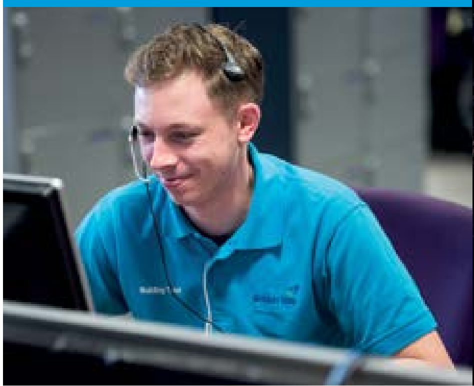
centrica

Energy for a changing world



Annual Report and Accounts 2014 >

CONTENTS

WHAT'S IN THIS REPORT

Manage your heating at home or away.

Read more in our case study 11

Our operating environment
We are involved in all elements of the energy value chain from sourcing it to supplying it.

Our Operating Environment 14

Innovate Integrate Increase

Strategic Priorities 17

Group revenue
£29.4bn
2013: £26.6bn

Dividend per share
13.5p
2013: 17.0p

Group Financial Review 35

Centrica has established a strong platform from which to play an important part in the evolution of energy supply and services.

Chief Executive's Statement 09

We have developed a comprehensive framework for managing process safety.

Read more in our case study 10

Performance measures
centrica.com/performance >

ABOUT US

We are a leading integrated energy company with customers at our core.

Our scale is of great benefit to the markets we are in as we secure the future energy needs of our customers.

In increasingly international energy markets, our interests and those of our customers remain inextricably linked.

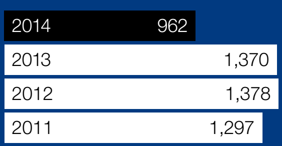
See this Annual Report and our Corporate Responsibility Performance Review online at **centrica.com/ar14** and **centrica.com/cr**

GROUP RESULTS

"2014 was a very difficult year for Centrica and the recent fall in oil and gas prices creates further challenge. We are cutting investment and costs in response. However, it is with regret that, along with reducing capital expenditure and driving efficiency beyond planned levels, we have taken the difficult decision to rebase the dividend by 30%, commencing with the final distribution for 2014. In addition, given the changed external environment, we are reviewing the longer-term strategy and will conclude this by the interim results in July.

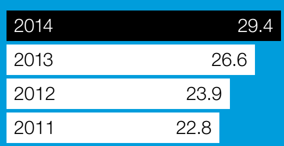
Adjusted earnings

£962m
2013: £1,370 million



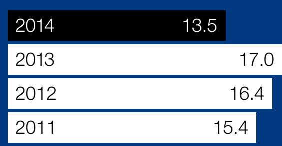
Group revenue

£29.4bn
2013: £26.6 billion



Dividend per share

13.5p
2013: 17.0 pence



Financial summary

Year ended 31 December	**2014**	2013	Change
Revenue	**£29.4bn**	£26.6bn	11%
Adjusted operating profit	**£1,746m**	£2,695m	(35%)
Adjusted effective tax rate	**30%**	43%	(13ppt)
Adjusted earnings	**£962m**	£1,370m	(30%)
Adjusted basic earnings per share (EPS)	**19.2p**	26.6p	(28%)
Full year dividend per share	**13.5p**	17.0p	(21%)
Group net debt(i)	**£5,196m**	£4,942m	5%
Group net investment	**£829m**	£2,565m	(68%)
Statutory operating (loss)/profit	**(£1,137m)**	£1,892m	nm
Statutory (loss)/profit for the year attributable to shareholders	**(£1,012m)**	£950m	nm
Net exceptional items after tax included in statutory (loss)/profit	**(£1,161m)**	(£667m)	nm
Basic earnings per share	**(20.2p)**	18.4p	nm

(i) The Group's definition of net debt has been restated to include cash collateral posted or received to support wholesale energy procurement.

Unless otherwise stated, all references to operating profit or loss, taxation, earnings and earnings per share throughout the Annual Report and Accounts are adjusted figures, reconciled to their statutory equivalents in the Group Financial Review on pages 35 to 39.

Profit measure reconciliation

Unless otherwise stated, all references to operating profit or loss, taxation, earnings and earnings per share throughout the report are adjusted figures, as reconciled to their statutory equivalents in the Group Financial Review.

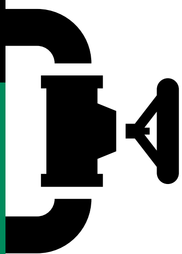
Group Financial Review 35

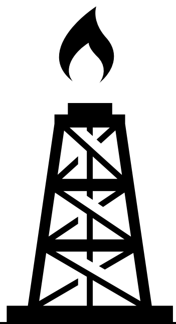
Despite the obvious current challenges, I am confident in the quality of Centrica's team and the platform which has been established. I believe the Group is well-placed to take advantage of the longer-term trends in the global energy markets. Our priorities remain to serve our customers competitively and with integrity, to develop new offers and services, to provide secure and reliable energy supplies and to deliver long-term value for shareholders."

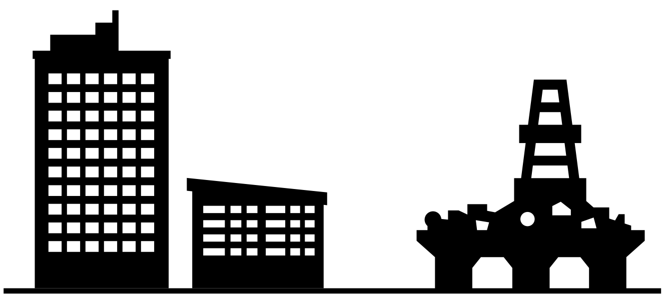
Iain Conn, Chief Executive

2014 Group results

- Group adjusted EPS down 28%, reflecting challenging trading conditions, including extreme weather patterns and falling oil and gas prices. Post-tax impairments of £1,385 million on exploration and production (E&P) and power assets
  - **British Gas** operating profit down, primarily reflecting lower consumption in record warm year, with average dual fuel profit per household falling to £42. Average actual household energy bill around £100 lower than in 2013
  - **Direct Energy** operating profit down due to impact of polar vortex in Q1 and narrowing of energy supply margins in a competitive environment
  - **Centrica Energy** gas operating profit before tax down, reflecting lower market prices. Post-tax earnings largely protected by hedging, tax allowances on previous investments and strong midstream performance. Power profit impacted by unplanned nuclear outages







2015 environment and response

- Primarily due to changes in the external environment, 2015 adjusted earnings are expected to be down compared to 2014
- Taking action in a low commodity price environment
  - 40% reduction in E&P capital expenditure to £650 million by 2016
  - Continued focus on competitiveness, service and efficiency downstream
  - Group-wide performance improvement plan, with a strong cost focus
  - Dividend rebased by 30%, commencing with the 2014 final dividend. 2014 full year dividend of 13.5 pence per share
- Decision to retain UK Combined Cycle Gas Turbine power stations (CCGTs), with bids received significantly below our internal valuation
- Strategic review launched, to be concluded by the interim results in July 2015 covering: (i) outlook and sources of growth; (ii) portfolio mix and capital intensity; (iii) operating capability and efficiency; (iv) Group financial framework

OUR BUSINESSES

Centrica is an integrated energy company. We are made up of a number of strong businesses, participating throughout the energy value chain and across geographies.

