, in East Yorkshire, processes gas from the Rough storage facility and from early 2013, a newly constructed facility at Easington will process gas from the York field.

In the UK and North America, we trade gas and power to ensure British Gas and Direct Energy customers have a reliable and competitive energy supply. We have extended our presence to include liquefied natural gas (LNG) imports. Shipping LNG – where the gas is cooled to liquid form for ease of transport – now plays an important part in the way we secure the UK's energy needs.

WE SUPPLY, SERVICE AND SAVE IT

BRITISH GAS PAGE **22**
DIRECT ENERGY PAGE **32**

We supply energy to millions of homes and businesses in the UK and North America, and provide peace of mind with central heating, boiler and cooling maintenance and breakdown cover products.

By rolling out smart meter technology, we are ending the need for estimated bills, providing customers with accurate, real-time information on energy consumption and costs. We offer an increasing number of innovative low carbon, energy efficient products and services, including installing solar panels, insulation and ground and air source heating. We are also installing solar canopies to charge the first fully electric cars in the UK.

We save energy by helping customers to improve energy efficiency, offering free insulation and embracing new technologies – with smart meters playing a vital role as the enabling technology in the smart connected home. Our recently launched 'Remote Heating Control' product means customers can monitor and control their central heating systems from outside the home via the internet.

REVIEW OF THE YEAR

It is important that Centrica makes a fair and reasonable return so that we can continue to make our contribution to society and to invest. In 2012, we incurred a tax charge of over £1 billion and invested over £2 billion to secure new sources of energy for the UK, well in excess of our profits.

Strong performance in 2012 allows us to contribute our fair share

Centrica performed well in 2012 in a challenging environment, delivering year on year adjusted earnings growth of 5%. This reflects a combination of organic growth and enhanced scale from recent acquisitions and investments, in the UK, Norway and North America, as well as a continued focus on cost efficiency across the Group. As a result we have been able to grow the full-year dividend by more than the rate of inflation for the 13th year in succession, in addition to launching a £500 million share repurchase programme in early 2013.

Downstream at British Gas, we are facing increased costs in supplying energy, most of which are external to the Group. In this tough economic climate, we are committed to doing everything we can to help our customers. We have made sure that energy choices are simple and transparent, and we lead the way in standards of customer service, innovation, help for the vulnerable and energy efficiency. The weak economy continues to have an adverse impact on British Gas Business. However we were able to deliver strong double-digit profit growth in British Gas Services, largely through tight cost control coupled with continuing high standards of service.

Upstream at Centrica Energy, we continue to invest to secure energy supplies for the UK. We completed three acquisitions of gas and oil assets, delivering a step change in annual production and strengthening the geographic spread of our portfolio. In power, our Lincs offshore wind farm has generated first power and will be fully operational later in 2013. While market conditions remain challenging for gas-fired plants the nuclear fleet performed well, with increased output and seven year life extensions for Hinkley Point B and Hunterston B. In nuclear new build, while significant progress has been made, there remains uncertainty about overall project costs and the construction schedule. These factors, in particular the lengthening time frame for a return on the capital invested in a project of this scale, has led us to conclude that participation is not right for Centrica and in February 2013 we announced our decision not to participate.

In Centrica Storage, we delivered an increase in profit through strong operational and commercial performance. In North America, at Direct Energy we delivered further profit and customer growth in an environment of low gas prices and we have successfully integrated recent acquisitions into the business. We continue to see North America as an attractive market to deploy capital, both upstream and downstream, for growth and for value.

We remain on track to deliver our Group-wide £500 million cost reduction programme, sharpening the business and maintaining our competitive edge. At the same time we have retained our absolute focus on safety which continues to be a core priority across all our activities. Our downstream businesses have continued their significant reduction in accident rates. Upstream operations had no significant process safety events in 2012 and continue to implement their rigorous programme of process safety management systems. At a Group level we have developed a more comprehensive process to provide greater assurance of HSE compliance to the Board and Executive. This strong safety culture is reflected in our performance, with the lost time injury frequency rate (LTIFR) falling by 20%.

Overall, Centrica is delivering consistent earnings growth and it is this which allows us to make our fair contribution to the economy and society through investment, employment, tax payments and dividends.

Helping our customers in difficult times

Taking the lead in making energy choices simple and transparent

In February 2013, Ofgem announced that it was preparing for final proposals and a statutory consultation to be published around the end of March 2013 on its reforms

"WE HAVE TAKEN THE LEAD DURING 2012 IN HELPING MORE HOUSEHOLDS SAVE ENERGY AND SUPPORTING THE PEOPLE WHO NEED THE MOST HELP."

Sam Laidlaw
Chief Executive

to make the household energy market simpler, clearer and fairer for consumers. These follow on from initial findings published in March 2011 and updated proposals announced in October 2012. The headline proposals are a welcome step forward for the industry and will help to improve customer trust, engagement and understanding. However, it is important that these positive developments do not have the unintended consequence of restricting choice and innovation. We have already implemented a number of changes consistent with the headline proposals, including simplifying our tariff structures and publishing price comparison information to make it easy for customers to ensure they are on the most appropriate British Gas tariff for them.

Customer service, cost efficiency and innovation remain at the heart of everything we do. British Gas operating costs fell year on year, but not at the expense of service, as our Net Promoter Score (NPS) increased once again, to +30, and we were awarded the top five star rating for customer service from Consumer Focus. Our improved online platform handled 13% more transactions than in 2011, achieving a better customer experience and lower costs. Our new 'Remote Heating Control' product allows customers to monitor and control their energy use when they are away from the home, and we have now installed over 800,000 smart meters for homes and businesses – substantially more than any other UK energy supplier.

We also spend more than any other energy supplier on those who are most in need of support. In 2012, 400,000 of our most

HOW DO WE MEASURE UP AGAINST OUR PRIORITIES?

Our key performance indicators can be found on page **18**

vulnerable customers received the Warm Home Discount, now worth £130 off their annual bill. We are also at the forefront of measures to help people use less energy, installing insulation for nearly 700,000 customers during the year.

Despite the squeeze on household budgets, British Gas Services performed well. We improved retention rates across our product range demonstrating the value which customers place on our services. However, in current economic conditions it is difficult to attract new customers and we also saw a reduction in boiler installation volumes, down 10% from last year. The economic impact was seen more clearly in British Gas Business, leading to lower profitability and a reduction in the number of accounts served in a highly competitive market. We are therefore taking steps to put this business on a stronger footing for long-term growth, including introducing new systems to improve levels of customer service, at lower cost. Over time, we also expect to achieve growth in business services, particularly through Energy Performance Contracts.

Innovation in North America

In North America, greater competition has been welcomed by regulators and customers in our core markets, Texas and the US North East. Acquisitions and organic growth have increased the size of our business and we now have 3.5 million residential energy customer accounts and around 6 million residential energy and services accounts in total.

We continue to focus on providing attractive and innovative products to our residential and business customers, building on our Group-wide expertise in competitive markets. Our prepaid 'Power to Go' product in Texas continues to grow, while in the US North East the introduction of 'Free Power Saturdays' has encouraged customers to rephase their electricity use to off-peak times. We are specifically tailoring offers for small business customers while continuing to deliver high levels of service. Our energy services business gives us the ability to differentiate ourselves from our competitors with additional higher margin propositions.

In Ontario, restrictions on competition continue to make it difficult for us both to retain customers and attract new ones. We no longer view this business as core and are managing costs to continue serving our existing customers as efficiently as possible.

Securing sustainable and affordable energy supplies

The Group invested £2.7 billion of capital in 2012, helping to secure supplies for the UK. Around £2 billion of that was invested in North Sea gas and oil assets, including the completion of three acquisitions. This materially increased the scale and

REVIEW OF THE YEAR CONTINUED

geographic diversity of the business and Norway is now a core part of our portfolio, with a number of attractive producing, development and exploration assets. Over the past three years we have developed significant capabilities in upstream and midstream, leaving us well placed for future growth.

We achieved first gas from our Ensign, Seven Seas and Atla development projects during the year, with first gas expected from York and Rhyl in the coming weeks. In early 2013, we had positive results from exploration drilling at Rodriquez and Whitehaven. However we recorded a lower level of drilling success in 2012 than in previous years, including a development well failure at Ensign which resulted in a pre-tax write-off of £73 million. Construction has now begun at the £1.4 billion Cygnus project. Cygnus is the largest gas discovery in the Southern North Sea in the last 25 years and will create 4,000 jobs during the construction phase, predominantly in the UK. At peak production it will be able to meet the demand of nearly 1.5 million UK homes.

We achieved first power from our 270MW Lincs offshore wind farm in the year. When fully operational by the second half of 2013 it will be able to meet the annual demand of more than 200,000 homes. We were also granted planning consent for 580MW at the Race Bank offshore wind farm project. We are willing to commit £200 million for the project, and are in discussion with a financial partner and the Government concerning the economic framework. Investment in the existing nuclear fleet is ongoing, with the expectation for nuclear plant life extensions for the AGR fleet now seven years on average, compared to the five previously assumed. In gas-fired generation we have recently sanctioned a turbine blade upgrade at our 1.2GW South Humber power station. We also have strong capabilities in gas storage, and two potentially attractive projects, Baird and Caythorpe. However the market remains challenging for new gas storage projects and we will only invest if the returns are appropriate for the level of risk undertaken.

However, as with all our investment options, we will only deploy capital where

SOURCING AND PROCURING THE RIGHT ENERGY AT THE RIGHT PRICE

Read about Centrica Energy's activities on page **26**

we see attractive value, aligned to our core competencies. In this context, we announced in October that we would not proceed with plans to build two dedicated biomass plants, following recent clarification on the regulatory framework indicating a Government preference for coal conversion. Earlier this month, we also announced that we would not participate in the construction of up to four new nuclear reactors in the UK. While we believe that nuclear power has an important role to play in the UK's energy mix, the likely cost and timescale of this project led us to conclude that it was not in the best interests of Centrica shareholders for us to participate.

New strategic priorities to reflect changing market conditions

World gas markets are evolving and we have to evolve with them. Shale gas in North America and LNG globally have transformed the landscape. Gas will continue to play a major role in the UK, both in heating the overwhelming majority of homes and businesses and as part of a diverse fuel mix for power generation, with the UK Government's Electricity Market Reform and Gas Strategy both indicating a long-term role for gas-fired generation. However, the sources of UK gas are changing, with North Sea reserves declining and becoming more expensive to develop. This places more reliance on imported pipeline gas and particularly LNG, and leaves the UK increasingly exposed to global gas prices.

At the same time, the nature of low carbon power investments in the UK is changing, with affordability for consumers increasingly the focus of attention. Projects are becoming larger in scale, with higher capital costs and longer construction times, while the fixed price nature of the Contract for Difference mechanism means that output will no longer act as a hedge against downstream price volatility.

Against this backdrop, our vision is to be the leading integrated energy company, with customers at our core. We have refreshed our strategic priorities to position Centrica to best advantage in this demanding but exciting new world:

- Innovate to drive growth and service excellence
  - Lead with great service and efficient operations
  - Enable our customers to control their energy use in a simpler, smarter, more efficient way
  - Grow in selected markets, building on our leading capabilities
- Integrate our natural gas business, linked to our core markets
  - Grow and diversify our exploration and production portfolio for value
  - Develop our midstream business to integrate along the gas value chain
  - Maintain a low carbon power hedge and invest where we see value
- Increase our returns through efficiency and continued capital discipline
  - Further develop organisational capability
  - Continuously focus on safety
  - Deliver value to shareholders

These strategic priorities apply across our businesses in the UK, North America and internationally. In order to reinforce delivery of the priorities we are moving to an

Business Review – Chief Executive's Review

international functional organisation with a new management structure, aligned to our core competencies downstream and upstream. And we will do all this with the clear objective of increasing our returns, through efficiency and continued capital discipline. Chris Weston will lead the international downstream business, as we build on our distinctive capabilities in service, systems, energy services and efficiency, in the UK and North America. Mark Hanafin will lead the international upstream business as we continue to develop opportunities along the gas value chain and invest where we see attractive value. Both Chris and Mark have extensive experience in the UK and North America, and are therefore well placed to take on the task ahead.

Innovate to drive growth and service excellence

Underlying household energy consumption in the UK will continue to fall as appliances and homes become more efficient. However with the UK increasingly exposed to global gas prices, and non-commodity costs expected to rise year on year, affordability will remain an important issue. By contrast, the low gas price environment in North America makes affordability less of an issue, and favourable market conditions in the United States offer a good opportunity for growth. On both sides of the Atlantic, the roll-out of smart meters will give customers a new level of control over their energy use and we need to be innovative in the way we help them meet their evolving energy needs.

In the UK, we have developed a leading online platform and leading customer systems. We will also take advantage of our strong positions in energy services and smart meters to develop exciting new propositions, with offerings increasingly tailored to the needs of individual customers. Through relentless focus on service excellence, innovation and cost efficiency, we aim to maintain stable margins in residential energy supply, and target continued expansion in residential services. In business energy we have laid the groundwork for future growth, although in the near term market conditions remain challenging.

