Centrica plc

Preliminary results for the year ended 31 December 2009

For the year ended 31 December	2009	2008¥	Δ
Revenue‡	**£21.96bn**	£20.87bn	5%
Adjusted operating profit*‡	**£1,857m**	£2,003m	(7%)
Effective tax rate^‡	**33%**	52%	19 ppts
Earnings^	**£1,111m**	£911m	22%
Adjusted basic earnings per share^	**21.7p**	21.7p	0%
Full year dividend per share	**12.8p**	12.2p	4.9%

Operating and financial overview:

- 2009 a transformational year for Centrica:
  - increased UK gas and oil reserves by 50% through acquisition of Venture Production
  - established position in nuclear with 20% equity stake in British Energy
  - transformed British Gas by combining energy and services businesses
  - well-positioned for growth
- Strong performance from British Gas, benefiting from market leading price reductions and operational improvements. 550,000 additional product holdings including 164,000 additional households taking both energy and service products
- Morecambe gas production reduced by 51% to preserve future value. Strong performance from the power generation fleet. Reported I&C losses* reduced by exceptional provision
- North American business experienced challenging operating conditions. Results impacted by one-off charges of £61 million in the year. Comprehensive review completed and new management team appointed
- Acquiring equity interest in Trinidadian gas blocks, establishing first producing LNG position
- British Gas to create 1,100 new jobs in 2010 to capitalise on emerging energy efficiency market
- EPS* unchanged at 21.7 pence per share despite 22% increase in average shares in issue
- Dividend up 5% to 12.8 pence per share, delivering sustained real dividend growth

"2009 was a year of significant achievement for Centrica with British Gas now transformed and the completion of the Venture Production and British Energy transactions. Our existing strategic priorities have now been achieved, and today we have announced new priorities to build on the robust, vertically-integrated business model that we have in place. Centrica is well-positioned to pursue growth opportunities and lead the drive to a low carbon world, whilst maintaining the financial discipline to secure strong returns on our investments."

Sam Laidlaw, Chief Executive

Statutory results:

- Operating profit‡: £1,175m (2008: £661m)
- Earnings: £856m (2008: loss of £136m)
- Basic earnings per ordinary share: 16.5p (2008: loss of 3.3p)
- Operating profit‡ includes net exceptional charges of £568 million (2008: nil)

A definition of the profit measures used throughout these results is provided in the Group Financial Review. A reconciliation between operating profit and adjusted operating profit is provided in note 6(b) and a reconciliation between the earnings measures is provided in note 11.

* including joint ventures and associates stated gross of interest and taxation, and before other costs and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements
^ as above, except after other costs and joint ventures and associates stated net of interest and taxation
‡ from continuing operations
¥ restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) and change in British Gas Services Limited's revenue recognition policy, as explained in note 3, and to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 21

Centrica plc
Registered in England and Wales No 3033654
Registered Office: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD

Chairman's Statement

Performance review

In 2009, energy was once again never far from the headlines. Wholesale UK gas and electricity prices both declined sharply from the levels seen during 2008 and while the forward curve indicates that they will rise again during 2010, it is clear that we are in a very different commodity price environment from that experienced in 2008. This comes at a time when the UK Government recognises that unprecedented levels of investment will be required across the industry if security of supply is to be maintained and tough environmental targets met.

Against this backdrop, Centrica performed well in 2009. We have also taken the opportunity presented by the low commodity price environment to address our UK energy hedge position. The acquisitions of Venture Production plc (Venture) and of a 20% equity stake in British Energy have transformed the Group, creating an upstream division that is a growth business in its own right. Our energy hedge position is now more closely aligned with our competitors, but with the flexibility of our own gas production and a clearly differentiated, low carbon generation mix. We are confident that these long-term transactions stand us in good stead for the future, positioning the Group to be able to target investment in areas of greatest return, while remaining at the centre of ensuring security of supply for the UK.

Downstream in the UK, British Gas delivered a strong performance, having combined our residential energy, services and business energy activities under a single management team. We also recognise that 2009 has been a difficult year for many of our customers. British Gas was the first of the major suppliers to reduce prices in 2009 which, combined with reduced average consumption, provided a welcome reduction in bills. And our price reduction early in 2010 made us the cheapest major supplier of gas and power to the residential market.

By contrast, due to the lower commodity price environment, profits from our UK gas and oil business were down year on year, as we took the decision to stop production at Morecambe and preserve the value of our gas reserves. Offsetting this, the losses from our legacy industrial and commercial contracts were much reduced, and our power station fleet performed well, taking advantage of favourable clean spark spreads. Our North American business had a difficult year and was impacted by pervading low wholesale commodity prices and one-off factors, however it remains well placed for future growth as we look to build a more integrated business model.

Dividend

The Board of Directors is proposing a final dividend of 9.14 pence per share to be paid in June 2010, bringing our full year dividend to 12.8 pence per share, an increase of 4.9%. This is in line with our policy of delivering sustained real growth in the ordinary dividend.

Board changes

Deryk King, President and Chief Executive Officer of Direct Energy retired in July, and was succeeded by Chris Weston who also joined the Board of Directors of Centrica plc on 1 July 2009. Chris was previously the Managing Director of British Gas Services.

As part of combining the divisions of British Gas into a single organisation, Phil Bentley took on responsibility for the whole downstream UK business in March 2009. Phil remains a Director of Centrica plc.

With effect from 26 November 2009, Nick Luff and Mark Hanafin represent Centrica on the Boards of the British Energy joint ventures in respect of our nuclear activities.

Paul Walsh, a Non-Executive Director, stepped down from the Centrica Board at the Annual General Meeting on 11 May 2009. Paul joined the Board in March 2003. We are grateful for his contribution and are actively seeking a replacement.

Chairman's Statement continued

Our employees

Our employees remain central to the success of Centrica. We experienced one of our busiest ever periods for call-outs during the recent cold weather and I am immensely proud of the dedication and determination our people have demonstrated as they strive to deliver our ultimate product – warm, well-lit and energy efficient homes and businesses for all our customers.

The future

2009 has been a transformational year for Centrica, delivering a stronger business both upstream and downstream. Our new strategic priorities set the agenda for the coming years, underlining the wide range of growth opportunities that we are able to pursue.

The industry as a whole is entering a significant investment phase, as the UK moves towards a lower carbon future whilst maintaining security of supply. The Government has a vital role to play in providing the stable investment climate, planning regime and appropriate market support mechanisms, which will be essential to underpin the long-term investments that will be required.

Building on our extensive expertise, upstream and downstream, Centrica is well-positioned to grasp the opportunities this will present in a low carbon world and invest in appropriate solutions for the benefit of our customers and shareholders.

Roger Carr, Chairman

25 February 2010

Earnings and operating profit numbers are stated, throughout the commentary, before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements where applicable – see note 3 for definitions. The Directors believe this measure assists with better understanding the underlying performance of the Group. The adjusted operating profit numbers are reconciled at Group level in the Group Financial Review. Exceptional items and certain re-measurements are described in note 7. Adjusted earnings and adjusted basic earnings per share are reconciled to their statutory equivalents in note 11.

All current financial results listed are for the year ended 31 December 2009. All references to 'the prior period', 'the prior year', '2008' and 'last year' mean the year ended 31 December 2008 unless otherwise specified.

Chief Executive's Review

2009 performance

2009 has been a year of significant achievement for Centrica. The acquisition of Venture in August and the transaction with EDF to acquire a 20% equity stake in British Energy in November means that we now have a more robust and integrated business model, which enables us to meet a greater proportion of our customers' energy needs from our own sources. These are long-term acquisitions concluded in a low commodity price environment, creating an upstream division that is now a growth business in its own right.

Downstream, we have continued to make improvements to the service and propositions we offer to our customers. We are focusing on delivering a range of new propositions and energy efficient solutions to help customers manage their energy bills. We will lead the transformation to a low carbon world through the installation of smart meters and new technological solutions and energy efficiency advice. Our network of highly trained service engineers are well positioned to deliver this growing range of services.

Centrica's underlying operating performance in 2009 demonstrated resilience in a year of sustained economic downturn and weak commodity prices, with the reduction in upstream earnings being more than offset by a greater downstream contribution.

The reduction in wholesale gas prices from their peak in 2008 led to a substantial reduction in operating profit for our upstream UK business, Centrica Energy, in 2009. Gas production volumes were 29% lower year on year, as we decided to preserve the value of our gas reserves by reducing production from the Morecambe field. This short-term earnings impact was partially offset by a strong financial performance from our combined cycle gas turbine (CCGT) fleet, which benefited from favourable clean spark spreads. Our new CCGT power station at Langage is now operational, and including the investment in British Energy, Centrica's UK power generation capacity has increased from 4.2 gigawatts (GW) to 7.1GW. Centrica Storage continued to perform well, with Rough achieving the highest level of utilisation since it was acquired in 2002.

Downstream in the UK, British Gas recorded a strong performance, underpinned by higher service levels and improved price competitiveness, which led to customer account growth. Our market leading price reductions in the first half of 2009 for residential energy customers, combined with continued strong growth from the services product range, helped us to increase our total product holdings by 550,000. We were also able to grow the number of customers who take both an energy and a services product from us by 164,000, deepening these customers' relationship with us which should result in higher retention rates. Within business energy our retention rates remain high, as we focus on those customers who value the high level of service we provide.

The North American business experienced difficult operating conditions. The downstream residential energy results were impacted by one-off adjustments totaling £61 million in the year and lower gas and power prices impacted our upstream business. However, the underlying performance of both our downstream residential and business operations was strong, the latter benefiting from the Strategic Energy acquisition in 2008. We continue to see significant growth potential for our North American business, and will consider opportunities upstream and downstream to build on our integrated energy model.

In Europe, we completed the sale of our 51% stake in the Belgian business SPE to EDF for £1.2 billion in November, as part of the transaction to acquire our stake in British Energy. As announced at the time of the interim results in July, we plan to exit the small positions we have in The Netherlands and Spain and we are making progress towards this. This will allow us to focus our attention on markets where we already have strong positions and where we see good growth prospects.

Chief Executive's Review continued

Strategic progress

The completion of the Venture and British Energy transactions, together with the improvements made across the organisation, mean that we have delivered against the strategic priorities we laid out three years ago:

1. Transform British Gas
2. Sharpen the organisation and reduce costs
3. Reduce risk through increased integration
4. Build on our growth platforms

In our downstream UK business, British Gas has undergone considerable change. We have dramatically improved our service levels and operational efficiency, and have significantly reduced costs. As a result, our competitive position is much improved, particularly in residential energy, and we have increased profitability in all parts of the business. We have combined our downstream activities into a single business, and with our unique services capability, strong brand, and leading position in energy efficiency we are well placed to deliver further growth.

Upstream, the acquisitions of Venture and a 20% equity stake in British Energy fundamentally change the shape of the business, aligning us more closely with our downstream competitors in the UK. These acquisitions provide us with further optionality in our investment programme building on our leading positions in offshore wind and gas storage.

In North America we have a strong downstream position in key deregulated markets, and we have materially grown the scale of our business energy division. We have added gas assets to support the downstream and these, combined with our services presence, give us a strong base to invest for incremental growth and value with the aim of building an integrated energy business over the medium-term.

As a result of these achievements we have an integrated, well financed business that is positioned to pursue future growth opportunities. We will consider a range of investment options across our businesses, targeting an appropriate return on investments made.

Our vision remains unchanged – "To be the leading integrated energy company in our chosen markets". We have however introduced new strategic priorities, which will enable the business to move forward and deliver growth.

1. **Grow British Gas**
   …leading the transition to low carbon homes and businesses
2. **Deliver value from our growing upstream business**
   …securing sustainable energy for our customers
3. **Build an integrated North American business**
   …with leading positions in deregulated markets
4. **Drive superior financial returns**
   …through operating performance and our investment choices

By capitalising on the distinctive capabilities we have built, these strategic priorities will help each of our businesses to realise their full potential, as Centrica strives to become the leading integrated energy company in its chosen markets.

Our business model is highly cash generative, enabling us to support a capital investment programme of around £1.5 billion per annum from internally generated resources. Centrica is therefore well-positioned to

Chief Executive's Review continued

pursue targeted growth opportunities, with optionality for potential investment across each business. Strict financial discipline will be maintained to secure strong returns on our investments.

Business outlook

2010 has seen a cold start to the year, leading to record demand for gas in the UK. The country's infrastructure has coped well following recent investment by the industry, with demand being met by a combination of local production, pipeline gas, Liquefied Natural Gas (LNG) and gas from storage. Our Rough storage facility performed extremely well, supplying around 10% of UK gas demand on each of the three days in January when National Grid 'Gas Balancing Alerts' were issued. However, in order to secure the country's future requirements, we believe that significant further investment and more long-term gas contracts are required as local production declines and an increasing proportion of gas demand is met through imports.

We expect to see further benefits from bringing our UK residential, services and business divisions together. We will seek to further increase the number of households that hold both an energy and related services product, through the selling of bundled propositions, whilst also expanding our product range as the energy industry moves towards a low carbon future. We announced our intention to build a major smart metering business in July 2009, and today we are announcing the creation of 1,100 new 'green collar' roles, through the building of an insulation business. Combined with the new energy technologies we have built up over the past two years, and a growing capability of working with local authorities on joint energy saving initiatives, these give us a strong platform for growth. We have also put in place initiatives to deliver cost reductions in excess of our previously announced target of £100 million, allowing us to re-invest in the business as we build on the strength of the British Gas brand. And our recently announced price reduction made us the cheapest major domestic supplier of both gas and electricity to UK customers.

The current low commodity price environment in 2010 represents a challenge to our upstream UK business, however our flexible business model remains well placed to capitalise on market opportunities and 2010 will see the first full year of contribution from both Venture and British Energy. Venture has been combined with our existing upstream business to create an organisation that has the technical and operating capability to work across a wide range of geologies and technologies in offshore oil and gas in and around UK, Dutch and Norwegian waters. We are now well placed to become the leading consolidator and operator of mature and orphaned gas assets in the UK Continental shelf. The operational performance of the British Energy nuclear fleet has been strong, benefiting from the investment made in the plant in recent years, and we are already engaged with EDF on pre-development studies for the next generation of nuclear power stations in the UK.

Having brought 15 LNG cargoes to the UK in 2009 we already have seven contracted for delivery during 2010/11. LNG is likely to provide an increasing amount of gas to the UK over the next decade as local production declines, helping to ensure security of supply for the UK. In this respect our announcement of an agreement to acquire a share of both existing LNG production and substantial undeveloped gas reserves in Trinidad and Tobago is significant. In gas storage, work continues on our three potential projects, totaling 85 billion cubic feet (bcf) which would increase existing UK capacity by around 50%. Final investment decisions are planned for the Caythorpe and Baird projects in 2010 and for Bains early in 2011. Subject to investment approval Caythorpe is expected to be operational in the storage year 2012/13 with both Baird and Bains operational in the storage year 2013/14.

During 2009, we successfully implemented innovative and efficient financing structures for a number of our wind developments. In October, we agreed the sale of a 50% equity stake in the Lynn, Inner Dowsing and Glens of Foudland wind farms, together with the provision of non-recourse financing facilities for these assets. In December, we announced a transaction to sell 50% of the 270 megawatt (MW) Lincs offshore wind farm to Siemens Project Ventures and Dong Energy and secured enhanced turbines for this development project. Going forward it will continue to be important to ensure that we put in place efficient financing structures for all our investments. We have submitted planning consent applications for our further projects at Docking Shoal and Race Bank in the Greater Wash area, which combined would add a total of 1.1GW to our wind portfolio.

Chief Executive's Review continued

In January 2010 we also secured a Round 3 wind farm development zone, in the Irish Sea, with a potential capacity of 4.2GW.

On the current forward curve coal remains at the margin, with clean spark spreads remaining above clean dark spreads for much of the year, although spreads have narrowed from the levels seen in 2009.

The macroeconomic environment in North America is improving, with the US economy now out of recession and unemployment beginning to fall, although the wholesale forward prices of gas and power remain substantially below levels seen at their peak in 2008. In our North American business, Direct Energy, a new management team has been appointed and we will focus on improving our returns from the existing business and assessing further opportunities.

Direct Energy is well-positioned in key deregulated markets, and we see the potential to build the scale and efficiency of the business. We will invest for growth and value, and further develop the integrated energy model over time. Our objective is for Direct Energy to achieve a leading position in deregulated markets, to deliver an increasingly material contribution to Group earnings over the medium-term and diversify our geographic earnings profile.

Overall, the outlook for 2010 is positive and we are trading in line with expectations, with strong downstream performance offsetting the impact of low gas prices on our upstream businesses. Whilst the final outturn will depend on a number of factors, including commodity prices, production volumes and downstream consumption levels, we have confidence in the robustness of our business model and in the forward momentum we have created.

In conclusion, I am delighted with the transformational progress that we have made during 2009, having successfully delivered against our strategic priorities laid out three years ago. Our new priorities take the Group forward, building on the robust, vertically-integrated business model that we now have in place. Centrica is well-positioned to deliver growth and lead in a low carbon world with new propositions and services for our customers – backed up by new sources of energy. We will deliver value to shareholders by maintaining strict financial discipline to secure strong returns on our investments.

Sam Laidlaw, **Chief Executive**
25 February 2010

Group Financial Review

Group revenue from continuing operations was up 5% to £22.0 billion (2008: £20.9 billion). Revenue in all three downstream UK businesses increased due to a higher number of customer accounts and revenue in our upstream UK segment was also slightly up due to higher external sales volumes. The North American businesses were impacted by a fall in commodity prices, although the reduction was more than offset by the effect of a favourable exchange rate movement on reported revenue.

Group operating profit$^{\Omega}$ from continuing operations was down 9% at £1,814 million (2008: £1,992 million). Adjusted operating profit* was down 7% to £1,857 million (2008: £2,003 million). An increase in downstream profitability, reduced losses in the industrial and commercial segment and strong performance in the power generation business partially offset decreases in upstream gas and oil profitability caused by lower volumes and selling prices.

Group profit$^{\Omega}$ on a continuing basis was up 15% to £1,104 million (2008: £964 million). The increase resulted primarily from a lower tax charge$^{\Omega}$ of £531 million (2008: £1,026 million). This decrease reflected the change in mix of profits, with a decrease in highly-taxed gas production profits. The resultant effective tax rate$^{\Omega}$ for the Group was 32% (2008: 52%). Net interest expense was £179 million (2008: £2 million), reflecting the higher level of debt during the year. Despite the increase in Group profit$^{\Omega}$, adjusted earnings per share^ (EPS) was unchanged at 21.7 pence (2008: 21.7 pence) reflecting the higher number of shares in issue following the Rights Issue in 2008.

The statutory profit for the year was £856 million (2008: loss of £136 million). The reconciling items between Group profit$^{\Omega}$ and the statutory profit are related to exceptional items, certain re-measurements and discontinued operations. The Group reported a statutory basic EPS of 16.5 pence, up from basic loss per share of 3.3 pence in 2008, mainly reflecting the reduction in the post-tax impact of certain re-measurements.

Throughout the Operating Review and Group Financial Review, reference is made to a number of different profit measures, which are shown in the table below:

Term	**2009 £m**	2008 £m	**Explanation**
Adjusted operating profit*:			.
Downstream UK	**1,011**	712	
Upstream UK	**525**	881	
Storage UK	**168**	195	
North America	**153**	215	
Total adjusted operating profit*	**1,857**	2,003	The principal operating profit measure used by management and used throughout the Operating Review.
Impact of fair value uplifts	**(27)**	–	Depreciation of fair value uplifts to property, plant and equipment of Strategic Investments.
Interest and taxation on joint ventures and associates and other costs	**(16)**	(11)	
Group operating profit$^{\Omega}$	**1,814**	1,992	Operating profit from continuing operations before exceptional items and certain re-measurements.
Group profit$^{\Omega}$	**1,104**	964	Profit from continuing operations before exceptional items and certain re-measurements.
Statutory profit/(loss)	**856**	(136)	Profit/(loss) including discontinued operations, exceptional items and certain re-measurements.

* including joint ventures and associates stated gross of interest and taxation, and before other costs and depreciation of fair value uplifts to property, plant and equipment from Strategic investments and exceptional items and certain re-measurements
^ as above, except after other costs and joint ventures and associates stated net of interest and taxation
Ω including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

Group Financial Review continued

In addition to the interim dividend of 3.66 pence per share, we propose a final dividend of 9.14 pence, giving a total ordinary dividend of 12.8 pence for the year (2008: 12.2 pence), an increase of 4.9%.

Group operating cash flow from continuing operations before movements in working capital was down 12% to £2,183 million (2008: £2,478 million). After working capital adjustments, operational interest, tax, cash flows associated with exceptional charges in prior years and cash flow from discontinued operations, this stood at £2,647 million (2008: £297 million). This significant increase in operating cash flow is due primarily to an improvement in working capital, lower outflow of cash collateral associated with margining agreements and a decrease in cash taxes paid.

The net cash outflow from investing activities increased to £4,520 million (2008: £1,122 million), due primarily to the acquisition of Venture and the investment in 20% of British Energy.

There was a net cash inflow from financing activities of £304 million (2008: £2,603 million). 2008 included £2,164 million from a Rights Issue.

The Group's net debt level at 31 December 2009 was £3,136 million (2008: £511 million). This reflected the cash movements described above.

During the year net assets decreased slightly to £4,255 million from £4,372 million as at 31 December 2008. Net segment assets increased following the acquisitions of Venture and British Energy and the sale of Segebel S.A. (Segebel), but this was offset by an increase in the level of net debt.

Exceptional items

Net exceptional charges from continuing operations before tax of £568 million were incurred during the year (2008: nil). A charge of £199 million related to an onerous gas procurement contract, and a charge of £139 million related to the termination of an out-of-the-money energy sales contract in the industrial and commercial segment of upstream UK. A provision of £55 million was recognised for North American wind power purchase agreements, to reflect the fair value of the obligation to purchase power above its net realisable value. Impairments of £149 million relating primarily to upstream gas and power assets in the UK and North America were incurred, arising from declining commodity prices and changing market conditions and an exceptional charge of £75 million relating to restructuring in downstream UK and in upstream UK was incurred. Also within continuing operations, profit on disposal of £49 million was made on the sale of the equity interest in GLID Wind Farms TopCo Limited. In discontinued operations a £297 million profit on disposal was made on the sale of Segebel and charges of £24 million were incurred in respect of previously capitalised customer acquisition costs in The Netherlands.

Certain re-measurements

In our business we enter into a portfolio of forward energy contracts which include buying substantial quantities of commodity to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair-valued under IAS 39. Fair valuing means that we apply the prevailing forward market prices to these contracts. The Group has shown the fair value adjustments separately as certain re-measurements as they are unrealised and non-cash in nature. The profits[Ω] arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements.

The statutory results include net charges to operating profit relating to these re-measurements of £71 million (2008: £1,331 million) from continuing operations, primarily from marking-to-market some contracts relating to our energy procurement activities. As gas and power were delivered under these contracts, net out-of-the-money mark-to-market positions from year end 2008 were unwound generating a net credit to the Income Statement in the period of £928 million (2008: £10 million). As forward prices decreased in the second half of the year the portfolio of contracts fair valued under IAS 39 reported a net charge on revaluation of £1,097 million (2008: £1,337 million). The termination of an out-of-the-money energy sales contract, described above, resulted in a credit within certain re-measurements of £135 million. The remaining charge of £28 million (2008:

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Ω including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurement

Group Financial Review continued

£4 million) reflects positions relating to cross-border capacity and storage contracts. There were also net losses arising on re-measurement of associates' energy contracts (net of taxation) of £9 million (2008: nil).

The net loss of £71 million on the re-measurement of energy contracts largely represents unrealised mark-to-market loss created by gas and power purchase contracts which are priced above the current wholesale market value of energy. This loss is calculated with reference to forward energy prices and therefore the extent of the overall economic profit or loss arising over the life of these contracts is uncertain and is entirely dependent upon the level of future wholesale energy prices.

Business combinations and capital expenditure

In January 2009, the Group acquired the remaining 50% of the issued share capital of Segebel for cash consideration of £544 million (including deferred consideration of £62 million), bringing the Group's total ownership interest in Segebel to 100%. Segebel holds a controlling stake of 51% in SPE S.A., a Belgian energy company. This business was subsequently sold to EDF Belgium S.A. for €1,325 million (£1,205 million) on 26 November 2009, as part of an inter-conditional transaction in which Centrica acquired a 20% interest in Lake Acquisitions Limited, owner of British Energy, for £2,255 million.

The Group also acquired 100% of the issued share capital of Venture for a total consideration of £1,253 million in a series of transactions occurring between 18 March 2009 and 9 November 2009. The Group acquired a controlling interest in Venture on 27 August 2009, and Venture was therefore consolidated as a subsidiary of the Group from this date.

The Group also initiated a process to sell its businesses in The Netherlands and Spain, being Oxxio B.V. and Centrica Energía S.L. respectively. Together with Segebel, these businesses have been accounted for as discontinued operations.

During the year, a number of other smaller acquisitions were completed for total cash consideration of £32 million, as explained in note 20.

Details of capital expenditure are provided in note 6(e).

Principal risks and uncertainties

The Group's risk management process remains unchanged from 31 December 2008. A description of the impact of the volatility in wholesale commodity prices and the weakness of credit markets on financial risk management is provided in note 4.

Capital management

Details on the Group's capital management are provided in note 5.

Related party transactions

Related party transactions are described in note 23.

Events after the balance sheet date

On 5 February 2010, 50% of the issued share capital of Centrica (Lincs) Limited (Lincs) was sold to Dong Wind (UK) Limited and Siemens Project Ventures GmbH for £50 million. Centrica has retained 50% of the issued share capital of Lincs and Centrica's investment in Lincs is accounted for as a joint venture from this date due to the joint control that arises from this transaction.

On 12 February, 2010, the Group redeemed £250 million of debt with a maturity date of 12 December 2011.

On 25 February 2010 the Group announced that it had agreed to acquire a portfolio of Trinidad and Tobago gas assets from Suncor Energy Inc. (Suncor) for approximately US$380 million (£246 million) in cash, subject to certain conditions being satisfied.

The Directors propose a final dividend of 9.14 pence per ordinary share (totaling approximately £470 million) for the year ended 31 December 2009. The dividend will be submitted for formal approval at the Annual General

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Ω including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

Group Financial Review continued

Meeting on 10 May 2010, and subject to approval will be paid on 16 June 2010 to those shareholders registered on 30 April 2010.