British Gas

Adjusted operating profit

£823m

£m	
2014	823
2013	1,030
2012	1,093
2011	1,005

Read more in the Business Review 25

What we do

British Gas is the UK's leading energy supplier and provides energy and/or services to around 10.8 million homes in Britain, as well as providing energy to over 850,000 UK business supply points. British Gas Services installs, repairs and maintains boilers and heating systems. We help customers manage their energy consumption with a range of low carbon, energy efficient products and services.

Employees

28,814

2013: 28,579

Customer accounts

23.6m

2013: 24.3m

Lost time injury frequency rate

(per 100,000 hours worked)

0.16

2013: 0.11

British Gas

Direct Energy

Adjusted operating profit

£150m

£m	
2014	150
2013	276
2012	310
2011	287

Read more in the Business Review 28

What we do

Direct Energy is one of the largest retail providers of electricity, natural gas and home services across North America. We supply gas and electricity to both residential and commercial and industrial customers and provide energy management solutions.

Employees

5,980

2013: 5,910

Residential customer accounts

4.2m

2013: 6.0m

Lost time injury frequency rate

(per 100,000 hours worked)

0.02

2013: 0.12

Direct Energy.

Bord Gáis Energy

Adjusted operating profit

£7m

£m	
2014	7

Read more in the Business Review 30

What we do

Bord Gáis Energy is a leading supplier of gas and electricity in the Republic of Ireland and since mid-2014 has been part of the Centrica Group. We have over 600,000 energy customer accounts and offer boiler servicing and repairs.

Employees

280

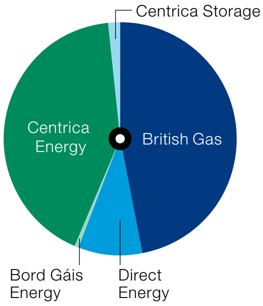
average from date of acquisition

Customer accounts

639,000

Bord Gáis Energy

Breakdown by operating profit



Centrica Energy

Adjusted operating profit

£737m

£m

2014	737
2013	1,326
2012	1,251
2011	1,048

Read more in the Business Review 31

What we do

Centrica Energy is one of the leading producers of gas on the UK continental shelf and has a significant international operating portfolio in Norway, the Netherlands and North America. We also operate a fleet of gas-fired power stations, have offshore wind farms in the UK and a 20% interest in eight UK nuclear power stations.

Employees

2,280

2013: 2,158

Total gas and liquids production

79.5mmboe

2013: 77.3mmboe

Lost time injury frequency rate

(per 100,000 hours worked)

0.19

2013: 0.10

Centrica Storage

Adjusted operating profit

£29m

£m

2014	29
2013	63
2012	89
2011	75

Read more in the Business Review 34

What we do

Centrica Storage has the largest gas storage facility in the UK representing more than 70% of the UK's current storage capacity. We store gas on behalf of utilities, gas traders and gas producers, including other Centrica businesses, before processing it for onward distribution via the National Transmission System.

Employees

305

2013: 319

Asset reliability

96%

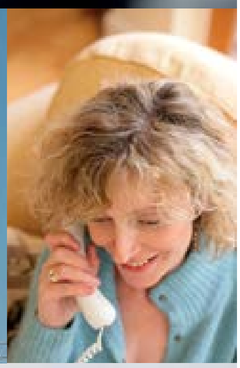
2013: 96%

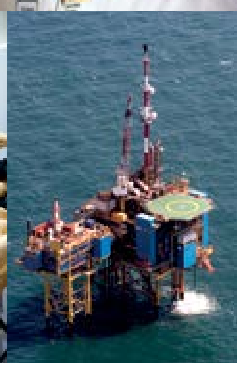
Lost time injury frequency rate

(per 100,000 hours worked)

0.09

2013: 0.06





CHAIRMAN'S STATEMENT

"Centrica is deeply conscious of the cost-of-living challenge facing many of our customers. We remain focused on innovation as a way of helping our customers."

Rick Haythornthwaite
Chairman

"I firmly believe that good corporate governance is an important enabler to the success and reputation of the Group."

Read more in Governance 49

Innovating for a smarter future.

Read more in our case study 11

2014 has undoubtedly been a tough year for Centrica and the global energy industry as a whole. In Centrica, we have faced a number of challenges, including extreme weather conditions in both the UK and US, the volatile commodity prices and the focus on affordability and competition. The most recent market events have required us to take a difficult decision regarding the dividend, a decision that the Board has not taken lightly.

Since assuming the role of Chairman on 1 January 2014, I have spent a considerable amount of time talking to, and more importantly listening to, our employees, customers, shareholders and wider stakeholders. What is clear is that the energy sector has remained at the forefront of customers', regulators' and governments' minds throughout the year. The energy trilemma of affordability, decarbonisation and security of supply remains current and the continuing debate on energy is still riddled with confusion. In the UK, there has been a debate around the competitiveness of the UK energy market and this has resulted in the ongoing investigation by the Competition and Markets Authority.

Centrica is deeply conscious of the cost-of-living challenge facing many of our customers. We remain focused on innovation as a way of helping our customers understand and control their energy consumption, helping them reduce their use and cut carbon emissions. We are developing new, simple technologies both in the UK and North America and have acquired relevant businesses to enhance our capabilities in these important areas.

We are fully committed to tackling climate change and have been working to explore pathways for future UK energy policy that are both sustainable and affordable. We conducted research using publicly available data and published our findings – 'Energy choices for the UK: Seeking affordable, secure and sustainable energy supplies'. With this report, our intention is to offer ideas and solutions that help deliver carbon savings cost-effectively and to further the debate on these critical issues.

Security of supply is vital to the UK as our own North Sea gas reserves run out. Additionally, up to one-third of the UK power generation plant is expected to retire by 2020 due to age or environmental regulation. To ensure energy security for the future, we must pursue a diverse energy portfolio to minimise the risk of reliance on one type of energy. Utilising the benefits of the globalisation of the gas market, Centrica has been able to diversify its sources of gas, including the development of its liquefied natural gas (LNG) capability. Importing LNG is just one increasingly important focus area for Centrica as part of our commitment to secure our future energy needs.

Board composition

Much of the Board's attention during the year was focused upon succession planning. As part of our planned and continuing evolution of the Board, there have been a number of changes to the composition of the Board during the year. We advised in last year's report that Mary Francis and Paul Rayner would continue in post during 2014 beyond their nine year term of office as the Board felt that their continued service was of great benefit to the Company. Both Mary and Paul undertook this commitment and stepped down from the Board on 31 December 2014. I would like to express my thanks to each of them for the professionalism and dedication they have demonstrated throughout the time they have served on the Board and the contribution that they have made to the Company. Ian Meakins succeeded Mary Francis as the Company's Senior Independent Director with effect from 1 January 2015.

At the end of the year, Sam Laidlaw stood down as Chief Executive as planned. Sam was an exceptional ambassador for Centrica and has shown outstanding leadership over the past eight years. Under his stewardship, Centrica has achieved strength and scale which is of great benefit to the energy sector, building a technology-based customer service business in British Gas, a downstream business in the US and developing a more balanced upstream business. I would like to thank Sam on behalf of the Board, shareholders and our people for his enormous commitment and contribution to Centrica.