In North America too, service, innovation and cost efficiency will remain a core focus. But the continued liberalisation of markets in the United States, and the undeveloped nature of energy services provision, offer an opportunity to grow our customer base, both organically and through acquisition. We will continue to evaluate both bolt-on and larger acquisitions but remain focused on returns and will only transact where we see value. We will use our UK expertise and experience to develop our protection plan offerings in North America and we will increase the level of energy and services bundling over time. Over the next three to five years we are targeting a doubling of profitability in the North America downstream business, through a combination of organic growth and acquisitions, with Direct Energy downstream becoming a more material part of the Group.

Integrate our natural gas business, linked to our core markets

In an increasingly global market, we must secure gas from a wider range of sources and will consider at which stages of the supply chain we can add value, expanding the scope of our activities where appropriate. The aim is to connect sources of energy to our customers, building an integrated international business focused on the Atlantic basin.

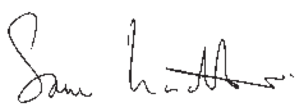
The UK and Norway will remain an important part of our upstream investment and activity, as we look to maintain an appropriate energy hedge. We will invest in assets with a link to existing hubs while looking to divest non-core assets. However, with the development of North Sea fields becoming increasingly expensive, particularly in the UK, we will refresh our focus on value. In North America we will consider both conventional and unconventional assets, and there is also potential for gas exports later in the decade. Overall, we will invest where we see value across our international portfolio, delivering annual production in the range 75mmboe to 100mmboe. In addition, we will look to build on our existing midstream capabilities and positions along the gas value chain, focusing on asset optimisation and gas contracting with an emerging LNG presence, provided we can do so in a capital efficient manner.

Our focus in UK power generation will be to preserve our existing power hedge, investing where we have a competitive advantage and see attractive returns. We retain a number of offshore wind opportunities, at Race Bank and in the Irish Sea. However, we will only invest for value and will seek to reduce our equity ownership through partnering where appropriate. We also retain options to build new CCGTs. However spark spreads remain at historically low levels and much will depend on the final outcome of Electricity Market Reform and the implementation of a capacity market in the UK.

Increase our returns through efficiency and continued capital discipline

In 2013, Centrica faces new challenges, including the loss of free carbon allowances. But we will continue to benefit from our cost reduction programme, from organic growth and also from the full-year impact of acquisitions, both upstream in gas and oil production and in North America. In this context, it is vital that we continue to focus on operational efficiency, reducing costs wherever possible for the benefit of customers and shareholders. All this must be done without in any way compromising our strong focus on health and safety.

Centrica has a robust balance sheet and generates strong cash flows and we retain a number of investment opportunities across the Group. This combination, allied to our expertise and experience both upstream and downstream, defines Centrica's core capabilities. However, we will maintain capital discipline, as evidenced by our recently announced £500 million share repurchase programme, only investing where we see value. Our aim now is to use those strengths to innovate and grow while adapting to a rapidly evolving energy world, serving our customers and delivering value to shareholders.



Sam Laidlaw
Chief Executive
27 February 2013

KEY PERFORMANCE INDICATORS

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 linked to the remuneration arrangements of our Executive Directors and senior executives.

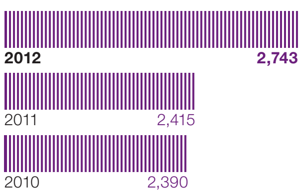
FINANCIAL

Adjusted operating profit

Operating profit is our key measure for financial performance. For remuneration purposes, operating profit is adjusted to a post-tax basis and by a charge on capital to set the economic profit performance targets.

Target for 2013
To continue to drive towards our three-year economic profit target range of £2.6 billion to £3.4 billion.

Adjusted operating profit £m



£2,743m

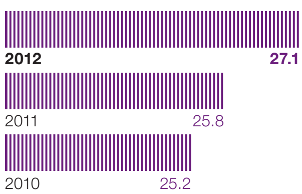
Adjusted operating profit
2011: £2,415m

Adjusted basic earnings per share (EPS)

EPS is an industry standard determining corporate profitability for shareholders. EPS is adjusted to reflect better the performance of the business. 2012 saw growth in our EPS despite the challenging economic conditions during the year.

Target for 2013
To deliver real growth in adjusted EPS over successive three-year periods.

Adjusted basic earnings per share pence



27.1p

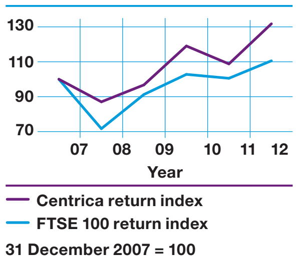
EPS
2011: 25.8p

Total shareholder return (TSR)

The Board believes 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 19% over the previous five years.

Target for 2013
To deliver improved levels of relative TSR as a measure of performance over a sustained period.

Total shareholder return indices (unaudited)



19%

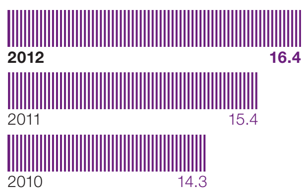
TSR outperformance over five years
2011: 5%

Dividend per share

Dividend per share indicates the level of earnings distributed to Centrica shareholders. The 2012 dividend shows an increase of 6% on the 2011 dividend.

Target for 2013
To deliver real growth each year. Dividends paid contribute to relative TSR.

Ordinary dividend pence



16.4p

Total dividend
2011: 15.4p

Business Review – Key Performance Indicators

REMUNERATION REPORT PAGE 43

Unless otherwise stated, all references to operating profit or loss, taxation and earnings numbers throughout the report are adjusted figures, as reconciled to their statutory equivalents in the table on page 4.

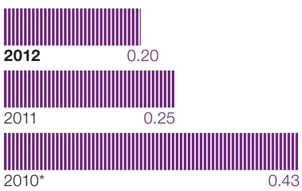
NON-FINANCIAL

Lost time injury frequency rate (LTIFR)

Safety is one of our core priorities. We continue to raise our standards of performance through strong leadership and on-going programmes to raise awareness and reinforce a positive and proactive safety culture across all our businesses. Initiatives across the Group in 2012 led to a 20% reduction in our LTIFR per 100,000 hours worked.

Target for 2013
To continue to pursue a best practice safety culture and to at least maintain, and if possible further improve, our LTIFR.

LTIFR per 100,000 hours worked



* 2010 figure does not include third-party managed contractors and is not directly comparable to 2011 and 2012 data.

0.20

LTIFR
2011: 0.25

Process safety

We have introduced a separate process safety measure which focuses on the integrity of operating systems and processes that handle hazardous substances and therefore emphasises the importance of a positive safety culture.

There were no significant process safety events in 2012.

Target for 2013
To continue to develop process safety strategies and training and to improve performance on all process safety metrics.

0

Significant events
2011: 2

Customer trust

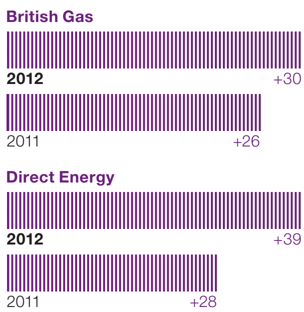
We track our performance using net promoter scores (NPS) for our two customer-facing businesses: British Gas in the UK and Direct Energy in North America.

From 2012 we have introduced low, median and high performance ranges for NPS.

British Gas NPS improved in 2012 with an annual average score of +30, despite higher call volumes as a result of colder weather. Direct Energy NPS rose to +39. Both results were within the high performance range.

Target for 2013
To remain within the high performance range.

Net promoter scores



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 environment. We did not conduct a survey in 2011 but undertook a review on how we measure employee engagement and how to use it as a tool to drive business performance. The survey in 2012 resulted in a mean score of 4.72 out of 6.

Target for 2013
To continue to strive towards top quartile performance measured against an identified high performance benchmark range.

4.72 out of 6

Employee engagement
2011: not applicable

OUR BUSINESSES

British Gas

£13,716m

Revenue (2011: £12,315m)

OPERATING REVIEW PAGE 22

£1,093m

Adjusted operating profit (2011: £1,005m)

British Gas is Britain's leading residential energy and services provider. Our energy business supplies gas and electricity to millions of homes and businesses in Britain, winning awards for high quality customer service and innovation.

British Gas' services business installs, repairs and maintains boilers and heating systems. Our engineers also service electrical systems, appliances, plumbing and drains. We help our business customers reduce their energy consumption and cut costs, with a range of value-added services.

British Gas is committed to an energy efficient future – whether it's cutting consumption with insulation measures or the latest advances in solar panels and electric vehicles. We offer our customers the most up-to-date technology – including smart meters and automated heating and security systems. We bring innovative home improvement projects to local communities. By focusing on our customers' needs, British Gas keeps homes and businesses across Britain warm and working.

5 star

Customer service rating from Consumer Focus

25 million

Customer accounts

30,305

Employees

centrica energy

£4,321m

Revenue (2011: £4,459m)

OPERATING REVIEW PAGE 26

£1,230m

Adjusted operating profit (2011: £1,023m)

Centrica Energy is an international business delivering growth and shareholder value through a balanced mix of gas and oil production, power generation and energy trading.

Our upstream oil and gas business operates in the UK, the Irish Sea, the Norwegian and Dutch sectors of the North Sea, as well as in Trinidad and Tobago. In 2012, we added 170mmboe to our reserves.

Our power generation business has a fleet of gas-fired power stations, offshore wind farms and a 20% share in the power generated by EDF Energy's UK nuclear power plants.

Our midstream business operates in the UK and European energy markets, trading in energy produced both inside and outside the business. It also supplies British Gas with electricity and gas.

21,489GWh

Power generated

56.7mmboe

Gas and liquids produced

1,788

Employees

Centrica Storage

£164m

Revenue (2011: £164m)

OPERATING REVIEW PAGE 30

£89m

Adjusted operating profit (2011: £75m)

Centrica Storage operates the Rough offshore gas storage facility in the Southern North Sea and the associated Easington Terminal.

The business stores gas in the Rough field on behalf of a number of customers, including utilities, gas traders, gas producers and other Centrica businesses. Gas is taken from the National Transmission System at Easington, piped offshore and is injected into a subsea reservoir, to be delivered back when it is required to meet seasonal peak demands.

Our Rough storage facility is the largest in the UK, able to meet approximately 10% of the UK's current peak day demand and representing over 70% of UK storage capacity.

Recent major works at Easington will allow us to process gas from Centrica's York project and, potentially, from other third parties in the future.

70%

We own over 70% of the UK's gas storage capacity

0

Lost time incidents in three years

306

Employees

Direct Energy

£5,741m

Revenue (2011: £5,886m)

OPERATING REVIEW PAGE 32

£331m

Adjusted operating profit (2011: £312m)

Direct Energy is one of North America's largest energy and energy related services providers. We provide choice and support in managing energy use and costs through our portfolio of innovative products and services. We operate under four lines of business.

Direct Energy Residential offers a wide range of fixed and variable natural gas and electricity pricing plans in addition to time-of-use and prepaid products using smart meter technologies.

Direct Energy Business provides natural gas and electricity sales as well as energy efficiency management and services.

Direct Energy Upstream manages natural gas production, power generation, midstream gas storage and transportation across North America.

Direct Energy Services is North America's largest provider of heating and cooling, plumbing and electrical services.

6 million

Customer accounts

10.1mmboe

Gas and liquids produced

6,336GWh

Power generated

6,243

Employees

Business Review – Operating Review

BRITISH GAS

" WE CONTINUE TO LEAD THE INDUSTRY IN SMART METERING, ENERGY EFFICIENCY, HELP FOR THE VULNERABLE AND IN ENSURING THAT OUR ENERGY PROPOSITION IS SIMPLE, FAIR AND TRANSPARENT. "

Phil Bentley
Managing Director, British Gas

2012 was an important year for British Gas – our 200th anniversary. In 1812, our founding company brought gas lighting to London's streets for the first time.

In 2012, we are still innovating. Today's technology looks very different but our principles of service excellence for our customers are the same – that's why we look after millions of homes in Britain.

One new innovation is smart meters. The British Gas roll-out programme is bringing significant benefits to customers. Smart meters bring with them ground-breaking new products and services – energy efficiency reports, time-of-use tariffs and itemised billing.

New technology reaches its full potential only with an unrelenting commitment to service excellence. British Gas continues to lead the industry in service – whether it's our award winning online presence and smartphone applications, downloaded more than 650,000 times, or our unique 'Model Visit' and 'Model Call'. British Gas established a Customer Board in 2011 which continues to play a role in ensuring we put customers at the heart of everything we do. By putting the customer front and centre we are growing existing sales channels and opening new ones.

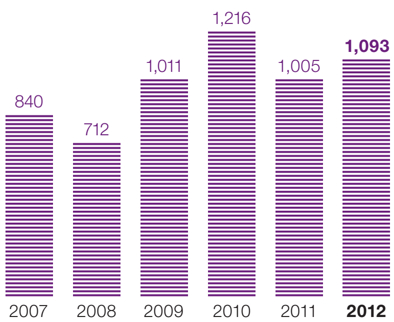
British Gas is evolving from a supplier of electricity and gas to a provider of complete energy products and services. From remote heating controls to revolutionary energy efficiency services for business customers, we're making the connected home and connected business a reality, adding significant value to our business.