Accounting policies

UK listed companies are required to comply with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS). The Group's significant accounting policies, including changes of accounting presentation, are explained in note 3.

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

^ as above, except after other costs and joint ventures and associates stated net of interest and taxation

Ω including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurement

Operating Review

Downstream UK

2009 was a strong year for our downstream UK business, British Gas. Operational efficiency and customer service improved across the business, and a continued focus on safety issues resulted in a 53% reduction in lost time incidents. This progress led to higher employee engagement and customer satisfaction levels, which, combined with our residential energy price reductions, helped deliver customer growth in every part of the business.

As announced in February 2009, British Gas has been restructured and is now run as a single business, focused on meeting the energy and related service requirements of our customers. A combined management team is in place, and support functions have been integrated. British Gas New Energy is now also part of the overall structure. We are building the capability of our operational staff to work across our broad range of products, thereby further improving the efficiency of our operations and the overall customer experience. These changes, which will continue across 2010, position the business well for further growth through improved customer retention, cross-selling, development of new energy related products and cost efficiencies.

The number of 'joint product' households taking both an energy and a service product grew by 164,000 in 2009 to over two million. This is an important indicator for British Gas and the deeper customer relationship should result in a greater level of retention. This growth reflects increased levels of cross-selling, with the proportion of sales of energy products through services channels and sales of services products through energy channels both increasing. In September we launched our first bundled energy and services proposition, 'EnergyExtra', and 58,000 customers had chosen to take this product by the end of 2009.

Overall the number of customer accounts in our residential energy business grew by 141,000 and we closed the year with 15.7 million accounts on supply. Within this we also actively increased the number of dual fuel customers. This growth followed our price reductions of 10% for the standard gas tariff in February and 10% for the standard electricity tariff in May, making us the cheapest supplier of electricity in all regions of Britain. And our recently announced price reduction, in February 2010, placed us as the cheapest major domestic energy supplier for both gas and electricity in the UK.

There was also significant growth in the number of services customer relationships, as we closed the year on 8.5 million relationships, an increase of 400,000. The continued success of our secondary products, Plumbing and Drains Care, Home Electrical Care and Kitchen Appliance Care contributed to much of this growth, and we were able to cross-sell these products to our energy customer base as well as to existing Central Heating Care customers. Despite the economic downturn, retention remained high for the core Central Heating Care product, as the increased breadth of our product range allowed us to offer customers effective alternative offerings.

Improved productivity enabled a doubling of the amount of upgrade and on demand work undertaken and the completion of an additional 500,000 annual service visits (ASVs) in 2009. The number of central heating systems installed was down by only 5% on the prior year despite challenging economic conditions, due to an improved range of pricing options in our product range.

The number of business energy customer supply points ended the year slightly up at 1.047 million, as we focused on value and retention following the step up in customer numbers at the end of 2008 following the E4B and BizzEnergy deals. Customer retention remains high in our small and medium enterprise (SME) business and we have been successful in increasing the gross margins for both SME and industrial and commercial customers, as we offer a more comprehensive service for complex accounts where service is a key differentiator. We also launched 'Energy360', the first combined energy and services proposition for our business customers.

Our already strong operational performance continued to improve across British Gas. Calls received were down 12% on 2008. This was due in part to more accurate energy billing, with 90% of customers having been billed on the basis of an actual meter read during the year. We expect this to increase further as more customers opt for 'EnergySmart', a new proposition launched in November, which allows customers to track

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Operating Review continued

their energy usage having submitted monthly meter reads online or by text message. Early indications are that this has increased the number of meter reads submitted online by around 50% to 75,000 per week. Our online platform is also experiencing greater usage for other transactions as well. An average of 35,000 payment transactions per week are now being processed while around 450,000 ASVs were booked online during 2009, more than double the 2008 level.

The amount of time taken to answer customer telephone calls continued to fall, as did the percentage of customers abandoning calls before contact with a call centre and all of our complaints measures. This improved customer service resulted in a reduction in the number of times our customers contacted the energy Ombudsman, with our share of complaints, at 19%, remaining well below the industry average. We launched our call-ahead service, where our engineers phone the customer to inform them when they are due to arrive, and also increased the proportion of boilers we fix on the first call out. These initiatives have resulted in improved customer satisfaction in each part of the business. The net promoter score (NPS) in services increased to a new high of 54% whilst the residential energy and business energy divisions also saw substantial improvements in NPS.

Overall higher customer satisfaction levels can also be attributed in part to improvements in employee engagement during 2009. Staff attrition improved by 52% and absence by 20% compared to 2008, whilst our Cardiff contact centre was recognised as ‘Call Centre of the Year’ in the 2009 European Call Centre Awards. These come on top of the recognition of British Gas in the Sunday Times ‘Best Big Companies to work for’ and the Financial Times ‘UK’s 50 Best Workplaces’ in the first half of the year.

We continue to lead the industry in helping our most vulnerable customers. We have nearly 500,000 customer accounts on our residential social discounted tariff and spent more than double our share of the overall Government target. Effective marketing campaigns such as our sponsorship of the British swimming team have improved customer perception of the British Gas brand. We are also helping to raise awareness of energy efficiency through the successful ‘Green Streets’ campaign and we have around 10,000 schools participating in our ‘Generation Green’ programme, many of which now have a smart meter.

During 2009, we made strong progress in new areas that will help underpin the future growth of British Gas. In August we received Financial Services Authority (FSA) approval to offer insurance based home services products to customers. This is providing us with opportunities to grow our market leading position in the UK home services market, through increased flexibility around a wider range of energy related services products. We also welcomed the UK Government’s announcement in July 2009 regarding its plans for a full national roll-out of smart metering by 2020, and the supplier-led central communications model. We already have an industry leading position in the installation of smart meters for businesses, with more than 50,000 installed, and in July we announced that we are bringing in-house the installation, repair and maintenance of meters, currently carried out by third parties. In addition we announced in February 2010 that we are building an insulation business, with the creation of 1,100 new ‘green collar’ roles.

The range of new energy technologies British Gas has built up over the last two years, combined with our services engineer base, give us a strong base for growth as the market for new energy products and services expands. British Gas now has investments in biomass heating, through the acquisition of a 19% stake in Econergy Ltd early in 2009, solar, through our Solar Technologies business, fuel cell boilers through our 10% minority equity stake and development and distribution agreement with Ceres Power Holdings plc, and in February 2010 we announced the go ahead of five biomethane demonstration projects that should be the first technology of this type to inject gas into the grid. Business energy related services is also a key area for future growth in British Gas, and during the year we acquired Energy and Building Management Solutions Limited and Newnova Group Limited. British Gas has now made four acquisitions in the energy services and management sector in the past 12 months, giving us a strong base to build on as this market expands over the coming years.

Revenue in the period was up 3% to £12,565 million (2008: £12,189 million). Revenue in residential energy supply was broadly flat, as average consumption reductions in domestic gas were offset by a slightly higher

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average retail tariff year on year, as the average dual fuel customer paid only £23 more. For residential services, revenue was 4% higher due to the continued growth in secondary products. Business energy supply and services revenue grew 8% due to an increase in the average number of supply points, and a higher average contract price as contracts sold in the higher commodity price environment in 2008 rolled into 2009, which offset lower gas consumption.

Operating profit* was up 42% to £1,011 million (2008: £712 million) with strong growth in all businesses. Residential energy delivered an operating profit* of £595 million (2008: £376 million, 2007: £571 million), and an operating margin* of 7.6% (2008: 4.8%, 2007: 8.8%). This result was aided by colder than normal temperatures in January, February and December, although overall average gas consumption was down 7% on 2008 as changes in customer behaviour and energy efficiency measures continued to take effect. Commodity costs were slightly lower as they started to fall from their peaks in 2008, even though the impact of the higher 2008 wholesale prices had not been fully passed through to customers. Third-party transmission and metering costs and the cost of meeting environmental obligations increased, and as further investment is made in UK energy infrastructure over the coming years these are likely to remain a material proportion of the UK consumer's energy bill. Bad debt charges rose year on year, reflecting the weak economic conditions, although improved credit management and cash collection processes have helped to mitigate much of this increase.

Residential services operating profit* increased by 21% to £233 million (2008: £193 million) as growth from the secondary product range, and operational efficiencies, helped to increase the net operating margin* to 16.6% (2008: 14.3%). Business energy supply and services operating profit* improved by 28% to £183 million (2008: £143 million) as higher revenues were generated from the higher average customer base and from the effect of contracts sold in 2008 rolling into 2009. In addition we actively targeted customers who value the high level of service we provide, and generally attract a higher margin. These more than offset the impact of bad debt charges, which although higher than in 2008, were contained through careful credit management.

We are on track to exceed our target of £100 million of operating cost efficiency savings in British Gas, allowing us to re-invest in new growth areas. An exceptional cost was recognised in the year as part of the UK restructuring charge, with a further exceptional charge expected in 2010.

We will continue to provide leading customer service, supported by competitive pricing and a focus on valuable customer segments. We will expand our product range to capitalise on low carbon opportunities, and by linking energy and services closer together. This will enable further, sustainable customer growth. British Gas remains well-positioned to deliver earnings growth and play a leading role in Britain's low carbon future, continuing to provide our customers with warm, well-lit and energy efficient homes and businesses.

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Operating Review continued

Downstream UK

For the year ended 31 December	FY 2009	FY 2008	Δ%	H2 2009	H2 2008	Δ%
Residential energy supply^						
Customer accounts (period end):						
Gas ('000)	**9,378**	9,508	(1.4)	9,378	9,508	(1.4)
Electricity ('000)	**6,333**	6,062	4.5	6,333	6,062	4.5
Total ('000)	**15,711**	15,570	0.9	15,711	15,570	0.9
Estimated market share (%):						
Gas	**43.4**	43.5	(0.1) ppts	43.4	43.5	(0.1) ppts
Electricity	**24.2**	22.2	2.0 ppts	24.2	22.2	2.0 ppts
Average consumption:						
Gas (therms)	**506**	547	(7)	211	234	(10)
Electricity (kWh)	**3,892**	3,957	(1.6)	1,932	1,964	(1.6)
Total consumption:						
Gas (mmth)	**4,771**	5,345	(11)	1,983	2,226	(11)
Electricity (GWh)	**24,021**	23,880	0.6	12,106	11,839	2.3
Revenue (£m):						
Gas	**5,218**	5,221	(0.1)	2,171	2,616	(17)
Electricity	**2,625**	2,558	2.6	1,288	1,340	(3.9)
Total	**7,843**	7,779	0.8	3,459	3,956	(13)
Transmission and metering costs (£m):						
Gas	**1,239**	1,232	0.6	612	585	4.6
Electricity	**617**	595	3.7	313	300	4.3
Total	**1,856**	1,827	1.6	925	885	4.5
Operating profit (£m)*	**595**	376	58	300	212	42
Operating margin (%)	**7.6**	4.8	2.8 ppts	8.7	5.4	3.3 ppts

^ includes British Gas New Energy

For the year ended 31 December	FY 2009	FY 2008¥	Δ%	H2 2009	H2 2008	Δ%
Residential services						
Customer product holdings (period end):						
Central heating service contracts ('000)	**4,598**	4,571	0.6	4,598	4,571	0.6
Kitchen appliances care (no. of customers) ('000)	**433**	413	4.8	433	413	4.8
Plumbing and drains care ('000)	**1,724**	1,630	6	1,724	1,630	6
Home electrical care ('000)	**1,430**	1,305	10	1,430	1,305	10
Other contracts ('000)	**268**	133	102	268	133	102
Total holdings ('000)	**8,453**	8,052	5.0	8,453	8,052	5.0
Central heating installations ('000)	**114**	120	(5)	59	62	(4.8)
Revenue (£m):						
Central heating service contracts	**725**	694	4.5	366	352	4.0
Central heating installations	**351**	374	(6)	182	189	(3.7)
Other	**330**	279	18	170	142	20
Total	**1,406**	1,347	4.4	718	683	5
Engineering staff employed	**9,295**	9,500	(2.2)	9,295	9,500	(2.2)
Operating profit (£m)*	**233**	193	21	121	108	12
Operating margin (%)	**16.6**	14.3	2.3 ppts	16.9	15.8	1.1 ppts

¥ restated to reflect change in British Gas Services Limited revenue recognition policy, as explained in note 3

Installations numbers include domestic and local authority installations. Revenue associated with non-contract central heating service work is included in other.

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Operating Review continued

For the year ended 31 December	FY 2009	FY 2008	Δ%	H2 2009	H2 2008	Δ%
Business energy supply and services						
Customer supply points (period end):						
Gas ('000)	**400**	415	(3.6)	400	415	(3.6)
Electricity ('000)	**647**	624	3.7	647	624	3.7
Total ('000)	**1,047**	1,039	0.8	1,047	1,039	0.8
Average consumption:						
Gas (therms)	**3,134**	3,833	(18)	1,295	1,604	(19)
Electricity (kWh)	**32,275**	33,771	(4.4)	15,947	16,976	(6)
Total consumption:						
Gas (mmth)	**1,275**	1,585	(20)	519	667	(22)
Electricity (GWh)	**20,512**	19,051	8	10,245	9,882	3.7
Revenue (£m):						
Gas	**1,170**	1,268	(8)	454	600	(24)
Electricity	**2,146**	1,795	20	1,057	1,019	3.7
Total	**3,316**	3,063	8	1,511	1,619	(7)
Transmission and metering costs (£m):						
Gas	**204**	210	(2.9)	97	106	(8)
Electricity	**418**	345	21	208	184	13
Total	**622**	555	12	305	290	5
Operating profit (£m)*	**183**	143	28	118	88	34
Operating margin (%)	**5.5**	4.7	0.8 ppts	7.8	5.4	2.4 ppts

For the year ended 31 December	FY 2009	FY 2008	Δ%	H2 2009	H2 2008	Δ%
Downstream UK						
Total customer accounts ('000)	**25,211**	24,661	2.2	25,211	24,661	2.2
Total customer households ('000)	**12,226**	12,034	1.6	12,226	12,034	1.6
Joint product households ('000)	**2,043**	1,879	9	2,043	1,879	9
Revenue (£m):	**12,565**	12,189	3.1	5,688	6,258	(9)
Operating cost (excluding bad debt) (£m)	**1,313**	1,290	1.8	652	616	6
Operating profit (£m)*	**1,011**	712	42	539	408	32

Upstream UK

2009 was a transformational year for our upstream UK business, Centrica Energy. The acquisitions of Venture and a 20% equity stake in British Energy, combined with the significant progress made in developing our existing asset portfolio, have considerably strengthened Centrica's integrated business model. Having undertaken these material changes we are now well placed to deliver sustainable and attractive returns over the long-term.

In 2009 UK wholesale month ahead gas and power prices fell by around 45%, resulting in a very challenging environment for Centrica Energy. Despite this reduction in commodity prices a strong operational performance and the optimisation of our portfolio, including the benefits of forward hedging, enabled us to deliver a good result. Overall the operating profit* for the division was £525 million (2008: £881 million).

Upstream gas and oil

In 2009 our gas and oil production business has undergone considerable change and has grown materially following the acquisition of Venture for a total cash consideration of £1.3 billion. This acquisition is fundamental to our ongoing strategy to become the leading consolidator and operator of mature and orphaned gas assets in the UK Continental shelf. The integration of Venture with our existing business now provides us with a sustainable and flexible portfolio of assets with valuable development opportunities.

Our headquarters are now located in Aberdeen and the business is structured around five core regions in order to maximise our focus on asset and infrastructure performance, regional geology and business development opportunities. We are pleased to have retained the majority of the highly skilled Venture team who will help deliver the new strategic direction of the business. Following the acquisition a full audit of Venture's gas and oil reserves has been completed and found to be in line with our expectations. Having used a prudent reserves recognition methodology, which conforms with internationally accepted Petroleum Resources Management

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System (PRMS) guidelines, both Centrica's existing reserves base and Venture's have been redefined. In total our gas and oil reserves base is now 400 million barrels of oil equivalent (mmboe).

The significant fall in UK gas prices experienced during 2009 resulted in our gas and oil business reporting a lower overall contribution, with an operating profit* of £444 million (2008: £1,164 million). Gas production volumes, including four months of production from Venture, were down 29% to 1,708 million therms (mmth) (2008: 2,418mmth). We took value maximising decisions to shut in production at South Morecambe during periods of low gas prices, resulting in a 51% reduction in Morecambe volumes. Contractual positions were instead met through short-term market purchases. Oil and condensate production volumes increased to 8.8mmboe (2008: 6.5mmboe) reflecting additional volumes produced from the Venture portfolio. The average achieved gas sales price was 48.9 pence per therm (p/th) (2008: 59.1p/th). This was approximately 40% higher than the average month ahead price in 2009, and was achieved by selling forward a proportion of gas production volumes when the gas price was materially higher. While our hedging programme is ongoing, the majority of hedges made in 2008 have now unwound.

Total production costs increased to £796 million (2008: £620 million). The increase reflected a higher proportion of production relating to our newly developed and acquired fields, which have a higher unit cost than our existing fields. This more than offset the effect of lower production at Morecambe.

We continued to make strong progress on our gas development projects. In The Netherlands region, first gas on the final Grove development well was achieved in September following installation of connecting infrastructure. At our Chiswick field a third development well was successfully drilled with production expected to commence in early 2010. Work on the F3-FA development has begun and is expected to be completed during summer 2010, with first gas expected during winter 2010/11. In the Southern North Sea, well and subsea connecting infrastructure is now complete at Seven Seas, however we are awaiting pipeline tie in to the West Sole Alpha platform. Significant progress was made on the joint subsea developments on both Eris and Ceres with both projects expected to yield first gas during the first half of 2010. Work has also commenced on the Cygnus development where we will be drilling two appraisal wells in the Western part of the field during the first half of 2010.

As part of our focused exploration and appraisal programme we successfully drilled the Rhyl exploration prospect in the East Irish Sea, near the Morecambe Bay fields. Results from the well tests are encouraging, with indications that this could be an attractive development opportunity with potentially 8mmboe of gas resources recoverable. We also approved drilling of the Alcyone exploration prospect. However appraisal drilling results on the Acorn prospect were disappointing and exploration drilling on the Deep Banff, Morpheus and Mon prospects in the North Sea were unsuccessful.

In January 2009 we announced the acquisition of a 67% interest in the undeveloped York gas field in the Southern North Sea, adding to the 23% acquired in 2002 as part of Centrica's Rough gas storage acquisition. In July we signed a production sharing agreement with the Trinidadian Government on Block 2(ab). Following farm-downs of equity we will hold a non-operated equity stake of 29.25% in the block. In February 2010 we announced a further transaction in Trinidad and Tobago, whereby we have agreed to purchase a portfolio of producing and undeveloped gas assets. This transaction will establish our first producing LNG position and will provide us with significant development opportunities for future, long-term LNG supplies.

Power generation

Our power generation business performed strongly in 2009. In November we successfully completed an improved deal with EDF to acquire a 20% equity interest in British Energy, the operator of eight existing nuclear power stations in the UK, for £2.3 billion. This was in part funded by the sale of Centrica's 51% equity stake in the Belgian business SPE to EDF for £1.2 billion. This joint venture with EDF provides us with access to 20% of the uncontracted power from the existing nuclear fleet, an additional 18 terawatt hours (TWh) of power from EDF over five years from 2011 and the right to participate in EDF's UK New Nuclear Build (NNB) programme.

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Operating Review continued

We have further strengthened our position as one of the leaders in offshore wind. In October we announced that the 270MW Lincs offshore wind development project had received final investment approval with construction expected to commence in 2010. The anticipated costs of construction, excluding offshore transmission assets, are expected to be around £750 million and first power should be generated towards the end of 2012. In line with the UK Government Renewable Obligation Certificate (ROC) regime, the project will attract two ROCs per MWh generated, a critical component supporting the economics of the project. In December we subsequently announced the sale of a 50% equity stake in the Lincs project to Siemens Project Ventures and Dong Energy, a deal which completed in February 2010. This agreement enables the project to benefit from Siemens' latest turbines, which are expected to achieve higher load factors, therefore improving the project economics further.

The decision to proceed with Lincs was announced at the same time as the equity sell down and agreed project financing for the Lynn, Inner Dowsing and Glens of Foudland wind farms. Under this agreement we sold a 50% equity stake in these wind farms to Trust Company of the West (TCW) for a cash consideration of £84 million and entered into agreements to raise approximately £340 million of non-recourse project finance facilities from a consortium of banks. This agreement has established an effective structure for recycling capital and mobilising third-party funds efficiently. Centrica also entered into 15-year Power Purchase Agreements (PPA) to off-take all of the electricity production and 50% of the ROCs generated by the three refinanced wind farms.

In January 2010 we welcomed the news that Centrica had been successful in The Crown Estate's Round 3 offshore wind tendering process, having been awarded exclusive rights to develop up to 4.2GW in the Irish Sea zone. This announcement further increases our portfolio of wind development opportunities and provides valuable geographic diversity in a region where we have operating experience. Development projects are unlikely to begin until at least 2016, subject to final investment decisions.

Our new 885MW Langage CCGT station, with a thermal efficiency of 53%, is now operational following successful plant performance tests and is now in final handover testing. During the year we also continued to make efficiency improvements to our existing CCGT fleet.

Overall the power generation segment delivered a strong financial and operational result with an operating profit* of £147 million in 2009 (2008: £11 million) reflecting a strong contribution from our CCGT fleet, a full year's contribution from LID and one month's output from the British Energy fleet.

Our CCGT fleet benefited from the fall in gas prices particularly during the second half of 2009, which resulted in our gas-fired power stations displacing coal generators on the merit order. Strong CCGT fleet reliability of 97% (2008: 94%) combined with a sound hedging strategy provided us with greater exposure to higher second half clean spark spreads. Overall the average load factor across the CCGT fleet increased to 69% (2008: 67%). Total volumes, including the wind fleet and one month's share of output from British Energy, increased to 25.2TWh (2008: 23.4TWh).

The progress made in 2009 supports the strategic direction of our power generation business as we aim to increase the level of asset cover to our downstream businesses, diversify the generation mix with a focus towards lower carbon intensity and build on our leading position in renewable generation.

Industrial and commercial

This segment reported an operating loss* of £93 million in 2009 (2008: £331 million). The average sales price achieved increased by 10% to 45.8p/th (2008: 41.6p/th) as a result of legacy index-linked pricing mechanisms within the contracts which priced in at a higher rate. The reduction in wholesale gas prices resulted in customers reducing their demand under these contracts to 1,268mmth (2008: 2,493mmth). This reduction in demand, combined with a hedged position going into the year, meant that the reported results did not benefit fully from the fall in wholesale prices.

Also included in this segment is a legacy gas procurement contract, which has become significantly loss making due to the reduction in commodity prices. Notice to terminate has been given which will take effect

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Operating Review continued

from October 2011 resulting in an exceptional charge of £199 million being recognised, of which £160 million was included in provisions at the end of 2009.

Our LNG activity progressed considerably in 2009, as the UK has become an increasingly attractive destination for LNG cargoes in the global economic downturn. During the year we took delivery of 15 cargoes into the Isle of Grain terminal totaling 575mmth from a variety of destinations including Qatar, Trinidad, Norway and Australia. We have also contracted a further seven cargoes for delivery in 2010/11.

Proprietary energy trading

Accord delivered an operating profit* of £27 million (2008: £37 million). Following a strong first half, the volatile markets resulted in trading losses* being incurred in the second half.

Upstream UK

For the year ended 31 December	FY 2009	FY 2008	Δ%	H2 2009	H2 2008	Δ%
Upstream gas and oil						
Gas production volumes (mmth)						
Morecambe	**847**	1,716	(51)	294	696	(58)
Other	**861**	702	23	475	309	54
Total	**1,708**	2,418	(29)	769	1,005	(23)
Average gas sales price (p/therm)	**48.9**	59.1	(17)	40.5	67.8	(40)
Oil and condensate production volumes (mmboe)	**8.8**	6.5	35	5.6	3.2	75
Average oil and condensate sales price (£/boe)	**38.1**	45.0	(15)	43.0	46.6	(8)
Production costs (£m)	**796**	620	28	487	333	46
Operating profit (£m)*	**444**	1,164	(62)	98	526	(81)
Power generation						
Power generated (GWh)						
Gas-fired	**23,203**	22,817	1.7	13,552	11,464	18
Renewables	**821**	549	50	435	366	19
British Energy	**1,128**	0	nm	1,128	0	nm
Total	**25,152**	23,366	8	15,115	11,830	28
Achieved Clean Spark Spread (£/MWh)	**11.7**	7.3	60	11.7	7.7	52
Achieved power price (including ROC's) (£/MWh) - renewables	**97.3**	124.2	(22)	104.9	145.4	(28)
Achieved power price (£/MWh) - British Energy	**45.9**	n/a	nm	45.9	n/a	nm
Operating profit (£m)*	**147**	11	1,236	104	15	593
Industrial and commercial						
UK I&C external sales volumes (mmth)	**1,268**	2,493	(49)	651	1,150	(43)
UK I&C Average sales price (p/therm)	**45.8**	41.6	10	42.6	43.7	(2.5)
Operating (loss) (£m)*	**(93)**	(331)	nm	(4)	(173)	nm
Proprietary energy trading						
Operating profit (£m)*	**27**	37	(27)	(7)	10	nm
Upstream UK operating profit (£m)*	**525**	881	(40)	191	378	(49)

Storage UK

The Rough storage facility once again demonstrated exceptional operational performance during 2009 with overall reliability in excess of 98%. Asset utilisation was very high during early 2009, due to colder than normal weather and supply concerns caused by the dispute between Russia and the Ukraine. At the end of February, we recorded the lowest Net Reservoir Volume (NRV) ever seen at that point in the production season. Then from April through to November sustained injection, combined with enhanced injection capability created through continued capital investment, resulted in the reservoir reaching its highest ever NRV during November.

Gross revenue in the period was down 5% to £266 million (2008: £280 million), mainly as a result of the non-recurrence of the sale of cushion gas out of the Rough asset, which generated £26 million of revenue and approximately the same in profit* in the second half of 2008. The average Standard Bundled Unit (SBU) storage price of 44.2p (2008: 43.8p) was marginally up on the prior year reflecting an achieved SBU price of 46.8p for the 2009/10 storage year. Operating profit* was down 14% to £168 million (2008: £195 million) predominately as a result of the non-recurring sale of cushion gas in 2008.

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Operating Review continued

The importance of gas storage in meeting the UK's future energy requirements was highlighted once again in January 2010, as National Grid Gas issued 'Gas Balancing Alerts' on three days in a week, having only ever issued one previously. Rough supplied around 10% of UK gas demand on each of these days. As the UK's dependence on gas imports increases, storage will play an increasingly important role in helping maintain security of supply in the UK.