We have explored pathways for future energy policy that are both sustainable and affordable.

centrica.com/energychoices >

Iain Conn took up his office as Chief Executive on 1 January 2015. I very much look forward to working with him as he brings an impressive combination of both upstream and downstream business experience. Iain possesses a deep understanding of the energy sector built up over a lifetime in the industry. His breadth of knowledge and commitment to customers and safety make him ideally suited to lead Centrica in the next phase of its development.

In addition, Nick Luff resigned as a director on 31 August 2014 and Chris Weston resigned on 30 December 2014. I wish them both well in their new roles and thank them for their contributions during their time with Centrica.

CHAIRMAN'S STATEMENT CONTINUED

As part of our succession planning, we appointed Carlos Pascual as a Non-Executive Director of the Company with effect from 1 January 2015. Carlos brings a wealth of experience to the Centrica Board with his exceptionally strong international background in energy affairs. As announced on 18 February 2015, Steve Pusey will be appointed as a Non-Executive Director of the Company with effect from 1 April 2015. Steve's strong technology background will bring a new dimension to the Board.

Board evaluation

Centrica has for many years conducted a thorough review of Board process, practice and culture on an annual basis with the input of an external facilitator at least once every three years. The Board considers such annual review as an essential part of good corporate governance. In 2014, our effectiveness review was facilitated by Independent Audit Limited. They helped ensure that this was rigorous and covered the important influences on the Board's effectiveness. The evaluation was set against a background of change at Board level during the previous 12 months and the findings have helped provide a clear agenda for Board development. The Board and its Committees are now working through a number of suggestions that were made as we strive to achieve excellence as a leadership team.

Outlook

Over the next few months the UK will witness the lead-up to the UK general election and the public focus will remain on the affordability of energy supply. In addition, the regulatory environment in which we operate will continue to be demanding in all our geographies with the Competition and Markets Authority investigation in the UK due to report its findings in December 2015. Specialists and policymakers will continue to debate the energy trilemma. At Centrica, we will keep abreast of the global energy sector at a time of such unprecedented change and respond appropriately for the benefit of all our customers and shareholders.

Despite all the external scrutiny, this is an exciting time for Centrica as we develop our innovative technologies and respond to the changing global energy sector. Our people have a crucial role to play in the opportunities that we face in a business that matters to society. I know with certainty that we have a dedicated group of employees, working in many countries and many environments, and I would like to thank them all for their hard work and commitment over the past year.

Rick Haythornthwaite
Chairman
19 February 2015

The energy trilemma: how do you reduce carbon from energy whilst keeping it affordable and secure?

Affordability

Energy companies should keep bills as low as possible.

Decarbonisation

Energy companies should get out of fossil fuels and into renewable energy.

Energy security

Energy companies should focus on ensuring we have the energy we need.

"The UK must achieve carbon targets to reduce CO_2 emissions by 80% by 2050, even if this means higher bills."

"Renewable power is still more expensive than fossil fuels, so the UK can't just switch immediately."

"We should use gas. It's cheaper, heating 80% of homes at half the cost of electricity."

"The UK needs to invest in our energy infrastructure now in order to keep the lights on in the future."

"Many types of renewables are intermittent, meaning the UK still needs back-up power, such as gas."

Our view

We focus our upstream efforts on bringing gas to the UK. Gas is transportable, remains widely available and is the lowest carbon fossil fuel. As such, it is an essential component of a cost-effective transition to a low carbon future.

In our downstream business, we focus on installing energy efficiency measures to help reduce consumption, which saves our customers money, emits less carbon and reduces stress on supplies.

CHIEF EXECUTIVE'S STATEMENT

"Despite the current challenges, I am convinced that the Group is well placed to build on its existing strengths and be able to compete and contribute materially in global energy markets."

Iain Conn
Chief Executive

Our operations cover all elements of the energy value chain.

Our Operating Environment 14

We measure and track key performance indicators that we believe are important to longer-term success.

Key Performance Indicators 18

CHIEF EXECUTIVE'S STATEMENT CONTINUED

Overview

Centrica occupies a vital role in the energy affairs of the UK in particular and also in the US and the Republic of Ireland. We are a customer facing business and our principal role is to deliver excellence in the supply and reliability of energy and services to those customers. Although we are facing some significant challenges at present, it is clear to me that Centrica has built a solid set of positions, from which we will be able to continue to play an important role in the developing energy markets on both sides of the Atlantic.

The 2014 environment was very difficult for Centrica, with record mild weather in the UK, extreme cold weather in North America early in the year and a highly competitive market environment on both sides of the Atlantic. Upstream, the exploration and production (E&P) business faced falling oil and gas prices, while Centrica Storage was impacted by lower seasonal gas price spreads. Political uncertainty and the launch of the Competition and Markets Authority investigation provided further challenges in the UK.

Operationally, in British Gas these conditions translated into falls in gas and electricity sales volumes of 20% and 8% respectively and a 2% fall in residential energy customer accounts, mostly in the first half of the year. Direct Energy also saw a 3% fall in residential energy customer accounts. In Centrica Energy, oil and gas production volumes of 79.5mmboe were up 3% compared to 2013 but realisations fell as a consequence of lower oil and gas price levels. The power business experienced unplanned outages on the nuclear fleet.

As a result, adjusted earnings per share fell by 28% compared to 2013. We also recognised pre-tax exceptional items of £1,597 million, £1,161 million post-tax, which included substantial impairments on E&P and power assets totalling £1,385 million post-tax, primarily as a result of the current low commodity price environment. These were partially offset by profits on disposal relating to the sale of the Texas gas-fired power stations and the Ontario home services business totalling £224 million.

The Group continues to face a number of challenges as we enter 2015, particularly the significant further reductions in wholesale oil and gas prices since the middle of December 2014 and continuing low spark spreads. While we plan for normal weather patterns in 2015 and, relative to 2014, should see an associated improvement in earnings and cash flows in the customer facing businesses, the current forward price curves for oil and gas are likely to more than offset this. It is not clear that the forward price curves for oil and gas will improve in the near term and we therefore need to plan on the basis that lower wholesale prices will persist for all of 2015 and potentially through 2016 and into 2017. During this time, we expect the E&P supply chain costs to respond to the lower price environment. Until that time, the Group's cash flows from Centrica Energy will be materially impacted.

Centrica balances the significant energy commitments of our downstream obligations to customers with two sources of supply: upstream assets, whose cash flows have been materially impacted by current prices; and our procurement, hedging and optimisation activities which require strong investment grade credit ratings to ensure our supply of energy is delivered efficiently.

We are taking immediate actions to improve cash flows, focusing on reducing E&P capital expenditure relative to 2014 levels by around £250 million in 2015 and by a further £150 million in 2016, and to reduce cash production costs. In addition, we have initiated Group-wide performance improvement efforts, including a strong cost focus, and we will also pay close attention to working capital management.