We have seen positive growth in our residential energy and services divisions. Although we face higher external costs – wholesale commodity, transportation and environmental – we have minimised the impact through the careful management of our own costs. We are leading the industry in energy efficiency measures and advice, helping our customers to reduce consumption.

For 200 years we have brought innovation to Britain's energy industry. We are delivering the profits that enable investments in alternative forms of energy and new gas fields to keep homes and businesses warm and well lit. We will continue to do so, making a successful British Gas good news for Britain.

British Gas

Adjusted operating profit‡
£m



For the year ended 31 December	2012	2011
Adjusted operating profit‡ (£m)		
Residential energy supply	**606**	544
Residential services	**312**	269
Business energy supply and services	**175**	192
Customer numbers (year end, '000)		
Residential energy customer accounts	**15,656**	15,881
Residential services product holdings	**8,402**	8,484
Business energy supply points	**924**	999

‡ From continuing operations

Business Review – Operating Review

Good performance against a challenging economic backdrop

British Gas performed well in 2012, in a weak economy and with continuing increases to the cost of supplying energy. This is having a real impact for both residential and business customers and, against this backdrop, it is important that we continue to focus on improving customer service and reducing costs. We also continue to lead the industry in smart metering, energy efficiency, help for the vulnerable, and in ensuring that our energy proposition is simple, fair and transparent.

In residential energy supply, we delivered margins in line with our through-cycle expectations, in a period where all suppliers were faced with higher wholesale gas prices and higher non-commodity costs, including the cost of upgrading the UK's gas and electricity grids and meeting carbon reduction targets. Weather conditions were cooler than usual, following unusually mild temperatures in 2011. Average gas consumption was therefore higher compared to the prior year, partially offset by efficiency measures taken by our customers, including the take-up of our free insulation offers and the installation of more efficient central heating systems. As a result of higher consumption and costs, the average gas and electricity bill increased year on year and was made up as follows:

For a 2012 average annual gas and electricity bill of £1,188* the costs are:

External	
Wholesale energy	£568
Delivery to customer	£283
Environmental and social policies	£112
Taxes	£72
Internal	
Operating costs	£104
Profit	£49

* Based on British Gas 2012 financial results and consumption and is an average of all payment types/tariffs/regions.

In residential services, we again delivered double digit profit growth despite the challenging economic climate, primarily driven by cost efficiencies, while continued high service levels resulted in strong customer retention. The weak economy and competitive pressures continue to have an adverse impact on our business energy supply division, and we are investing in back office systems to reduce cost and enhance customer service.

The health and safety of our employees and customers remains a core priority. Our lost time injury frequency rate (LTIFR) was 0.23 per 100,000 hours worked (2011: 0.29), a 21% reduction over the past year. We are also focused on maintaining high levels of employee engagement and recognising the commitment our people make to delivering excellent customer service. This was reflected in British Gas being nominated in The Sunday Times 'Best Big Companies to Work For' for the fourth year in a row.

Helping our customers in difficult times

In February 2013, Ofgem announced that it was preparing for final proposals and a statutory consultation to be published around the end of March 2013 on its reforms to make the household energy market simpler, clearer and fairer for consumers. These follow on from initial findings published in March 2011 and updated proposals announced in October 2012. The headline proposals are a welcome step forward for the industry. However, it is important that the proposals on product range, restricting each supplier to four tariff types, do not restrict customer choice or market innovation. British Gas has already implemented changes consistent with many of the headline proposals. We have simplified our tariffs, including a new standing charge and single rate structure as part of a commitment to phase out two-tier tariffs. We have also been publishing price comparison information on our annual statements since March, allowing customers to check whether they are on the most appropriate British Gas tariff, while we were awarded five stars by Which? in July for clarity of billing and account management. More recently, we have built the capability to provide a personalised price comparison on each customer's bill, based on their actual consumption.

We continued to deliver high levels of customer service in 2012. In residential energy, our average call answering and handling times were lower than in 2011 while the volume of calls received fell and in October, Consumer Focus awarded us their top 5 star customer service rating. In residential services, our customer service metrics remained strong, despite higher call volumes as a result of the colder weather. Meanwhile complaints fell, and customer churn was at its lowest ever level. The overall British Gas Net Promoter Score (NPS) increased from +26 to +30.

AROUND 15,000 OF OUR CUSTOMERS ARE NOW USING 'REMOTE HEATING CONTROL'

During the year we launched our award winning 'Remote Heating Control' product which allows customers to monitor and control their central heating system via the internet or a smart phone. For our smart meter customers, we also launched the 'Smart Energy Report' to provide visibility of how their energy is being used and to help them reduce their consumption.

BRITISH GAS CONTINUED

HOW DID WE MEASURE UP? BRITISH GAS PERFORMANCE MEASURES CAN BE FOUND AT CENTRICA.COM/REPORT2012

During 2012 we further developed our online platform. We now have 3.4 million online registered customers, a 20% increase since last year, and over a third of all energy bills are now sent electronically. Seven out of ten customer own meter reads are submitted online and we have over one million accounts on EnergySmart which helps customers monitor and manage their energy usage. We have launched leading applications for both Apple and Android smart phones and have seen more than 650,000 downloads to date. Around a quarter of all website contacts are now made through mobile devices.

We continue to help our most vulnerable customers and maintain the widest eligibility criteria among all energy suppliers for the Warm Home Discount, which helped 400,000 customers during the year. In October, we announced 'Better Homes for Britain', a five year partnership with Shelter to help one million British households living in private rental property improve the standard of their homes. We also lead the industry in energy efficiency. Since 2008, British Gas has installed 1.7 million insulation measures to homes across the UK through the CERT and CESP programmes. Under these schemes, British Gas was required to meet a variety of carbon emissions reduction targets by 31 December 2012. Overall we expect to fulfil our total carbon saving targets in the first quarter of 2013, although finding customers who qualify as being in the 'Super Priority Group' has proved challenging and this particular sub-target will not be fully met. However, Ofgem has indicated that mitigating actions undertaken after 31 December will also be taken into account when assessing delivery.

Customer accounts stabilised despite competitive market conditions

A slight fall in wholesale electricity prices at the end of 2011 allowed us to implement a 5% reduction in our standard domestic electricity tariff in January, re-establishing British Gas as the cheapest major electricity supplier on average in Britain. However, like the rest of the industry, we are facing higher external costs. Wholesale gas prices are 13% higher for winter 2012/13 than for winter 2011/12, while the cost of upgrading the UK's gas and electricity grids and meeting carbon reduction targets increased by £50 per customer in 2012. As a result, in October we announced a rise in domestic gas and electricity prices by an average of 6%, which was implemented in November.

The number of residential energy customer accounts on supply reduced by 1% during the year, to 15.7 million (2011: 15.9 million). This reflected a short term increase in customer churn following the implementation of the price rise, although churn of 9% over the year was at its lowest ever level reflecting good customer service.

Our competitive pricing position has now improved following the implementation of price rises by all major suppliers and we have seen a return to growth in the early weeks of 2013. We have 5 million customers enrolled in the Nectar loyalty programme, which reduces our cost to serve and improves the customer experience by incentivising the use of our online platform, including the submission of meter reads and payment by direct debit.

The number of residential services product holdings fell slightly to 8.4 million (2011: 8.5 million), with weak economic conditions making sales of new contracts challenging. Retention rates improved however, with strong levels of customer service supporting attractive customer propositions. We decided in the second half of the year to strengthen our Plumbing and Drains product by expanding the cover to include the water supply pipe. As a result we are no longer selling a separate water supply pipe product and our product holdings have been restated accordingly. The economic environment continued to impact boiler installation volumes, which fell 10% to 94,000 (2011: 105,000), although operating profit increased as we focused on reducing our cost base. We continue to develop new affinity relationships to enable us to offer energy and services products to a wider customer base. In July, we signed a broad strategic partnership with the RAC covering a number of areas, including roadside breakdown, joint procurement and affinity marketing, and the first sales were made in November. In electric vehicles, we are the preferred supplier of home charging solutions for five major car manufacturers.

The number of business energy supply points fell by 8% over the year, to 924,000 (2011: 999,000) due to the challenging economic and competitive environment which is putting pressure on contract renewal rates and margins. However, we have recently received the letter of intent to award the renewal of a significant electricity contract from the Government Procurement Service comprising 70,000 sites for a term of four years. A new management team is in place and we continue to invest in our back office

systems to reduce costs, sharpen our competitive position and enhance our customer service. In business services we have made good progress. We have now been selected as preferred contractor on seven multi-year energy performance contracts with public sector organisations and have a strong pipeline for the year ahead.

More normal weather and cost reduction programme driving profit growth

After an unseasonally warm 2011, total British Gas gross revenue increased to £13,857 million (2011: £12,403 million) reflecting higher gas sales volumes. Total British Gas operating profit increased to £1,093 million (2011: £1,005 million). We continue to make good progress on our cost reduction programme and are on track to deliver £300 million of cost savings across British Gas by the end of 2013. We are seeing the benefit of previous investment in industry-leading IT systems and have achieved savings through a range of initiatives, including a pay freeze for employees and changes to the defined benefit pension schemes. During 2012, we closed our Southampton call centre, outsourced a number of roles in British Gas Services and British Gas Business, reduced IT costs through new working practices, offshored and transitioned to new data centres and agreed improved commercial terms with suppliers. As a result, including the impact of investment in growth areas, operating costs were 1% lower in 2012 than in the prior period and, despite the weak economy, the bad debt charge as a proportion of revenue fell as the benefits of improved systems and processes were realised.

In residential energy, gross revenue increased to £9,121 million (2011: £7,930 million) reflecting higher consumption and retail tariffs. After a warm 2011, cooler weather in 2012 saw average domestic gas consumption increase by 12%, more than offsetting underlying energy efficiency reductions. Average electricity consumption was broadly flat compared to 2011. Residential energy operating profit increased to £606 million (2011: £544 million). Commodity and transportation and distribution costs both increased, while environmental costs rose by 22% to £732 million (2011: £599 million). The residential energy operating margin was 6.6% (2011: 6.9%), in line with our through-cycle expectations.

In residential services, gross revenue increased slightly to £1,674 million (2011: £1,644 million) with a rise in revenue from insulation jobs more than offsetting a decline in installations revenue. Operating profit increased by 16% to £312 million (2011: £269 million), while the operating margin increased to 18.6% (2011: 16.4%) driven by cost efficiencies and an improved contribution from our new markets activity.

In business energy supply and services, gross revenue increased to £3,062 million (2011: £2,829 million) with operating profit falling by 9% to £175 million (2011: £192 million), reflecting the challenging external environment. Business services revenue increased by 12% compared to 2011.

Leading the transition to smart connected homes and businesses

We continue to lead the industry in smart metering and have now installed over 800,000 smart meters in homes and businesses. We welcomed the Government's confirmation of the standards for the smart meter roll-out and we are the only supplier currently installing fully compliant Phase 3 meters in customers' homes. Smart meters are a key enabler for a range of technologies and by going early on the roll-out we have gained invaluable experience. We are also starting to see the benefit of smart meters delivering an enhanced customer experience, including significantly lower contact rates, fewer complaints and higher retention. We have made a number of investments in smart technology companies, including AlertMe, which enables a range of home automation applications and Power Plus Communications, which specialises in smart applications in complex buildings. During the year we launched our award winning 'Remote Heating Control' product which allows customers to monitor and control their central heating system via the internet or a smart phone. Around 15,000 customers are now using the product and, as part of a bundle, it is also driving higher sales conversion of central heating systems. For our smart meter customers, we also launched the 'Smart Energy Report' to provide visibility of how their energy is being used and to help them reduce their consumption.

We will continue to lead the transition to smart connected homes and businesses, offering attractive propositions, which will improve customer engagement and deliver lower costs for the business.

Innovate to drive growth and service excellence

Performance in 2012 in a challenging economic and competitive environment has demonstrated that our business model remains sound. In residential energy supply it will be increasingly important to differentiate our offering through service excellence and innovation. Our scale and leadership in customer service, cost efficiency and systems leave us well placed to continue to deliver a fair level of margin in this business. In residential services, our focus remains on offering attractive customer propositions and delivering service excellence, while also working to reduce costs further during 2013. We expect to deliver continued profit growth in services, although not at the high levels achieved in 2012. In business energy supply, the environment remains challenging. We are investing in our back office systems to reduce costs and improve service and, over time, we expect business services to make a more material contribution. Looking to the future, smart meters are a key enabler in the trend towards the 'smart connected home'. British Gas' leadership in smart metering and technology will enable us to capitalise on this trend, deepening customer relationships and differentiating our energy and services offer to drive long-term growth.

Business Review – Operating Review

CENTRICA ENERGY

" THE GAS MARKET IS BECOMING INCREASINGLY GLOBAL. WE AIM TO BUILD AN INTEGRATED INTERNATIONAL BUSINESS FOCUSED ON THE ATLANTIC BASIN. "

Mark Hanafin
Managing Director, Centrica Energy

2012 saw Centrica Energy make significant steps in delivering growth and value in its upstream gas and oil, power generation and midstream businesses.