Work continues on Centrica's three potential storage projects, Caythorpe, Baird and Bains, which together would add around 85bcf of storage capacity. We have now largely completed Front End Engineering Design (FEED) for Caythorpe having previously obtained planning permission, FEED has commenced at Baird, and planning permission has been granted for the Bains onshore facility. Final investment decisions are planned for Caythorpe and Baird in 2010 and for Bains early in 2011, and subject to investment approval Caythorpe is expected to be operational in the storage year 2012/13 with both Baird and Bains expected to be operational in the storage year 2013/14.

Storage UK

For the year ended 31 December	FY 2009	FY 2008	Δ%	H2 2009	H2 2008	Δ%
Average SBU price (in period) (pence)	**44.2**	43.8	0.9	46.8	38.8	21
Gross Revenue (£m)						
Standard SBUs	**201**	199	1.0	107	89	20
Optimisation / other	**65**	55	18	35	29	21
Cushion Gas sales	**0**	26	nm	0	23	nm
Total	**266**	280	(5)	142	141	0.7
External revenue (£m)	**196**	221	(11)	101	101	0.0
Cost of gas (£m)	**19**	22	(14)	8	11	(27)
Operating profit (£m)*	**168**	195	(14)	95	102	(7)

North America

The North American macroeconomic environment was showing signs of recovery towards the end of 2009, with the US economy out of recession and unemployment beginning to fall from its peak of over 10% in October. However, consumer confidence remained low during 2009 and against this backdrop wholesale commodity prices were depressed.

Profitability* from our North American business was down year on year. Operating profit* was down 29% to £153 million (2008: £215 million), and on a constant currency basis was down 38%. However it was broadly flat after removing the impact of one-off charges in the residential energy business, which given the impact lower wholesale commodity prices had on our upstream business was a good underlying result. North American revenue was up 5% to £6,108 million (2008: £5,824 million), but was down 7% on a constant currency basis, as higher revenue from business energy supply growth was more than offset by commodity price falls in residential energy and upstream and wholesale.

Although wholesale forward commodity prices remain low in 2010, our North American business is well placed, both upstream and downstream. We are the third largest supplier of power to the residential market in Texas, and have built up a significant presence in the US North East, where we now have more than 500,000 customers. We have also significantly increased the scale and profitability of our business energy division following the acquisition of Strategic Energy, and are positioned as the third largest Commercial and Industrial (C&I) power supplier in North America. We have invested in upstream assets to support our downstream positions, and have an energy related services base in key markets. Under new management we will now look to grow leadership positions in deregulated markets, investing for incremental growth and value, with the aim over time of further developing the integrated energy model. We will do this alongside continuing to focus on improving returns from the existing business.

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

Operating Review continued

Residential energy supply

Our residential energy business produced a good underlying performance, as a decline in customer numbers in Canada and Texas was broadly offset by an increase in the US North East customer base. In our Canadian deregulated markets we scaled back on sales of fixed-price long-term contracts, where the level of capital support required is higher. In Texas we saw a slight reduction in customer numbers, as we delayed price cuts in order to maintain underlying margins on pre-hedged load in the first quarter. However in the US North East we have grown our customer base by around 150,000 to over 500,000 as authorities look to open up their markets to competition, offering the prospect of further growth for the future.

Profitability* reduced in 2009, primarily as a result of a one-off write off of £45 million of final debt in Texas following a review of bad debt provisioning in the first half. Debt collection rates have been impacted by the poor economic climate and the resulting increase in mortgage foreclosures, however better debt management processes have resulted in an improvement in recent collection rates. Following a subsequent review of the balance sheet we identified further one-off items totaling £16 million relating to prior years which impacted the result recorded in the second half of the year. Excluding the impact of the one-off charges, the operating margin* percentage rose to 5.9% (2008: 5.2%). We have now brought our Texas operational team back in-house to reinforce our customer service focus, and moving forward the newly appointed management team, and a geographical organisational structure, will bring an improved focus on cost reduction and customer retention through price competitiveness. This will position the business well in its key markets for the longer term.

Revenue was broadly flat at £2,644 million (2008: £2,652 million) and down 12% on a constant currency basis. Operating profit* before one-off items was up 13% to £155 million (2008: £137 million), down 1.3% on a constant currency basis, and after one-off items was down 31% to £94 million.

Business energy supply

Our business energy supply division performed strongly in 2009, benefiting from the full year effect of the Strategic Energy acquisition in June 2008. Electricity volumes increased by 22% on the prior year, whilst gas volumes increased by 14%, and revenue was up 24% to £2,491 million (2008: £2,015 million) or 9% on a constant currency basis. The scale of our C&I operations has grown considerably over the last two years, with both revenues and electricity volumes having more than doubled.

We also realised cost synergies exceeding our target of US$15 million resulting from the integration of Strategic Energy, and delivered gross margin expansion as we looked to recover the increased cost of credit support for forward purchases for our customers. As a result operating margin* increased to 1.4% (2008: 0.5%) and operating profit* from our business energy segment was more than three times that of the previous year at £34 million (2008: £11 million). On a constant currency basis profit* was up by 143%.

Residential and business services

Trading conditions for our services business remained difficult, as the decline in new housing construction in the US continued. We also experienced a small decline in the number of customer accounts in Canada, as our waterheater business faced stronger competitive pressures, although we did see growth in protection plans.

Despite the harsh trading environment, operating profit* was up 13% to £18 million (2008: £16 million) and flat in constant currency terms, as efficiency improvements helped to offset the weak economic climate. As a result operating costs were lower in 2009 than in 2008. Revenue was up 8% to £406 million (2008: £375 million), and down 4% on a constant currency basis.

Following the appointment of new management we have reviewed the structure of the services business. We now have a sales process in place to exit our Canadian home appliance repair business, as the diverse nature of this market has made it difficult to generate adequate returns. We will refocus to grow our presence in the energy related services market, particularly in those geographies where we have a strong energy base, and will look to capitalise on opportunities around energy efficiency.

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

Operating Review continued

Upstream and wholesale energy

The economic downturn and the subsequent low wholesale commodity price environment in the US and Canada resulted in profitability* substantially below 2008 levels at £7 million (2008: £51 million).

Our upstream gas business in Alberta was heavily impacted as the achieved sales price fell by 29% to C$5.1 per gigajoule (GJ), although this was higher than the average spot price of C$3.6 per GJ as we saw some benefit from prior period forward sales. This low gas price resulted in gas production volumes increasing by only 3% despite the full year impact of the acquisitions of Rockyview and TransGlobe made in the first half of 2008, as we chose to defer development activity in the low price environment. We instead made three small scale acquisitions, and as a result our reserves base increased slightly to 400 billion cubic feet equivalent (bcfe) by the end of 2009, even after accounting for in year production.

The wholesale business suffered from some loss-making power auction positions, as power bought to cover expected load was sold back into a lower priced market, while the stable and low prices resulted in fewer proprietary trading opportunities, and profit* here was much reduced.

Power generation volumes were up by 6% as the thorough maintenance on our three power plants in Texas, carried out when prices were low in the first half of the year, resulted in increased availability and lower outages. The Texas power price remained low throughout the year, however we benefited from prior period forward sales and as a result profitability* was improved year on year.

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

Operating Review continued

North America

For the year ended 31 December	FY 2009	FY 2008	Δ%	H2 2009	H2 2008	Δ%
Residential energy supply						
Customer numbers (period end) ('000)	**3,075**	3,092	(0.5)	3,075	3,092	(0.5)
Revenue (£m)	**2,644**	2,652	(0.3)	1,190	1,281	(7)
Operating profit (£m)*	**94**	137	(31)	48	76	(37)
Operating margin (%)	**3.6**	5.2	(1.6) ppts	4.0	5.9	(1.9) ppts
Business energy supply						
Gas sales (mmth)	**689**	603	14	289	241	20
Electricity sales (GWh)	**33,430**	27,411	22	17,942	18,183	(1.3)
Revenue (£m)	**2,491**	2,015	24	1,180	1,303	(9)
Operating profit (£m)*	**34**	11	209	14	3	367
Operating margin (%)	**1.4**	0.5	0.9 ppts	1.2	0.2	1.0 ppts
Residential and business services						
Customer numbers (period end) ('000)	**2,111**	2,140	(1.4)	2,111	2,140	(1.4)
Revenue (£m)	**406**	375	8	205	207	(1.0)
Operating profit (£m)*	**18**	16	13	15	13	15
Operating margin (%)	**4.4**	4.3	0.1 ppts	7.3	6.3	1.0 ppts
Upstream and wholesale energy						
Gas production volumes (mmth)	**375**	365	2.7	189	182	3.8
Power generated (GWh)	**4,982**	4,688	6	2,775	2,342	18
Revenue (£m)	**567**	782	(27)	182	581	(69)
Operating profit (£m)*	**7**	51	(86)	10	32	(69)
North America revenue (£m)	**6,108**	5,824	4.9	2,757	3,372	(18)
North America operating profit (£m)*	**153**	215	(29)	87	124	(30)

North America with comparator year of 2008 restated to remove effect of foreign exchange movements

For the year ended 31 December	FY 2009	FY 2008^	Δ%	H2 2009	H2 2008^	Δ%
Revenue						
Residential energy supply	**2,644**	3,006	(12)	1,190	1,373	(13)
Business energy supply	**2,491**	2,283	9	1,180	1,392	(15)
Residential and business services	**406**	423	(4.0)	205	222	(8)
Upstream and wholesale energy	**567**	889	(36)	182	630	(71)
Direct Energy revenue	**6,108**	6,601	(7)	2,757	3,617	(24)
Operating profit*						
Residential energy supply	**94**	157	(40)	48	75	(36)
Business energy supply	**34**	14	143	14	2	600
Residential and business services	**18**	18	0.0	15	14	7
Upstream and wholesale energy	**7**	57	(88)	10	35	(71)
Direct Energy operating profit*	**153**	246	(38)	87	126	(31)

^ restated at 2009 weighted average exchange rate

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

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Group Financial Statements in accordance with applicable law, regulations and accounting standards. In preparing the Group Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Group Financial Statements; and
- prepare the Group Financial Statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Each of the Directors confirm that, to the best of their knowledge:

- the Group Financial Statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report – Business Review contained in the Annual Report and Accounts, from which this narrative is extracted, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Sam Laidlaw
25 February 2010
Chief Executive

Nick Luff
25 February 2010
Group Finance Director

Group Income Statement

Year ended 31 December	Notes	2009 Business performance £m	2009 Exceptional items and certain re-measurements £m	2009 Results for the year £m	2008 (restated) (i), (ii) Business performance £m	2008 (restated) (i), (ii) Exceptional items and certain re-measurements £m	2008 (restated) (i), (ii) Results for the year £m
Continuing operations							
Group revenue	6	**21,963**	**–**	**21,963**	20,872	–	20,872
Cost of sales before exceptional items and certain re-measurements		**(17,663)**	**–**	**(17,663)**	(16,664)	–	(16,664)
Exceptional items	7	**–**	**(393)**	**(393)**	–	–	–
Re-measurement of energy contracts	7	**–**	**(62)**	**(62)**	–	(1,331)	(1,331)
Cost of sales		**(17,663)**	**(455)**	**(18,118)**	(16,664)	(1,331)	(17,995)
Gross profit		**4,300**	**(455)**	**3,845**	4,208	(1,331)	2,877
Operating costs before exceptional items		**(2,496)**	**–**	**(2,496)**	(2,225)	–	(2,225)
Exceptional items	7	**–**	**(175)**	**(175)**	–	–	–
Operating costs		**(2,496)**	**(175)**	**(2,671)**	(2,225)	–	(2,225)
Share of profits in joint ventures and associates, net of interest and taxation	13	**10**	**(9)**	**1**	9	–	9
Group operating profit		**1,814**	**(639)**	**1,175**	1,992	(1,331)	661
Interest income	8	**307**	**–**	**307**	658	–	658
Interest expense	8	**(486)**	**–**	**(486)**	(660)	–	(660)
Net interest expense	8	**(179)**	**–**	**(179)**	(2)	–	(2)
Profit/(loss) from continuing operations before taxation		**1,635**	**(639)**	**996**	1,990	(1,331)	659
Taxation on profit from continuing operations	9	**(531)**	**185**	**(346)**	(1,026)	413	(613)
Profit/(loss) from continuing operations after taxation		**1,104**	**(454)**	**650**	964	(918)	46
Profit/(loss) from discontinued operations	21	**40**	**(131)**	**(91)**	(52)	(130)	(182)
Gain on disposal of discontinued operations	7, 21	**–**	**297**	**297**	–	–	–
Discontinued operations		**40**	**166**	**206**	(52)	(130)	(182)
Profit/(loss) for the year		**1,144**	**(288)**	**856**	912	(1,048)	(136)
Attributable to:							
Equity holders of the parent		**1,094**	**(250)**	**844**	911	(1,048)	(137)
Minority interests		**50**	**(38)**	**12**	1	–	1
		1,144	**(288)**	**856**	912	(1,048)	(136)

Earnings/(loss) per ordinary share (i), (ii)	Notes	2009 Pence	2008 Pence
From continuing and discontinued operations:			
Basic	11	**16.5**	(3.3)
Diluted	11	**16.4**	(3.3)
From continuing operations:			
Basic	11	**12.7**	1.1
Diluted	11	**12.6**	1.1
Interim dividend paid per ordinary share	10	**3.66**	3.47
Final dividend proposed per ordinary share	10	**9.14**	8.73

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) and to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3.
(ii) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 21.

The notes on pages 31 to 73 form part of these Financial Statements.

Group Income Statement

Year ended 31 December	Notes	2009 £m	2008 £m
Profit/(loss) for the period		**856**	(136)
Other comprehensive income:			
Gains/(losses) on revaluation of available-for-sale securities	16	**11**	(19)
Taxation on revaluation of available-for-sale securities	16	**(2)**	1
		9	(18)
Unrealised losses on cash flow hedges	16	**(253)**	(318)
Transferred to income and expense on cash flow hedges	16	**234**	(30)
Transferred to assets and liabilities on cash flow hedges	16	**(4)**	1
Recycling of foreign exchange gains on cash flow hedges on disposal of business	16	**10**	–
Exchange differences on cash flow hedges	16	**–**	(19)
Taxation on cash flow hedges	16	**(12)**	96
		(25)	(270)
Exchange differences on translation of foreign operations	16	**83**	(10)
Recycling of foreign exchange loss on disposal of business	16	**(10)**	–
Taxation on related exchange differences	16	**(41)**	–
		32	(10)
Actuarial losses on defined benefit pension schemes	16	**(805)**	(399)
Actuarial gain on defined benefit schemes of discontinued operations		**2**	–
Taxation on actuarial losses on defined benefit pension schemes	16	**241**	111
		(562)	(288)
Other comprehensive income, net of taxation		**(546)**	(586)
Total comprehensive income for the period		**310**	(722)
Attributable to:			
Equity holders of the parent		**297**	(723)
Minority interests		**13**	1
		310	(722)

The notes on pages 31 to 73 form part of these Financial Statements.

Group Balance Sheet continued

31 December	Notes	2009 £m	2008 (restated) (i), (ii), (iii) £m	2007 (restated) (ii), (iii) £m
Non-current assets				
Goodwill		**2,088**	1,510	1,074
Other intangible assets		**734**	671	465
Property, plant and equipment (i)		**6,059**	4,689	3,910
Interests in joint ventures and associates	13	**2,422**	330	285
Deferred tax assets		**534**	311	27
Trade and other receivables		**143**	34	33
Derivative financial instruments (ii)	12	**316**	869	496
Securities		**176**	35	39
Retirement benefit assets	19	**–**	73	152
		12,472	8,522	6,481
Current assets				
Inventories		**382**	412	241
Current tax assets		**69**	39	40
Trade and other receivables		**4,181**	5,335	3,423
Derivative financial instruments (ii)	12	**492**	1,156	592
Securities		**74**	63	50
Cash and cash equivalents		**1,294**	2,939	1,130
		6,492	9,944	5,476
Assets of disposal groups classified as held for sale	21	**478**	–	–
Total assets		**19,442**	18,466	11,957
Current liabilities				
Trade and other payables (iii)		**(3,955)**	(4,395)	(3,400)
Current tax liabilities		**(184)**	(357)	(274)
Bank overdrafts, loans and other borrowings	14	**(86)**	(330)	(221)
Derivative financial instruments (ii)	12	**(1,744)**	(2,670)	(694)
Provisions for other liabilities and charges		**(193)**	(29)	(140)
		(6,162)	(7,781)	(4,729)
Net current assets		**330**	2,163	747
Non-current liabilities				
Trade and other payables		**(82)**	(67)	(20)
Bank overdrafts, loans and other borrowings	14	**(4,594)**	(3,218)	(1,793)
Derivative financial instruments (ii)	12	**(1,006)**	(1,529)	(823)
Deferred tax liabilities		**(1,179)**	(448)	(596)
Retirement benefit obligations	19	**(565)**	(186)	(55)
Provisions for other liabilities and charges		**(1,249)**	(865)	(581)
		(8,675)	(6,313)	(3,868)
Liabilities of disposal groups classified as held for sale	21	**(350)**	–	–
Net assets		**4,255**	4,372	3,360
Equity				
Called up share capital	15	**317**	315	227
Share premium account		**778**	729	685
Retained earnings (i),(iii)		**3,103**	2,759	1,301
Accumulated other comprehensive (loss)/income	16	**(587)**	(40)	546
Other equity	17	**581**	549	542
Total shareholders' equity		**4,192**	4,312	3,301
Minority interests in equity		**63**	60	59
Total minority interests and shareholders' equity		**4,255**	4,372	3,360

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment), as explained in note 3.
(ii) Restated to classify the non-current portions of derivative financial instruments from current assets and liabilities to non-current assets and liabilities, as explained in note 3.
(iii) Restated to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3.

The notes on pages 31 to 73 form part of these Financial Statements.

Group Statement of Changes in Equity

Year ended 31 December 2009	Share capital (note 15) £m	Share premium £m	Retained earnings £m	Accumulated other comprehensive income (note 16) £m	Other equity (note 17) £m	**Total £m**	Minority interests £m	**Total equity £m**
	Attributable to equity holders of the parent							
1 January 2009	315	729	2,759	(40)	549	**4,312**	60	**4,372**
Profit for the period	–	–	844	–	–	**844**	12	**856**
Other comprehensive income	–	–	–	(547)	–	**(547)**	1	**(546)**
	315	729	3,603	(587)	549	**4,609**	73	**4,682**
Employee share schemes	2	49	9	–	3	**63**	–	**63**
Amounts arising on consolidation [(i)]	–	–	–	–	144	**144**	802	**946**
Repurchase of minority interests	–	–	–	–	–	**–**	(201)	**(201)**
Disposal of Segebel S.A. [(ii)]	–	–	126	–	(126)	**–**	(589)	**(589)**
Dividends paid by subsidiaries	–	–	–	–	–	**–**	(11)	**(11)**
Dividends	–	–	(635)	–	–	**(635)**	–	**(635)**
Taxation	–	–	–	–	12	**12**	–	**12**
Exchange adjustments	–	–	–	–	(1)	**(1)**	(11)	**(12)**
31 December 2009	**317**	**778**	**3,103**	**(587)**	**581**	**4,192**	**63**	**4,255**

Year ended 31 December 2008	Share capital (note 15) £m	Share premium £m	Retained earnings £m	Accumulated other comprehensive income (note 16) £m	Other equity (note 17) £m	Total £m	Minority interests £m	Total equity £m
	Attributable to equity holders of the parent							
1 January 2008	227	685	1,323	546	542	3,323	59	3,382
Prior year restatement [(iii)]	–	–	(22)	–	–	(22)	–	(22)
1 January 2008 (restated)	227	685	1,301	546	542	3,301	59	3,360
Profit for the period [(iii), (iv)]	–	–	(137)	–	–	(137)	1	(136)
Other comprehensive income	–	–	–	(586)	–	(586)	–	(586)
	227	685	1,164	(40)	542	2,578	60	2,638
Employee share schemes	2	44	17	–	7	70	–	70
Rights Issue	86	–	–	–	2,078	2,164	–	2,164
Transfer	–	–	2,078	–	(2,078)	–	–	–
Dividends	–	–	(500)	–	–	(500)	–	(500)
31 December 2008	315	729	2,759	(40)	549	4,312	60	4,372

(i) Gains on revaluation of previously-held investments, as revalued on full consolidation, and recognition of minority interests.
(ii) Transfer of revaluation gain on Segebel S.A. to retained earnings and de-recognition of minority interests.
(iii) Restated to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3.
(iv) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment), as explained in note 3.

The notes on pages 31 to 73 form part of these Financial Statements.

Group Cash Flow Statement

Year ended 31 December	Notes	2009 £m	2008 (restated) (i) £m
Cash generated from continuing operations		**3,082**	1,395
Income taxes paid		**(329)**	(374)
Net petroleum revenue tax paid		**(174)**	(533)
Interest received		**13**	23
Interest paid		**(3)**	(47)
Payments relating to exceptional charges		**(203)**	(74)
Net cash flow from continuing operating activities	18	**2,386**	390
Net cash flow from discontinued operating activities	18	**261**	(93)
Net cash flow from operating activities		**2,647**	297
Purchase of Venture Production plc net of cash and cash equivalents acquired	20	**(1,115)**	–
Purchase of other businesses net of cash and cash equivalents acquired	20	**(438)**	(395)
Sale of businesses net of cash and cash equivalents disposed of		**870**	–
Purchase of intangible assets	6	**(604)**	(169)
Disposal and surrender of intangible assets		**43**	12
Purchase of property, plant and equipment	6	**(594)**	(617)
Disposal of property, plant and equipment		**–**	11
Investments in British Energy associates		**(2,272)**	–
Investments in other joint ventures and associates		**(19)**	–
Repayments of loans to, and disposal of investments in, joint ventures and associates	13	**18**	19
Interest received		**31**	63
Net purchase of securities		**(128)**	(22)
Net cash flow from continuing investing activities		**(4,208)**	(1,098)
Net cash flow from discontinued investing activities		**(312)**	(24)
Net cash flow from investing activities		**(4,520)**	(1,122)
Issue of ordinary share capital (ii)	15	**30**	2,202
Purchase of treasury shares		**(5)**	(3)
Financing interest paid		**(238)**	(104)
Cash inflow from additional debt		**1,887**	1,513
Cash outflow from payment of capital element of finance leases		**(22)**	(20)
Cash outflow from repayment of other debt		**(872)**	(175)
Net cash flow from increase in debt	18	**993**	1,318
Realised net foreign exchange gain/(loss) on cash settlement of net investment hedges		**18**	(117)
Realised net foreign exchange loss on cash settlement of other derivative contracts		**(20)**	(193)
Equity dividends paid	10	**(635)**	(500)
Net cash flow from continuing financing activities		**143**	2,603
Net cash flow from discontinued financing activities		**161**	–
Net cash flow from financing activities		**304**	2,603
Net (decrease)/increase in cash and cash equivalents		**(1,569)**	1,778
Cash and cash equivalents at 1 January		**2,904**	1,100
Effect of foreign exchange rate changes		**(50)**	26
Cash and cash equivalents at 31 December		**1,285**	2,904
Included in the following lines of the Balance Sheet:			
Cash and cash equivalents		**1,294**	2,939
Bank overdrafts, loans and other borrowings		**(28)**	(35)
Assets of disposal groups classified as held for sale	21	**19**	–
		1,285	2,904

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 21.
(ii) On 15 December 2008 the Group raised £2,164 million of proceeds, net of £65 million of issue costs, through a Rights Issue.

The notes on pages 31 to 73 form part of these Financial Statements.

Notes to the Financial Statements

1. General information

Centrica plc is a Company domiciled and incorporated in the UK under the Companies Act 1985. The address of the registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD. The Company has its listing on the London Stock Exchange.

The Financial Statements for the year ended 31 December 2009 included in this announcement were authorised for issue in accordance with a resolution of the Board of Directors on 25 February 2010.

2. Basis of preparation

The preliminary results of the year ended 31 December 2009 have been extracted from audited accounts (with the exception of notes 25 to 31 which have not been audited) which have not yet been delivered to the Registrar of Companies. The Financial Statements set out in this announcement do not constitute statutory accounts for the year ended 31 December 2009 or 31 December 2008. The financial information for the year ended 31 December 2008 is derived from the statutory accounts for that year. The report of the auditors on the statutory accounts for the year ended 31 December 2009 was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

3. Accounting policies

The accounting policies applied in these condensed Financial Statements for the year ended 31 December 2009 are consistent with those of the annual Financial Statements for the year ended 31 December 2008, as described in those Financial Statements, with the exception of standards, amendments and interpretations effective in 2009 and changes in British Gas Services revenue recognition, described below.

(a) Standards, amendments and interpretations effective in 2009

IAS 23 (Amendment), Borrowing Costs, effective from 1 January 2009. The Amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing such borrowing costs was removed. The Group adopted IAS 23 (Amendment) retrospectively and applied a commencement date of 1 January 2008 for qualifying projects. The adoption of IAS 23 (Amendment) has resulted in an increase to the closing net book value of property, plant and equipment and increase in deferred tax liabilities at 31 December 2009 amounting to £43 million (2008: £9 million) and £10 million respectively and a reduction to interest expense and increase to the tax charge in the period amounting to £34 million (2008: £9 million) and £10 million respectively. The impact on deferred tax liabilities and the related taxation charge in 2008 was not material. The resulting impact on both basic and diluted earnings per share for 2009 was an increase of 0.5p (2008: 0.2p).

IFRS 8, Operating Segments, effective from 1 January 2009. This standard replaces IAS 14, Segment Reporting and requires segmental information reported to be based on that which the Group's Executive Committee uses internally for the purposes of evaluating the performance of the Group's operating segments and making decisions about resource allocation between operating segments. The Group adopted IFRS 8 with effect from 1 January 2009. The adoption of IFRS 8 has resulted in certain changes to the Group's reportable segments and the information disclosed (see note 6). The measure of operating profit used by management to evaluate segment performance and to allocate resources is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements and before depreciation resulting from fair valuing property, plant and equipment to their acquisition-date fair values on the acquisition of Strategic Investments, as explained below. Additionally, adjusted operating profit includes the Group's share of the results from joint ventures and associates before interest and taxation.