Despite these actions, with 2014 adjusted earnings per share of 19.2 pence and with 2015 adjusted earnings per share having been negatively impacted by around 2.5 pence since the interim management statement in November and therefore expected to be down compared to 2014, the Group has taken the very difficult decision to re-base the dividend, commencing with the final payment for 2014. This reduction is driven by three things:

- the need to operate with strong investment grade credit ratings;
- the desire to balance sources and uses of cash in 2015; and
- maintaining a healthy payout ratio.

Going forward, the future level of dividend payments will be determined by the health and growth of the Group's operating cash flow after tax.

In 2014, we had no significant process safety events.

Process safety is a key business priority across all of our high hazard operations and significant effort and resources are being directed towards this area. We have developed a comprehensive framework for managing process safety which is intended to help us achieve our long-term goal of 'our assets are safe and we know it'.

We conducted gap analyses in Centrica Energy Exploration and Production (E&P) Canada and the CE Power thermal generation business in 2014 and all of our businesses have established improvement plans to address process safety issues in one or more of three key areas: identifying major accident hazards and assessing their risks; managing controls across all stages of our activities, from initial design into operations and final decommissioning and closure; and providing assurance that the controls are effective.

During 2014, no high consequence process safety events occurred within Centrica. However, there were 11 significant 'near misses', all of which have been investigated to understand the immediate and root causes, which helps us continually improve. These near misses remind us of the need for constant vigilance against a major accident in our upstream and power businesses.

Explore our non-financial KPIs in our online data centre: centrica.com/performance >

To underpin future growth in cash flows, we have launched a strategic review to be concluded by the time of the interim results in July 2015. The review will focus on four key areas:

- outlook and sources of growth;
- portfolio mix and capital intensity;
- operating capability and efficiency; and
- Group financial framework.

Despite the challenging current environment, my initial assessment of the Group is that Centrica has an excellent and committed team and has established a strong platform from which to play an important part in the evolution of energy supply and services in the UK, Republic of Ireland and North America.

2014 business performance summary

The top priorities for the Group are safety, compliance and market conduct. The lost time injury frequency rate (LTIFR) per 100,000 hours worked was 0.14, up compared to the 2013 level of 0.11. No significant process safety incidents were recorded during the year.

Downstream in the UK, British Gas faced continued political and regulatory scrutiny, competitive market conditions in each division and lower consumption due to the mild weather. Account numbers declined in both energy and services. In residential services, we also experienced a shift in mix towards lower priced products, although we increased our sales of services products in the fourth quarter of the year and returned to account growth.

Overall we delivered improved service levels in British Gas and we have now completed the implementation of a new combined residential energy and services customer relationship management (CRM) platform. We also completed the implementation of a new billing system in British Gas Business, although we have encountered some transitional issues following the migration of accounts which we are now resolving. We continue to lead the industry in smart metering, innovation and connected homes, having installed around 1.3 million residential smart meters and sold over 170,000 smart thermostats in the UK.

Case study

Innovating now for a smarter future

Inspiring smarter energy use

Direct Energy's Innovation to Inspiration tour is showcasing the benefits of smart products to communities across North America.

People are invited to walk around the 'smart home' and 'smart business' exhibits to explore how innovative products, such as smart thermostats, automated water sprinklers and remote controlled appliances, can provide greater control and convenience over energy consumption and bills.

By engaging communities in the evolution of these products, we hope to inspire even more people to use new innovation to improve their interactions with energy.

96% of Hive users said they now feel more in control of their heating.

Manage your heating at home or away

We are transforming how energy is managed in homes with Hive, by British Gas.

The Hive Active Heating™ device replaces the existing thermostat and boiler timer in homes. It enables heating to be programmed and controlled remotely via a smartphone, tablet or laptop allowing customers to adjust their heating from the comfort of their own home or while on the move. 96% of Hive users said they now feel more in control of their heating while 70% say it has helped them make energy savings.

Hive Active Heating™ is available to anyone in the UK, irrespective of energy supplier. We have sold over 170,000 Hive Active Heating™ devices and smart thermostats in the UK.

22m

Almost 22 million households in Britain (over 80%) are connected to the internet. We are increasingly reliant on technology to manage everyday activities, such as energy.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

In North America, the business was impacted by extreme cold weather caused by the polar vortex in early 2014, resulting in additional network system charges. In addition, lower margin sales made in prior years impacted Direct Energy Business. However, margins on new B2B sales materially increased in 2014 compared to 2013, reflecting a repricing of risk following the polar vortex, and this will benefit the business in 2015.

Market conditions remained highly competitive for Direct Energy Residential, particularly in the US North. Against this backdrop, we are differentiating our offering through innovative propositions that are attractive to the most valuable customer segments. During the year, we delivered increased sales of protection plans, combined energy and services products and smart thermostats, while also adding residential solar capability through the acquisition of Astrum Solar. In Direct Energy Services, our focus is now on delivering growth in the US and Alberta following the disposal of our Ontario home services business in October 2014.

At the end of June 2014, Centrica completed the acquisition of Bord Gáis Energy, the incumbent gas supplier and largest dual fuel supplier in the Republic of Ireland. The transaction added some 600,000 residential energy accounts, giving us a leading position in an adjacent deregulated market and providing a platform for growth. We will look to use our experience from the UK and US to develop innovative propositions for our customers in the Republic of Ireland, in both energy and services.

In Centrica Energy, upstream gas post-tax earnings in the year were largely protected from falling wholesale prices by the impact of hedging, tax allowances and strong midstream performance. We delivered increased E&P production, reflecting a full year of production from assets acquired in Canada in 2013 in partnership with Qatar Petroleum International (QPI). During the year we further strengthened our important relationship with the State of Qatar, selling a 40% share of our wholly owned gas assets in Western Canada to fully align our interests in the region.

In power generation, nuclear output was lower reflecting the temporary shut-down of four reactors following the discovery of a boiler spine issue at Heysham 1 nuclear power station. All four reactors are now back online, although at reduced power until modifications are made to the boilers during planned maintenance periods.

In Centrica Storage, our Rough gas storage asset reached its highest ever net reservoir volume in November 2014, reflecting mild UK weather and good asset reliability. However, the low seasonal gas price spreads resulted in much reduced year-on-year profitability.

Disposal programme

We completed the disposal of our Texas gas-fired power stations for £411 million in January 2014, releasing capital from non-core assets. In addition, during the year we announced a £1 billion programme of further non-core asset disposals and we completed the sale of our Ontario home services business for £270 million in October 2014. We also ran a process to dispose of our three larger UK CCGTs – Langage, Humber and Killingholme. However, the bids we received were significantly lower than our internal valuation and we have concluded that it is not in the best interest of shareholders to proceed with the disposal of these stations. In addition, the fall in oil and gas prices has made the proposed disposal of our Trinidad and Tobago gas assets more challenging, although we will continue to review our options to release capital from the assets.

Competition and Markets Authority investigation

The Competition and Markets Authority (CMA) investigation into the UK energy market commenced in June 2014, and we continue to engage constructively and comprehensively with this full review by an independent body. The CMA published their updated statement of issues on 18 February 2015 and is expected to set out provisional findings in May or June 2015.