In upstream gas and oil, we added 170mmboe to our reserves. The majority of these were added in Norway, helping to treble the size of our reserve base in this important region for growth. We also deepened our involvement in Norway by extending our Memorandum of Understanding with Statoil, enabling us to continue working together on gas exploration opportunities in Norway and the UK. This announcement was welcomed by the Prime Minister as helping to forge a strategically important relationship between the two nations.

The £1.4 billion development of the Cygnus field, the biggest gas discovery in the Southern North Sea for a quarter of a century, is now underway. Cygnus is expected to create around 4,000 jobs in the development phase, underlining the importance of the energy sector for UK economic growth. In other UK North Sea projects, we achieved first gas at the Ensign and Seven Seas fields in 2012.

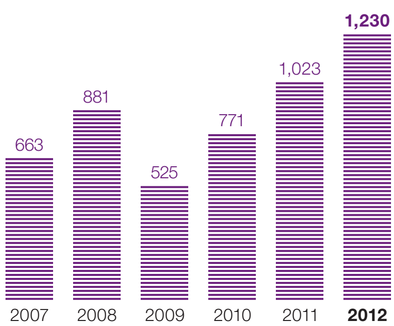
2012 also saw important developments in offshore wind. We received planning consent for 580MW at the Race Bank wind farm to be built off the Lincolnshire coast – close to our 270MW Lincs development. Lincs achieved first power and is due for completion in 2013. The continued development in renewables and a strong operating performance by the nuclear fleet delivered significant value for the Group and helped to offset the challenging conditions currently facing our gas-fired generation fleet.

Health, safety and environmental issues remain a core priority and we have continued to focus on the management of our major accident hazards. We have been progressively improving competence, reporting and accountability to ensure we are effectively managing process safety controls.

Despite the difficult external conditions in 2012, Centrica Energy is well positioned to deliver growth and value across its portfolio.

centrica energy

Adjusted operating profit‡
£m



For the year ended 31 December	2012	2011
Adjusted operating profit‡ (£m)		
Gas	**919**	769
Power	**311**	254
Gas and power		
Gas production (mmth)	**2,441**	2,160
Liquids production (mmboe)	**16.3**	12.5
Proven and probable reserves (mmboe)	**525**	410
Power generated (TWh)	**21.5**	26.7

‡ From continuing operations

Business Review – Operating Review

A more balanced upstream business

Centrica Energy made significant progress during 2012 on its strategy to deliver value and growth. In upstream gas and oil, we integrated three North Sea acquisitions in 2012. This delivered a step change for the business, increasing production and significantly enhancing the scale and balance of our portfolio. In power, although the operating environment for gas-fired generation remains challenging, the business benefited from strong nuclear operational performance.

We have achieved a number of key project milestones, bringing reserves into production and generating first power from our 270MW Lincs offshore wind project. We have also made important steps to develop future cornerstone assets, with good progress at the Valemon gas field and the sanctioning of the £1.4 billion Cygnus gas field, one of the largest remaining development opportunities in the UK North Sea.

Total Centrica Energy operating profit increased by 20% to £1,230 million (2011: £1,023 million) with increased profit in both gas and power. This increase in profit was in part helped by the delivery of a series of cost initiatives in 2012 and the business is on track to deliver its contribution of cost savings to Group targets. These savings have not compromised on our continued focus on health, safety and environmental practices. Centrica Energy continues to progress its process safety programme, which focuses on the integrity of operating systems and processes that handle hazardous substances. We had no significant process safety events in 2012. In terms of environmental practices, we are committed to operating responsibly and will continue to engage with stakeholders, to understand and manage the environmental and social issues associated with new and existing investments.

Increased gas and oil reserves and production

Between November 2011 and February 2012 we announced three North Sea acquisitions, all of which completed during 2012, for a total of £1.2 billion. Overall, we added 170 million barrels of oil equivalent (mmboe) of 2P reserves in the year, as a result of acquisitions, upgrades of existing hubs such as Rhyl and bringing new projects such as Maria into the development pipeline. After taking production into account, we ended the year at 525mmboe of 2P reserves (2011: 410mmboe). Our Norwegian business now forms a significant part of the portfolio following the acquisitions, accounting for 41% of our upstream gas and oil reserves, compared to 18% at the end of 2011.

Total production of gas and liquids increased by 18% to 56.7mmboe (2011: 48.2mmboe). Total gas production volumes increased by 13% to 2,441 million therms (mmth) (2011: 2,160mmth) and total liquids volumes increased by 30% to 16.3mmboe (2011: 12.5mmboe), reflecting the benefit of recent acquisitions. We now have less reliance on production from Morecambe, which in 2012 contributed 23% of total production (2011: 29%) primarily due to increases from the rest of the portfolio. Performance from South Morecambe improved in the second half of the year, after we took action to stabilise the quality of gas delivered to the grid during the field's maintenance shut-down in the summer. Gas production volumes from Norway more than trebled to 557mmth (2011: 164mmth) while liquids volumes increased to 8.9mmboe (2011: 4.7mmboe), reflecting acquisitions during the year.

In 2013 we will benefit from a full year of production from the acquisitions made during 2012, and with new fields coming into production offsetting the natural decline from our existing fields, total production volumes are expected to increase by a further 15%.

Adding value through gas and oil development, appraisal and exploration

We achieved first gas at Seven Seas and Atla in the second half of the year, following on from Ensign having delivered first gas in May. At Ensign we have now also delivered production from the second well, however due to mechanical issues the initial production rate is below our original expectations. First gas is expected from York and Rhyl in the coming weeks, with first gas from Kew scheduled for the fourth quarter of 2013. Good progress continues to be made on the Statoil-operated Valemon project with the detailed design having been agreed towards the end of 2012 and fabrication having started early in 2013. The field is on track to produce first gas in the fourth quarter of 2014.

In August we announced that the £1.4 billion Cygnus project, in which we own a 48.75% interest, had been sanctioned. Key contracts have now been placed and the fabrication of the jacket and platform deck started ahead of schedule. The development will create around 4,000 jobs, mostly in the UK and bring 53mmboe of our reserves into production from late 2015, providing enough gas at peak production to supply 1.5 million homes.

In Trinidad and Tobago, we made further progress on the Block 22 project with the award of front end engineering design contracts for upstream and subsea facilities as well as the contracting of a rig to drill two appraisal wells to prove up our resource base. We continue to explore development and partnership options for gas export.

Our appraisal drilling at Rhyl North towards the end of 2012 was successful, and led to our 2P reserves being revised upwards by 7mmboe to 14mmboe. In early 2013, exploration drilling at Whitehaven confirmed that the Rhyl reservoir extends further than originally anticipated, potentially leading to

CENTRICA ENERGY CONTINUED

The UK and Norway will remain an important part of our investment and activity

HOW DID WE MEASURE UP? CENTRICA ENERGY PERFORMANCE MEASURES CAN BE FOUND AT CENTRICA.COM/REPORT2012

additional reserve upgrades. Rhyl and Whitehaven will both utilise our existing Morecambe infrastructure. Appraisal drilling at the non-operated Maria North well, in which we own a 20% interest, showed potential gross recoverable reserves of the Maria field towards the upper end of the 70-150mmboe range published following the discovery in 2010. Accordingly we have revised our 2P reserves up by 10mmboe to 25mmboe. Appraisal drilling at Bligh and exploration drilling at Cooper both encountered hydrocarbons, but tight reservoirs meant that commercial flow rates were not achieved. We also experienced non-operated exploration failures in Trinidad and Tobago. However in early 2013 drilling at the Rodriguez prospect in Norway was successful, confirming the presence of gas condensate.

In June, we extended our Memorandum of Understanding (MoU) with Statoil to collaborate on gas-focused exploration opportunities in Norway and the UK. In October, the UKCS 27th Round awarded Centrica six licenses covering 13 blocks and part-blocks. Three of the blocks will be Centrica-operated, two of which are in the West of Shetland, a new area for the Company. Early in 2013 we were awarded nine blocks in the latest round of licences announced by Norway's Energy Ministry. We will be the operator of three of these blocks, which are close to some of our existing assets. Our exploration record over the last three years has been good, with a success rate of 40% and a net finding cost of £3.5 per barrel of oil equivalent (boe).

Higher gas and oil volumes and achieved prices with reduced unit costs

Upstream gas and oil profitability increased by 20% to £919 million (2011: £769 million), reflecting higher production volumes and higher achieved prices. The average achieved gas sales price increased by 6% to 54.7 pence per therm (p/th) (2011: 51.6p/th) while the average achieved oil and condensate price increased by 10% to £62.8 per boe (2011: £57.2/boe). On a per unit of production basis, depletion, depreciation and amortisation (DDA) costs and lifting costs both decreased slightly, to £9.8/boe (2011: £10.1/boe) and £9.7/boe (2011: £9.9/boe) respectively, with recent acquisitions incurring lower unit lifting costs. Overall production and overhead costs increased by 22% to £1,374 million (2011: £1,127 million) due to the impact of the North Sea acquisitions, new gas and oil fields coming into production, the expensing of a £73 million cost relating to the failure of a third development well at Ensign and inflationary cost increases. In addition we incurred exploration and appraisal costs of £139 million (2011: £97 million), reflecting a lower level of drilling success.

Continued strong performance from nuclear; challenging market conditions for CCGTs

The nuclear fleet recorded strong performance during the year, with our 20% share of output increasing by 8% to 12.0 terawatt hours (TWh) (2011: 11.2TWh). This reflects continued investment in the fleet, with no large unplanned outages during the year, underlining the quality of our original investment in the nuclear fleet. In addition, plant life extensions to the Hinkley Point B and Hunterston B nuclear power stations were announced in December, extending the life of these stations by seven years from 2016 to 2023. The expectation for nuclear plant life extensions for the AGR fleet in the UK is now for seven years on average, compared to the five years previously assumed, and this will deliver additional long-term value.

The market environment remains challenging for gas-fired plant with continued low market clean spark spreads. Reliability remained high at 97% (2011: 98%), however generation volumes fell by 40% to 9.0TWh (2011: 15.0TWh), with an average load factor of 26% (2011: 35%). The market conditions led to the mothballing of our 325MW King's Lynn power plant at the beginning of the year and we have now also withdrawn our 229MW Roosecote power station from service. Our plants at Barry and Brigg continue to operate in the STOR market, with contracts in place until the end of the first quarter of 2013 while our Peterborough plant has a contract which will commence in April 2013. Against this difficult market environment, we have been successful in minimising our costs and running the plants as efficiently as possible, with high levels of availability enabling running at peak times. In February 2013, we sanctioned a turbine blade upgrade at our 1.2GW South Humber power station, which will improve the efficiency of the plant.

Availability in our wind assets was 88% (2011: 92%), reflecting an outage at Inner Dowsing in the first quarter, with generated volumes down 11% to 533 gigawatt hours

Business Review – Operating Review

(GWh) (2011: 596GWh). The load factor was 32% (2011: 36%).

Power profitability increased by 22% to £311 million (2011: £254 million). Nuclear profitability increased, benefiting from a higher achieved average price of £49.6/MWh (2011: £48.5/MWh), reflecting some benefit from forward hedging, as well as the strong operational performance. Wind profitability also increased, with the sale of 50% of our Round 3 wind farm interest to Dong, in line with our established business model to partner on offshore wind, resulting in a net profit of £32 million after taking into account a charge relating to the refusal of consent at our Docking Shoal project. Our CCGT fleet made a small loss in 2012, the last year of free carbon allowances, reflecting the weak market conditions.

Investing for value in power

In offshore wind, our 270MW Lincs project has now generated first power and is expected to be fully operational in the second half of 2013. We have invested over £3 million in a new operations base at Grimsby docks to serve Lincs and other potential Centrica Energy wind farm developments, a substantial investment in the local area.

We continue to progress towards a final investment decision on the Race Bank project, which is consented for 580MW. We are willing to commit £200 million for the project, and are in discussion with a financial partner and the Government concerning the economic framework. During 2012 we also established a joint venture with Dong Energy to co-develop the Round 3 Irish Sea wind farm zone. Formal consultation and a programme of stakeholder engagement was undertaken throughout the year. A final investment decision is expected on the first project in 2016, subject to returns being suitably attractive.

In February 2013 we announced that we would not be exercising our option to participate in UK nuclear new build, taking into account the lengthening time frame for a return on capital invested in a project of this scale. The decision follows detailed appraisal of the project, with pre-development expenditure approaching the agreed £1 billion cap; accordingly Centrica's share of project costs have been written off, with the Group recording a total impairment of £231 million.

We have also decided not to proceed with planning applications to develop dedicated biomass power stations at Roosecote and Brigg, with recent clarification on the regulatory framework indicating a preference for co-firing and coal conversion. As the market becomes increasingly dependent on fixed price support mechanisms, we will leverage our competencies, investing only where we see value.