'Improvements to IFRSs' contains amendments to various existing standards, most being effective from 1 January 2009. One of these improvements envisions that not all derivative financial instruments be classified as current. The Group has classified those derivatives held for the purpose of Energy Procurement and Treasury Management as current or non-current based on expected settlement dates. Where the derivative is held for proprietary energy trading, it remains classified as current. The Group adopted this improvement with effect from 1 January 2009, prior to which all derivatives held for trading under IAS 39 were classified as current irrespective of settlement date. This change in presentation has resulted in recognition of non-current derivative financial assets of £316 million, current derivative financial assets of £492 million, non-current derivative financial liabilities of £1,006 million and current derivative financial liabilities of £1,744 million at 31 December 2009. The impact on comparatives has been to report an increase in non-current derivative financial assets of £674 million (2007: £424 million), a decrease in current derivative financial assets of £564 million (2007: £322 million), an increase in non-current derivative financial liabilities of £1,372 million (2007: £812 million) and a decrease in current derivative financial liabilities of £1,262 million (2007: £710 million).

IAS 1 (Revised), Presentation of Financial Statements, effective from 1 January 2009. The revised standard prohibits the presentation of items of income and expense in the Statement of Changes in Equity, requiring non-shareholder changes in equity to be presented separately from shareholder changes in equity. All non-shareholder changes in equity are required to be presented in a performance statement. IAS 1 (Revised) permits a choice as to whether to present a single performance statement (being a Statement of Comprehensive Income) or two statements (being an Income Statement and a Statement of Comprehensive Income). The Group has elected to present two statements: a Statement of Income and a Statement of Comprehensive Income. Other changes require the Statement of Changes in Equity to be shown as a Primary Statement. These consolidated Financial Statements have been prepared under the revised disclosure requirements.

Notes to the Financial Statements continued

3. Accounting policies continued

IFRS 7 (Amendment), Improving Disclosures about Financial Instruments, effective from 1 January 2009. The amendment requires enhanced disclosures in relation to financial instruments measured at fair value. The amendment also requires additional disclosures aimed at improving users' ability to evaluate the nature and extent of liquidity risk related to financial instruments.

The following amendments to existing standards and interpretations were also effective for the current period, but the adoption of these amendments to existing standards and interpretations did not have a material impact on the Financial Statements of the Group:

- IAS 32 (Amendment), Financial Instruments: Presentation, and IAS 1 (Amendment), Presentation of Financial Statements – Puttable financial instruments and obligations arising on liquidation;
- IFRS 1 (Amendment), First-time adoption of IFRS, and IAS 27 (Amendment), Consolidated and Separate Financial Statements;
- IFRS 2 (Amendment), Share Based Payment – Vesting Conditions and Cancellations;
- IFRIC 13, Customer Loyalty Programmes;
- IFRIC 15, Agreements for the Construction of Real Estate;
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation;
- IFRIC 18, Transfers of Assets from Customers;
- IAS 39 (Amendment), Reclassification of Financial Assets: Effective Date and Transition; and
- IFRIC 9 (Amendment), Re-assessment of Embedded Derivatives, and IAS 39 (Amendment), Financial Instruments: Recognition and Measurement.

(b) Income Statement presentation

The Group's Income Statement and segmental note separately identify the effects of re-measurement of certain financial instruments, and items which are exceptional, in order to provide readers with a clear and consistent presentation of the Group's underlying performance, as described below.

(i) Certain re-measurements

As part of its energy procurement activities, the Group enters into a range of commodity contracts designed to achieve security of energy supply. These contracts comprise both purchases and sales and cover a wide range of volumes, prices and timescales. The majority of the underlying supply comes from high-volume, long-term contracts which are complemented by short-term arrangements. These short-term contracts are entered into for the purpose of balancing energy supplies and customer demand and to optimise the price paid by the Group. Short-term demand can vary significantly as a result of factors such as weather, power generation profiles and short-term movements in market prices.

Many of the energy procurement contracts are held for the purpose of receipt or delivery of commodities in accordance with the Group's purchase, sale or usage requirements and are therefore out of scope of IAS 39. However, a number of contracts are considered to be derivative financial instruments and are required to be fair valued under IAS 39, primarily because their terms include the ability to trade elements of the contracted volumes on a net-settled basis.

The Group has shown the fair value adjustments arising on these contracts separately in the certain re-measurements column. This is because the intention of management is, subject to short-term demand balancing, to use these energy supplies to meet customer demand. Accordingly, management believes the ultimate net charge to cost of sales will be consistent with the price of energy agreed in these contracts and that the fair value adjustments will reverse as the energy is supplied over the life of the contract. This makes the fair value re-measurements very different in nature from costs arising from the physical delivery of energy in the period.

At the balance sheet date the fair value represents the difference between the prices agreed in the respective contracts and the actual or anticipated market price of acquiring the same amount of energy on the open market. The movement in the fair value taken to certain re-measurements in the Income Statement represents the unwinding of the contracted volume delivered or consumed during the period, combined with the change in fair value of future contracted energy as a result of movements in forward energy prices during the year.

These adjustments represent the significant majority of the items included in certain re-measurements.

In addition to these, however, the Group has identified a number of comparable contractual arrangements where the difference between the price which the Group expects to pay or receive under a contract and the market price is required to be fair valued by IAS 39. These additional items relate to cross-border transportation or transmission capacity, storage capacity and contracts relating to the sale of energy by-products, on which economic value has been created which is not wholly recognised under the requirements of IAS 39. For these arrangements the related fair value adjustments are also included under certain re-measurements.

These arrangements are managed separately from proprietary energy trading activities where trades are entered into speculatively for the purpose of making profits in their own right. These proprietary trades are included in the results before certain re-measurements.

In addition, certain re-measurements includes the effects of unwinding the acquisition-date fair values attributable to forward energy procurement and energy sales contracts arising on the acquisition of Strategic Investments, as described below. The Group has shown the effect of unwinding the acquisition-date fair values attributable to forward energy procurement and energy sales contracts for these investments separately as a certain re-measurement as the intention is to use these energy supplies in the normal course of business and management believes the ultimate net charge reflected before the unwind of acquisition-date fair values will be consistent with the price of energy agreed within these contracts. Such presentation is consistent with the internal performance measures used by the Group.

Notes to the Financial Statements continued

3. Accounting policies continued

(ii) Exceptional items

As permitted by IAS 1 (revised), Presentation of Financial Statements, certain items are presented separately. The items that the Group separately presents as exceptional are items which are of a non-recurring nature and, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance. Items which may be considered exceptional in nature include disposals of businesses, business restructurings, renegotiation of significant contracts and asset write-downs.

(c) Use of adjusted profit measures

The Directors believe that reporting adjusted profit and adjusted earnings per share measures provides additional useful information on business performance and underlying trends. These measures are used for internal performance purposes. The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

The principal adjustments made to reported profits in arriving at adjusted profit are as follows:

Depreciation of fair value uplifts to property, plant and equipment on acquiring Strategic Investments

IFRS requires that a fair value exercise is undertaken allocating the cost of acquiring controlling interests and interests in associates to the fair value of the acquired identifiable assets, liabilities and contingent liabilities. Any difference between the cost of acquiring the interest and the fair value of the acquired net assets, which include identified contingent liabilities, is recognised as acquired goodwill. The fair value exercise is performed at the date of acquisition.

The Directors have determined that for Strategic Investments it is important to separately identify the earnings impact of increased depreciation arising from the acquisition-date fair value uplifts made to property plant and equipment over their useful economic lives. As a result of the nature of fair value assessments in the energy industry the value attributed to strategic assets is a subjective judgement based on a wide range of complex variables at a point in time. The subsequent depreciation of the fair value uplifts bears little relationship to current market conditions, operational performance or underlying cash generation. Management therefore reports and monitors the operational performance of Strategic Investments before the impact of depreciation on fair value uplifts to property, plant and equipment and the segmental results are presented on a consistent basis.

The Group has two Strategic Investments for which reported profits before certain re-measurements and exceptional items have been adjusted in arriving at adjusted profit and adjusted earnings per share. These Strategic Investments relate to the acquisition of Venture Production plc ('Venture') for £1,253 million, where a controlling interest was gained on 27 August 2009 and the acquisition of the 20% interest in Lake Acquisitions Limited ('British Energy'), which owns the British Energy Group on 26 November 2009 for £2,255 million and is accounted for as an associate.

(i) Venture

Each of Venture's identifiable assets, liabilities and contingent liabilities acquired has been consolidated into the Group Financial Statements at their acquisition-date fair values (27 August 2009). Significant adjustments have been made to the acquired property, plant and equipment to report oil and gas field interests at their acquisition-date fair values which are subsequently depreciated through the Income Statement over their respective useful economic lives using the unit of production method.

Whilst the impact of unwinding the property, plant and equipment at their acquisition-date fair values is included in overall reported profit for the period, the Directors have reversed the earnings impact of the increased depreciation and related taxation resulting from fair value uplifts to the acquired oil and gas interests in order to arrive at adjusted profit from continuing operations after taxation. The acquisition-date fair values attributed to these interests require a subjective judgement based on a wide range of complex variables at a point in time. The subsequent depreciation bears little relationship to current market conditions, operational performance or underlying cash generation of these interests. This adjusted profit measure is consistent with the internal measures used by the Group in reporting and monitoring performance and the segmental results are presented on a consistent basis.

(ii) British Energy

Lake Acquisitions Limited was formed by EDF for the purpose of acquiring the controlling interest in the British Energy Group, which it acquired on 5 January 2009.

The Group acquired its 20% interest in Lake Acquisitions Limited and thus British Energy on 26 November 2009. As the investment in British Energy is accounted for as an investment in an associate, IAS 28 requires that a notional fair value exercise is undertaken at the date of acquisition to allocate the cost of the investment to the acquired identifiable assets, liabilities and contingent liabilities. IAS 28 requires investments in associates to be accounted for using the equity method such that the Group reports its share of the associate's profit or loss, which is net of interest and taxation, within the Group's Income Statement. IAS 28 requires that the Group's share of the associate's profit or loss includes the effects of unwinding the fair value adjustments arising from the notional fair value exercise undertaken at acquisition date.

The most significant fair value adjustments arising on the acquisition of the 20% investment in British Energy relate to the fair value uplifts made to the British Energy nuclear power stations to report the property, plant and equipment at their acquisition-date fair values and fair value uplifts made to British Energy's energy procurement contracts and energy sales contracts to report these at their acquisition-date fair values.

Notes to the Financial Statements continued

3. Accounting policies continued

Whilst the impact of increased depreciation and related taxation through unwinding the fair value uplifts to the nuclear power stations is included in the share of associate's post-acquisition result reported in overall Group profit for the period, the Directors have reversed these impacts in arriving at adjusted profit from continuing operations for the period. The acquisition-date fair values attributed to the nuclear power stations require a subjective judgement based on a wide range of complex variables at a point in time. The subsequent depreciation bears little relationship to current market conditions, operational performance or underlying cash generation of these assets. This adjusted profit measure is consistent with the internal measures used by the Group in reporting and monitoring performance and the segmental results are presented on a consistent basis.

The impact of unwinding energy procurement contracts and energy sales contracts at their acquisition-date fair values is included within certain re-measurements and is excluded in arriving at adjusted profit.

(d) British Gas Services Limited – revenue recognition

Within British Gas Services Limited (BGSL), included within the Downstream UK – Residential services segment, revenue on fixed fee service contracts has been recognised on a straight-line basis over the contract period. Annual contracts were divided into 12 equal amounts which were taken to income each month. The whole of the first month's income was recorded in the calendar month of the sale or renewal.

Standard insurance accounting practice is to recognise revenue with regard to the incidence of risk over the period of cover. If there is a marked unevenness in the incidence of risk over the period of cover, a basis which reflects the profile of risk should be used. Whilst BGSL is not an insurer, its products have some similarities to insurance products for accounting purposes and the Directors consider that the accounting recognition of income should be undertaken on a similar basis. This is consistent with the Group's strategy and the Group has announced plans to convert many of BGSL's products to insurance products over the next two years and to effect this plan has created British Gas Insurance Limited (BGIL) which in 2009 received regulatory approval from the Financial Services Authority to sell insurance products. While income in BGSL has been accrued on a straight-line basis, the workload undertaken under the contracts is significantly higher in the winter. BGSL has therefore moved to recognising revenue, still over the contract period, but in line with the workload and the risk under the contracts. In making the change, the deferred income has been calculated with reference to the number of days remaining in the contract period to reflect the point at which contracts are entered into more precisely.

The impact of the new policy is to reduce revenue in 2009 by £2 million (2008: £2 million) and brought forward reserves by £30 million, with an offsetting £31 million credit to deferred income. A corporation tax adjustment has been applied as a result, with a total £9 million reduction in the tax creditor by way of a decreased 2008 tax charge of £1 million and an increase to the brought forward reserves of £8 million.

4. Financial risk management

During 2009, the markets continued to experience the volatility in commodity prices and shortage of available credit which was seen in 2008. Many of the markets in which the Group operates have continued to experience economic contraction. Despite these difficult market conditions, the Group continues to manage these risks in accordance with its financial risk management processes.

Financial risk management is overseen by the Group Financial Risk Management Committee (GFRMC) according to objectives, targets and policies set by the Board. Commodity price risk management is carried out in accordance with individual business unit financial risk management policies, as approved by the GFRMC and the Board. Treasury risk management, including management of currency risk, interest rate risk, equity price risk and liquidity risk is carried out by a central Group Treasury function in accordance with the Group's financing and treasury policy, as approved by the Board. The credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's counterparty credit policy. Downstream credit risk management is carried out in accordance with individual business unit credit policies.

The net loss of £71 million (2008: loss of £1,331 million) on the re-measurement of energy contracts largely represents unrealised mark-to-market loss created by gas and power purchase contracts which are priced above the current wholesale market value of energy. This loss is calculated with reference to forward energy prices and therefore the extent of the economic loss arising over the life of these contracts is uncertain, and entirely dependent upon the level of future wholesale energy prices. Generally, subject to short-term balancing, the ultimate net charge to cost of sales will be consistent with the price of energy agreed in these contracts and the fair value adjustments will reverse as the energy is supplied over the life of the contract.

Credit risk management

During 2009, there has been a continuing shortage of available credit in the market. In addition, many of the markets in which the Group operates are experiencing economic contraction. As a result of these external market factors, the Group is encountering an increase in credit risk compared with that experienced at the end of 2008. The Group has taken steps to tighten downstream credit policies, including the tightening of credit scores in customer management processes, whilst continuing to manage credit risk in accordance with financial risk management processes.

Notes to the Financial Statements continued

4. Financial risk management continued

Liquidity risk management and going concern

At 31 December 2009, the Group's continuing operations were holding £nil (2008: £43 million) of cash as collateral against counterparty balances, and had pledged £631 million (2008: £669 million) of cash as collateral, principally under margin calls to cover exposure to mark-to-market positions on derivative contracts, representing a net cash outflow during the year of £79 million (2008: £556 million outflow), write-offs of pledged balances of £nil (2008: £22 million), acquisition of cash collateral balances held of £nil (2008: £33 million) and exchange losses of £59 million (2008: £100 million gain). £15 million of cash collateral pledged was transferred into assets held for sale (2008: £nil). Within assets held for sale was a net £26 million (2008: £nil) cash inflow of collateral and the closing collateral (held)/pledged was £(17) million/£6 million (2008: £nil). Generally, cash paid or received as collateral is interest-bearing and is free from any restriction over its use by the holder.

The Group has a number of treasury policies to monitor and manage liquidity risk. Cash forecasts identifying the Group's liquidity requirements are produced regularly and are stress-tested for different scenarios, including, but not limited to, reasonably possible increases or decreases in commodity prices and the potential cash implications of a credit rating downgrade. The Group seeks to ensure that sufficient financial headroom exists for at least a 12-month period to safeguard the Group's ability to continue as a going concern. It is the Group's policy to maintain committed facilities and/or available surplus cash resources of at least £1,200 million, to raise at least 75% of its net debt (excluding non-recourse debt) in the long-term debt market and to maintain an average term to maturity in the recourse long-term debt portfolio greater than five years.

At 31 December 2009, the Group held £1,294 million (2008: £2,939 million) of cash and cash equivalents and had undrawn committed credit facilities of £2,083 million (2008: £1,380 million). 148% (2008: 683%) of the Group's net debt has been raised in the long-term debt market and the average term to maturity of the long-term debt portfolio was 9.6 years (2008: 9.3 years).

The relatively high level of available cash resources and undrawn committed bank borrowing facilities has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern.

5. Capital management

At 31 December 2009, the Group's long-term credit rating was A3 stable outlook for Moody's Investor Services Inc. (2008: A3 stable outlook) and A- stable outlook for Standard & Poor's Rating Services (2008: A negative outlook). During 2009, Standard & Poor's moved Centrica from A to A- due to the increased debt levels resulting from the investment in British Energy.

The Group monitors capital, using a medium-term view of three to five years, on the basis of a number of financial ratios generally used by industry and by the credit rating agencies. This includes monitoring gearing ratios, interest cover and cash flow to debt ratios. The Group's capital structure is managed against these ratios as required to maintain strong credit ratings.

The Group is not subject to externally-imposed capital requirements but, as is common for most companies, the level of debt that can be raised is restricted by the Company's Articles of Association. Net debt is limited to the greater of £5 billion and a gearing ratio of three times adjusted capital and reserves. This restriction can be amended or removed by the shareholders of the Company passing a special resolution.

Notes to the Financial Statements continued

6. Segmental analysis

Year ended 31 December			2009			2008 (restated) (i), (ii)
(a) Revenue	**Gross segment revenue £m**	**Less inter-segment revenue (iii), (iv) £m**	**Group revenue £m**	Gross segment revenue £m	Less inter-segment revenue (iii), (iv) £m	Group revenue £m
Continuing operations:						
Residential energy supply (i)	**7,843**	**–**	**7,843**	7,779	–	7,779
Residential services (ii)	**1,406**	**–**	**1,406**	1,347	–	1,347
Business energy supply and services	**3,316**	**–**	**3,316**	3,063	–	3,063
Downstream UK	**12,565**	**–**	**12,565**	12,189	–	12,189
Upstream gas and oil (iii)	**1,240**	**(689)**	**551**	1,784	(1,318)	466
Power generation (iii)	**1,317**	**(167)**	**1,150**	1,264	(595)	669
Industrial and commercial (i), (iii)	**1,907**	**(555)**	**1,352**	1,940	(486)	1,454
Proprietary energy trading (iii), (iv)	**52**	**(11)**	**41**	61	(12)	49
Upstream UK	**4,516**	**(1,422)**	**3,094**	5,049	(2,411)	2,638
Storage UK (iii)	**266**	**(70)**	**196**	280	(59)	221
Residential energy supply	**2,644**	**–**	**2,644**	2,652	–	2,652
Business energy supply	**2,491**	**–**	**2,491**	2,015	–	2,015
Residential and business services	**406**	**–**	**406**	375	–	375
Upstream and wholesale energy (iii)	**656**	**(89)**	**567**	873	(91)	782
North America (i)	**6,197**	**(89)**	**6,108**	5,915	(91)	5,824
	23,544	**(1,581)**	**21,963**	23,433	(2,561)	20,872
Discontinued operations:						
European Energy (note 21) (i)	**2,357**	**–**	**2,357**	472	(1)	471

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 21. The revenues of the Group's operations in Germany are reported within the Upstream UK Industrial and commercial operations segment. Also restated to present the revenues of British Gas New Energy within Downstream UK Residential energy supply and to split North America into four segments.
(ii) Restated to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3.
(iii) Inter-segment revenue reflects the level of revenue generated on sales to other Group segments on an arm's length basis.
(iv) The external revenue presented for Proprietary energy trading comprises both realised (settled) and unrealised (fair value changes) from trading in physical and financial energy contracts. Inter-segment revenue arising in Proprietary energy trading represents the recharge of brokerage fees to other Group segments.

Notes to the Financial Statements continued

6. Segmental analysis continued

Year ended 31 December

(b) Operating profit	2009 £m	2008 (restated) (i), (ii) £m
Continuing operations:		
Residential energy supply [i]	**595**	376
Residential services [ii]	**233**	193
Business energy supply and services	**183**	143
Downstream UK	**1,011**	712
Upstream gas and oil [iii]	**444**	1,164
Power generation [iii]	**147**	11
Industrial and commercial [i]	**(93)**	(331)
Proprietary energy trading	**27**	37
Upstream UK	**525**	881
Storage UK	**168**	195
Residential energy supply	**94**	137
Business energy supply	**34**	11
Residential and business services	**18**	16
Upstream and wholesale energy	**7**	51
North America [i]	**153**	215
Adjusted operating profit – segment operating profit before exceptional items, certain re-measurements and impact of fair value uplifts from Strategic Investments [iv]	**1,857**	2,003
Share of joint ventures/associates' interest and taxation	**(11)**	(3)
Other [v]	**(5)**	(8)
Depreciation of fair value uplifts to property, plant and equipment – Venture [iii]	**(20)**	–
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) – associates – British Energy [iii]	**(7)**	–
	1,814	1,992
Exceptional items (note 7) [vii]	**(568)**	–
Certain re-measurements included within gross profit (note 7)	**(62)**	(1,331)
Certain re-measurements of associates' energy contracts (net of taxation) (note 7)	**(9)**	–
Operating profit after exceptional items and certain re-measurements	**1,175**	661
Discontinued operations:		
European Energy (note 21) [i, vi, vii]	**(8)**	(52)

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 21. The operating profit of the Group's operations in Germany is reported within the Upstream UK Industrial and commercial operations segment. Also restated to present the operating profit of British Gas New Energy within Downstream UK Residential energy supply, to split North America into four segments and to include the operating profit of joint ventures and associates pre-interest and tax.
(ii) Restated to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3.
(iii) See note 3 and note 11 for explanation of the depreciation on fair value uplifts to property, plant and equipment on acquiring Strategic Investments.
(iv) Includes results of equity-accounted interests before interest, taxation, certain re-measurements and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments.
(v) Other comprises a £1 million loss (2008: £8 million loss) relating to Corporate Centre costs not recharged to segments and a £4 million loss (2008: £nil) relating to an inter-segment transaction between a proprietary trading operation and a non-proprietary energy trading operation.
(vi) Represents loss after taxation and before exceptional items and certain re-measurements attributable to equity holders of the parent. This is the measure of results of discontinued operations that is reported regularly to the Group's Executive Committee.
(vii) Exceptional impairment charges of £149 million (2008: £nil) for continuing operations and £24 million (£2008: £67 million) for discontinued operations were recognised in 2009. The charges for continuing operations relate to Upstream UK – Upstream gas and oil (£44 million), Upstream UK – Power generation (£35 million), North America – Upstream and wholesale energy (£44 million), North America – Residential energy supply (£19 million) and North America – Residential and business services (£7 million). The charges for discontinued operations relate to Oxxio in the Netherlands.

Notes to the Financial Statements continued

6. Segmental analysis continued

Year ended 31 December	Share of results of joint ventures and associates before interest and taxation		Depreciation of property, plant and equipment (i)		Amortisation, write-downs and impairments of intangibles	
(c) Included within adjusted operating profit	**2009 £m**	2008 restated (ii) £m	**2009 £m**	2008 restated (ii) £m	**2009 £m**	2008 restated (ii) £m
Continuing operations:						
Residential energy supply (ii)	**–**	–	**8**	10	**22**	27
Residential services	**–**	–	**12**	13	**10**	5
Business energy supply and services	**–**	–	**2**	3	**7**	8
Downstream UK	**–**	–	**22**	26	**39**	40
Upstream gas and oil (i), (iii)	**–**	–	**353**	280	**16**	21
Power generation (i), (iii), (iv)	**28**	12	**112**	101	**36**	31
Industrial and commercial (ii)	**–**	–	**1**	1	**6**	2
Proprietary energy trading	**–**	–	**–**	–	**–**	–
Upstream UK	**28**	12	**466**	382	**58**	54
Storage UK	**–**	–	**23**	22	**–**	–
Residential energy supply	**–**	–	**2**	2	**6**	5
Business energy supply	**–**	–	**1**	2	**3**	1
Residential and business services	**–**	–	**2**	2	**2**	3
Upstream and wholesale energy	**–**	–	**71**	65	**2**	2
North America (ii)	**–**	–	**76**	71	**13**	11
Other (v)	**–**	–	**12**	12	**15**	12
	28	12	**599**	513	**125**	117
Discontinued operations:						
European Energy (note 21) (ii)	**2**	3	**25**	2	**17**	12

(i) Depreciation of property, plant and equipment is stated before depreciation of fair value uplifts for Strategic Investments.
(ii) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation as explained in note 21. The operating profit of the Group's operations in Germany is reported within the Industrial and commercial operations segment. Also restated to present the operating profit of British Gas New Energy within Residential energy supply, to split North America into four segments and to include the operating profit of joint ventures and associates pre interest and taxation.
(iii) During 2009, impairment charges of £35 million (2008: £31 million) were incurred in the Power generation segment relating to emissions allowances and £16 million (2008: £21 million) in the Upstream gas and oil segment relating to exploration and evaluation assets.
(iv) Share of results of joint ventures and associates is before interest, certain re-measurements, depreciation of fair value uplifts to property, plant and equipment on Strategic Investments and taxation.
(v) Other comprises depreciation of property, plant and equipment and amortisation and write-downs of intangibles on Corporate Centre assets which are charged out to other Group segments.