2015 environment and outlook

Against the low commodity price backdrop we are taking positive action to improve earnings and cash flows in 2015 and 2016. We are focused on reducing capital expenditure through driving efficiencies on in-flight projects and putting a hold on certain new projects. Absent a material change in commodity prices, we expect E&P capital expenditure to fall to approximately £800 million in 2015 and to approximately £650 million in 2016, around 40% lower than 2014 levels. We will also maintain a tight control on production costs, examining all internal and external supply costs for

The top priorities for the Group are safety, compliance and market conduct.

our operated fields and working with our partners to reduce costs where we are not the operator. Reflecting these actions, we are targeting a 10% or £100 million reduction in our 2016 lifting and other cash production costs compared to 2014 levels, including absorbing the incremental costs of the Valemon and Cygnus fields which will be on-stream.

In power, the Humber and Langage gas-fired stations are cash generative at the operating level in the current environment. We will retain these assets. However, following a review, we plan to close the Killingholme and Brigg power stations. We will also be taking action to make the management of our power portfolio more efficient.

Downstream, it is vital that we focus on competitive pricing, customer service and operational efficiency. Early in 2015, we were able to announce price reductions for both our British Gas and Bord Gáis Energy residential customers, improving our competitive positions. In North America, margins on new B2B sales improved during 2014, resulting in much improved second half profitability and leaving the business well placed for further profit growth in 2015. We also made good progress in improving our service levels. However, there are further improvements we can make, in part enabled by investment in our IT platforms on both sides of the Atlantic.

We will continue to develop our leading position in smart metering, innovation and connected homes in the UK, which will enable us to offer enhanced customer offerings and drive greater customer engagement while also creating new skilled jobs. Smart meters are already providing significant benefits to over 600,000 British Gas customers, providing an end to estimated bills and a greater ability to monitor and reduce consumption while also delivering higher levels of customer satisfaction.

We will also continue to drive sales of our Hive Active Heating™ smart thermostat, which has extremely positive customer reviews and we have a strong development pipeline of further innovative products, including time-of-use tariffs and a connected boiler. In February 2015 we agreed to acquire AlertMe, the company that provides the technical platform that underpins British Gas' existing connected homes activity, including Hive. The acquisition will enable further development of connected homes' products and services across the Group. In North America, we have also focused on

differentiating our offering to the more valuable customer segments, through joint energy and services products, solar and innovative partnership agreements.

Across the Group, we are reviewing our resource efficiency, with a focus on cost to serve, overhead levels and working capital consumption and have initiated a Group-wide performance improvement plan, including a strong cost focus.

Despite these actions, since our interim management statement in November 2014, the reductions in commodity prices and power margins, the associated impact on our ability to make asset disposals in the current environment and the impact of systems implementation delays in British Gas Business are estimated to have had a negative impact of about 2.5 pence on 2015 adjusted EPS. As a result, we expect adjusted earnings to be down in 2015 compared to 2014. Earnings remain subject to the usual variables of commodity prices, weather and asset performance.

We have also taken the very difficult decision to rebase the dividend from the 2014 final payment. We are proposing a 2014 final dividend of 8.4 pence per share, 30% lower than the 2013 final dividend which, when added to the interim dividend of 5.1 pence, gives a 2014 full year dividend of 13.5 pence. We will also commence a scrip dividend programme as an alternative to the cash dividend, commencing with the final dividend, subject to shareholder approval.

Our primary role as a Group is to supply energy and services to our customers and we provide security for that energy both by owning gas and electricity production and also in midstream by hedging, procurement and optimisation activities. To do this, the Group requires a strong investment grade credit rating.

The Group currently has an A3 credit rating with Moody's and an A- credit rating with S&P, with both agencies having placed their rating on negative outlook in the summer. Since then, the fall in commodity prices has impacted the Group's cashflows, with a corresponding reduction in its credit metrics. The actions we are taking to improve cashflow, through the reduction of capital expenditure and operating costs and the rebasing of the dividend, are therefore necessary both to balance sources and uses of cash in 2015 and to underpin the financial metrics necessary for strong investment grade credit ratings.

Summary

I joined Centrica at the start of the year and have spent my first weeks visiting our operations, meeting people and deepening my understanding of the Group. Despite the challenges we face, under Sam Laidlaw Centrica has built attractive positions and good capabilities in the UK, Republic of Ireland, Norway, Netherlands and North America. Given the current commodity price environment, we are taking a number of immediate actions and regrettably have had to take action to rebase the dividend. We are also conducting a review of our longer-term strategy, including the financial framework for the Company. We will be in a position to share our conclusions by the time of the interim results in July 2015.

I am convinced that the Group is well placed to build on its existing strengths despite the current challenges and is able to compete and contribute materially against the emerging long-term trends in global energy markets.

Iain Conn
Chief Executive
19 February 2015

OUR OPERATING ENVIRONMENT

Our operations cover all elements of the energy value chain, from sourcing to supplying and saving it. We participate in international energy markets with customers across the UK, North America and the Republic of Ireland.

SOURCE IT

We invest in gas and oil exploration and production in the Atlantic basin, particularly in the North Sea and Canada.

GENERATE IT

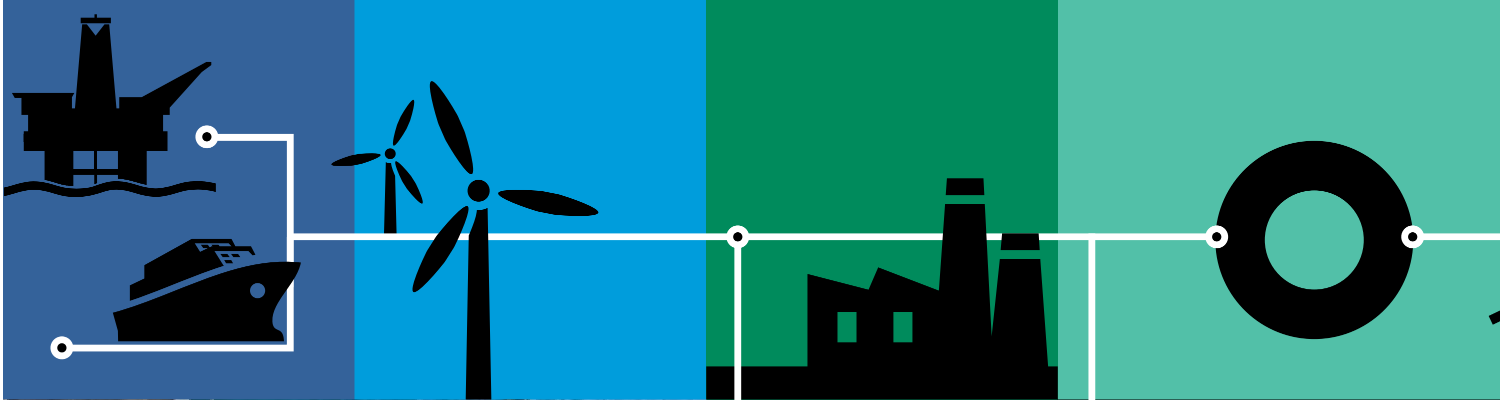
We generate power through our wind farms, nuclear and gas-fired power stations.