Integrate our natural gas business, linked to our core markets

The gas market is becoming increasingly global. We have made progress in diversifying our sources of gas, including agreements to import pipeline gas from Norway and LNG from Qatar through our regasification capacity at the Isle of Grain. We are looking to secure gas increasingly from a wider range of sources, expanding the scope of our activities where appropriate. Our aim is to connect sources of energy to our customers, building an integrated international business focused on the Atlantic basin.

The UK and Norway will remain an important part of our investment and activity, as we look to maintain an appropriate energy hedge. We have a number of large scale projects ongoing, including Cygnus and Valemon, and we retain a number of attractive potential development opportunities, particularly in Norway, including at Butch where appraisal drilling is planned in late 2013. Decisions are targeted during 2013 on further infill drilling opportunities in the East Irish Sea and North Sea. However, with UK North Sea developments becoming smaller in scale and relatively more expensive, we will increasingly look to diversify our production portfolio, linked to our core markets. This is likely to include further investment in North America, possibly in shale gas, and there is also the potential for gas exports later in the decade. We will invest where we see value across our international portfolio, delivering annual production in the range 75mmboe to 100mmboe. In midstream, we have significant capabilities and presence in European and North American gas markets where we have important strategic participation in pipeline capacity, regasification capacity and gas storage. We will also look to develop our asset-based midstream trading and optimisation business over time, with an emerging presence in LNG. However we will invest only where we see value, with rewards commensurate with the scale of investment and associated risks.

CENTRICA STORAGE

" CENTRICA STORAGE PLAYS A KEY ROLE WITHIN THE GROUP'S INTEGRATED ENERGY BUSINESS AND MAKES A VITAL CONTRIBUTION TO THE SECURITY OF ENERGY SUPPLIES FOR THE UK. "

Grant Dawson
Chairman, Centrica Storage

I am pleased to report that Centrica Storage achieved higher profits from our Rough gas storage facility in 2012 than in 2011.

Early in 2012 we benefited from the widening spreads between summer and winter gas prices which are a key driver of storage revenue. However, at this level the prices still remain below that needed to invest in new storage and that's why our Baird and Caythorpe projects have remained under review with no major physical works undertaken during the year.

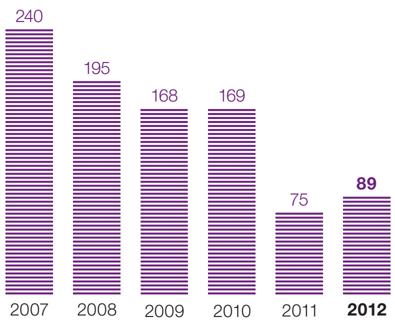
We do, however, remain convinced that the UK will require more gas storage capacity in the future and therefore have continued to engage with various stakeholders, including the UK Government, on ways to support the investment needed. The Government's Energy Bill and Gas Generation Strategy have confirmed a clear and continuing role for gas in the UK's medium to long-term energy mix and we believe, reinforces the need for increased levels of seasonal gas storage in the UK. We are particularly encouraged by the commitment of the Department of Energy & Climate Change (DECC) to publish a review of the need for storage support in the first half of 2013.

In the meantime we have continued to focus on strengthening the existing business by concentrating on our underlying business performance, processes and our overall efficiency.

At Centrica Storage 'Do Everything Safely' is one of our core priorities and I am encouraged that 2012 has been another strong year in terms of our safety record. I am particularly pleased that in September we passed three years without a single lost time incident right across the business. This was particularly challenging in 2012 as significant work was undertaken at our Easington Terminal, to build the reception and processing facilities for gas coming from Centrica Energy's York offshore field.

The first cold spell of the 2012 winter, in early December, saw our Rough storage facility once again withdrawing at full rates, demonstrating our key role within the Centrica Group's integrated energy business and also the vital contribution we make to the security of energy supplies for the UK.

Adjusted operating profit‡
£m



For the year ended 31 December	2012	2011
Average SBU price (pence)	**31.0**	30.0
Gross revenue (£m)	**202**	184
Adjusted operating profit‡ (£m)	**89**	75

‡ From continuing operations

HOW DID WE MEASURE UP? CENTRICA STORAGE PERFORMANCE MEASURES CAN BE FOUND AT CENTRICA.COM/REPORT2012

Strong performance in a challenging market environment

Centrica Storage performed well in 2012, with strong commercial performance securing the benefits of higher summer/winter price differentials seen in the first half of the 2012/13 storage year. The Rough asset achieved reliability of 92% in the year (2011: 96%), with performance in the first half similar to that experienced in the first half of 2011 but with the second half impacted by a small number of production outages. These outages had limited commercial impact and across the year asset availability was good when required to meet customer demand.

The high level of stock carry-over into 2012 combined with modest withdrawal in the first quarter of the year meant that the Net Reservoir Volume (NRV) was at relatively high levels again going into the 2012 injection season. A strong injection season over the summer was followed by the final quarter of 2012 experiencing withdrawals more in line with seasonal normal levels. As a result the NRV level carried into 2013 was above the five year average level but below the level at the start of 2012.

Health and safety remains one of our core priorities; this relentless focus has enabled the business to continue its strong record through 2012, with no lost time incidents recorded for more than three years, corresponding to over 5 million man hours of work without an incident.

Forward seasonal spreads have narrowed since the first quarter

The business saw higher summer/winter price differentials in the final quarter of 2011 and the first quarter of 2012 compared to the first quarter of 2011, which resulted in an achieved 2012/13 storage year Standard Bundled Unit (SBU) price of 33.9 pence (2011/12: 25.2 pence). However, price differentials subsequently narrowed, reflecting colder than normal weather in the summer months and an expectation of LNG availability for the winter. Forward spreads remain relatively narrow for the 2013/14 storage year, with price volatility remaining at subdued levels.

HEALTH AND SAFETY REMAINS ONE OF OUR CORE PRIORITIES; THIS RELENTLESS FOCUS HAS ENABLED THE BUSINESS TO CONTINUE ITS STRONG RECORD THROUGH 2012, WITH NO LOST TIME INCIDENTS RECORDED FOR MORE THAN THREE YEARS.

Improved operating profit

Gross revenue increased by 10% in 2012 to £202 million (2011: £184 million). This reflects the higher summer/winter price differentials and benefits from the high NRV carried into 2012. SBU revenue was 4% higher in 2012 with the calendar year SBU price increasing to 31.0 pence (2011: 30.0 pence). Operating profit increased by 19% to £89 million (2011: £75 million) benefiting from higher revenue and strong cost control, partially offset by inflationary pressures and additional depreciation resulting from previous investment in Rough. From 2013 the business will benefit from additional revenue streams associated with gas processing and condensate sales at the newly constructed York processing plant.

Challenging economics for new projects

We retain the option to invest in our Baird and Caythorpe gas storage projects. However, the continuing relatively low levels of summer/winter price differentials and reduced price volatility, combined with an uncertain longer term outlook, mean that market conditions remain challenging for these opportunities. With the country becoming increasingly dependent on imported gas we believe that more seasonal storage is required in the UK. However we will only invest in new projects if the returns are appropriate for the level of risk undertaken. We may require a support mechanism to underpin the investment and welcomed the announcement by DECC in December that it is planning to carry out further investigation into possible intervention mechanisms to encourage new storage investment. We look forward to the outcome of this review, with initial findings expected in spring of 2013.

DIRECT ENERGY

"WE HAVE BUILT A GOOD PLATFORM FOR GROWTH IN NORTH AMERICA, WITH STRONG CAPABILITIES IN ENERGY SOURCING AND SUPPLY, RISK MANAGEMENT, ENERGY SERVICES AND UPSTREAM GAS AND POWER."

Chris Weston
Managing Director, Direct Energy

Our focus for the year ahead is to make progress against our strategic priorities as we position ourselves to meet the energy and services needs of customers now and in the future.

We continue to build an integrated North American business with leading positions in competitive markets and are investing for growth across the four lines of business. We will also maintain our focus on cost reduction and seek efficiencies from increased scale across our operations, while remaining solidly committed to deepening customer relationships by delivering innovative products and services.

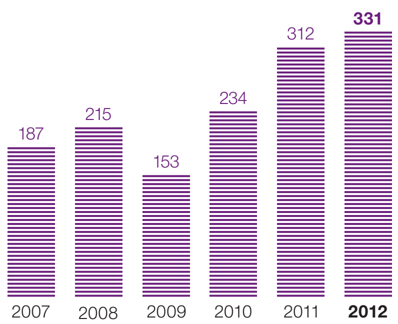
Strong organic growth and acquisitions have positioned Direct Energy as one of North America's largest energy and energy-related services providers. We will continue to focus investment in markets that provide an environment conducive to retail competition and the consumer benefits that come from having a choice of providers – particularly in the competitive retail markets in Texas and in the US North East.

We see continued progress and opportunity for innovation and differentiation through smart meter technologies, demand response and energy efficiency related products and services. Customers are responding favourably to our industry-leading prepaid product and flexible time-of-use offerings enabled by smart technology and we plan to expand this product range.

By operating across the entire energy value chain, from sourcing to supply, we create stability and value for our customers. As North America's importance grows with an increasingly global gas market, we will continue to pursue value-creating opportunities that enhance our existing portfolio of natural gas production, power generation and wholesale and retail energy services.

Our values of being simple, friendly and direct remain at the heart of our approach to customers as we strive to offer products and services that make a difference in people's lives.

Adjusted operating profit‡
£m



For the year ended 31 December	2012	2011
Adjusted operating profit‡ (£m)	331	312
Residential energy and services accounts (year end, '000)	5,856	5,647
Business energy electricity volumes (TWh)	51.4	46.4
Total net proven and probable reserves (mmboe)	108	109

‡ From continuing operations

Further profit growth in a low gas price environment

Direct Energy delivered another strong performance in 2012, in a low gas price environment. Gross revenue decreased by 2% to £6,015 million (2011: £6,117 million) but operating profit increased by 6% to £331 million (2011: £312 million). There was no material impact resulting from currency movements during the year.

The business has benefited from organic customer growth in the US North East and the small business customer segment, and from the successful integration of recent acquisitions. We also continue to drive operational efficiencies throughout the business, and the move of our North American headquarters to Houston, combined with overall headcount reductions, has delivered significant benefits. We will continue to drive efficiencies, with further rationalisation of IT resources due to be undertaken in 2013. The health and safety of our employees and customers continues to be one of our core priorities. The LTIFR reduced by 45% to 0.11 per 100,000 hours worked (2011: 0.20) and we had no significant process safety events in 2012.

Benefiting from enhanced scale in residential energy supply

Direct Energy Residential made good progress during the year, with organic customer growth in the US North East, the successful integration of recent acquisitions and strong increased customer satisfaction levels across the business. Overall customer accounts increased to 3.5 million (2011: 3.4 million) despite incurring further customer losses as a result of the regulatory environment in Ontario. Gross revenue decreased by 2% to £2,357 million (2011: £2,416 million), while operating profit was broadly flat at £156 million (2011: £161 million) reflecting the decline in the Ontario business, offset by the positive impacts of customer growth and acquisitions in the US. We are also seeing the benefits from operational efficiencies and billing system rationalisation, with increased scale in the US North East.

WE EXPECT OUR DOWNSTREAM BUSINESS TO BECOME A MORE MATERIAL PART OF THE GROUP OVER THE NEXT THREE TO FIVE YEARS.

We will continue to look for opportunities to grow our business across North America by focusing on growing organically and through our successful bolt-on acquisition strategy, delivering scale and synergies.

In the US North East, our business is materially larger following the integration of Gateway and Vectren Source, both acquired in 2011, and the acquisition of a further 207,000 residential and 38,000 small business accounts from New York based energy retailers Energetix and NYSEG Solutions from Iberdrola USA, completed in August. The business also experienced organic growth in 2012 due to strong sales performance, despite the expected roll-off of low margin aggregation customers acquired as part of the Vectren Source acquisition. We now have 1.4 million customers in the region, up from 1.1 million at the end of 2011.

Our Texas residential business is also benefiting from increased scale, following the First Choice Power acquisition in 2011. Our prepaid ‘Power to Go’ product continues to attract customers, as well as being viewed positively by regulators, who welcome the expansion of choice for all customer groups. In October, we launched a 100% renewable tariff, providing environmentally conscious customers with wind power from Texas.

We delivered good sales performance in the US during the year, underpinned by a continued focus on channel efficiency, while our consolidated billing platform has helped reduce costs and bad debt. Churn reduction continues to remain a focus both in Texas and the US North East.

We no longer view our residential energy supply business in Ontario as core, following the implementation of the Energy Consumer Protection Act (ECPA), which makes it difficult to sell to new customers or retain existing ones. We continue to actively manage the decline of our customer base and have more than halved operating costs since 2010 through aggressive cost management. In total we lost 95,000 customer accounts in Ontario during 2012 and now have just over 200,000 customers in the region, around half the amount we had at the end of 2010. In 2012, Ontario contributed less than 20% of our residential energy operating profit and this is expected to fall to around 5% in 2013. In Alberta, profitability rose, with increases in regulated rates leading to higher churn levels in the

DIRECT ENERGY CONTINUED

Our values of being simple, friendly and direct remain at the heart of our approach

HOW DID WE MEASURE UP? DIRECT ENERGY PERFORMANCE MEASURES CAN BE FOUND AT CENTRICA.COM/REPORT2012

low margin regulated business and growth in the higher margin competitive customer base.