Notes to the Financial Statements continued

6. Segmental analysis continued

31 December	Segment assets (restated) (i), (ii), (iii)		Segment liabilities (restated) (i), (ii), (iii)		Net segment assets/(liabilities) (restated) (i), (ii), (iii)		Average capital employed Year ended 31 December (restated) (i), (ii), (iii)	
(d) Assets and liabilities	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Residential energy supply (i)	**1,351**	1,597	**(1,398)**	(1,281)	**(47)**	316	**492**	401
Residential services (i), (ii)	**264**	288	**(237)**	(216)	**27**	72	**53**	76
Business energy supply and services (i)	**1,040**	1,111	**(548)**	(562)	**492**	549	**567**	506
Downstream UK	**2,655**	2,996	**(2,183)**	(2,059)	**472**	937	**1,112**	983
Upstream gas and oil (i), (ii)	**4,935**	2,141	**(2,633)**	(1,541)	**2,302**	600	**484**	119
Power generation (i)	**4,029**	2,221	**(283)**	(363)	**3,746**	1,858	**1,750**	1,334
Industrial and commercial (i)	**469**	327	**(231)**	(212)	**238**	115	**33**	(163)
Proprietary energy trading (i)	**843**	1,074	**(644)**	(879)	**199**	195	**218**	(259)
Upstream UK	**10,276**	5,763	**(3,791)**	(2,995)	**6,485**	2,768	**2,485**	1,031
Storage UK (i), (ii)	**702**	635	**(343)**	(381)	**359**	254	**191**	198
Residential energy supply (i)	**1,141**	1,160	**(351)**	(360)	**790**	800	**1,010**	795
Business energy supply (i)	**640**	1,235	**(263)**	(346)	**377**	889	**535**	336
Residential and business services (i)	**319**	355	**(51)**	(80)	**268**	275	**270**	229
Upstream and wholesale energy (i)	**888**	975	**(280)**	(256)	**608**	719	**563**	520
North America (i)	**2,988**	3,725	**(945)**	(1,042)	**2,043**	2,683	**2,378**	1,880
	16,621	13,119	**(7,262)**	(6,477)	**9,359**	6,642	**6,166**	4,092
Deferred tax assets/(liabilities) (i), (iv)	**391**	184	**332**	368	**723**	552		
Derivative financial instruments held for energy procurement (i)	**594**	1,710	**(2,670)**	(3,880)	**(2,076)**	(2,170)		
Treasury derivatives	**131**	197	**(76)**	(314)	**55**	(117)		
Current tax (liabilities)/assets (i), (iv)	**(325)**	(271)	**244**	168	**(81)**	(103)		
Short-term deposits and securities	**1,423**	2,950	**–**	–	**1,423**	2,950		
Assets/(liabilities) of disposal groups (v)	**478**	–	**(350)**	–	**128**	–		
European Energy (iii)	**–**	599	**–**	(186)	**–**	413		
Bank overdrafts and loans	**–**	–	**(4,680)**	(3,548)	**(4,680)**	(3,548)		
Retirement benefit assets/(obligations)	**–**	73	**(565)**	(186)	**(565)**	(113)		
Corporate centre assets/(liabilities)	**268**	166	**(299)**	(300)	**(31)**	(134)		
Non-operating assets/(liabilities)	**2,960**	5,608	**(8,064)**	(7,878)	**(5,104)**	(2,270)		
	19,581	18,727	**(15,326)**	(14,355)	**4,255**	4,372		
Less inter-segment (receivables)/payables	**(139)**	(261)	**139**	261	**–**	–		
	19,442	18,466	**(15,187)**	(14,094)	**4,255**	4,372		

(i) Restated to exclude segmental analysis of derivative assets and liabilities associated with certain re-measurements and to classify the non-current portions of derivative financial instruments from current assets and liabilities to non-current assets and liabilities, as explained in note 3. Restated to present the assets and liabilities of British Gas New Energy within Residential energy supply and to split North America into four segments. Also restated to present the deferred and current tax assets and liabilities attributable to each operating segment.
(ii) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) and to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3.
(iii) Segment assets and liabilities include allocated current and deferred tax balances.
(iv) Includes tax allocated to non-operating assets/(liabilities) and inter-segment offsets of tax assets and liabilities, as permitted by IAS 12.
(v) Assets and liabilities of disposal groups are classified as held for sale, as explained in note 21. Prior period balances for discontinued operations were reported as European Energy. The assets and liabilities of the Group's operations in Germany, which were previously also included within European Energy, are reported within the Industrial and commercial operations segment.

Notes to the Financial Statements continued

6. Segmental analysis continued

	2009 £m	2008 (restated) (i), (ii) £m
Net segment assets at 31 December (i), (ii)	**9,359**	6,642
Deduct:		
Intra-Group balances	**46**	(22)
Derivative financial instruments held for proprietary energy trading or treasury management (i)	**(79)**	(113)
Pre-productive assets	**(1,729)**	(826)
Cash at bank, in transit and in hand	**(92)**	(83)
Effect of averaging month-end balances	**(1,339)**	(1,506)
Average capital employed for year ended 31 December	**6,166**	4,092

(i) Restated to exclude segmental analysis of derivative assets and liabilities associated with certain re-measurements, as explained in note 3.
(ii) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) and to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3.

Year ended 31 December	Capital expenditure on property, plant and equipment		Capital expenditure on intangible assets other than goodwill	
(e) Capital expenditure	**2009 £m**	2008 (restated) (i),(ii) £m	**2009 £m**	2008 (restated) (ii) £m
Continuing operations:				
Residential energy supply (ii)	**1**	15	**60**	14
Residential services	**34**	16	**6**	–
Business energy supply and services	**1**	1	**5**	6
Downstream UK	**36**	32	**71**	20
Upstream gas and oil (i)	**358**	177	**50**	12
Power generation	**139**	299	**275**	264
Industrial and commercial (ii)	**4**	–	**16**	4
Proprietary energy trading	**–**	–	**–**	–
Upstream UK	**501**	476	**341**	280
Storage UK (i)	**60**	24	**–**	2
Residential energy supply	**–**	1	**6**	3
Business energy supply	**1**	1	**6**	–
Residential and business services	**1**	1	**–**	2
Upstream and wholesale energy	**52**	78	**2**	7
North America (ii)	**54**	81	**14**	12
Other	**3**	18	**38**	10
Capital expenditure on continuing operations	**654**	631	**464**	324
Decrease in prepayments related to capital expenditure	**(2)**	(24)	**–**	–
Unrealised gains on cash flow hedges transferred from reserves	**4**	–	**–**	–
Capitalised interest	**(34)**	(9)	**–**	–
(Increase)/decrease in trade payables related to capital expenditure	**(28)**	19	**140**	(155)
Net cash outflow	**594**	617	**604**	169

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment), as explained in note 3.
(ii) Restated to exclude the European Energy segment, with the exception of the Group's operations in Germany, from continuing operations, as explained in note 21. The capital expenditure of the Group's operations in Germany are reported within the Industrial and commercial segment. Also restated to present the capital expenditure of British Gas New Energy within Residential energy supply and to split North America into four segments.

Notes to the Financial Statements continued

7. Exceptional items and certain re-measurements

(a) Exceptional items for the year ended 31 December	2009 £m	2008 (restated) (i) £m
Continuing operations:		
Provision for onerous gas procurement contract (ii)	**(199)**	–
Termination of energy sales contract (iii)	**(139)**	–
Provision for North American wind power purchase agreements (iv)	**(55)**	–
Exceptional items from continuing operations included within gross profit	**(393)**	–
Impairments: (v)		
Impairment of exploration and production assets arising from declining commodity prices	**(114)**	–
Impairment of North American assets arising from changing market conditions	**(35)**	–
	(149)	–
UK restructuring costs (vi)	**(75)**	–
Profit on disposal of wind farm equity (vii)	**49**	–
	(175)	–
Exceptional items from continuing operations included within Group operating profit	**(568)**	–
Taxation on exceptional items	**186**	–
Net exceptional items from continuing operations after taxation	**(382)**	–
Discontinued operations:		
Impairment of Oxxio goodwill and other assets, provisions and write-offs after taxation (viii)	**(24)**	(67)
Profit on disposal of Segebel S.A. after taxation (ix)	**297**	–
Total exceptional items after taxation	**(109)**	(67)

(b) Certain re-measurements for the year ended 31 December	2009 £m	2008 (restated) (i) £m
Continuing operations:		
Certain re-measurements recognised in relation to energy contracts		
Net gains arising on delivery of contracts (x)	**928**	10
Net losses arising on market price movements and new contracts (xi)	**(1,097)**	(1,337)
Net losses arising on positions in relation to cross-border transportation or capacity contracts (xii)	**(28)**	(4)
Reversal of certain re-measurements in relation to the termination of energy sales contracts (iii)	**135**	–
Net re-measurements from continuing operations included within gross profit	**(62)**	(1,331)
Net losses arising on re-measurement of joint associates' energy contracts (net of taxation) (xiii)	**(9)**	–
Net re-measurements included within Group operating profit	**(71)**	(1,331)
Taxation on certain re-measurements	**(1)**	413
Net re-measurements from continuing operations after taxation	**(72)**	(918)
Discontinued operations:		
Net re-measurements on energy contracts of discontinued operations after taxation (note 21)	**(107)**	(63)
Total re-measurements after taxation	**(179)**	(981)

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation as explained in note 21.
(ii) On 1 October 2009 an onerous contract provision was established in the Industrial and commercial segment of Upstream UK for a gas procurement contract for which a two-year notice had been served to terminate. Exceptional charges of £199 million have been incurred of which £160 million is included in provisions for other liabilities and charges at the balance sheet date.
(iii) During 2009, an exceptional charge of £139 million was recognised in relation to the termination of an out-of-the-money energy sales contract in the Industrial and commercial segment of Upstream UK with a negative fair value of £135 million that was reversed on termination.
(iv) During 2009, an exceptional charge of £55 million was recognised in relation to wind power purchase agreements in the Upstream and wholesale energy segment of North America to reflect the fair value of the obligation to purchase power above its net realisable value.
(v) Impairment charges have been recognised across upstream exploration, production and generation assets as a result of declining commodity prices and in North America as a result of economic conditions.
(vi) Restructuring costs, including costs of £23 million associated with the impairment of obsolete assets, have been charged in the UK as a result of the integration of the Downstream UK business and the acquisition of Venture Production plc to the UK Upstream Gas and oil segment.
(vii) Disposal of 50% of the issued share capital of GLID Wind Farms TopCo Limited, as explained in note 21.
(viii) During 2009, exceptional charges were incurred in respect of the write-off of previously capitalised customer acquisition costs which are now considered to be irrecoverable. During 2008, exceptional charges of £67 million were incurred in the European Energy segment, including a £45 million impairment of the Oxxio goodwill, and a £22 million impairment of a receivable balance in Oxxio relating to historic overpayments of regulatory energy revenue tax, reflecting the reduced likelihood of realising the balance in the future.
(ix) Disposal of 100% of the issued share capital of Segebel S.A., as explained in note 21.
(x) As energy is delivered or consumed from previously contracted positions, the related fair value recognised in the opening balance sheet (representing the discounted difference between forward energy prices at the opening balance sheet date and the contract price of energy to be delivered) is charged or credited to the Income Statement.
(xi) Represents fair value losses arising from the change in fair value of future contracted sales and purchase contracts as a result of changes in forward energy prices between reporting dates (or date of inception and the reporting date, where later).
(xii) Comprises movements in fair value arising on proprietary trades in relation to cross-border transportation or storage capacity, on which economic value has been created which is not wholly accounted for under the provisions of IAS 39.
(xiii) Includes fair value unwinds relating to the recognition of energy procurement contracts and energy sales contracts at their acquisition-date fair values.

Notes to the Financial Statements continued

8. Net interest

Year ended 31 December	2009 Interest expense £m	2009 Interest income £m	2009 Total £m	2008 (restated) (i) Interest expense £m	2008 (restated) (i) Interest income £m	2008 (restated) (i) Total £m
Continuing operations						
Cost of servicing net debt						
Interest income	–	48	48	–	106	106
Interest expense on bonds, bank loans and overdrafts	(253)	–	(253)	(128)	–	(128)
Interest expense on finance leases	(22)	–	(22)	(23)	–	(23)
	(275)	48	(227)	(151)	106	(45)
(Losses)/gains on revaluation						
(Losses)/gains on fair value hedges	(41)	43	2	(82)	81	(1)
Fair value (losses)/gains on other derivatives (ii)	(52)	175	123	(396)	47	(349)
Fair value gains on other securities measured at fair value	–	3	3	–	–	–
Net foreign exchange translation of monetary assets and liabilities (iii)	(128)	–	(128)	–	345	345
	(221)	221	–	(478)	473	(5)
Other interest						
Notional interest arising on discounted items	(24)	29	5	(20)	59	39
Interest on cash collateral balances	–	4	4	(20)	5	(15)
Interest on supplier early payment arrangements	–	5	5	–	15	15
	(24)	38	14	(40)	79	39
	(520)	307	(213)	(669)	658	(11)
Capitalised borrowing costs (i), (iv)	34	–	34	9	–	9
Interest (expense)/income	(486)	307	(179)	(660)	658	(2)

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment), as explained in note 3.
(ii) Primarily reflects changes in the fair value of derivatives used to hedge the foreign exchange exposure associated with inter-company loans denominated in foreign currencies.
(iii) Primarily reflects foreign exchange gains on inter-company loans denominated in foreign currencies.
(iv) Borrowing costs on qualifying assets have been capitalised using an average rate of 5.37% (2008: 6.27%).

9. Taxation

(a) Analysis of tax charge for the year	2009 Business performance £m	2009 Exceptional items and certain re-measurements £m	2009 Results for the year £m	2008 (restated) (i) Business performance £m	2008 (restated) (i) Exceptional items and certain re-measurements £m	2008 (restated) (i) Results for the year £m
The tax charge comprises:						
Current tax						
UK corporation tax	333	(62)	271	397	5	402
UK petroleum revenue tax	112	–	112	517	–	517
Foreign tax	30	(4)	26	25	2	27
Adjustments in respect of prior years	(135)	(4)	(139)	(21)	–	(21)
Total current tax	340	(70)	270	918	7	925
Deferred tax						
Current year (ii)	147	(113)	34	165	(236)	(71)
Adjustments in respect of prior years	80	7	87	(8)	–	(8)
Change in tax rates (iii)	–	–	–	(1)	–	(1)
UK petroleum revenue tax	(25)	–	(25)	(52)	–	(52)
Foreign deferred tax	(11)	(9)	(20)	4	(184)	(180)
Total deferred tax	191	(115)	76	108	(420)	(312)
Total tax on profit from continuing operations (iv)	531	(185)	346	1,026	(413)	613

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation as explained in note 21.
(ii) The Finance Act 2008 changed the rules concerning loss relief on decommissioning costs and, as a result of this change, the prior year deferred tax charge is stated net of a £55 million credit in respect of previously unrecognised deferred tax assets.
(iii) The effect of the decrease of 2% to the standard rate of UK corporation tax from 1 April 2008 on the relevant temporary differences at 31 December 2008 was a credit of £1 million.
(iv) Total tax on profit from continuing operations excludes taxation on the Group's share of profits in joint ventures and associates.

Notes to the Financial Statements continued

10. Dividends

	2009 £m	2008 £m
Prior year final dividend of 8.73 pence (2008: 8.59 pence) per ordinary share	**447**	356
Interim dividend of 3.66 pence (2008: 3.47 pence) per ordinary share	**188**	144
	635	500

The prior year final dividend was paid on 10 June 2009 (2008: 11 June). The interim dividend was paid on 11 November 2009 (2008: 12 November).

The Directors propose a final dividend of 9.14 pence per ordinary share (totalling £470 million) for the year ended 31 December 2009. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 10 May 2010 and, subject to approval, will be paid on 16 June 2010 to those shareholders registered on 30 April 2010.

11. Earnings per ordinary share

Basic earnings per ordinary share has been calculated by dividing the earnings attributable to equity holders of the Company for the year of £844 million (2008: loss of £137 million) by the weighted average number of ordinary shares in issue during the year of 5,121 million (2008: 4,198 million). The Directors believe that the presentation of adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for certain re-measurements, exceptional items and the impact of Strategic Investments, assists with understanding the underlying performance of the Group. The reconciliation of basic to adjusted basic earnings per ordinary share is as follows:

Year ended 31 December	2009		2008 (restated) (i)	
(a) Continuing and discontinued operations	**£m**	**Pence per ordinary share**	£m	Pence per ordinary share
Earnings/(loss) – basic	**844**	**16.5**	(137)	(3.3)
Net exceptional items after taxation (notes 3 and 7)	**109**	**2.1**	67	1.6
Certain re-measurement losses after taxation (notes 3 and 7) (ii)	**141**	**2.8**	981	23.4
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation:	**17**	**0.3**	–	–
Earnings – adjusted basic	**1,111**	**21.7**	911	21.7
Earnings/(loss) – diluted	**844**	**16.4**	(137)	(3.3)
Earnings – adjusted diluted	**1,111**	**21.6**	911	21.5

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) and to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3.
(ii) Excludes minority interests of £38 million in 2009 (2008: £nil).

Venture

The Group obtained a controlling interest in the Venture Group on 27 August 2009. The fair values attributable to the acquired assets, liabilities and contingent liabilities arising on acquisition are set out in note 20. Fair value adjustments amounting to £651 million have been made to interests acquired in oil and gas fields to report these at their acquisition-date fair values amounting to £1,748 million (included within property, plant and equipment). The fair value adjustments are provisional as the Directors have not yet reached final determination on all aspects of the fair value exercise. The Directors will finalise the fair values within 12 months of the acquisition date. The acquired oil and gas field interests are depreciated over their remaining useful economic lives on a unit of production basis in accordance with the Group's accounting policies. As explained in note 3, the depreciation relating to fair value uplifts relating to the acquired property, plant and equipment and related taxation is reversed in arriving at adjusted profit for the year, which amounted to £20 million depreciation and a taxation credit of £10 million in the period.

British Energy

The Group acquired a 20% interest in British Energy on 26 November 2009 and accounts for its interest as an investment in associate as set out in note 13. As explained in note 3, the Group has undertaken a provisional notional fair value exercise at the date of acquisition to allocate the cost of the investment to the individual assets, liabilities and contingent liabilities at their acquisition-date fair values. The fair values attributed are provisional as the Directors have not yet reached final determination on all aspects of the fair value exercise. The Directors will finalise the fair values within 12 months of the acquisition date. The Group's share of provisional fair value adjustments made to the existing nuclear power stations amounts to £1,275 million resulting in an acquisition-date fair value attributable to these stations of £1,549 million. The nuclear power stations are depreciated over their useful economic lives in accordance with the Group's accounting policies. As explained in note 3, the impact of depreciation arising on fair value uplifts attributed to the nuclear power stations and related taxation included within the Group's share of the post-tax results of the associate is excluded in arriving at adjusted earnings for the period, which amounted to £7 million net of taxation.

Notes to the Financial Statements continued

11. Earnings per ordinary share continued

Year ended 31 December	2009		2008 (restated) (i)	
(b) Continuing operations	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	648	12.7	45	1.1
Net exceptional items after taxation (notes 3 and 7)	382	7.5	–	–
Certain re-measurement losses and (gains) after taxation (notes 3 and 7)	72	1.4	918	21.8
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation	17	0.3	–	–
Earnings – adjusted basic	1,119	21.9	963	22.9
Earnings – diluted	648	12.6	45	1.1
Earnings – adjusted diluted	1,119	21.8	963	22.8

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) and to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3. Also restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 21.

	2009		2008 (restated) (i)	
(c) Discontinued operations	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings/(loss) – basic	196	3.8	(182)	(4.3)
Earnings/(loss) – diluted	196	3.8	(182)	(4.3)

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 21.

Certain re-measurements (notes 3 and 7) included within operating profit and discontinued operations comprise re-measurements arising on energy procurement activities and re-measurements of proprietary trades in relation to cross-border transportation or capacity contracts. All other re-measurements are included within results before exceptional items and certain re-measurements.

In addition to basic and adjusted basic earnings per ordinary share, information is presented for diluted and adjusted diluted earnings per ordinary share. Under this presentation, no adjustments are made to the reported earnings for either 2009 or 2008, however the weighted average number of shares used as the denominator is adjusted for potentially dilutive ordinary shares. In 2008, no outstanding awards or options were considered to be potentially dilutive for diluted earnings per ordinary share, because doing so would have decreased the loss per ordinary share. However, potentially dilutive ordinary shares were taken into account when calculating adjusted diluted earnings per ordinary share.

(d) Weighted average number of shares	2009 Million shares	2008 Million shares
Weighted average number of shares used in the calculation of basic earnings per ordinary share	5,121	4,198
Dilutive impact of share-based payment schemes	24	35
Weighted average number of shares used in the calculation of diluted earnings per ordinary share	5,145	4,233

12. Derivative financial instruments

Derivative financial instruments are generally held for the purpose of proprietary energy trading, treasury management or energy procurement. Derivatives held for the purpose of proprietary energy trading are carried at fair value, with changes in fair value recognised in the Group's results for the year before exceptional items and certain re-measurements, with the exception of certain derivatives related to cross-border transportation and capacity contracts. Derivative financial instruments held for the purposes of treasury management or energy procurement are also carried at fair value, with changes in the fair value of derivatives relating to treasury management reflected in the results for the year before exceptional items and certain re-measurements, and those relating to energy procurement reflected in certain re-measurements. In cases where a derivative qualifies for hedge accounting, derivatives are classified as fair value hedges, cash flow hedges or hedges of a net investment in a foreign operation.

Energy contracts designated at fair value through profit and loss include certain energy contracts that the Group has, at its option, designated at fair value through profit and loss under IAS 39 because the energy contract contains one or more embedded derivatives that significantly modify the cash flows under the contract.

Notes to the Financial Statements continued

12. Derivative financial instruments continued

The carrying values of derivative financial instruments by product type for accounting purposes are as follows:

	2009 £m	2008 (restated) (i) £m	2007 (restated) (i) £m
Derivative financial instruments – held for proprietary energy trading			
Derivative financial instruments – held for trading under IAS 39			
Energy derivatives – assets	**68**	119	44
Energy derivatives – liabilities	**(3)**	(6)	(52)
	65	113	(8)
Derivative financial instruments – held for the purpose of treasury management or energy procurement			
Derivative financial instruments – held for trading under IAS 39			
Energy derivatives – assets	**590**	1,409	893
Energy derivatives – liabilities	**(2,134)**	(3,338)	(1,204)
Interest rate derivatives – assets	**3**	2	2
Interest rate derivatives – liabilities	**(5)**	(19)	(5)
Foreign exchange derivatives – assets	**45**	200	18
Foreign exchange derivatives – liabilities	**(79)**	(295)	(77)
	(1,580)	(2,041)	(373)
Contracts designated at fair value through profit and loss			
Energy derivatives – assets	**–**	109	9
Energy derivatives – liabilities	**(177)**	(95)	(86)
	(177)	14	(77)
Derivative financial instruments in hedge accounting relationships			
Energy derivatives – assets	**2**	24	122
Energy derivatives – liabilities	**(328)**	(365)	(67)
Interest rate derivatives – assets	**69**	62	–
Interest rate derivatives – liabilities	**(10)**	(4)	(7)
Foreign exchange derivatives – assets	**31**	100	–
Foreign exchange derivatives – liabilities	**(14)**	(77)	(19)
	(250)	(260)	29
Net total	**(1,942)**	(2,174)	(429)

The net total reconciles to the Balance Sheet as follows:

	2009 £m	2008 (restated) (i) £m	2007 (restated) (i) £m
Derivative financial instruments – non-current assets	**316**	869	496
Derivative financial instruments – current assets	**492**	1,156	592
	808	2,025	1,088
Derivative financial instruments – current liabilities	**(1,744)**	(2,670)	(694)
Derivative financial instruments – non-current liabilities	**(1,006)**	(1,529)	(823)
	(2,750)	(4,199)	(1,517)
Net total	**(1,942)**	(2,174)	(429)

(i) Restated to classify the non-current portions of derivative financial instruments from current assets and liabilities to non-current assets and liabilities, as explained in note 3.

The contracts included within energy derivatives are subject to a wide range of detailed specific terms but comprise the following general components:

	2009 £m	2008 £m
Short-term forward market purchases and sales of gas and electricity:		
UK and Europe	**(1,091)**	(748)
North America	**(583)**	(814)
Structured gas purchase contracts	**(34)**	(28)
Structured gas sales contracts	**(135)**	(450)
Other	**(139)**	(103)
Net total	**(1,982)**	(2,143)

Notes to the Financial Statements continued

12. Derivative financial instruments continued

Net gains/(losses) on derivative financial instruments due to re-measurement	2009 Income Statement £m	2009 Equity £m	2008 Income Statement £m	2008 Equity £m
Financial assets and liabilities measured at fair value:				
Derivative financial instruments – held for proprietary energy trading	**(48)**	**–**	117	–
Derivative financial instruments – held for trading under IAS 39	**153**	**–**	(1,621)	–
Energy contracts designated at fair value through profit and loss	**(36)**	**–**	(16)	–
Derivative financial instruments in hedge accounting relationships	**(15)**	**43**	82	(360)
	54	**43**	(1,438)	(360)

Derivative-related credit risk – assets

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract's notional amount. Credit risk from derivatives is measured and managed by counterparty credit rating as follows:

Fair value of derivative financial instruments with a positive fair value by counterparty credit rating	Carrying value £m	AAA to AA £m	AA- to A- £m	BBB+ to BBB- £m	BB+ to BB- £m	B or lower £m	Unrated £m
2009	**808**	35	567	44	3	–	159
2008	2,025	73	1,621	153	4	5	169

To manage derivative-related counterparty credit exposure, the Group employs the use of margining and set-off rights in some agreements. Under margining agreements, the Group has the right to request that the counterparty pay down or collateralise the current fair value of its derivatives position when the position passes a specified threshold. Details of collateral balances held at 31 December 2009 are provided in note 4.

Maturity profiles of derivative financial instruments – liabilities

The following maturity analysis shows the remaining contractual maturities on an undiscounted basis for the Group's derivative financial instruments that are in a loss position at the balance sheet date and will be settled on a net basis:

Energy derivatives that will be settled on a net basis	2009 £m	2008 £m
Less than one year	**(325)**	(456)
One to five years	**(185)**	(148)
More than five years	**–**	–
	(510)	(604)

Interest rate derivatives that will be settled on a net basis	2009 £m	2008 £m
Less than one year	**1**	(18)
One to five years	**–**	(7)
More than five years	**(29)**	–
	(28)	(25)

Notes to the Financial Statements continued

12. Derivative financial instruments continued

Certain of the Group's energy contracts that are accounted for as derivatives are for the physical purchase of energy. In these cases, IFRS 7 requires disclosure of a maturity analysis that shows cash outflows on all purchase contracts on an undiscounted basis, including those derivative contracts in a gain position at the balance sheet date as follows:

Energy procurement contracts that are carried at fair value	2009 £m	2008 £m
Less than one year	**(15,314)**	(20,426)
One to five years	**(17,865)**	(21,538)
More than five years	**(4,877)**	(8,095)
	(38,056)	(50,059)

The Group's foreign exchange derivative contracts will be settled on a gross basis. In these cases, IFRS 7 requires disclosure of a maturity analysis that shows cash outflows on all derivative contracts on an undiscounted basis, including those derivative contracts in a gain position at the balance sheet date. In addition to cash outflows on all foreign exchange derivative contracts that are gross settled on an undiscounted basis, the following analysis also provides disclosure of the related cash inflows as follows:

		2009		2008
Foreign exchange derivatives that will be settled on a gross basis	Outflow £m	Inflow £m	Outflow £m	Inflow £m
Less than one year	**(1,925)**	**1,899**	(4,394)	4,227
One to five years	**(1,444)**	**1,426**	(487)	528
More than five years	**(232)**	**242**	(150)	137
	(3,601)	**3,567**	(5,031)	4,892

13. Interests in joint ventures and associates

(a) Interest in joint ventures and associates	Investments in joint ventures and associates £m	Shareholder loans £m	Total £m
1 January 2009	286	44	**330**
Additions (i), (ii)	2,303	39	**2,342**
Reclassification as a subsidiary (iii)	(216)	–	**(216)**
Decrease in shareholder loans	–	(17)	**(17)**
Disposals of investments	(1)	–	**(1)**
Share of profits for the year	1	–	**1**
Exchange adjustments	(17)	–	**(17)**
31 December 2009	**2,356**	**66**	**2,422**

(i) On 26 November 2009, the Group acquired a 20% interest in Lake Acquisitions Limited (British Energy) for £2,255 million, which is the holding company of the British Energy Group and a 20% interest in NNB Holding Company Limited for £32 million, which is the investment vehicle for new nuclear build activity.
(ii) Other additions relate to the reclassification of interests in GLID Wind Farms TopCo Limited (note 21) and the acquisitions of North Sea Infrastructure Partners Limited, Bacton Storage Company Limited, Secure Electrans Limited, Ten Degrees North Energy Limited and Sevan Production General Partnership.
(iii) On 20 January 2009 the Group gained control of Segebel S.A. and from this date until the date of subsequent disposal the investment was consolidated as a subsidiary (notes 20 and 21).