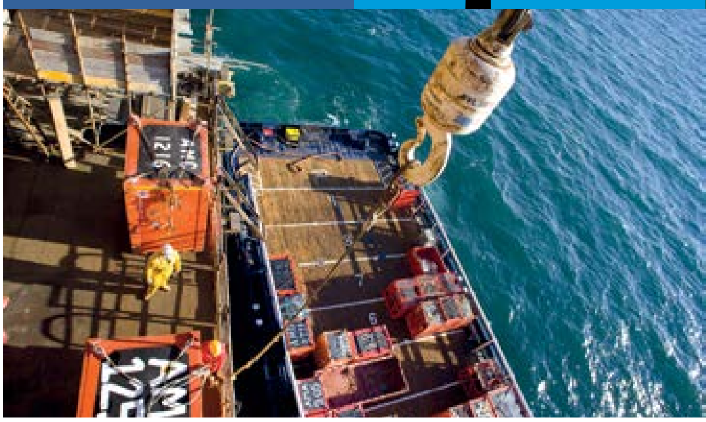
PROCESS IT

Our onshore gas terminals ensure high quality gas enters the transmission system.

STORE IT

Our gas storage facility at Rough is the largest of its kind in the UK.





All of us rely on the gas flowing to heat our homes and businesses and a steady supply of electricity to keep the lights on in our schools, hospitals and factories.

Gas provides around one-third of the UK's primary energy, but import dependency has increased rapidly over the past decade. In 2014 around 50% was imported by pipeline from the continent or by ship in liquefied form, primarily from Qatar.

Central role for global gas

Gas currently plays a major role in the global energy mix, fuelling power generation, powering industry and heating homes. In both gas and oil, oversupply has seen prices fall dramatically in the latter half of 2014, reducing profitability for the oil and gas industry in the short term and leading many companies to cut back expenditure on new projects. Whilst this low price environment could persist for some time, long-term scenarios continue to show gas having a central role as energy markets evolve and move towards a low carbon system. Recent warm weather in the UK has led to high levels of gas in storage but in the long term the UK is becoming increasingly dependent on imports as North Sea reserves decline. In the US, shale gas production continues to grow and is driving the push to increase LNG export capacity with more projects being developed to bring US gas to Europe and Asia.

Progress in UK power

In the UK the results of the first energy capacity market auction have provided some clarity about the future of the market, however significant uncertainty remains about the affordability and incentives for future generation. In the near term the capacity the UK has to meet peak demand is likely to be tight and the returns from gas-fired generation appear to be very low. The costs of a transition to low carbon generation are forecast to be high and the capital and subsidies required to construct some renewables technologies and nuclear continue to go up; we await further clarification after the UK electoral process in 2015.

Our integrated business model, together with our distinctive portfolio of assets and capabilities, gives us opportunities throughout the energy value chain.

Read more overleaf >

TRADE IT

In the UK and North America, we trade gas and power to ensure our customers have a reliable and competitive energy supply.

SUPPLY IT

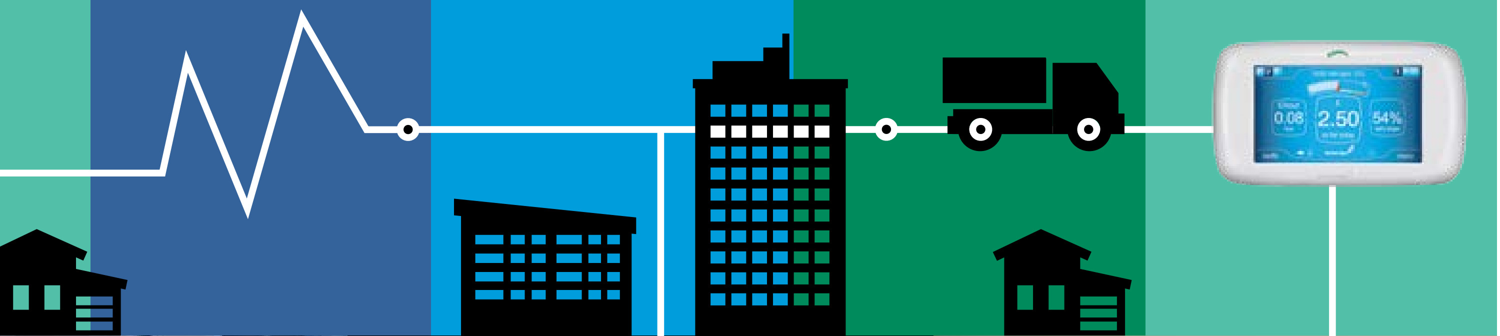
We supply energy to homes and businesses in the UK, North America and the Republic of Ireland.

SERVICE IT

We provide peace of mind with central heating, boiler and cooling maintenance and breakdown cover products.

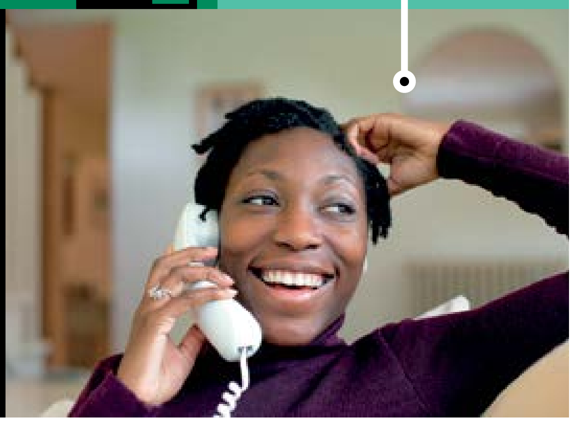
SAVE IT

We offer innovative low carbon, energy efficient products and services to help our customers better manage their energy.



Affordability remains a key topic for consumers and businesses, and will likely be a key focus for politicians throughout the UK electoral process.

In 2014, average UK domestic gas prices were the second lowest in the EU-15.



Focus on affordability, competition and trust

Affordability remains a key concern for both residential and business customers in the UK, with the recent decline in gas prices allowing tariff decreases that make energy more affordable. The overall affordability debate continues to be the focus of political parties as we near the 2015 UK general election, with Labour's price freeze promise a part of the discussion. The ongoing Competition and Markets Authority investigation of the energy sector provides a welcome opportunity for all stakeholders to engage and help rebuild trust and restore market confidence for consumers. Against this backdrop, the UK supply market has been particularly competitive with small suppliers growing at unprecedented rates and customers continuing to value bill transparency and the ability to manage their energy use.

Difficult market conditions in North America

The weather seen in the US North East in the first quarter of 2014 was some of the most extreme in recent years. This caused significant issues in the gas markets in North America, placing extreme demands on infrastructure and driving high levels of price volatility. These issues led to some repricing of risk in the market and the extremely high price spikes borne by some consumers on variable tariffs have led to greater regulatory scrutiny and some market restructuring. Despite this volatility, average gas prices in North America remained low, helping to keep the costs of energy affordable for most customers. The combination of the trajectory of prices and the regulatory market structures in the US North East continues to make North American markets particularly competitive with challenges for independent retailers competing with incumbent utilities.

BUSINESS MODEL

We are a leading integrated energy company with customers at our core. Operating across the energy value chain creates benefits for us and for others.

Integration reduces our risk

Integration lowers our risk profile. Broadly speaking, the drivers of risk in our upstream and downstream businesses are not correlated, so vertical integration can help to reduce our overall risk exposure. Energy companies need to be strong and stable to continue to reliably procure and produce energy for our customers and to invest in future energy needs.