Focus on small businesses leading to volume growth in business energy supply

Direct Energy Business again delivered strong growth in the year, in a highly competitive market. Electricity volumes rose 11% to 51.4TWh (2011: 46.4TWh), while gas volumes increased by 11% to 793mmth (2011: 714mmth). Higher volumes in the small commercial business sector are driving much of the growth, and profit in this sector nearly doubled in 2012, reflecting strong sales and scale benefits resulting from recent acquisitions. The larger commercial segment is increasingly competitive, however our retention rates remain high in this sector.

Gross revenue in business energy supply decreased by 2% to £2,690 million (2011: £2,748 million), with the impact of lower commodity prices more than offsetting volume growth. Operating profit increased to £129 million (2011: £110 million) while operating margin increased to 4.8% (2011: 4.0%), reflecting the positive impact of operational efficiencies and a higher proportion of small business customers.

Strengthening the services platform

Direct Energy Services is performing well, gaining market share in a challenging economic environment, with many of our competitors experiencing losses or credit downgrades. Our nationwide on-demand franchise has provided scale advantages, while the acquisition of Home Warranty

of America (HWA), completed in March, provides the necessary licences to offer protection plan products across the United States. The number of contract relationships increased by 5% during 2012, mainly reflecting the HWA acquisition.

Our Canadian business was impacted by warmer than normal weather and industrial action by a number of our unionised technicians in the first half of the year. The labour issues have now been resolved, resulting in a significant improvement to our cost base and more flexible working arrangements, improving our service to customers.

Continued weak economic conditions, low consumer confidence and a slow housing market have impacted underlying growth in the US services business, leading to less lead generation and reduced demand for home services products. However we continue to focus on delivering high levels of customer satisfaction and our overall Net Promoter Score increased to +39 (2011: +28).

Gross revenue increased by 2% to £532 million (2011: £520 million) and operating profit increased to £33 million (2011: £28 million), with operational efficiencies and cost control driving much of this growth.

Solid upstream and wholesale performance in a low price environment

Direct Energy Upstream continues to face a low wholesale price environment, although the Henry Hub natural gas price recovered slightly during the second half of the year from the record low levels seen

Business Review – Operating Review

in the first half. Alberta gas production volumes fell by 3% to 549mmth (2011: 567mmth), with the achieved gas price falling to C$3.8/MCF (2011: C$4.6/MCF). The price of liquids remains relatively high however, and the acquisition of the Carrot Creek assets, completed in January, meant that oil and liquids production volumes nearly doubled to 1.1mmboe (2011: 0.7mmboe). We added 10mmboe of reserves in North America over the year meaning that after taking account of production, 2P reserves remained broadly flat at 108mmboe (2011: 109mmboe).

Texas power generation volumes increased by 21% to 6,336GWh (2011: 5,247GWh), with good asset availability and optimisation performance. Texas experienced more normal weather conditions during the summer months, meaning that spikes in power prices were less extreme than in the exceptional conditions in 2011.

Overall, upstream and wholesale gross revenue was £436 million (2011: £433 million) while operating profit was flat at £13 million (2011: £13 million).

Well placed to further grow and develop our North American business

We have built a good platform for growth in North America, with strong capabilities in energy sourcing and supply, risk management, energy services and upstream gas and power. In 2013, we should continue to benefit from recent residential acquisitions, with integration now mostly complete, while we have created a more efficient operating base

THE HEALTH AND SAFETY OF OUR EMPLOYEES AND CUSTOMERS CONTINUES TO BE ONE OF OUR CORE PRIORITIES

in both energy and services. Upstream, natural gas prices continue to be constrained by the impact of shale but production expansion opportunities are available and we will pursue them if value can be created.

We continue to look for opportunities to grow our business across North America. Downstream, we will continue to focus on growing organically, through churn reduction and differentiation. We will also continue with our successful bolt-on acquisition strategy, delivering scale and synergies, and will consider larger opportunities where appropriate. Over the next three to five years we are targeting a doubling in profitability of our North America downstream business through organic growth and acquisition, with Direct Energy downstream becoming a more material part of the Group. We will also look for opportunities upstream, with the potential for exports over time. In each case, we will only invest where we see value and a good fit with our Group-wide capabilities.

CORPORATE RESPONSIBILITY REVIEW

" OUR BUSINESS INVOLVES US IN A WIDE RANGE OF SOCIAL, ENVIRONMENTAL AND ETHICAL ISSUES. "

Mary Francis CBE
Chairman of the Corporate Responsibility Committee

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

Governance

Centrica's business principles are based on trust, integrity and openness. Our strong governance and internal control systems help us to apply our values consistently, reconcile conflicting priorities responsibly and keep corporate responsibility (CR) integral to our activities.

The Corporate Responsibility Committee ensures that Centrica effectively manages its impact on society, the environment and the wider economy. The Executive Committee has overall responsibility for implementing CR strategy across the Group and individual business units identify which material issues concern their stakeholders and assess the impact of their operations.

Stakeholder engagement

During 2012, we kept in regular contact with stakeholders, including governments, regulators, investors, business partners, local communities and non-governmental organisations, to maintain a comprehensive understanding of their views about our business and its wider impacts. Our CR Advisory Group continues to provide valuable external feedback and guidance.

We maintain a dialogue with socially responsible investment organisations and cover CR issues at mainstream shareholder presentations. We participate in the FTSE4Good and the Carbon Disclosure Project (CDP) indices and, in 2012, again featured in the CDP Leadership 'Global 500' as the top-scoring UK utility company.

Our priorities

Treating customers with fairness

We strive to build trust with our customers, government and other stakeholders. In 2012, we maintained our efforts to make buying energy easier by simplifying bills and tariff structures, moving to single tier pricing and providing support for vulnerable customers. We also engaged fully with Ofgem, the UK regulator.

We aim to keep prices fair by helping households save energy and reducing operating costs. A slight fall in wholesale electricity prices allowed us to decrease prices by 5% in January 2012. However, wholesale gas prices are now 13% higher than in winter 2011/12, while costs for upgrading the UK's grid and meeting carbon reduction targets have increased by around £50 per customer. We therefore increased prices for domestic gas and electricity in November by an average of 6%.

We have improved service standards significantly in recent years. We track perception of our service with net promoter scores, which measure customers' willingness to recommend us.

Our strategy of listening to customer concerns has encouraged a UK focus on fairness, simplicity and honesty. This has led to simpler bills and more openness in complaint-handling. We assist vulnerable customers by advising them on energy efficiency, through direct financial support and other means.

Securing affordable energy

We help secure UK energy supplies through investments in North Sea oil and gas. Our Cygnus project will, at peak production in 2015, supply nearly 1.5 million homes. Our offshore wind farm investments are progressing with first power from our Lincs wind farm in 2012 and consent granted for the Race Bank project. We also have agreements to import pipeline gas from Norway and LNG from Qatar.

New forms of energy can prompt social and environmental concerns. All our gas production and energy generation activities involve consultation with local communities and stakeholders at national level and are managed carefully to avoid adverse impacts.

Reducing carbon emissions

We manage our impact on climate change by helping customers reduce energy use, investing in lower carbon power generation and cutting property, fleet and travel emissions.

Energy efficiency is the best way to cut customers' energy use and emissions. We promote this by insulating homes and installing more efficient boilers. Additionally, British Gas provides products that enable customers to heat and light their homes with lower carbon emissions. Over the past three years we have enabled downstream carbon savings equivalent to a 1.8GW wind farm. British Gas will also help deliver the UK Government's Green Deal, which offers customers financial help to increase energy efficiency.

Reducing power generation emissions requires less use of fossil fuels. Centrica plans to maintain its interest in lower carbon power generation and to invest when it makes economic sense. While we are not pursuing nuclear new build, we continue to provide lower carbon power through our 20% off-take from the UK's existing nuclear power stations.

In 2012 our Group carbon intensity reduced by 10%, largely reflecting Centrica's mothballing of UK gas-fired power stations for commercial reasons.

We reduce property, fleet and travel emissions by raising employee awareness, making offices more energy efficient, investing in lower-carbon vehicles and providing alternatives to business travel. We aim to cut emissions from buildings, company vehicles and travel in our core business by 20% by 2015, from the 2007 baseline. In 2012, we achieved a 2% reduction year on year. Carbon emissions from these activities were 91,988 tonnes.

We also measure our absolute emissions, which include emissions from power generation. In 2012, they totalled 7.2 million tonnes (2011: 8.1 million tonnes).

Making safety a core value

Safety is one of the Group's core priorities. We accept our responsibility to protect the health and safety of employees, contractors, customers and the wider public.

We reinforce our proactive safety culture through strong leadership and awareness-raising programmes. We focus on process safety in our upstream operations and on the safety of the public and our engineers downstream. We had no significant process safety events in 2012.

Our standard lost-time injury frequency rate reduced to 0.20 per 100,000 hours worked (2011: 0.25). We continued to focus on road safety. Our 'low severity' incident rate reduced by 33% to 5.0 per million km driven. We had six 'high severity' incidents – a 40% reduction but a reminder of the need for ongoing rigour in road safety programmes. There were no fatal incidents among Centrica Group employees or associated third parties.

89.7%

Employee retention rate for 2012

Our employees

We had an average of 38,642 employees in 2012 with a retention rate of 89.7% (2011: 89.5%). We continued to focus on skills, development and employee engagement to make Centrica a rewarding place to work. Continuous learning and development is essential to ensure employees and leaders are equipped to grow our business.

In 2012, we conducted a Group-wide employee engagement survey. Our overall engagement score, benchmarked against our peers, saw a slight decline but remained above median.

Organisational changes to reflect the evolving nature of our business resulted in 2,459 employees leaving the Group. Achieving such change is never an easy process and we made every effort to support those affected, wherever possible redeploying people, or supporting them in finding other work.

Employees receive regular updates on Company news and performance through newsletters, emails, online sites and meetings with Executive Committee members. Eligible employees are encouraged to participate in employee share schemes, which have good rates of participation.

Diversity

We are committed to equal opportunity and diversity and will not tolerate discrimination. We give full consideration to employment applications from disabled people. If an employee becomes disabled, wherever possible, we offer support, retraining, equipment and facilities to keep them with us. We encourage the retention and recruitment of older people. Improving women's representation at all levels is another priority.

Community investment

In 2012, we contributed £233.6 million directly to supporting vulnerable customers and community and social projects. The majority of our contributions were through mandatory programmes such as the Warm Home Discount and the Community Energy Saving Programme. We also contributed £9.3 million to charitable organisations using the London Benchmarking Group methodology, including establishing strategic partnerships such as between British Gas and Shelter.

FOR MORE INFORMATION SEE THE OPERATING REVIEW ON PAGES **22** TO **35**

PRINCIPAL RISKS AND UNCERTAINTIES

"ASSESSING AND MANAGING RISK IS A FUNDAMENTAL PART OF DAY TO DAY BUSINESS MANAGEMENT ACROSS CENTRICA."

Nick Luff
Group Finance Director

The risks we face in a rapidly changing landscape continue to evolve over time. 2013 presents our organisation with more challenges. Strong governance and a clear risk strategy equip us for uncertainties ahead.

The following risks could impact our future performance. The list is not exhaustive and items are not prioritised. The list, and the nature of the risks, may change during the year.

Health, safety, security and environment (HSSE)

We face four principal categories of HSSE risks associated with our operations:

- an incident resulting in one or more fatalities or multiple injuries at an owned, operated or other facility where the organisation has an interest;
- an incident which results in significant environmental damage or compliance breach;
- an incident which results in a fatality or major injury to members of the public; and
- a security event, requiring activation of our crisis management plan and/or business continuity plan.

Such risks may result in widespread distress and harm, significant disruption to operations and damage to our reputation. The cost related to the recovery, clean up and/or resultant litigation could have a material financial impact. We also have non-controlled interests in organisations with inherently high hazards, relating to the exploration and production of oil and gas and nuclear power generation.

Brand and reputation

Failure to follow our global business principles of operating professionally, fairly and with integrity could harm our reputation, as could real or perceived customer service failings. Rising prices, increased political pressures and deep recessionary impacts have all increased the level of media coverage. We need to ensure that we clearly communicate our future strategy to key stakeholders, in order to avoid an adverse reaction and loss of confidence in the Group.

Social media now allows consumers and pressure groups to mount damaging direct action and other campaigns more readily than before.

Failure to restore public confidence could impact Group revenues. Public exposure to criticism could damage our brand, increase governmental or regulatory intervention and reduce access to financial capital.

Legislation and regulation

Energy markets in the UK, North America and mainland Europe are closely regulated. Legal or regulatory changes could impact our ability to achieve financial goals.

New financial regulation was introduced in the US and Europe in the wake of the global financial crisis. Governments and regulators, often under public pressure, have also stepped up levels of enforcement and intervention.

Retail sector competitiveness continues to face regulatory scrutiny, as the costs of higher wholesale commodity prices are passed on to customers, just as disposable incomes are falling and deepening recessionary impacts continue to be felt.