	Investments in joint ventures and associates £m	Shareholder loans £m	Total £m
1 January 2008	222	63	285
Decrease in shareholder loans	–	(19)	(19)
Share of profits for the year (i)	12	–	12
Exchange adjustments	52	–	52
31 December 2008	286	44	330

(i) Share of profits for 2008 includes £3 million in respect of Segebel S.A., which was classified as discontinued in 2009.

Notes to the Financial Statements continued

13. Interests in joint ventures and associates continued

(b) Share of joint ventures' and associates' assets and liabilities

The Group's share of joint ventures' and associates' gross assets and gross liabilities at 31 December 2009 principally comprises its interests in Braes of Doune Wind Farm (Scotland) Limited, Barrow Offshore Wind Limited, GLID Wind Farms TopCo Limited, Lake Acquisitions Limited (British Energy) and NNB Holding Company Limited.

The Group's share of the investments in and results of Braes of Doune Wind Farm (Scotland) Limited, Barrow Offshore Wind Limited, GLID Wind Farms TopCo Limited, Lake Acquisitions Limited (British Energy) and NNB Holding Company Limited are included within the Upstream UK Power generation segment. The Group's share of the investments in and results of Secure Electrans Limited are included within the Downstream UK Residential energy supply segment. The Group's share of the investments in and results of Bacton Storage Company Limited are included within the Storage UK segment. The Group's share of the investments in and results of North Sea Infrastructure Partners Limited, Ten Degrees North Energy Limited and Sevan Production General Partnership are included within the Upstream UK Gas and oil segment.

							2009	2008
	Joint ventures			Associates				
	Braes of Doune Wind Farm (Scotland) Limited £m	Barrow Offshore Wind Limited £m	GLID Wind Farms TopCo Limited (i) £m	Lake Acquisitions Limited (British Energy) £m	NNB Holding Company Limited £m	Other (ii) £m	**Total £m**	Total £m
Share of non-current assets	33	59	146	3,773	31	36	**4,078**	412
Share of current assets	10	14	32	628	5	13	**702**	204
	43	73	178	4,401	36	49	**4,780**	616
Share of current liabilities	(7)	(1)	(41)	(188)	(4)	(2)	**(243)**	(173)
Share of non-current liabilities	(23)	(23)	(152)	(1,981)	–	(2)	**(2,181)**	(157)
	(30)	(24)	(193)	(2,169)	(4)	(4)	**(2,424)**	(330)
Share of net assets of joint ventures and associates	13	49	(15)	2,232	32	45	**2,356**	286
Shareholder loans	22	5	22	15	–	2	**66**	44
Interests in joint ventures and associates	35	54	7	2,247	32	47	**2,422**	330
Net cash/(debt) included in share of net assets	24	11	181	20	3	(2)	**237**	(11)

(i) As part of a finance arrangement entered into by GLID Wind Farms TopCo Limited, the Group's shares in GLID Wind Farms TopCo Limited are pledged to a third party. The pledge will only come into force should GLID Wind Farms TopCo Limited default on any of its obligations under the finance arrangement.
(ii) Other includes joint ventures of North Sea Infrastructure Partners Limited, Bacton Storage Company Limited and Secure Electrans Limited and associates of Ten Degrees North Energy Limited and Sevan Production General Partnership.

(c) Share of profits/(losses) in joint ventures and associates

					2009	2008 (restated) (i)
	Joint ventures			Associates		
	Braes of Doune Wind Farm (Scotland) Limited £m	Barrow Offshore Wind Limited £m	GLID Wind Farms TopCo Limited £m	Lake Acquisitions Limited (British Energy) £m	**Total £m**	Total £m
Income	8	13	3	52	**76**	21
Expenses excluding certain re-measurements (ii)	(3)	(5)	(1)	(49)	**(58)**	(9)
Certain re-measurements	–	–	–	(12)	**(12)**	–
	5	8	2	(9)	**6**	12
Interest	–	(1)	(1)	(2)	**(4)**	–
Taxation excluding certain re-measurements (ii)	(2)	(2)	–	–	**(4)**	(3)
Taxation on certain re-measurements	–	–	–	3	**3**	–
Share of post-taxation results of joint ventures and associates (iii)	3	5	1	(8)	**1**	9

(i) Restated to present Segebel S.A. as a discontinued operation, as explained in note 21.
(ii) Includes £10 million (2008: £nil) relating to depreciation of fair value uplifts to property, plant and equipment on acquiring the British Energy investments. The associated tax impact is £3 million credit (2008: £nil).
(iii) No profits or losses arose in NNB Holding Company Limited or in Other.

Notes to the Financial Statements continued

13. Interests in joint ventures and associates continued

British Energy

The Group acquired a 20% interest in British Energy for £2,255 million and NNB Holding Company Limited for £32 million on 26 November 2009, including transaction costs of £15 million which were unpaid at 31 December 2009. As explained in note 3, the Group has undertaken a provisional notional fair value exercise at the date of acquisition to allocate the cost of the investment to the individual assets, liabilities and contingent liabilities at their acquisition-date fair values. The fair values attributed at acquisition date are provisional as the Directors have not yet reached final determination on all aspects of the fair value exercise. The Directors will finalise the fair values within 12 months of the acquisition date. The Group's share of loss arising from its investment in British Energy for the period 26 November 2009 to 31 December 2009 as set out in the table above includes the effect of unwinding the fair value adjustments. As explained in note 3 the depreciation, net of taxation, arising on fair value uplifts attributed to the nuclear power stations is reversed in arriving at adjusted profit for the period as shown in the reconciliation table below and as set out in notes 6 and 11.

(d) Reconciliation of share of profits/(losses) in joint ventures and associates to share of adjusted profits/(losses) in joint ventures and associates

	Joint ventures			Associates	2009	2008 (restated) (i)
	Braes of Doune Wind Farm (Scotland) Limited £m	Barrow Offshore Wind Limited £m	GLID Wind Farms TopCo Limited £m	Lake Acquisitions Limited (British Energy) £m	**Total £m**	Total £m
Share of post-taxation results of joint ventures and associates	3	5	1	(8)	**1**	9
Certain re-measurements (net of taxation)	–	–	–	9	**9**	–
Depreciation – British Energy (net of taxation) (ii)	–	–	–	7	**7**	–
Interest	–	1	1	2	**4**	–
Taxation (excluding certain re-measurements and British Energy depreciation)	2	2	–	3	**7**	3
Share of adjusted results of joint ventures and associates	5	8	2	13	**28**	12

(i) Restated to present Segebel S.A. as a discontinued operation, as explained in note 21.
(ii) Relates to depreciation of fair value uplifts to property, plant and equipment on acquiring the British Energy investments.

14. Bank overdrafts, loans and other borrowings

			2009			2008		
	Interest rate %	Principal m	**Current £m**	**Non-current £m**	**Total £m**	Current £m	Non-current £m	Total £m
Bank overdrafts and loans			**63**	**384**	**447**	52	429	481
Bonds (by maturity date)								
9 March 2009	4.129	£250	**–**	**–**	**–**	253	–	253
2 November 2012	6.103	£400	**–**	**415**	**415**	–	416	416
27 February 2013	1.045	¥3,000	**–**	**21**	**21**	–	23	23
9 December 2013	7.307	€750	**–**	**678**	**678**	–	718	718
4 November 2014 (i)	Floating	$100	**–**	**62**	**62**	–	–	–
10 December 2014 (ii)	5.297	£350	**–**	**353**	**353**	–	–	–
24 October 2016	5.706	£300	**–**	**311**	**311**	–	316	316
19 September 2018 (iii)	7.038	£400	**–**	**428**	**428**	–	340	340
10 March 2022 (iv)	6.565	£400	**–**	**414**	**414**	–	–	–
4 September 2026 (v)	6.400	£150	**–**	**149**	**149**	–	153	153
19 September 2033 (vi)	7.100	£770	**–**	**777**	**777**	–	447	447
			–	**3,608**	**3,608**	253	2,413	2,666
Other borrowings								
12 December 2011 (vii)	Floating	£250	**–**	**250**	**250**	–	–	–
Commercial paper			**–**	**–**	**–**	4	–	4
Obligations under finance leases			**23**	**352**	**375**	21	376	397
			86	**4,594**	**4,680**	330	3,218	3,548

(i) Issued for $100 million on 4 November 2009.
(ii) Issued for £250 million on 10 March 2009 and increased by £50 million on 24 March 2009 and by an additional £50 million on 17 April 2009.
(iii) Principal amount was increased by £100 million on 29 January 2009.
(iv) Issued on 10 March 2009.
(v) Fixed at 6.40%. Previously floating but capped at 6.854%.
(vi) Principal amount was increased by £150 million on 20 February 2009, by £70 million on 1 April 2009 and by £100 million on 8 June 2009.
(vii) Redeemed on 12 February 2010. See note 24.

Notes to the Financial Statements continued

15. Called up share capital

	2009 £m	2008 £m
Authorised share capital of the Company		
9,000,000,000 ordinary shares of $6^{14}/_{81}$p each (2008: 7,000,000,000 ordinary shares of $6^{14}/_{81}$p each) (i)	**556**	432
100,000 cumulative redeemable preference shares of £1 each (2008: 100,000 shares of £1 each)	**–**	–
Allotted and fully paid share capital of the Company		
5,132,054,073 ordinary shares of $6^{14}/_{81}$p each (2008: 5,107,658,569 ordinary shares of $6^{14}/_{81}$p each)	**317**	315

The movement in allotted and fully paid share capital of the Company for the year was as follows:

	2009 Number	2008 Number
1 January	**5,107,658,569**	3,679,980,311
Rights Issue (ii)	**–**	1,392,789,173
Issued under employee share schemes (iii)	**24,395,504**	34,889,085
31 December	**5,132,054,073**	5,107,658,569

(i) At a General Meeting of the Company held on 13 May 2009, the authorised share capital of the Company was increased from £432 million to £556 million by the creation of 2,000,000,000 ordinary shares of nominal value of $6^{14}/_{81}$ pence each, forming a single class with the existing ordinary shares.

(ii) On 31 October 2008, the Company announced a Rights Issue, which was approved by shareholders on 21 November 2008, on the basis of three new ordinary shares for every eight ordinary shares held at 160 pence per share, all with a nominal value of $6^{14}/_{81}$ pence each. The Company raised proceeds of approximately £2,164 million, net of issue costs of approximately £65 million. The last day for acceptance was 12 December 2008 and dealing in new ordinary shares fully paid commenced on the London Stock Exchange on 15 December 2008.

(iii) Ordinary shares were allotted and issued to satisfy the exercise of share options, share incentive schemes, the Direct Energy Employee Share Purchase Plan and the matching element of the Share Incentive Plan as follows:

	2009	2008
Number	**24,395,504**	34,889,085
Nominal value (£m)	**1.5**	2.2
Consideration (£m) (net of issue costs of £nil (2008: £nil))	**30**	38

The closing price of one Centrica ordinary share on 31 December 2009 was 281.10 pence (2008: 266.00 pence).

Centrica employee share ownership trusts purchase Centrica ordinary shares from the open market and receive newly-issued shares to satisfy future obligations of certain employee share schemes. During the year, the trusts purchased 1.9 million shares (2008: 1.0 million), received 7.2 million newly-allotted shares (2008: 6.5 million) and released 6.8 million shares (2008: 4.5 million shares) to employees on vesting. At 31 December 2009, the trusts held 5.9 million shares (2008: 3.6 million shares) at a carrying amount of £15 million (2008: £10 million). Until such time as the Company's own shares held by these trusts vest unconditionally, the amount paid for those shares, or the value they were issued at, are held as treasury shares and are deducted from shareholders' equity.

Notes to the Financial Statements continued

16. Accumulated other comprehensive (loss)/income

	Available-for-sale revaluation reserve £m	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Actuarial gains and losses reserve £m	Total £m
1 January 2009	(15)	(219)	(24)	218	**(40)**
Exchange differences on translation of foreign operations	–	–	83	–	**83**
Recycling of foreign exchange on disposal of business	–	10	(10)	–	**–**
Actuarial losses on retirement benefit obligations (note 19)	–	–	–	(804)	**(804)**
Net gains on revaluation of available-for-sale securities	11	–	–	–	**11**
Cash flow hedges:					
Net fair value losses	–	(253)	–	–	**(253)**
Transferred to income and expense	–	234	–	–	**234**
Transferred to assets and liabilities	–	(4)	–	–	**(4)**
Tax on above items	(2)	(12)	(41)	241	**186**
31 December 2009	**(6)**	**(244)**	**8**	**(345)**	**(587)**

	Available-for-sale revaluation reserve £m	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Actuarial gains and losses reserve £m	Total £m
1 January 2008	3	51	(14)	506	546
Exchange differences on translation of foreign operations	–	(19)	(10)	–	(29)
Actuarial losses on retirement benefit obligations	–	–	–	(399)	(399)
Net losses on revaluation of available-for-sale securities	(19)	–	–	–	(19)
Cash flow hedges:					
Net fair value losses	–	(318)	–	–	(318)
Transferred to income and expense	–	(30)	–	–	(30)
Transferred to assets and liabilities	–	1	–	–	1
Tax on above items	1	96	–	111	208
31 December 2008	(15)	(219)	(24)	218	(40)

Foreign currency translation reserve

The foreign currency translation reserve comprises exchange translation differences on foreign currency net investments, offset by exchange translation differences on borrowings and derivatives classified as net investment hedges under the requirements of IAS 39. Exchange losses of £22 million (2008: £175 million gains) on net investments in overseas undertakings have been offset in reserves against exchange gains of £105 million (2008: £185 million losses) on foreign currency borrowings and other instruments used for hedging purposes.

Cash flow hedging reserve

The cash flow hedging reserve comprises fair value movements on instruments designated as cash flow hedges under the requirements of IAS 39.

Analysis of transfers from cash flow hedging reserve to Income Statement by line item	**2009 £m**	2008 £m
Gross (loss)/profit	**(235)**	30
Net interest expense	**1**	–
	(234)	30

The maturity analysis of amounts included in the cash flow hedging reserve, which includes fair value gains and losses in relation to commodity, interest rate and currency hedges, is as follows:

	2009 £m	2008 £m
Within one year	**(173)**	(147)
Between one and five years	**(75)**	(79)
After five years	**4**	7
	(244)	(219)

The maturity profile reflects the timing of expected transfers from the cash flow hedging reserve to the Income Statement as and when the hedged item affects the Income Statement which is, for the most part, on delivery of physical volumes for energy contracts and the accrual of interest for debt contracts.

Notes to the Financial Statements continued

17. Other equity

	Revaluation reserve £m	Treasury shares £m	Share-based payments reserve £m	Merger reserve £m	Capital redemption reserve £m	**Total £m**
1 January 2009	10	(10)	66	467	16	**549**
Employee share schemes:						
Increase in treasury shares	–	(7)	–	–	–	**(7)**
Exercise of awards	–	2	(30)	–	–	**(28)**
Value of services provided	–	–	38	–	–	**38**
Reclassification as subsidiary	144	–	–	–	–	**144**
Disposal of subsidiaries	(126)	–	–	–	–	**(126)**
Taxation on above items	–	–	12	–	–	**12**
Exchange adjustments	(2)	–	1	–	–	**(1)**
31 December 2009	**26**	**(15)**	**87**	**467**	**16**	**581**

	Revaluation reserve £m	Treasury shares £m	Share-based payments reserve £m	Merger reserve £m	Capital redemption reserve £m	Total £m
1 January 2008	10	(2)	51	467	16	542
Employee share schemes:						
Increase in treasury shares	–	(9)	–	–	–	(9)
Exercise of awards	–	1	(25)	–	–	(24)
Value of services provided	–	–	40	–	–	40
Rights Issue	–	–	–	2,078	–	2,078
Transfer	–	–	–	(2,078)	–	(2,078)
31 December 2008	10	(10)	66	467	16	549

Merger reserve
On 17 February 1997 BG plc (formerly British Gas plc) demerged certain businesses (grouped together under GB Gas Holdings Limited (GBGH)) to form Centrica plc. Prior to demerger, the companies comprising the Centrica businesses were transferred to GBGH, a subsidiary undertaking of BG plc. Upon demerger, the share capital of GBGH was transferred to Centrica plc and was recorded at the nominal value of shares issued to BG plc shareholders. In accordance with sections 131 and 133 of the Companies Act 1985, no premium was recorded on the shares issued. On consolidation, the difference between the nominal value of the Company's shares issued and the amount of share capital and share premium of GBGH at the date of demerger was credited to a merger reserve.

On 15 December 2008, a Rights Issue was completed and 1,392,789,173 new ordinary shares with an aggregate nominal value of approximately £86 million were issued for cash consideration of £2,164 million, net of issue costs of £65 million. The Rights Issue was effected through a structure which resulted in a merger reserve arising under section 131 of the Companies Act 1985. Centrica plc issued shares in exchange for shares in Centrica CB Limited, which subsequently redeemed its no par value redeemable preference shares for cash. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds received over the nominal value of the share capital issued has been transferred from the merger reserve to retained earnings.

Capital redemption reserve
In accordance with section 170 (1) of the Companies Act 1985, the Company transferred to the capital redemption reserve an amount equal to the nominal value of shares repurchased and subsequently cancelled.

Revaluation reserve
During 2005, the revaluation of the Group's existing interest in Centrica SHB Limited to fair value, following the acquisition by the Group of the remaining 40% stake in the company, was recorded as a revaluation reserve adjustment. During 2009, the revaluation of the Group's existing interest in Segebel S.A. and producing gas and oil assets located in Alberta, Canada, following the acquisition by the Group of additional interests (note 20), was recorded as a revaluation reserve adjustment. The subsequent disposal of Segebel S.A. (note 21) resulted in a transfer of the revaluation gain relating to this investment to retained earnings.

Treasury shares reserve
Treasury shares reserve reflects the cost of shares in the Company held in share-based payment plans to meet future obligations to deliver shares to employees on vesting.

Share-based payments reserve
The share-based payments reserve reflects the obligation to deliver shares to employees under the Group's share schemes in return for services provided.

Notes to the Financial Statements continued

18. Notes to the Group Cash Flow Statement

(a) Reconciliation of Group operating profit to net cash flow from operating activities	2009 £m	2008 (restated) (i) £m
Continuing operations		
Group operating profit including share of result of joint ventures and associates	**1,175**	661
Less share of profits of joint ventures and associates	**(1)**	(9)
Group operating profit before share of profits of joint ventures and associates	**1,174**	652
Add back/(deduct):		
Amortisation and write-down of intangible assets	**209**	117
Depreciation and write-down of property, plant and equipment	**708**	513
Employee share scheme costs	**38**	35
Profit on sale of businesses	**(54)**	–
Movement in provisions	**301**	(7)
Pension service cost	**74**	109
Pension contributions	**(403)**	(240)
Re-measurement of energy contracts (ii)	**135**	1,302
Unrealised foreign exchange losses/(gains) on operating cash and cash equivalents	**1**	(3)
Operating cash flows before movements in working capital	**2,183**	2,478
Decrease/(increase) in inventories	**35**	(143)
Decrease/(increase) in trade and other receivables (iii)	**781**	(1,312)
Increase in trade and other payables (iii)	**83**	372
Cash generated from continuing operations	**3,082**	1,395
Income taxes paid	**(329)**	(374)
Net petroleum revenue tax paid	**(174)**	(533)
Interest received	**13**	23
Interest paid	**(3)**	(47)
Payments relating to exceptional charges	**(203)**	(74)
Net cash flow from continuing operating activities	**2,386**	390
Discontinued operations		
Operating loss including share of result of joint ventures and associates	**(46)**	(203)
Less share of loss/(profit) of joint ventures and associates	**2**	(3)
Operating loss before share of joint ventures and associates	**(44)**	(206)
Add back/(deduct):		
Amortisation and write-down of intangible assets	**41**	57
Depreciation and write-down of property, plant and equipment	**25**	2
Movement in provisions	**25**	(3)
Re-measurement of energy contracts	**49**	67
Operating cash flows before movements in working capital	**96**	(83)
Decrease in inventories	**7**	–
Decrease/(increase) in receivables	**337**	(63)
(Decrease)/increase in payables	**(168)**	53
Income taxes paid	**(10)**	–
Interest paid	**(1)**	–
Net cash flow from discontinued operating activities	**261**	(93)
Net cash flow from operating activities	**2,647**	297

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 21 and to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3.
(ii) Adds back unrealised losses arising from re-measurement of energy contracts, including those related to proprietary trading activities.
(iii) Includes net outflow of £79 million of cash collateral in 2009 (2008: net outflow of £556 million).

Notes to the Financial Statements continued

18. Notes to the Group Cash Flow Statement continued

(b) Net debt	2009 £m	2008 £m
Current borrowings (note 14)	**(86)**	(330)
Non-current borrowings (note 14)	**(4,594)**	(3,218)
Less:		
Cash and cash equivalents	**1,294**	2,939
Securities – current	**74**	63
Securities – non-current	**176**	35
	(3,136)	(511)

(c) Reconciliation of net increase in cash and cash equivalents to movement in net debt	2009 £m	2008 £m
Net (decrease)/increase in cash and cash equivalents	**(1,569)**	1,778
Cash and cash equivalents of disposal groups classified as held for sale	**(19)**	–
	(1,588)	1,778
Add back/(deduct):		
Net purchase of securities	**128**	22
Cash inflow from additional debt	**(1,887)**	(1,513)
Cash outflow from payment of capital element of finance leases	**22**	20
Cash outflow from repayment of other debt	**872**	175
	(2,453)	482
Revaluation of:		
Securities	**14**	(19)
Loans and other borrowings	**15**	(82)
	(2,424)	381
Increase in interest payable on loans and other borrowings	**(25)**	(9)
Acquisitions	**(477)**	(19)
Disposals	**298**	–
Exchange adjustments	**4**	(72)
Other non-cash movements	**(1)**	3
Movement in net debt	**(2,625)**	284
Net debt at 1 January	**(511)**	(795)
Net debt at end of period	**(3,136)**	(511)

Notes to the Financial Statements continued

19. Pensions

Pension schemes

The majority of the Group's UK employees at 31 December 2009 were members of one of the three main schemes: the Centrica Pension Scheme, the Centrica Engineers Pension Scheme and the Centrica Pension Plan (formerly known as the Centrica Management Pension Scheme) (together the 'registered pension schemes'). The Centrica Pension Scheme (final salary section) and the Centrica Pension Plan (a final salary scheme) were closed to new members from 1 April 2003 and 1 July 2003 respectively. The Centrica Pension Scheme also has a career average salary section which was closed to new members with effect from 1 July 2008 and replaced by a defined contribution section which is open to new members. The Centrica Engineers Pension Scheme (final salary section) was closed to new members from 1 April 2006, and a career average salary section was added to the scheme at that date. These schemes are defined benefit schemes and are tax-approved funded arrangements. They are subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employer contributions which, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes.

On 1 January 2009, the majority of the active members of the Centrica Pension Scheme were transferred to the Centrica Pension Plan, and the liabilities and assets were accordingly transferred with effect from this date. There was no tax effect arising on the transfer.

The Centrica Unapproved Pension Scheme is an unfunded arrangement which provides benefits to certain employees whose benefits under the main schemes would otherwise be limited by the earnings cap. The Group also has a commitment to provide certain pension and post-retirement benefits to employees of Direct Energy Marketing Limited (Canada) under a defined benefit scheme.

The latest full actuarial valuations were carried out at the following dates: the registered pension schemes at 31 March 2006, the Unapproved Pension Scheme at 6 April 2008 and the Direct Energy Marketing Limited pension plan at 14 June 2008. These have been updated to 31 December 2009 for the purposes of meeting the requirements of IAS 19. At the balance sheet date, the actuarial valuation exercises of the registered pension schemes at 31 March 2009 were in progress, and were completed in February 2010. The data used for the triennial actuarial valuation at 31 March 2009 has been incorporated in the IAS 19 defined benefit obligation of the registered schemes at 31 December 2009. Investments have been valued, for this purpose, at market value.

Governance

The UK-registered pension schemes are managed by trustee companies whose boards consist of both company nominated and member nominated directors. Each scheme holds units in the Centrica Combined Common Investment Fund (CCCIF), which holds the combined assets of the participating schemes. The method of allocation of units is set out in the Trust Deed of the CCCIF. The trustee of the CCCIF is a company, Centrica Combined Common Investment Fund Limited (CCCIF Limited) which was incorporated on 23 September 2002. The trustee of the CCCIF may be appointed or removed by the participant schemes. The board of CCCIF Limited is comprised of seven directors; one independent director, three directors appointed by Centrica plc (including the chairman) and one director appointed by each of the three participating schemes. No direct investments are made in securities issued by Centrica plc or any of its subsidiaries, property leased to or owned by Centrica plc or any of its subsidiaries or securities of any fund manager or any of their associated companies.

Under the terms of the Pensions Act 2004, Centrica plc ("the Company") and each trustee board must agree the funding rate for its defined benefit pension scheme and a recovery plan to fund any deficit against the scheme-specific statutory funding objective. This approach was first adopted for the triennial valuations completed at 31 March 2006 and was again reflected in the 31 March 2009 valuations.