Adds scale

The combined strength of our Company gives confidence to international counterparties allowing us to enter long-term deals that are critical to securing energy supplies. It also means we can execute unique deals which combine elements throughout the value chain utilising both upstream assets and customer facing relationships.

Reduces our costs

Integration means that the Company has a lower cost of capital than we would have as independent businesses. This allows us to provide lower levels of capital for our commodity trading activities. It also reduces duplication of overheads as our downstream supply and upstream businesses share management and overhead costs between them.

Widens our range of investment opportunities

Being an integrated energy company means that we have an increased range of options to invest in: for example, in gas production, expanding midstream activities or customer facing investments such as smart metering, new systems to improve customer service or developing connected homes products.

Creates benefits for others

Economic
In 2014 we paid £864 million in dividends to shareholders.

Social
In 2014, we invested £21.3 million at our six academies alongside workshops and coaching, to train 1,200 apprentices and nearly 10,000 engineers.

Environmental
We calculate we have helped save over 13 million tonnes of CO_2 equivalent (mtCO_2e) through products installed in UK homes and businesses.

STRATEGIC PRIORITIES

Our strategic priorities focus on utilising our distinctive portfolio of assets and capabilities to serve customers and drive the business forward.

We measure our performance with our key performance indicators.

Read more overleaf >

Innovate to drive growth and service excellence

Our strategic priorities
- Lead with great service and efficient operations
- Enable our customers to control their energy use in a simpler, smarter, more efficient way
- Grow in selected markets, building on our leading capabilities

What we've achieved in 2014
- Continued growth and development of our smart heating products and connected homes agenda
- Purchase of Astrum Solar to provide our North American customers with residential solar propositions
- Acquisition of Bord Gáis Energy to enter the Irish gas and power supply markets

Read more in the Business Review 25

Integrate our natural gas business, linked to our core markets

Our strategic priorities
- Grow and diversify our exploration and production portfolio for value
- Develop our midstream business to integrate along the gas value chain
- Maintain a low carbon power hedge and invest where we see value

What we've achieved in 2014
- Further strengthening of relationship with Qatar Petroleum International in exploration and production through alignment of all Canadian assets into a strategic partnership
- Took delivery of first 'Free on Board' cargoes as we look to increase our presence and capability in LNG

Read more in the Business Review 31

Increase our returns through efficiency and continued capital discipline

Our strategic priorities
- Continuously focus on safety
- Further develop organisational capability
- Deliver value to shareholders

What we've achieved in 2014
- Return of capital to shareholders following the disposal of the Texas gas-fired power stations
- Development of a comprehensive framework for managing process safety recognising it as a key business priority

Read more in the Financial Review 35

KEY PERFORMANCE INDICATORS

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

Innovate to drive growth and service excellence

Integrate our natural gas business, linked to our core markets

Increase our returns through efficiency and continued capital discipline

More on Strategic Priorities 17

Performance against KPIs continues to be linked to our incentive plans. The proposed new incentive arrangements are set out in the Remuneration Report.

Remuneration Report 63

Deloitte LLP review selected non-financial key performance indicators, providing limited assurance using the International Standard on Assurance Engagements (ISAE) 3000. The full assurance statement, together with the Basis of Reporting, are available online.

For more information visit centrica.com/CRassurance >

Financial performance indicators

Adjusted operating profit

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

With challenging trading conditions, including extreme weather patterns and falling oil and gas prices, adjusted operating profit was down by 35%.

Strategic priorities

Link to reward
Short and long-term incentive

Adjusted operating profit £m

£1,746m

2014	1,746
2013	2,695
2012	2,743

Adjusted basic earnings per share (EPS)

EPS is an industry standard determining corporate profitability for shareholders. EPS is adjusted to reflect better the performance of the business.

With extreme weather and a highly competitive environment on both sides of the Atlantic EPS was down by 28%.

Strategic priorities

Link to reward
Long-term incentive

EPS pence

19.2p

2014	19.2
2013	26.6
2012	26.6

Total shareholder return (TSR)

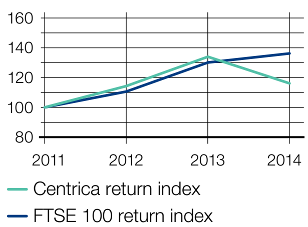
The Board believes that TSR is a valuable KPI to assess the Company's performance in the delivery of shareholder value.

Performance of our TSR fell below the FTSE 100 return index over the three-year period ending in 2014 and, therefore, Executive Directors' shares eligible for vesting under the Long-Term Incentive Scheme were reduced by a factor of 0.7.

Strategic priorities

Link to reward
Long-term incentive

TSR indices unaudited



Source: Datastream

Non-financial performance indicators

Lost time injury frequency rate (LTIFR)

Safety is the highest priority in our business. We work hard to embed a best practice approach to safety across all activities to drive improvements.

In 2014, our LTIFR increased by 27% to 0.14 per 100,000 hours worked (high performance range). This rise was in part due to improvements in reporting.

Strategic priorities

Link to reward
Long-term incentive

LTIFR per 100,000 hours worked

0.14

2014	0.14
2013	0.11
2012	0.20

Process safety

In our upstream operations, we concentrate on improving process safety. This focus enables us to prevent potential major incidents, such as fires, explosions or the release of hazardous substances.

There were no significant process safety events in 2014 (high performance range). We are, however, updating our framework for managing process safety and rolling out improvement programmes to reduce the frequency of high potential events.

Strategic priorities

Link to reward
Long-term incentive

Significant events

0

(2013 and 2012: 0)

Customer satisfaction

Customer satisfaction is measured using net promoter scores (NPS) for both British Gas and Direct Energy.

British Gas' NPS rose to +23 (median performance range) in 2014. Improvements were due partly to implementation of new customer service systems.

Direct Energy's NPS decreased slightly to +38 (high performance range).

Strategic priorities

Link to reward
Long-term incentive

Net promoter scores

British Gas

2014	+23
2013	+15
2012	+30

Direct Energy

2014	+38
2013	+40
2012	+39

Employee engagement

Creating opportunities that develop and motivate our people is a key driver of employee engagement. We use employee feedback to ensure Centrica remains a great place to work and to highlight where we can make improvements.

Our engagement score declined slightly to 4.79 out of 6 in 2014 (median performance range), down from 4.81 in 2013. Engagement levels continue to be above average compared with peer companies.

Strategic priorities

Link to reward
Long-term incentive

Employee engagement

4.79 out of 6

2014	4.79
2013	4.81
2012	4.72

SUMMARY OF PRINCIPAL RISKS

A summary of the principal risks and uncertainties which may impact the delivery of our strategic priorities is shown below together with an indication of how those risks have changed during the year.

As our business and the operating environment continues to evolve, so too will the nature of the risks we face. This view is, therefore, current at this point in time but may change during the year.

Read more about these risks and their corresponding mitigating actions.