Public statements made by governing political bodies can cause concern. One of the challenges would be the abolition of existing or future 'green' subsidies, as occurred in the UK solar industry and in other energy sources around the world, such as the end of free carbon allowances in 2012 which will impact our upstream business.

Such developments may have a material adverse effect on our business, operations, financial condition and ability to meet long-term growth aspirations, especially if any case of compliance failure receives extensive media coverage.

Strategic growth

Strategic issues, including capital investment in mergers, acquisitions, disposals, market position, climate change, sustainable development and new technologies, are affected by the global economy. As we implement our refreshed strategic priorities to deliver our vision to be the leading integrated energy company with customers at our core, we face an increasingly uncertain environment.

Challenges include the intensifying uncertainty in the world economy reflected by concerns over further economic deterioration, pressure from higher wholesale prices, increased competition, reduced demand and recessionary impacts, all of which contribute to making market conditions challenging.

The rise of the digital economy is adding to competitive pressures and with the internet entering a second phase dominated by mobile devices, the barriers to market entry are falling and customer loyalties can change swiftly. In the UK market, smart meters represent one of the biggest changes in the retail energy market since the 1970s. British Gas will operate, not only in an energy market but in an energy services and advisory market open to non-traditional players.

Commodity costs

Volatile commodity costs affect our ability to price competitively and meet profit targets. The Group buys a significant proportion of the gas to supply Britain's needs. This position sets the Group apart from the other counterparts in the UK market. To maintain supply and protect against possible price increases much of this is procured in advance in order to ensure a balanced supply and demand portfolio. This relies heavily on seasonal forecast accuracy.

There has been a significant impact from shale gas in North America where an immediate effect has been to lower wholesale gas prices in the US and weaken the traditional links between gas and oil prices. Such an emerging energy source could influence global energy markets over time, with the surplus of gas affecting the current liquefied natural gas (LNG) sector in particular.

Investment decisions key to Group strategic growth plans, particularly in respect of upstream assets such as gas fields or power stations, are based on evaluations underpinned by forecasts of longer-term commodity price development. These reflect prevailing market prices and are supplemented by assessments of underlying industry fundamentals.

There are also a number of contractual capacity contracts, the economic value of which depends on volatile spread relationships.

Change management

The level of change experienced by our business is significant, deriving from:

- capital projects;
- IT change programmes; and
- organisational change.

We assess large capital projects as a means of growth. Such large-scale initiatives carry complexity and could result in the Group entering new markets, whilst exposing us to the risk of build quality issues, cost and timetable overruns, unsuccessful development of partnership opportunities and health, safety, security and environment failures.

Internal IT change programmes are equally large and complex. Work on existing systems carries the risks of:

- trying to deliver too much change and over-stretching resources;
- change being completed but systems integrity being undermined and threatening business continuity; and
- cost overruns and/or expected benefits not being realised.

Organisational change stems from internal restructuring as we drive to make our business as efficient and effective as possible, without detriment to our levels of customer service. Our recent announcements mean that the Group will face a period of increased change activity in 2013.

Information security

Effective and secure information systems are essential for efficient management and accurate billing of customers, upstream operations and energy trading and hedging activities.

The threat of cyber attacks against our industry continues to escalate to similar levels experienced by government agencies and financial institutions. There could be multiple sources of motivation for these attacks. These risks, however, which could arise from inadequate or inconsistent implementation of IT security controls, could seriously affect the Group's reputation, lead to legal action and/or outages that could cause financial and operational loss.

People

Key to our ability to successfully deliver business plans and strategic growth is the attraction, retention and succession planning of senior management and individuals with key skills. This applies to customer service, the delivery of new systems and in particular to areas where there is strong competition for technical and project management capability, such as our upstream business.

As we continue to change, the business must be organised in the most effective and efficient way possible to ensure its cost base is as low as possible, so that we can offer customers competitive prices and products. This includes both cultural and behavioural change as well as ambitious technical-change programmes.

As part of this, the Group also needs to maintain good relations with trade unions, primarily the Centrica Energy upstream business operational workforce and British Gas engineers.

Failure to maintain a high calibre, engaged and stable workforce could compromise achievement of the Group's strategy and could have a material adverse effect on its business, results of operations and overall financial condition.

MORE INFORMATION

Further information on risk management can be found in the Annual Report and Accounts at centrica.com/report2012

Summary Financial Statements

SUMMARY GROUP INCOME STATEMENT

	2012			2011		
Year ended 31 December	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m
Group revenue	**23,942**	**–**	**23,942**	22,824	–	22,824
Cost of sales before exceptional items and certain re-measurements	**(18,676)**	**–**	**(18,676)**	(17,959)	–	(17,959)
Exceptional items	**–**	**(89)**	**(89)**	–	(221)	(221)
Re-measurement of energy contracts	**–**	**603**	**603**	–	(437)	(437)
Gross profit	**5,266**	**514**	**5,780**	4,865	(658)	4,207
Operating costs before exceptional items	**(2,844)**	**–**	**(2,844)**	(2,750)	–	(2,750)
Exceptional items	**–**	**(445)**	**(445)**	–	(110)	(110)
Share of profits/(losses) in joint ventures and associates, net of interest and taxation	**140**	**(6)**	**134**	93	(26)	67
Group operating profit	**2,562**	**63**	**2,625**	2,208	(794)	1,414
Net interest expense	**(183)**	**–**	**(183)**	(146)	–	(146)
Profit from continuing operations before taxation	**2,379**	**63**	**2,442**	2,062	(794)	1,268
Taxation on profit from continuing operations	**(1,029)**	**(140)**	**(1,169)**	(810)	(16)	(826)
Profit from continuing operations after taxation	**1,350**	**(77)**	**1,273**	1,252	(810)	442
Profit from discontinued operations	**–**	**–**	**–**	13	22	35
Loss on disposal of discontinued operations	**–**	**–**	**–**	–	(56)	(56)
Profit for the year	**1,350**	**(77)**	**1,273**	1,265	(844)	421

Earnings per ordinary share	**Pence**	Pence
From continuing and discontinued operations:		
Basic	**24.6**	8.2
Diluted	**24.4**	8.1
From continuing operations:		
Basic	**24.6**	8.6
Diluted	**24.4**	8.5
Interim dividend paid per ordinary share	**4.62**	4.29
Final dividend proposed per ordinary share	**11.78**	11.11

	£000	£000
Directors' emoluments	**8,799**	8,772

Summary Financial Statements

SUMMARY GROUP BALANCE SHEET

31 December	2012 £m	2011 £m
Non-current assets	**15,812**	13,973
Current assets	**6,140**	5,596
Current liabilities	**(6,492)**	(6,270)
Net current liabilities	**(352)**	(674)
Non-current liabilities	**(9,533)**	(7,699)
Net assets	**5,927**	5,600
Equity	**5,927**	5,600

SUMMARY GROUP STATEMENT OF CHANGES IN EQUITY

	2012 £m	2011 £m
1 January	**5,600**	5,819
Profit for the year	**1,273**	421
Other comprehensive (loss)/income	**(196)**	81
	6,677	6,321
Employee share schemes	**66**	57
Purchase of non-controlling interest	**–**	(7)
Dividends	**(816)**	(762)
Taxation	**(1)**	(8)
Exchange adjustments	**1**	(1)
31 December	**5,927**	5,600

SUMMARY GROUP CASH FLOW STATEMENT

31 December	2012 £m	2011 £m
Cash generated from continuing operations	**3,605**	3,229
Net interest, taxation and other operating cash flows	**(785)**	(892)
Net cash flow from operating activities	**2,820**	2,337
Net cash flow from investing activities	**(2,558)**	(1,400)
Net cash flow from financing activities	**190**	(907)
Net increase in cash and cash equivalents	**452**	30
Cash and cash equivalents at 1 January	**479**	451
Effect of foreign exchange rate changes	**–**	(2)
Cash and cash equivalents at 31 December	**931**	479

The Summary Financial Statements on pages 40 to 41 were approved and authorised for issue by the Board of Directors on 27 February 2013 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 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 2012 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 27 February 2013

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 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 48.

Dividends

For 2012, an interim dividend of 4.62 pence per share was paid on 14 November 2012. The Directors propose that, subject to approval at the 2013 Annual General Meeting (AGM), a final dividend of 11.78 pence per share will be paid on 12 June 2013 to those shareholders registered on 26 April 2013. This would make a total dividend for the year of 16.4 pence per share (2011: 15.4 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. The Company complied fully with the provisions set out in the Code throughout the year.

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 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 December 2012 and concluded that no changes were necessary. 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 professionally chaired and populated by an appropriate mix of Executive and/or 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.

Board appointments, evaluation and development

The Chairman's Statement on pages 5 to 8 discusses the Company's corporate culture and practice as well as Board composition, diversity, succession planning and evaluation.

THE FULL GOVERNANCE AND REMUNERATION REPORTS
CAN BE FOUND IN THE ANNUAL REPORT AT CENTRICA.COM/REPORT2012

Summary Governance

The Board has agreed that 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 46 and 47. 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, specially tailored to meet the individual's requirements. This will comprise briefings from members of the Executive team on key areas of the business including the internal audit function, an overview of the Group's risk management processes, the key risks facing the business and a briefing in respect of the corporate governance framework within Centrica. Ongoing development and training is also provided to all Directors at Board and Committee meetings. During the year, Directors received regular updates and presentations on changes and developments to the business and to the legislative and regulatory environments in which the Group operates.

The Board considers the annual review of the Board, its Committees and Directors as an essential part of good corporate governance, with the use of an external facilitator at least once every three years. On each occasion, the Board has received positive reports and has adopted recommendations to improve Board, Committee and individual Director performance. A full discussion on the implementation of the 2011 external evaluation's findings and the internal evaluation conducted in December 2012 can be found in the Chairman's Statement on page 5.

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 2012 to the date of this Review, 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.

The 2012 Remuneration Report has been designed to move towards the new requirements for remuneration reporting as proposed by the Department for Business, Innovation and Skills (BIS) as part of their consultation process. The Directors' remuneration table on page 45 reflects the new requirements.

As noted in the 2011 Remuneration Report, during the first quarter of 2012, the Committee adjusted the measurement and weighting of the key performance drivers within the existing incentive arrangements. We also introduced 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. We have engaged with a number of shareholders during the year on our remuneration arrangements and remain committed to holding early discussions with shareholders in advance of any future changes.

Total variable earnings opportunity in 2012 remained unchanged from last year and the performance targets were both stretching and aligned with the Group's strategic objectives. The key performance drivers are based on simple measures and the arrangements require substantial deferral of short-term reward.

As we move forward, the Committee intends to continue to strive for greater simplicity and transparency, to ensure alignment between the Group's strategic direction and the measures of performance, and to maintain a responsible approach to both fixed and variable remuneration, which respects both the social climate in which we operate and the demands of our business model.

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.

Components of Executive Remuneration

There was no change to the target and maximum bonus opportunity for 2012.

Part of the bonus earned under the Annual Incentive Scheme (AIS) for the previous year is compulsorily deferred into Centrica shares (deferred shares). During 2012, 40% of AIS earned in respect of 2011 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.

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 2012, Long Term Incentive Scheme (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.

Summary Governance

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.

Phil Bentley and Chris Weston participate in the Centrica Pension Plan, a contributory final salary arrangement, and in the Centrica Unfunded Pension Scheme (CUPS) defined benefit section.

Sam Laidlaw, Mark Hanafin and Nick Luff are entitled to receive a salary supplement of 40% of base pay, or participate in the CUPS defined contribution section.

The table below sets out the core remuneration package for Executive Directors and summarises the vesting criteria and performance conditions in respect of the AIS, Deferred and Matching Share Scheme (DMSS) and LTIS.

Summary of remuneration elements for Executive Directors

Element	Opportunity	Objective and link to strategy	Current performance measures	Changes for 2013
Base pay	Salaries are reviewed annually, taking account of performance, market conditions and pay in the Group as a whole. Current salaries were originally set in 2010.	Reflects the role and sustained value of the individual in terms of skills, experience and contribution.	Not applicable.	Base salaries will be reviewed during the course of 2013.
Retirement benefits	Executive Directors are entitled to participate in a Centrica pension arrangement or to receive a salary supplement in lieu of pension of 40% of base pay.	Positioned to ensure broad competitiveness with market practice.	Not applicable.	No change.
Other benefits	Entitlements include car or car allowance, life assurance premiums, medical benefits and financial advice. Benefits are subject to financial limits as set out in appropriate policies.	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.	Designed to reward the delivery of key strategic priorities for the year. These priorities position the Group well for strong future performance, reinforcing the importance of balancing growth with economic profit returns in a business which is more vertically integrated and capital intensive. If overall business performance is not deemed satisfactory, the individual's bonus for the year may be reduced or forfeited, at the discretion of the Committee.	70% based on Economic Profit (EP). 30% based on strategic objectives aligned to business priorities.	No change.
Deferred and Matching Share Scheme (DMSS)	Mandatory deferral of 40% of AIS award for Chief Executive and 30% for other Executive Directors. Additional deferral opportunity to take the total 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. Encourages sustainable high performance and discourages peaks and troughs. All deferred awards 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.	Absolute aggregate EP over the performance period: minimum £2.6bn and maximum £3.4bn provides one or two matching shares respectively. Where performance falls between stated points, vesting is calculated on a straight line basis.	No change.
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. If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee.	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 with 25% vesting for achieving £2.6bn and full vesting requiring £3.4bn. 30% based on non-financial KPI dashboard. TSR performance against the FTSE 100 Index acting as a positive or negative multiplier: 0.667x multiple for Index -7% per annum and 1.5x multiple for Index +7% per annum capped at the face value of the award. Where performance falls between stated points, vesting is calculated on a straight line basis.	No change.