In addition, the Group has a commitment to provide contributions to defined contribution schemes for certain employees in the UK and North America who are not members of one of the Group's defined benefit pension schemes.

Major assumptions used for the actuarial valuation	**31 December 2009 %**	31 December 2008 %
Rate of increase in employee earnings	**4.8**	4.3
Rate of increase in pensions in payment and deferred pensions	**3.8**	3.3
Discount rate	**6.0**	6.7
Inflation assumption	**3.8**	3.3

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date have been based on a combination of standard actuarial mortality tables, scheme experience and other relevant data, and include a medium cohort allowance for future improvements in longevity, as published by the Institute of Actuaries. The assumptions are equivalent to future longevity for members in normal health approximately as follows:

		2009		2008
Life expectancy at age 65 for a member	**Male Years**	**Female Years**	Male Years	Female Years
Currently aged 65	**22.5**	**23.9**	20.4	21.8
Currently aged 45	**24.3**	**25.2**	21.6	22.9

Notes to the Financial Statements continued

19. Pensions continued

At 31 March 2009, the date of the most recent actuarial review, the schemes had approximately 34,900 members and beneficiaries.

The other demographic assumptions have been set having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the pension schemes.

	2009		2008	
Impact of changing material assumptions	**Increase/ decrease in assumption**	**Indicative effect on scheme liabilities %**	Increase/ decrease in assumption	Indicative effect on scheme liabilities %
Rate of increase in employee earnings	**0.25%**	**+/-1**	0.25%	+/-2
Rate of increase in pensions in payment and deferred pensions	**0.25%**	**+/-5**	0.25%	+/-4
Discount rate	**0.25%**	**-/+6**	0.25%	-/+6
Inflation assumption	**0.25%**	**+/-6**	0.25%	+/-6
Longevity assumption	**1 year**	**+/-2**	1 year	+/-2

The expected rate of return and market value of the assets and the present value of the liabilities in the schemes at 31 December were:

	2009		2008	
	Expected rate of return per annum %	**Valuation £m**	Expected rate of return per annum %	Valuation £m
UK equities	**8.3**	**1,101**	8.5	884
Non-UK equities	**8.3**	**1,106**	8.5	996
High-yield debt	**6.6**	**127**	–	–
Fixed-interest bonds	**6.0**	**524**	6.3	404
Index-linked gilts	**4.5**	**364**	4.3	258
Property	**8.0**	**55**	7.2	55
Cash pending investment	**6.1**	**256**	6.7	45
Total fair value of plan assets	**7.4**	**3,533**	7.7	2,642
Present value of defined benefit obligation		**(4,098)**		(2,755)
Net liability recognised in the Balance Sheet		**(565)**		(113)
Associated deferred tax asset recognised in the Balance Sheet		**158**		30
Net pension liability		**(407)**		(83)
Net liability recognised in the Balance Sheet comprises:				
Surpluses		**–**		73
Deficits		**(565)**		(186)
		(565)		(113)

The overall expected rate of return on assets is a weighted average based on the actual plan assets held in each class and the expected returns on separate asset classes less costs of administering the plan and taxes paid by the plan itself. The returns on separate asset classes were derived as follows: the expected rate of return on equities, high-yield debt and property are based on the expected median return over a 10-year period, as calculated by the independent company actuary. The median return over a longer period than 10 years was not expected to be materially dissimilar. The expected rate of return on fixed-interest bonds and index-linked gilts reflects yields directly observable on bond market indices. The expected rate of return on cash pending investment reflects the average rate of return on the actual asset classes that the cash was invested in shortly after the year end.

Included within the schemes' liabilities above are £31 million (2008: £24 million) relating to unfunded pension arrangements. Included within non-current securities are £48 million (2008: £26 million) of investments, held by the Law Debenture Trust on behalf of the Company, as security in respect of the Centrica Unapproved Pension Scheme.

Based on the triennial valuation at 31 March 2009, the Company and the trustees of the registered pension schemes have agreed that, in addition to payments made in 2009, deficit payments will be made totalling £207 million in 2010, £106 million in 2011 and £57 million per annum from 2012 to 2016. In addition, a charge over the Humber power station has been provided as additional security for the trustees.

Notes to the Financial Statements continued

19. Pensions continued

Analysis of the amount charged to operating profit	2009 £m	2008 £m
Current service cost – continuing operations (i)	**68**	106
Current service cost – discontinued operations	**2**	–
Past service credit	**–**	(3)
Loss on curtailment	**6**	6
Net charge to operating profit	**76**	109

(i) In addition to current service cost on the Group's defined benefit pension schemes, the Group also charged £3 million (2008: £2 million) to operating profit in respect of defined contribution pension schemes.

Analysis of the amount credited to notional interest	2009 £m	2008 £m
Expected return on pension scheme assets	**209**	249
Interest on pension scheme liabilities	**(185)**	(190)
Net credit to notional interest income	**24**	59

Analysis of the actuarial (loss)/gain recognised in the Statement of Comprehensive Income	2009 £m	2008 £m
Actual return less expected return on pension scheme assets	**344**	(1,121)
Experience losses arising on the scheme liabilities	**(104)**	–
Changes in assumptions underlying the present value of the schemes' liabilities	**(1,044)**	722
Actuarial loss to be recognised in accumulated other comprehensive loss, before adjustment for taxation	**(804)**	(399)
Cumulative actuarial gains recognised in reserves at 1 January, before adjustment for taxation	**324**	723
Cumulative actuarial (losses)/gains recognised in reserves at 31 December, before adjustment for taxation	**(480)**	324

20. Business combinations

During the year, the Group acquired 100% of the issued share capital of Venture Production plc (Venture) and 50% of the issued share capital of Segebel S.A. (Segebel). Other smaller acquisitions are described in section (c).

The purchase method of accounting was adopted in all cases. The assets and liabilities acquired and their fair values are shown below. The residual excess of cash consideration over the net assets acquired on each acquisition is recognised as goodwill in the Financial Statements. Unless otherwise stated, the fair values disclosed are provisional because the Directors have not yet reached a final determination on all aspects of the fair value exercise.

(a) Venture

During the period, the Group acquired 100% of the issued share capital of Venture for total consideration of £1,253 million in a series of transactions occurring between 18 March 2009 and 9 November 2009. The Group obtained a controlling interest in Venture on 27 August 2009, at which point 66.39% (i) of the issued share capital had been acquired. Venture was therefore consolidated as a subsidiary of the Group from this date. The acquired business contributed a loss after taxation of £26 million for the period from 27 August 2009 to 31 December 2009.

For business combinations achieved in stages, IFRS 3 requires that in determining the amount of goodwill arising, each exchange transaction be treated separately, using the cost of the transaction and fair value information at the date of each of the individual share purchase transactions.

Based on the fair value exercise undertaken, it has been determined that the fair values of the assets and liabilities of Venture did not materially change between the dates of the various share purchase transactions. As such, goodwill arising on the acquisition has been calculated by reference to the fair values of the assets and liabilities of Venture at the date control was obtained by the Group (27 August 2009).

(i) A minority interest of £201 million was created at the acquisition date, which was fully purchased by 9 November 2009. The minority interest's share of profit after taxation between these dates was £nil.

Notes to the Financial Statements continued

20. Business combinations continued

The book values of the assets and liabilities have been adjusted to align with the fair values of the assets and liabilities acquired. Adjustments have been made principally in respect of the following items:

Item	Nature of adjustment
Intangible assets	Recognition of exploration and evaluation assets at fair value.
Property, plant and equipment	Recognition of producing oil and gas field assets at fair value.
Interests in joint ventures and associates	Write-down of certain investments deemed to be irrecoverable.
Trade and other payables: current	Recognition at fair value of the current portion of operating lease contracts priced above market rates, as well as the recognition at fair value of certain liabilities in respect of share-based payment awards due to be settled in cash.
Trade and other payables: non-current	The recognition at fair value of the non-current portion of operating lease contracts priced above market rates.
Bank loans and other borrowings: non-current	Recognition of certain debt and borrowings at fair value.
Deferred tax liabilities	Recognition of deferred tax liabilities in respect of fair value adjustments.

Goodwill of £654 million has arisen principally in relation to the recognition of deferred tax on the fair value adjustments. Other factors that have resulted in goodwill include expected cost savings and synergies, forecast improvements in the management of the Group's existing upstream gas assets and an expectation of enhanced future developments of new oil and gas fields.

	IFRS carrying values pre-acquisition £m	Fair value £m
Intangible assets – exploration and evaluation assets	27	100
Intangible assets – other	–	1
Property, plant and equipment – producing gas and oil field assets	1,097	1,748
Property, plant and equipment – other	3	3
Interests in joint ventures and associates	39	13
Trade and other receivables: non-current	7	–
Net derivative financial instruments: non-current	12	12
Available-for-sale financial assets	8	8
Inventories	5	8
Trade and other receivables: current	86	86
Net derivative financial instruments: current	37	37
Cash and cash equivalents	138	138
Trade and other payables: current	(125)	(188)
Provisions for other liabilities and charges: current	–	(2)
Trade and other payables: non-current	(10)	(19)
Bank loans and other borrowings: non-current	(427)	(484)
Deferred tax liabilities	(339)	(648)
Provisions for other liabilities and charges: non-current	(214)	(214)
Net assets acquired	344	599
Goodwill		654
Total consideration		**1,253**
Consideration comprises:		
Cash consideration		1,223
Transaction costs		30

Notes to the Financial Statements continued

20. Business combinations continued

(b) Segebel

On 20 January 2009, the Group acquired 50% of the issued share capital of Segebel for total consideration of €591 million (£544 million), including deferred consideration of €70 million (£62 million) and transaction costs of €6 million (£6 million), bringing the Group's total ownership interest in Segebel to 100%. As explained in note 21, the Group disposed of its total interest in Segebel on 26 November 2009 for cash consideration of €1,325 million (£1,205 million), recognising a gain on disposal of £297 million. The additional interest in Segebel acquired on 20 January 2009 resulted in the Group acquiring a controlling interest in Segebel, and it was therefore consolidated as a subsidiary from the date of acquisition to the date of disposal.

Segebel holds a controlling stake of 51% in SPE S.A. (SPE), a Belgian energy company. As such, the acquisition also resulted in the Group obtaining a controlling interest in SPE. The acquired business contributed a profit after taxation of £18 million for the period from 20 January 2009 to 26 November 2009, as included within discontinued operations in the Group Income Statement.

The fair values of the consolidated assets and liabilities of Segebel, including 100% of the assets and liabilities of SPE, as at the acquisition date are disclosed below. In order to calculate goodwill arising from the acquisition, the minority interests in SPE (49%) are eliminated from the consolidated net assets in order to present the net assets attributable to Segebel, of which the Group acquired 50%.

The book values of the assets and liabilities have been adjusted to align with the fair values of the assets and liabilities acquired. Adjustments have been made in respect of other intangible assets, primarily to recognise a nuclear power purchase agreement and contractual customer relationships at fair value, to property, plant and equipment in order to recognise power generation assets at their fair value, to trade and other receivables in order to recognise in-the-money 'own use' energy procurement contracts at fair value, to trade and other payables in order to recognise out-of-the-money 'own use' energy procurement contracts at fair value and to deferred tax in order to recognise amounts arising on the fair value adjustments made.

During the period, the Directors reached a final determination on all aspects of the fair value exercise. A number of revisions to the fair values disclosed in the 2008 Annual Report and Accounts were made. The key factors that led to these fair value revisions are described below. In addition to the revisions described below, other smaller revisions reduced the fair value of net assets of SPE by £5 million. The revisions resulted in an overall reduction in the fair value of net assets of SPE at the date of acquisition of £22 million.

	Key factors	Increase/(decrease) in fair value of net assets of SPE at acquisition date £m
Other intangible assets	Updated assumptions and estimates within the intangible assets valuation models for customer relationships and a power purchase agreement.	(77)
Property, plant and equipment	Updated assumptions and expectations in respect of key inputs used in the valuation models for power generation assets.	(13)
Trade and other receivables	Updated assumptions and expectations in respect of key inputs used in the valuation models for in-the-money 'own use' energy procurement contracts.	8
Trade and other payables	Updated assumptions and expectations in respect of key inputs used in the valuation models for out-of-the-money 'own use' energy procurement contracts.	96
Derivative financial instruments	Updated assumptions and expectations in respect of key inputs used in the valuation models for acquired energy procurement contracts.	(45)
Net deferred tax liabilities	Changes in the fair value adjustments, resulting in a change in deferred tax liabilities arising as part of the business combination.	14

Notes to the Financial Statements continued

20. Business combinations continued

Goodwill of £226 million arises principally in relation to incremental benefits expected to arise from the Pax Electrica II arrangements, as well as the recognition of deferred tax on the fair value adjustments.

	IFRS carrying values pre-acquisition £m	Fair value £m
Other intangible assets – power purchase agreement	71	269
Other intangible assets – customer contracts and customer relationships	108	200
Other intangible assets – other	22	30
Property, plant and equipment – power generation assets	296	903
Property, plant and equipment – other	46	24
Trade and other receivables: non-current	43	195
Inventories	25	29
Trade and other receivables: current	435	520
Cash and cash equivalents	134	134
Trade and other payables: current	(365)	(403)
Bank overdrafts, loans and other borrowings: current	(14)	(16)
Net derivative financial instruments: current	(65)	(75)
Trade and other payables: non-current	–	(44)
Bank loans and other borrowings: non-current	(88)	(88)
Net derivative financial instruments: non-current	(35)	(35)
Deferred tax assets/(liabilities)	22	(315)
Retirement benefit obligations	(17)	(17)
Provisions for other liabilities and charges: non-current	(78)	(84)
Net assets (100%)	540	1,227
Minority interests in SPE		(601)
Net assets attributable to Segebel shareholders (51%)		626
Net assets of SPE acquired		313
Other net assets of Segebel acquired (cash and cash equivalents)		5
Total net assets acquired (50%)		318
Goodwill		226
Total consideration		**544**
Consideration comprises:		
Transaction costs		**6**
Deferred consideration (paid during the period)		**62**
Cash consideration		**476**

(c) Other acquisitions

On 1 June 2009, the Group acquired additional interests in a number of producing oil and gas assets located in Alberta, Canada for cash consideration of C$44 million (£25 million). The provisional fair value of net assets acquired comprised £26 million for property, plant and equipment relating to the producing oil and gas assets, and £1 million in respect of the related decommissioning liability. The Group does not have access to the vendor's books and records which would include the assets and liabilities of the acquired interest at their pre-acquisition net book values and, hence, it is impracticable to disclose the carrying amounts on this basis. No goodwill was recorded on this acquisition.

The Group also acquired Econergy Ltd on 31 March 2009 (consideration £1 million, goodwill £1 million), Energy and Building Management Solutions Ltd on 29 May 2009 (consideration £3 million, goodwill £3 million) and Newnova Group Ltd on 28 July 2009 (consideration £3 million including contingent consideration of £1 million, goodwill £3 million).

The acquired businesses contributed a profit after taxation of £1 million to the Group from their respective dates of acquisition up to 31 December 2009.

(d) Pro forma results

The pro forma consolidated results of the Group, as if the 2009 acquisitions had been made at the beginning of the period, include revenue from continuing operations of £22,308 million (compared to reported Group revenue of £21,963 million), excluding revenue in respect of Segebel which was sold during the period (see note 21), and profit after taxation of £860 million (compared to reported profit of £856 million). In preparing the pro forma results, revenue and costs have been included as if the businesses were acquired on 1 January 2009 and inter-company transactions had been eliminated. This information is not necessarily indicative of the results of the combined Group that would have occurred had the purchases actually been made at the beginning of the period presented, or indicative of the future results of the combined Group.

Notes to the Financial Statements continued

21. Disposals, discontinued operations and disposal groups held for sale

On 11 May 2009, the Group announced that it had reached a definitive agreement with EDF to dispose of its 100% interest in Segebel S.A. (Segebel) for €1,325 million (£1,205 million). The disposal is linked to the acquisition of the 20% interest in Lake Acquisitions, owner of British Energy (see note 13). The Group acquired its controlling interest in Segebel on 20 January 2009, as described in note 20, and the disposal was completed on 26 November 2009 (see note 21(c)).

In June 2009, in addition to the disposal of Segebel, management approved and initiated a plan to sell Oxxio B.V. (Oxxio) in the Netherlands and Centrica Energía S.L. (Centrica Energía) in Spain. It is anticipated that the sale of Oxxio and Centrica Energía will complete by 30 June 2010.

On 11 December 2009, 50% of the issued share capital of GLID Wind Farms TopCo Limited (GLID), formerly known as Centrica Renewable Holdings Limited, was sold to the Trust Company of the West for £84 million. Centrica has retained 50% of the issued share capital of GLID, which owns 100% of the issued share capital of both Glens of Foudland Limited and Lynn and Inner Dowsing Limited (the owners and operators of the Glens of Foudland and Lynn and Inner Dowsing wind farms respectively). Centrica's investment in GLID is now being treated as a joint venture due to the joint control that arises from this transaction.

Centrica signed an agreement on 23 December 2009, with Dong Wind (UK) Limited and Siemens Project Ventures GmbH, to sell 50% of the issued share capital of Centrica (Lincs) Limited (Lincs), the owner of the proposed Lincs wind farm. The transaction was subject to conditions precedent, and hence the assets and liabilities associated with Lincs have been classified as assets held for sale from this date. Post year end, the conditions precedent were fulfilled, and the transaction completed on 5 February 2010, as explained in note 24.

(a) Discontinued operations

As Segebel, Oxxio and Centrica Energía comprise the substantial majority of the European Energy segment, and the Group's complete downstream operations in those geographical areas, this segment was classified as a discontinued operation from 30 June 2009 (Segebel was classified as a discontinued operation from 11 May 2009). The remainder of the European Energy segment, being the Group's operations in Germany, remain as part of the Group and are reported within the Industrial and commercial segment. A single amount is shown on the face of the Group Income Statement, comprising the after-tax result of the discontinued operations, and the prior period Income Statement has been restated. An analysis of the results of the European Energy segment presented as discontinued operations in the Group Income Statement is as follows:

			2009			2008
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
Revenue	2,357	–	2,357	471	–	471
Cost of sales before exceptional items and certain re-measurements	(2,008)	–	(2,008)	(475)	–	(475)
Re-measurement of energy contracts	–	(123)	(123)	–	(80)	(80)
Cost of sales	(2,008)	(123)	(2,131)	(475)	(80)	(555)
Gross profit	349	(123)	226	(4)	(80)	(84)
Operating costs before exceptional items	(246)	–	(246)	(55)	–	(55)
Exceptional items	–	(24)	(24)	–	(67)	(67)
Operating costs	(246)	(24)	(270)	(55)	(67)	(122)
Share of profits/(losses) in joint ventures and associates, net of interest and taxation	2	(4)	(2)	7	(4)	3
Operating profit/(loss)	105	(151)	(46)	(52)	(151)	(203)
Net interest expense	(12)	–	(12)	–	–	–
Profit/(loss) from operations before taxation	93	(151)	(58)	(52)	(151)	(203)
Taxation on profit from operations	(53)	20	(33)	–	21	21
Profit/(loss) after taxation from operations	40	(131)	(91)	(52)	(130)	(182)
Gain on disposal of Segebel (after taxation)	–	297	297	–	–	–
Profit/(loss) after taxation from discontinued operations	40	166	206	(52)	(130)	(182)
Attributable to:						
Equity holders of the parent	(8)	204	196	(52)	(130)	(182)
Minority interests	48	(38)	10	–	–	–
	40	166	206	(52)	(130)	(182)

Notes to the Financial Statements continued

21. Disposals, discontinued operations and disposal groups held for sale continued

(b) Disposal groups classified as held for sale

Assets, and associated liabilities, that are expected to be recovered principally through a sale transaction rather than continuing use are classified as held for sale on the face of the Balance Sheet, and presented separately from the assets and liabilities of the Group's continuing operations. No prior period Balance Sheet restatement is required for disposal groups classified as held for sale.

At 31 December 2009, the sale of Oxxio in the Netherlands, Centrica Energía in Spain, and the partial disposal of Centrica (Lincs) Limited in Upstream UK Power Generation had not completed and hence have been presented as held for sale on the face of the Balance Sheet as follows:

	Oxxio and Centrica Energía £m	Other (i) £m	**2009 £m**
Goodwill	64	–	**64**
Other intangible assets	14	–	**14**
Property, plant and equipment	35	70	**105**
Deferred tax assets	3	–	**3**
Derivative financial instruments: non-current	7	–	**7**
Inventories	–	1	**1**
Trade and other receivables: current	240	1	**241**
Derivative financial instruments: current	24	–	**24**
Cash and cash equivalents	19	–	**19**
Assets of disposal groups classified as held for sale	**406**	**72**	**478**
Trade and other payables: current	(264)	(1)	**(265)**
Derivative financial instruments: current	(64)	(3)	**(67)**
Derivative financial instruments: non-current	(18)	–	**(18)**
Liabilities of disposal groups classified as held for sale	**(346)**	**(4)**	**(350)**
Net assets of disposal groups classified as held for sale	**60**	**68**	**128**
Total shareholders' equity (ii)	**60**	**68**	**128**

(i) Other is comprised predominantly of the assets and liabilities associated with Centrica (Lincs) Limited, the ultimate owner of a prospective wind farm off the Lincolnshire coast and power generation assets in Direct Energy.
(ii) The cumulative expense recognised directly in equity includes £10 million in the foreign currency translation reserve, relating to Centrica Energía and Oxxio.

(c) Disposals

The disposal of the Group's 100% interest in Segebel on 26 November 2009 resulted in a profit on disposal, net of taxation, of £297 million. As described in note 20, Segebel holds a controlling stake (51%) in SPE S.A.

The disposal of 50% of the Group's interest in GLID Wind Farms TopCo Limited on 11 December 2009 resulted in a profit on disposal, net of taxation, of £49 million. The profit on disposal arising from Segebel S.A. and GLID Wind Farms TopCo Limited is as follows:

	GLID Wind Farms TopCo Limited £m	Segebel S.A. £m
Non-current assets (i)	338	2,118
Current assets (ii)	59	526
Current liabilities	(59)	(254)
Non-current liabilities	(367)	(905)
Net (liabilities)/assets	(29)	1,485
Minority interests	–	(590)
Net (liabilities)/assets attributable to Centrica disposed	(14)	895
Other net assets disposed (loans)	42	–
Total net assets disposed	**28**	**895**
Cash consideration	84	1,205
Net assets disposed	(28)	(895)
Disposal costs	(7)	(25)
Profit on disposal before taxation	49	285
Taxation on net investment hedges recycled to profit and loss	–	12
Profit on disposal after taxation	**49**	**297**

(i) Non-current assets of Segebel S.A. disposed of include £261 million of goodwill
(ii) Includes cash and cash equivalents of £327 million in Segebel S.A. and £30 million in GLID Wind Farms TopCo Limited.

Notes to the Financial Statements continued

22. Commitments and contingencies

(a) Commitments

Commitments in relation to the acquisition of property, plant and equipment	2009 £m	2008 £m
Construction of a power station at Langage	**43**	64
Construction of Lincs wind farm (i)	**385**	4
Redevelopment of Statfjord gas field	**80**	62
Other gas field developments	**36**	60
Other	**19**	80
	563	270

(i) The Lincs wind farm has been classified as held for sale at the balance sheet date, and was disposed of on 5 February 2010, as described in note 24.

Commitments in relation to the acquisition of intangible assets	2009 £m	2008 £m
Renewable obligation certificates	**1,446**	1,058
Carbon emissions certificates	**326**	399
Certified emission reduction certificates	**110**	139
Exploration activity	**205**	25
Other	**40**	58
	2,127	1,679

Commitments in relation to other contracts	2009 £m	2008 £m
Liquefied natural gas capacity	**675**	783
Transportation capacity	**689**	829
Outsourcing of services	**325**	216
Other	**444**	355
	2,133	2,183

Commitments in relation to commodity purchase contracts	2009 £m	2008 (restated) (i) £m
Within one year (ii)	**11,254**	16,122
Between one and five years (iii)	**22,295**	24,023
After five years	**14,524**	11,210
	48,073	51,355

(i) Restated to include an additional £920 million and £756 million of commodity commitments 'within one year' and 'between one and five years' respectively.
(ii) Includes £144 million (2008: £249 million) in relation to discontinued operations, as described in note 21.
(iii) Includes £112 million (2008: £202 million) in relation to discontinued operations, as described in note 21.

Commitments by associates and joint ventures	2009 £m	2008 £m
Share of associates' commitments	**302**	–
Share of joint ventures' commitments	**2**	–
	304	–

(b) Contingent liabilities

There are no material contingent liabilities.

Notes to the Financial Statements continued

23. Related party transactions

During the year, the Group entered into the following transactions with related parties who are not members of the Group:

	2009 Sale of goods and services £m	2009 Purchase of goods and services £m	2009 Other transactions £m	2008 Sale of goods and services £m	2008 Purchase of goods and services £m	2008 Other transactions £m
Joint ventures:						
Barrow Offshore Wind Limited	–	22	1	–	12	1
Braes of Doune Wind Farm (Scotland) Limited	–	17	–	–	13	–
GLID Wind Farms TopCo Limited	–	9	–	–	–	–
Associates:						
Lake Acquisitions Limited	–	1	–	–	–	–
North Sea Infrastructure Partners Limited	–	34	–	–	–	–
The Consumers' Waterheater Income Fund (i)	–	–	–	78	–	2
	–	83	1	78	25	3

(i) The Consumers' Waterheater Income Fund is no longer considered to be a related party. Transactions with this entity are on an arm's length basis.

Balances outstanding with related parties at 31 December were as follows:

	2009 Amounts owed from related parties £m	2009 Amounts owed to related parties £m	2009 Provision for bad or doubtful debt relating to amounts owed from related parties £m	2008 Amounts owed from related parties £m	2008 Amounts owed to related parties £m	2008 Provision for bad or doubtful debt relating to amounts owed from related parties £m
Joint ventures:						
Barrow Offshore Wind Limited	11	5	–	16	4	–
Braes of Doune Wind Farm (Scotland) Limited	21	3	–	32	8	–
GLID Wind Farms TopCo Limited	41	26	–	–	–	–
Bacton Storage Company Limited	2	–	–	–	–	–
Associates:						
North Sea Infrastructure Partners Limited	–	3	–	–	–	–
The Consumers' Waterheater Income Fund (i)	–	–	–	5	–	–
	75	37	–	53	12	–

(i) The Consumers' Waterheater Income Fund is no longer considered to be a related party. Transactions with this entity are on an arm's length basis.

24. Events after the balance sheet date

The Directors propose a final dividend of 9.14 pence per ordinary share (totalling £470 million) for the year ended 31 December 2009. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 10 May 2010 and, subject to approval, will be paid on 16 June 2010 to those shareholders registered on 30 April 2010.

On 5 February 2010, 50% of the issued share capital of Centrica (Lincs) Limited (Lincs) was sold to Dong Wind (UK) Limited and Siemens Project Ventures GmbH for £50 million. Centrica has retained 50% of the issued share capital of Lincs and Centrica's investment in Lincs is accounted for as a joint venture from this date due to the joint control that arises from this transaction.

On 12 February 2010, the Group redeemed £250 million of debt with a maturity date of 12 December 2011.

On 25 February 2010, the Group announced that it had agreed to acquire a portfolio of Trinidad and Tobago gas assets from Suncor Energy Inc. for approximately $380 million (£245 million) in cash, subject to certain conditions being satisfied.

Notes to the Financial Statements continued

25. Seasonality of operations

Certain activities of the Group are affected by weather and temperature conditions. As a result of this, amounts reported for the six months ended 31 December 2009 may not be indicative of the amounts that would be reported for a full year due to seasonal fluctuations in customer demand for gas, electricity and services, the impact of weather on demand and commodity prices, market changes in commodity prices and changes in retail tariffs.

Customer demand for gas in the UK and North America is driven primarily by heating load and is generally higher in the winter than in the summer, and higher from January to June than from July to December. Customer demand for electricity in the UK generally follows a similar pattern to gas, but is more stable. Customer demand for electricity in North America is also more stable than gas but is driven by heating load in the winter and cooling load in the summer. Generally demand for electricity in North America is higher in the winter and summer than it is in the spring and autumn, and higher from July to December than it is from January to June.

Customer demand for home services in the UK is generally higher in the winter than it is in the summer, and higher in the earlier part of the winter as heating systems break down, so that customer demand from July to December is higher than from January to June. Customer demand for home services in North America follows a similar pattern, but is also higher in the summer as a result of residential new construction in the US and the servicing of cooling systems.

Gas production volumes in the UK are generally higher in the winter when gas prices are higher. Gas production volumes are generally higher from January to June than they are from July to December as outages are generally planned for the summer months when gas demand and prices are lowest. Gas production volumes in North America are generally not seasonal.

Power generation volumes are dependent on spark spread prices, which is the difference between the price of electricity and the price of gas multiplied by a conversion rate and, as a result, are not as seasonal as gas production volumes in the UK, as wholesale prices for both gas and electricity are generally higher in the winter than they are in the summer. Power generation volumes in North America are generally higher in the summer than in the winter and can be higher or lower from January to June compared to July to December.

The impact of seasonality on customer demand and wholesale prices has a direct effect on the Group’s financial performance and cash flows.

Notes to the Financial Statements continued (unaudited)

26. Group Income Statement for the six months ended 31 December 2009

Year ended 31 December	Notes	2009 Business performance £m	2009 Exceptional items and certain re-measurements £m	2009 Results for the year £m	2008 (restated) (i), (ii) Business performance £m	2008 (restated) (i), (ii) Exceptional items and certain re-measurements £m	2008 (restated) (i), (ii) Results for the year £m
Continuing operations							
Group revenue	28	**10,306**	**–**	**10,306**	11,195	–	11,195
Cost of sales before exceptional items and certain re-measurements		**(8,251)**	**–**	**(8,251)**	(9,070)	–	(9,070)
Exceptional items	29	**–**	**(199)**	**(199)**	–	–	–
Re-measurement of energy contracts	29	**–**	**171**	**171**	–	(3,192)	(3,192)
Cost of sales		**(8,251)**	**(28)**	**(8,279)**	(9,070)	(3,192)	(12,262)
Gross profit/(loss)		**2,055**	**(28)**	**2,027**	2,125	(3,192)	(1,067)
Operating costs before exceptional items		**(1,184)**	**–**	**(1,184)**	(1,129)	–	(1,129)
Exceptional items	29	**–**	**(175)**	**(175)**	–	–	–
Operating costs		**(1,184)**	**(175)**	**(1,359)**	(1,129)	–	(1,129)
Share of profits in joint ventures and associates, net of interest and taxation		**7**	**(9)**	**(2)**	7	–	7
Group operating profit/(loss)	28	**878**	**(212)**	**666**	1,003	(3,192)	(2,189)
Interest income		**(2)**	**–**	**(2)**	514	–	514
Interest expense		**(116)**	**–**	**(116)**	(520)	–	(520)
Net interest expense		**(118)**	**–**	**(118)**	(6)	–	(6)
Profit/(loss) from continuing operations before taxation		**760**	**(212)**	**548**	997	(3,192)	(2,195)
Taxation on profit from continuing operations		**(194)**	**63**	**(131)**	(448)	971	523
Profit/(loss) from continuing operations after taxation		**566**	**(149)**	**417**	549	(2,221)	(1,672)
Profit/(loss) from discontinued operations		**18**	**(94)**	**(76)**	(56)	(213)	(269)
Gain on disposal of discontinued operations		**–**	**297**	**297**	–	–	–
Discontinued operations		**18**	**203**	**221**	(56)	(213)	(269)
Profit/(loss) for the year		**584**	**54**	**638**	493	(2,434)	(1,941)
Attributable to:							
Equity holders of the parent		**557**	**85**	**642**	493	(2,434)	(1,941)
Minority interests		**27**	**(31)**	**(4)**	–	–	–
		584	**54**	**638**	493	(2,434)	(1,941)

	Notes	2009 Pence	2008 Pence
Earnings/(loss) per ordinary share (i), (ii)			
From continuing and discontinued operations:			
Basic	30	**12.5**	(46.9)
Diluted	30	**12.5**	(46.3)
From continuing operations:			
Basic	30	**8.2**	(40.4)
Diluted	30	**8.1**	(39.8)
Interim dividend paid per ordinary share		**3.66**	3.47
Final dividend proposed per ordinary share		**9.14**	8.73

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) and to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3.
(ii) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation.

Notes to the Financial Statements continued (unaudited)

27. Group Cash Flow Statement for the six months ended 31 December

	Notes	2009 £m	2008 (restated) (i) £m
Cash generated from continuing operations		**1,870**	(516)
Income taxes paid		**(130)**	(244)
Net petroleum revenue tax paid		**(9)**	(386)
Interest received		**3**	13
Interest paid		**–**	(40)
Payments relating to exceptional charges		**(55)**	(8)
Net cash flow from continuing operating activities	31	**1,679**	(1,181)
Net cash flow from discontinued operating activities	31	**263**	(9)
Net cash flow from operating activities		**1,942**	(1,190)
Purchase of Venture Production plc net of cash and cash equivalents acquired		**(857)**	–
Purchase of other businesses net of cash and cash equivalents acquired		**(28)**	(248)
Sale of businesses net of cash and cash equivalents disposed of		**868**	–
Purchase of intangible assets		**(331)**	(105)
Disposal of and surrender of intangible assets		**21**	12
Purchase of property, plant and equipment		**(259)**	(286)
Disposal of property, plant and equipment		**(1)**	–
Investments in British Energy associates		**(2,272)**	–
Investments in other joint ventures and associates		**(15)**	–
Repayment of loans to, and disposal of investments in, joint ventures and associates		**9**	18
Interest received		**11**	52
Net purchase of securities		**(11)**	(3)
Net cash flow from continuing investing activities		**(2,865)**	(560)
Net cash flow from discontinued investing activities		**(64)**	(16)
Net cash flow from investing activities		**(2,929)**	(576)
Issue of ordinary share capital (ii)		**15**	2,172
Purchase of treasury shares		**(2)**	(3)
Financing interest paid		**(185)**	(79)
Cash inflow from additional debt		**350**	1,475
Cash outflow from payment of capital element of finance leases		**(11)**	(10)
Cash outflow from repayment of other debt		**(606)**	(147)
Net cash flow from (decrease)/increase in debt		**(267)**	1,318
Realised net foreign exchange gain/(loss) on cash settlement of net investment hedges		**43**	(93)
Realised net foreign exchange gain/(loss) on cash settlement of other derivative contracts		**46**	(168)
Equity dividends paid		**(188)**	(144)
Net cash flow from continuing financing activities		**(538)**	3,003
Net cash flow from discontinued financing activities		**(7)**	–
Net cash flow from financing activities		**(545)**	3,003
Net increase in cash and cash equivalents		**(1,532)**	1,237
Cash and cash equivalents at beginning of period		**2,831**	1,642
Effect of foreign exchange rate changes		**(14)**	25
Cash and cash equivalents at 31 December		**1,285**	2,904
Included in the following lines of the Balance Sheet:			
Cash and cash equivalents		**1,294**	2,939
Bank overdrafts		**(28)**	(35)
Assets of disposal groups classified as held for sale		**19**	–
		1,285	2,904

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation.
(ii) On 15 December 2008 the Group raised £2,164 million of proceeds, net of £65 million of issue costs, through a Rights Issue.

Notes to the Financial Statements continued (unaudited)

28. Segmental analysis for the six months ended 31 December

(a) Revenue	2009 Gross segment revenue £m	2009 Less inter-segment revenue (iii),(iv) £m	2009 Group revenue £m	2008 (restated) (i),(ii) Gross segment revenue £m	2008 (restated) (i),(ii) Less inter-segment revenue (iii),(iv) £m	2008 (restated) (i),(ii) Group revenue £m
Continuing operations:						
Residential energy supply (i)	**3,459**	**–**	**3,459**	3,956	–	3,956
Residential services (ii)	**718**	**–**	**718**	683	–	683
Business energy supply and services	**1,511**	**–**	**1,511**	1,619	–	1,619
Downstream UK	**5,688**	**–**	**5,688**	6,258	–	6,258
Upstream gas and oil (iii)	**585**	**(229)**	**356**	859	(630)	229
Power generation (iii)	**717**	**(16)**	**701**	681	(290)	391
Industrial and commercial (i), (iii)	**1,019**	**(319)**	**700**	1,041	(221)	820
Proprietary energy trading (iii), (iv)	**8**	**(5)**	**3**	30	(6)	24
Upstream UK	**2,329**	**(569)**	**1,760**	2,611	(1,147)	1,464
Storage UK (iii)	**142**	**(41)**	**101**	141	(40)	101
Residential energy supply	**1,190**	**–**	**1,190**	1,281	–	1,281
Business energy supply	**1,180**	**–**	**1,180**	1,303	–	1,303
Residential and business services	**205**	**–**	**205**	207	–	207
Upstream and wholesale energy (iii)	**226**	**(44)**	**182**	636	(55)	581
North America (i)	**2,801**	**(44)**	**2,757**	3,427	(55)	3,372
	10,960	**(654)**	**10,306**	12,437	(1,242)	11,195
Discontinued operations:						
European Energy (i)	**1,004**	**–**	**1,004**	209	(1)	208

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany. The revenues of the Group's operations in Germany are reported within the Upstream UK Industrial and commercial operations segment. Also restated to present the revenues of British Gas New Energy within Downstream UK Residential energy supply and to split North America into four segments.
(ii) Restated to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3.
(iii) Inter-segment revenue reflects the level of revenue generated on sales to other Group segments on an arm's length basis.
(iv) The external revenue presented for Proprietary energy trading comprises both realised (settled) and unrealised (fair value changes) from trading in physical and financial energy contracts. Inter-segment revenue arising in Proprietary energy trading represents the recharge of brokerage fees to other Group segments.

Notes to the Financial Statements continued (unaudited)

28. Segmental analysis for the six months ended 31 December continued

(b) Operating profit	2009 £m	2008 (restated) (i), (ii) £m
Continuing operations:		
Residential energy supply [i]	**300**	212
Residential services [ii]	**121**	108
Business energy supply and services	**118**	88
Downstream UK	**539**	408
Upstream gas and oil [iii]	**98**	526
Power generation [iii]	**104**	15
Industrial and commercial [i]	**(4)**	(173)
Proprietary energy trading	**(7)**	10
Upstream UK	**191**	378
Storage UK	**95**	102
Residential energy supply	**48**	76
Business energy supply	**14**	3
Residential and business services	**15**	13
Upstream and wholesale energy	**10**	32
North America [i]	**87**	124
Adjusted operating profit – segment operating profit before exceptional items, certain re-measurements and impact of fair value uplifts from acquiring Strategic Investments [iv]	**912**	1,012
Share of joint ventures / associates' interest and taxation	**(9)**	(2)
Other [v]	**2**	(7)
Depreciation of fair value uplifts to property, plant and equipment – Venture [iii]	**(20)**	–
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) – associates – British Energy [iii]	**(7)**	–
	878	1,003
Exceptional items (note 29)	**(374)**	–
Certain re-measurements included within gross profit (note 29)	**171**	(3,192)
Certain re-measurements of associates' energy contracts (net of taxation) (note 29)	**(9)**	–
Operating profit after exceptional items and certain re-measurements	**666**	(2,189)
Discontinued operations:		
European Energy [i], [vi]	**(8)**	(55)

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation. The operating profit of the Group's operations in Germany is reported within the Upstream UK Industrial and commercial operations segment. Also restated to present the operating profit of British Gas New Energy within Downstream UK Residential energy supply, to split North America into four segments and to include the operating profit of joint ventures and associates pre interest and taxation.
(ii) Restated to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3.
(iii) See note 3 for explanation of the unwind of depreciation on fair value uplifts to property, plant and equipment on acquiring Strategic Investments.
(iv) Includes results of equity-accounted interests before interest, taxation and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments.
(v) Other comprises a £3 million gain (2008: £7 million loss) relating to Corporate Centre costs not re-charged to segments and a £1 million loss (2008: £nil) relating to an inter-segment transaction between a proprietary energy trading operation and a non-proprietary energy trading operation.
(vi) Represents profit/(loss) after taxation from discontinued operations attributable to equity holders of the parent. This is the measure of results of discontinued operations that is reported regularly to the Group's Executive Committee.

Notes to the Financial Statements continued (unaudited)

29. Exceptional items and certain re-measurements for the six months ended 31 December

(a) Exceptional items for the six months ended 31 December	2009 £m	2008 (restated) (i) £m
Continuing operations:		
Provision for onerous gas procurement contract (ii)	**(199)**	–
Exceptional items from continuing operations included within gross profit	**(199)**	–
Impairments: (iii)		
Impairment of exploration and production assets arising from declining commodity prices	**(114)**	–
Impairment of North American assets arising from changing market conditions	**(35)**	–
	(149)	–
UK restructuring costs (iv)	**(75)**	–
Profit on disposal of wind farm equity (v)	**49**	–
	(175)	–
Exceptional items from continuing operations included within Group operating profit	**(374)**	–
Taxation on exceptional items	**126**	–
Net exceptional items from continuing operations after taxation	**(248)**	–
Discontinued operations:		
Impairment of Oxxio goodwill and other assets after taxation (vi)	**(24)**	(67)
Profit on disposal of Segebel S.A. after taxation (vii)	**297**	–
Total exceptional items after taxation	**25**	(67)

(b) Certain re-measurements for the six months ended 31 December	2009 £m	2008 (restated) (i) £m
Continuing operations:		
Certain re-measurements recognised in relation to energy contracts		
Net gains arising on delivery of contracts (viii)	**240**	51
Net losses arising on market price movements and new contracts (ix)	**(58)**	(3,249)
Net (losses)/gains arising on positions in relation to cross-border transportation or capacity contracts (x)	**(11)**	6
Net re-measurements from continuing operations included within gross profit	**171**	(3,192)
Net losses arising on re-measurement of joint associates' energy contracts (net of taxation) (xi)	**(9)**	–
Net re-measurements included within Group operating profit	**162**	(3,192)
Taxation on certain re-measurements	**(63)**	971
Net re-measurements from continuing operations after taxation	**99**	(2,221)
Discontinued operations:		
Net re-measurements on energy contracts of discontinued operations after taxation	**(70)**	(146)
Total re-measurements after taxation	**29**	(2,367)

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 21.
(ii) On 1 October 2009 an onerous contract provision was established in the Industrial and commercial segment of Upstream UK for a gas procurement contract for which a two year notice had been served to terminate. Exceptional charges of £199 million have been incurred of which £160 million is included in provisions for other liabilities and charges at the balance sheet date.
(iii) Impairment charges have been recognised across upstream exploration, production and generation assets as a result of declining commodity prices and in North America as a result of economic conditions.
(iv) Restructuring costs, including costs of £23 million associated with the impairment of obsolete assets, have been charged in the UK as a result of the integration of the Downstream UK business and the acquisition of Venture Production plc to the UK Upstream Gas and oil segment.
(v) Disposal of 50% of the issued share capital of GLID Wind Farms TopCo Limited.
(vi) During 2009, exceptional charges were incurred in respect of the write-off of previously capitalised customer acquisition costs which are now considered to be irrecoverable. During 2008, exceptional charges of £67 million were incurred in the European Energy segment, including a £45 million impairment of the Oxxio goodwill, and a £22 million impairment of a receivable balance in Oxxio relating to historic overpayments of regulatory energy revenue tax, reflecting the reduced likelihood of realising the balance in the future.
(vii) Disposal of 100% of the issued share capital of Segebel S.A., as explained in note 21.
(viii) As energy is delivered or consumed from previously contracted positions, the related fair value recognised in the opening balance sheet (representing the discounted difference between forward energy prices at the opening balance sheet date and the contract price of energy to be delivered) is charged or credited to the Income Statement.
(ix) Represents fair value losses arising from the change in fair value of future contracted sales and purchase contracts as a result of changes in forward energy prices between reporting dates (or date of inception and the reporting date, where later).
(x) Comprises movements in fair value arising on proprietary trades in relation to cross-border transportation or storage capacity, on which economic value has been created which is not wholly accounted for under the provisions of IAS 39.
(xi) Includes fair value unwinds relating to the recognition of energy procurement contracts and energy sales contracts and their acquisition-date fair values.

Notes to the Financial Statements continued (unaudited)

30. Earnings per ordinary share for the six months ended 31 December

(a) Continuing and discontinued operations	2009 £m	2009 Pence per ordinary share	2008 (restated) (i) £m	2008 (restated) (i) Pence per ordinary share
Earnings/(loss) – basic	**642**	**12.5**	(1,941)	(46.9)
Net exceptional items after taxation (notes 3 and 29)	**(25)**	**(0.5)**	67	1.6
Certain re-measurement losses and (gains) after taxation (notes 3 and 29)	**(60)**	**(1.1)**	2,367	56.9
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation	**17**	**0.3**	–	–
Earnings – adjusted basic	**574**	**11.2**	493	11.6
Earnings/(loss) – diluted	**642**	**12.5**	(1,941)	(46.3)
Earnings – adjusted diluted	**574**	**11.2**	493	11.5

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) and to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3.

(b) Continuing operations	2009 £m	2009 Pence per ordinary share	2008 (restated) (i) £m	2008 (restated) (i) Pence per ordinary share
Earning/(loss) – basic	**416**	**8.2**	(1,672)	(40.4)
Net exceptional items after taxation (notes 3 and 29)	**248**	**4.9**	–	–
Certain re-measurement losses and (gains) after taxation (notes 3 and 29)	**(99)**	**(2.0)**	2,221	53.3
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation	**17**	**0.3**	–	–
Earnings – adjusted basic	**582**	**11.4**	549	12.9
Earnings/(loss) – diluted	**416**	**8.1**	(1,672)	(39.8)
Earnings – adjusted diluted	**582**	**11.4**	549	12.9

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) and to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3. Also restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation.

(c) Discontinued operations	2009 £m	2009 Pence per ordinary share	2008 (restated) (i) £m	2008 (restated) (i) Pence per ordinary share
Earnings/(loss) – basic	**226**	**4.3**	(269)	(6.4)
Earnings/(loss) – diluted	**226**	**4.4**	(269)	(6.4)

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation.

Certain re-measurements (notes 3 and 29) included within operating profit and discontinued operations comprise re-measurements arising one energy procurement activities and re-measurement of proprietary trades in relation to cross-border transportation or capacity contracts. All other re-measurements are included within results before exceptional items and certain re-measurements.

Notes to the Financial Statements continued (unaudited)

31. Notes to the Group Cash Flow Statement for the six months ended 31 December

Reconciliation of Group operating profit to net cash flow from operating activities	2009 £m	2008 (restated) (i) £m
Continuing operations		
Group operating profit including share of result of joint ventures and associates	**666**	(2,189)
Less share of profits of joint ventures and associates	**2**	(7)
Group operating profit before share of profits of joint ventures and associates	**668**	(2,196)
Add back/(deduct):		
Amortisation and write-down of intangible assets	**163**	79
Depreciation and write down of property, plant and equipment	**433**	247
Employee share scheme costs	**21**	19
Profit on sale of businesses	**(50)**	–
Profit on sale of property, plant and equipment and other intangible assets	**–**	1
Movement in provisions	**247**	(66)
Pension service cost	**33**	61
Pension contributions	**(262)**	(102)
Re-measurement of energy contracts (ii)	**(121)**	3,127
Unrealised foreign exchange gains on operating cash and cash equivalents	**–**	(3)
Operating cash flows before movements in working capital	**1,132**	1,167
Increase in inventories	**–**	(76)
Increase in trade and other receivables (iii)	**(287)**	(1,252)
Increase/(decrease) in trade and other payables (iii)	**1,025**	(355)
Cash generated from continuing operations	**1,870**	(516)
Income taxes paid	**(130)**	(244)
Net petroleum revenue tax paid	**(9)**	(386)
Interest received	**3**	13
Interest paid	**–**	(40)
Payments relating to exceptional charges	**(55)**	(8)
Net cash flow from continuing operating activities	**1,679**	(1,181)
Discontinued operations		
Operating loss including share of joint ventures and associates	**(46)**	(318)
Less share of loss of joint ventures and associates	**–**	3
Operating loss before share of joint ventures and associates	**(46)**	(315)
Add back/(deduct):		
Amortisation and write-down of intangible assets	**24**	6
Depreciation and write-down of property, plant and equipment	**–**	45
Movement in provisions	**5**	(3)
Re-measurement of energy contracts	**3**	180
Operating cash flows before movements in working capital	**(14)**	(87)
Increase in inventories	**(3)**	–
Decrease/(increase) in receivables	**159**	(20)
Increase in payables	**125**	98
Income taxes paid	**(4)**	–
Net cash flow from discontinued operating activities	**263**	(9)
Net cash flow from operating activities	**1,942**	(1,190)

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation and to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3.
(ii) Adds back/(deducts) unrealised losses/(profits) arising from re-measurement of energy contracts, including those related to proprietary trading activities.
(iii) Includes net inflow of £3 million of cash collateral in 2009 (2008: net outflow of £1,619 million).

Gas and Liquids Reserves (unaudited)

The Group's estimates of reserves of gas and liquids are reviewed as part of the half-year and full-year reporting process and updated accordingly. A number of factors affect the volumes of gas and liquids reserves, including the available reservoir data, commodity prices and future costs. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

The Group discloses proven and probable gas and liquids reserves, representing the central estimate of future hydrocarbon recovery. Reserves for Centrica-operated fields are estimated by in-house technical teams composed of geoscientists and reservoir engineers. Reserves for non-operated fields are estimated by the operator, but are subject to internal review and challenge. Internal guidelines for reserve recognition have been revised following the acquisition of Venture Production plc in 2009.

As part of the internal control process related to reserves estimation, an audit of the reserves, including the application of the reserves definitions, is undertaken by an independent technical auditor. Reserves are estimated in accordance with a formal policy and procedure standard.

The Group has estimated proven and probable gas and liquids reserves in Europe and North America.

The principal fields in Europe are South and North Morecambe, Chiswick, Cygnus, Statfjord, Ensign, Grove and Seven Seas fields associated with UK Upstream, and the Rough and York fields associated with UK Storage. The European reserves estimates are consistent with the guidelines and definitions of the Society of Petroleum Engineers, Society of Petroleum Evaluation Engineers and World Petroleum Congress Petroleum Resources Management System using accepted principles. An annual reserves audit has been carried out by DeGoyler and MacNaughton.

The principal fields in North America are Medicine Hat, Entice and Bashaw, located in the province of Alberta, Canada. The North American reserves estimates have been evaluated in accordance with the Canadian Oil and Gas Evaluation Handbook (COGEH) reserves definitions and are consistent with the guidelines and definitions of the Society of Petroleum Engineers and the World Petroleum Congress. An annual reserves audit has been carried out by Sproule Associates Limited.

Estimated net proven and probable reserves of gas (billion cubic feet)	Europe	North America	Rest of World	**Total**
1 January 2009	1,352	375	–	**1,727**
Revisions of previous estimates (i)	39	(16)	–	**23**
Purchases of reserves in place (ii)	776	55	–	**831**
Extensions, discoveries and other additions (iii)	18	–	–	**18**
Production	(167)	(37)	–	**(204)**
31 December 2009	**2,018**	**377**	**–**	**2,395**

Estimated net proven and probable reserves of liquids (million barrels)	Europe	North America	Rest of World	**Total**
1 January 2009	32	4	–	**36**
Revisions of previous estimates (i)	3	–	–	**3**
Purchases of reserves in place (ii)	32	1	5	**38**
Production	(9)	–	–	**(9)**
31 December 2009	**58**	**5**	**5**	**68**

(i) Includes minor reserves revisions to a number of fields in Europe and North America.
(ii) Reflects the acquisition of Venture Production plc in the UK/Rest of World and the Channel Lake, Medallion and Bittern Lake properties in North America.
(iii) Recognition of revenues associated with the York field.

Liquids reserves include oil, condensate and natural gas liquids.

Disclosures

Disclaimers

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

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

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

For further information

Centrica will hold its 2009 Prelim Results presentation for analysts and institutional investors at 9.30am (UK) on Thursday 25th February 2010. There will be a live audio webcast of the presentation and slides from 9.30am at www.centrica.com/investors.

A live audio broadcast of the presentation will be available by dialling in using the following number: +44 (0)20 3059 5754

The call title is “Preliminary Results Centrica plc” and the conference password is “Results”.

An archived webcast and full transcript of the presentation and the question and answer session will be available on the website on Friday 26 February.

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Financial Calendar

Ex-dividend date for 2009 final dividend	28 April 2010
Record date for 2009 final dividend	30 April 2010
2010 Interim dividend payment date	16 June 2010
Interim Management Statement	10 May 2010
Annual General Meeting	10 May 2010
2010 Interim results announcement	28 July 2010

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