Summary Governance

Remuneration tables

Directors' remuneration

	Base pay/fees £000	Cash payments in lieu of pension and contributions to DB plans £000 (i)	Benefits and other cash £000 (ii)	Cash AIS £000	Deferred AIS £000 (iii)	Long-term incentives (LTIS and DMSS matching) £000 (iv)	**Total remuneration 2012 £000 (v)**	Total remuneration 2011 restated £000 (vi)
Chief Executive								
Sam Laidlaw	950	285	71	185	855	2,613	**4,959**	4,967
Executive Directors								
Phil Bentley(vii)	635	225	46	635	–	1,549	**3,090**	2,064
Mark Hanafin(viii)	575	173	35	23	431	1,358	**2,595**	2,778
Nick Luff	610	183	21	145	458	1,437	**2,854**	2,840
Chris Weston(viii)	510	167	403	224	383	1,254	**2,941**	2,798
	3,280	1,033	576	1,212	2,127	8,211	**16,439**	15,447
Chairman								
Sir Roger Carr	490	–	–	–	–	–	**490**	490
Non-Executive Directors								
Dame Helen Alexander	–	–	–	–	–	–	**–**	85
Margherita Della Valle	65	–	–	–	–	–	**65**	65
Mary Francis	105	–	–	–	–	–	**105**	105
Lesley Knox	85	–	–	–	–	–	**85**	–
Andrew Mackenzie	65	–	–	–	–	–	**65**	65
Ian Meakins	65	–	–	–	–	–	**65**	65
Paul Rayner	88	–	–	–	–	–	**88**	88
	963	–	–	–	–	–	**963**	963
Total remuneration	4,243	1,033	576	1,212	2,127	8,211	**17,402**	16,410

(i) Contributions into the defined benefit pension plan for Phil Bentley and Chris Weston, calculated using the BIS methodology of 20 times the increase in the accrued pension for the year are included in the table above. The table excludes CUPS defined contribution unfunded promises.

(ii) Benefits and other cash include:
- car, health and medical, financial planning and life assurance premiums; and
- benefits and expenses for Chris Weston under the terms of his international assignment agreement and for his relocation from Canada to the US.

(iii) Each Executive Director has deferred up to 50% of their maximum AIS potential on a gross basis and invested these funds into DMSS.

(iv) The long-term incentives include a forecast of the value of the LTIS awards due to vest in April 2013, relating to the three-year performance period ending in 2012, and a forecast of the value of the DMSS matching awards due to vest in April 2013, relating to the three-year performance period ending in 2012. The share price used to calculate the forecasted value was the three month average to 31 December 2012 (328.6p per share). The LTIS awards were valued using the latest TSR projection as at 1 February 2013, which was 75.6%, and the projected EPS performance outcome of 0%. The DMSS awards were valued using the projected EP performance outcome of 100%.

(v) The following are excluded from the table above: ESOS options, Sharesave, the value of any shares awarded under the Share Incentive Plan and the value of dividend equivalent shares to be calculated at vesting in respect of LTIS and DMSS matching awards.

(vi) The 2011 total remuneration figures have been recalculated and restated based on the BIS methodology for calculating total emoluments. Consequently, the value of the long-term incentive awards vesting in 2012 has been included in the total remuneration for 2011.

(vii) The Company announced on 27 February 2013 that Phil Bentley will step down as Managing Director of British Gas on 30 June 2013. Details of the termination arrangements are provided in the Annual Report and on the Company's website.

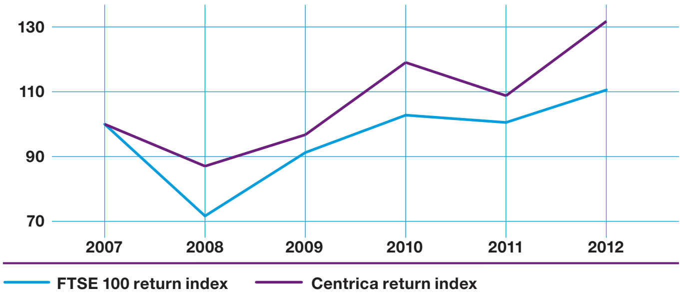
(viii) Chris Weston exercised 112,330 ESOS options during 2012, with an exercise price of 130.50p per share. The share price on the date of exercise was 319.60p per share and consequently the gain on exercise was £212,416. Mark Hanafin and Chris Weston exercised 4,727 Sharesave options in 2012 with an exercise price of 193.54p per share. The share price on the dates of exercise were respectively 323.50p per share and 308.60p per share and consequently the gains on exercise were respectively £6,143 and £5,439.

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 2012.

TSR – five year FTSE 100 Index (unaudited)

Centrica and FTSE 100 Index



Source: Alithos Limited, 31 December 2007 = 100

Summary Governance

BOARD OF DIRECTORS AND SENIOR EXECUTIVES

Board of Directors

1. Sir Roger Carr
Chairman (66)

Sir Roger joined the Board as a Non-Executive Director on 1 January 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. He is also a senior adviser to Kohlberg Kravis Roberts and a trustee of the Landau Forte Charitable Trust. 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 (57)

Sam joined Centrica as Chief Executive on 1 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 was 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. Phil Bentley
Managing Director, British Gas (54)

Phil joined Centrica as Group Finance Director on 13 September 2000, a position he held until the end of February 2007 when he was appointed Managing Director, British Gas. Phil was also Managing Director, Europe between July 2004 and September 2006. He will stand down from his role as Managing Director of British Gas and as a Director of Centrica plc on 30 June 2013. He was appointed as a non-executive director of IMI plc in October 2012 and will take up the position of chairman of their audit committee from May 2013.

4. Margherita Della Valle
Non-Executive Director (47)

Margherita joined the Board on 1 January 2011 and is Deputy Chairman of the Audit Committee. She will become Chairman of the Audit Committee in July 2013. 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.

5. Mary Francis CBE
Senior Independent Director (64)

Mary joined the Board on 22 June 2004 and is Senior Independent Director, Chairman of the Corporate Responsibility Committee and Deputy Chairman of the Nominations Committee. In October 2012 she was appointed to the Board of Swiss Reinsurance Company Ltd and she has been proposed for appointment to the board of the Swiss Re Group, subject to election at their AGM in April 2013. She is a senior adviser to Chatham House and chair of governors of James Allen's Girls' School. She is a former non-executive director of Aviva plc, Cable & Wireless Communications Plc, the Bank of England, Alliance & Leicester plc and St. Modwen Properties plc. She is a former director general of the Association of British Insurers, and was a senior civil servant in the Treasury and the Prime Minister's Office.

6. Mark Hanafin
Managing Director, Centrica Energy (53)

Mark joined Centrica as Managing Director, Centrica Energy on 14 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.

Summary Governance

7. Lesley Knox
Non-Executive Director (59)

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

8. Nick Luff
Group Finance Director (45)

Nick joined Centrica as Group Finance Director on 1 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.

9. Andrew Mackenzie
Non-Executive Director (56)

Andrew joined the Board on 1 September 2005. Andrew has been appointed as CEO of BHP Billiton with effect from 10 May 2013 and he will resign as a Non-Executive Director of Centrica at that date. He will not, therefore, seek re-election as a Director at the Annual General Meeting to be held on 13 May 2013.

10. Ian Meakins
Non-Executive Director (56)

Ian joined the Board on 1 October 2010. In July 2009 he joined the Wolseley Group 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.

11. Paul Rayner
Non-Executive Director (58)

Paul joined the Board on 22 September 2004 and is Chairman of the Audit Committee. He will step down from the Board on 31 December 2013 and as Chairman of the Audit Committee on 1 July 2013. In 2008, he was appointed a non-executive director of Qantas Airways Limited and Boral Limited. In May 2011 he was also appointed as a non-executive director of Treasury Wine Estates Limited in Australia and was appointed chairman in September 2012. 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.

12. Chris Weston
Managing Director, North America (49)

Chris was appointed to the Board on 1 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

13. Grant Dawson
General Counsel & Company Secretary (53)

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.

14. Jill Shedden
Group Director, Human Resources (47)

Jill was appointed Group Director, Human Resources on 1 July 2011. 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	Noms*	Rem*	CR*	Exec*	Dis*
Sir Roger Carr		○	●			
Sam Laidlaw		●		●	○	○
Phil Bentley				●	●	
Margherita Della Valle	●	●	●	●		
Mary Francis CBE	●	●	●	○		
Mark Hanafin					●	
Lesley Knox	●	●	○			
Nick Luff					●	●
Andrew Mackenzie		●	●	●		
Ian Meakins	●	●	●			
Paul Rayner	○	●	●			
Chris Weston				●	●	
Grant Dawson				●	●	●
Jill Shedden					●	

* Nominations, Remuneration, Corporate Responsibility, Executive, Disclosure

○ Chairman
● Member

BOARD OF DIRECTORS AND SENIOR EXECUTIVES PHOTOGRAPHS ON PAGES **6** AND **7**

SHAREHOLDER INFORMATION

Managing your Shares

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

- transfer your shares;
- change your registered name or address;
- register a lost share certificate and obtain a replacement;
- consolidate your share certificates;
- manage your dividend payments;
- buy, sell or transfer shares through Centrica FlexiShare;
- notify the death of a shareholder; and
- register for electronic communications.

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

When contacting 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.

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.

Please note, 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 work 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 an easy way to hold Centrica shares without a share certificate. Your shares would be held in a nominee company, Equiniti Corporate Nominees Limited, however you are able to attend and vote at general meetings as if the shares were held in your own name. Holding your shares in this way is free and comes with a number of benefits:

- low cost share-dealing rates, 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 join the Dividend Reinvestment Plan.

Dividends

Dividends on Centrica shares are usually paid in June and November. Details of the dividends for the year ended 31 December 2012 can be found in on page 42.

You are encouraged to have your dividends paid directly to your bank or building society account. This means that you will receive the money on the day it is paid which 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.

MANAGE MORE ONLINE

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

If you do not have a UK bank or building society account, 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.

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.

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
Online: https://help.shareview.co.uk

* Calls to this number cost 8 pence per minute plus network extras. Lines are open from 8.30am to 5.30pm, Monday to Friday, UK time.

Shareholder Information

Financial Calendar

24 April 2013	Ex-dividend date – 2012 final dividend
26 April 2013	Record date – 2012 final dividend
13 May 2013	AGM, Queen Elizabeth II Conference Centre, London SW1 (at 2pm)
12 June 2013	Payment date – 2012 final dividend
31 July 2013	2013 half year results
13 November 2013*	Payment date – 2013 interim dividend

* Provisional

Shareholder communication

Changes in legislation have meant 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.

In April 2012, together with Equiniti, we introduced an electronic queries service to enable our shareholders to manage their investment 24/7. Since then Equiniti have:

- addressed 2,000 queries using the electronic queries service;
- handled over 19,500 calls; and
- completed 150,000 transactions.

Details of this service can be found at shareview.co.uk.

A wealth of other information is available on our website, including:

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

Share repurchase programme

On 4 February 2013, the Company announced it would launch a £500 million share repurchase programme over the next 12 months. Further information is available from the Shareholder Centre on our website.

Beware of share fraudsters

Shareholders are cautioned to be very wary of any unsolicited advice, offers to buy shares at a discount, sell your shares at a premium or offers of free company reports.

Centrica is aware that some of its shareholders have recently received unsolicited phone calls or letters from individuals or companies offering to buy or sell Centrica shares on very favourable terms. These communications imply a connection with Centrica and are often from overseas based 'brokers' who are very persuasive and extremely persistent, with professional websites to support their activities. The Financial Services Authority (FSA) report that such scams cost investors in excess of £200 million each year.

If you do receive such an approach, you are encouraged to take the following steps:

- obtain the full name of the person and organisation and make a record of any other information they give you, for example telephone number, address, web address;
- if the caller persists, simply hang up; and
- report the matter to the FSA so that they can investigate.

You are able to do this online at fsa.gov.uk/consumerinformation/scamsandswindles or by calling them on 0845 606 1234*.

You are advised to deal only with financial services firms that are authorised by the FSA. Check the firm is properly authorised by the FSA before getting involved by visiting fsa.gov.uk/fsaregister. If you do deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme if anything goes wrong.

Details of any share-dealing services that Centrica endorses are available on our website and are included in Company mailings.

* Call rates may vary.

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 cost 8 pence per minute plus network extras. Lines are open from 8.30 am to 5.30 pm, Monday to Friday, UK time.

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