Principal Risks and Uncertainties 40

Principal risk category	Summary description	Climate indicator
Health, safety, environment and security (HSES)	HSES hazards associated with our operations	No change
Political, regulatory and compliance	Changes and interventions in the political or regulatory landscape and their impacts on our compliance obligations	Risk has increased
Trust and perception	Competitive positioning and perception of the Centrica brands and the provision of good quality service to our customers	No change
Strategic growth	Changes and events in the external market or environment which could impact delivery of Centrica's strategy	Risk has increased
Commodity costs	Exposure to increasingly volatile world energy markets	Risk has increased
Change management	Execution of change programmes and business restructuring	No change
Information systems and security	Availability, integrity and security of IT systems and data essential for our operations	Risk has increased
People	Attraction, retention and development of people	Risk has increased

Read more on financial risk management in note S3 of the Financial Statements 150

HOW WE DO BUSINESS

Our purpose is to help people today and secure energy for tomorrow. This means helping our customers, supporting our people and communities, while securing future energy supplies in a safe and responsible way.

Our five key focus areas

- Prioritising safety
- Helping our customers
- Supporting our people and communities
- Securing energy responsibly
- Reducing carbon emissions

Our view on taxation

Read more about taxation 24

External assurance

Selected metrics have been reviewed by Deloitte LLP, some of which can be viewed on page 19. The International Standard on Assurance Engagements (ISAE) 3000 has been used by Deloitte to provide limited assurance. The full assurance statement, together with the Basis of Reporting, are available online.

centrica.com/CRassurance >

See our business and CR performance measures

centrica.com/performance >

We have the strongest commitment to safety which we believe is the foundation of our business. Across all our activities, we have robust safety systems in place to protect our customers, people and communities.

Energy is an essential part of our customers' lives. We work hard to make energy supply more competitive and efficient while also investing to provide customers with a better service. Our innovative products and services make it easier for customers to manage their energy and we are committed to supporting those who need help with their energy bills.

In order to achieve this, we must invest in our people's skills and build strong relationships with communities where we live and work.

At the same time, we must secure the energy our customers need, now and in the future.

We also recognise that energy has an environmental impact which we strive to reduce. In 2014, we were awarded an 'A' for action and 100 out of 100 for disclosure on climate change by CDP, an international non-governmental organisation (NGO) that reports to investors representing around a third of the world's invested capital.

To ensure we maintain our strong approach to corporate responsibility (CR), our progress is overseen by the Corporate Responsibility Committee (CRC), who review our targets and performance across the business.

Corporate Responsibility Committee

Read more about the CRC 61

Explore more online

Further details on Centrica's CR activities can be explored online as part of our 2014 CR reporting.

centrica.com/CR >

Prioritising safety

Ensuring we work to the highest safety standards

Keeping our customers and people safe

Extracting and supplying energy is a hazardous activity which is why safety is the top priority for our business.

When working in our customers' homes, all engineers are trained to minimise risks associated with their work and we assess their performance to identify where improvements can be made. Since 2011, customer injuries such as trips and falls have reduced by 55%.

We also strive to protect our people from safety incidents. Our total recordable injury frequency rate improved to 0.50 per 100,000 hours worked, from 0.76 in 2013.

However, the lost time injury frequency rate increased from 0.11 per 100,000 hours worked in 2013 to 0.14. This was due in part to improved rigour in reporting.

We have continued to focus on improving process safety and, although no significant process safety events occurred during 2014, we aim to reduce the number of high potential events which have remained at similar levels to 2013. Consequently, we are updating our framework for managing process safety and have developed improvement programmes to help us better understand and reduce safety risks.

HOW WE DO BUSINESS CONTINUED

Helping our customers

Making energy easier for customers and supporting those in need

Helping customers with energy bills

The cost of energy is of major public concern, especially in the UK. The average daily charge of British Gas' energy is £3.16. Over 85% of these costs are set by external factors comprising wholesale energy costs, distribution charges and government taxes that include support for carbon targets and vulnerable customers.

We buy energy in advance, in order to protect customers from volatile wholesale costs. In 2014, we lowered prices by 3.2% following changes by the UK government to the Energy Company Obligation (ECO) programme. We also reduced domestic gas prices by 5% in early 2015, reflecting a fall in wholesale costs.

We let customers know if they could save money by moving to a different British Gas tariff and have eliminated cancellation fees from our tariffs.

Following sustained cold weather in the US, Direct Energy was the first to cap energy prices and advocated for regulatory change to shield people from price spikes caused by high demand.

Supporting people in need

We recognise the important role we can play in supporting people who need help with their energy bills.

During 2014, we assisted nearly 1.8 million vulnerable households in the UK through direct support, mandatory government programmes and charity partnerships. Over the last decade, the British Gas Energy Trust (an independent charity funded by British Gas through mandatory and voluntary contributions) provided £75 million worth of debt relief and advice. In 2014 we gave £12.3 million.

In North America, a contribution of $538,000 was made through our Neighbor-to-Neighbor bill assistance programme in Texas.

Innovating to give more choice

Energy use is transforming and we are leading the way. Our innovative products give customers greater choice and control over their energy consumption and bills.

By the end of 2014, British Gas had installed 1.7 million smart meters in the UK, around 1.3 million of which are for residential customers. 90% of smart meter customers we surveyed now take simple steps to reduce energy use. We have sold over 170,000 Hive Active Heating™ devices and smart thermostats in the UK, enabling people to control their heating remotely.

Direct Energy is helping customers save up to 20% on heating and cooling bills with the Nest Learning Thermostat.

Improving customer service

We are investing in training and systems to improve customer service.

Training for call centre advisers in Direct Energy increased by over 60% to 10 hours per month. In British Gas, we are now beginning to see the benefits of new billing and customer service systems reflected by an overall improvement in service levels.

Customer satisfaction increased in British Gas, demonstrated by a net promoter score (NPS) of +23, up from +15 in 2013. Direct Energy's NPS has declined slightly to +38 from +40 in 2013.

Supporting our people and communities

Creating connections that contribute positively to society

Investing in skills and our people

It is critical that we equip our people with the right expertise to serve our customers.

In 2014, British Gas invested £21.3 million in engineer training and grew future skills through 1,200 apprenticeships. We are also helping tackle youth unemployment with Movement to Work by creating 450 customer service work experience placements by the end of 2015.

Creating opportunities that develop and motivate our people is a key driver of employee engagement. Although engagement scores continued to be above average for peer companies in 2014, feedback declined slightly to 4.79 out of 6, down from 4.81 in 2013.

Securing sustainable supply chains

We work with suppliers to embed responsible business practices and reduce risk in our supply chain.

In 2014, 57 potentially higher risk suppliers completed a risk assessment of their social and environmental performance. Where improvement areas were identified, we collaborated with suppliers to raise standards.

Our supplier risk score is 51 (low risk), which is better than the multi-industry average of 41 (medium risk). This is an improvement on our 2013 score of 49 (low risk).

Building stronger relationships with communities

We aim to develop mutually beneficial relationships with communities. We contributed over £406 million to communities in 2014, of which more than £401 million went to alleviate fuel poverty and climate change, mostly through mandated government programmes in the UK.

We collaborate across sectors to bring together the right expertise to support people in need. British Gas continued to work with charity partner, Shelter, in our shared goal to improve the conditions of one million privately rented homes by 2017. As a result of safety and energy efficiency measures, alongside joint campaigning that has brought about changes in legislation, we estimate that we are over halfway towards our target.

We also support innovative energy-related solutions through Ignite, the UK's first corporate impact investment fund focused on energy, backed by Centrica. Over 10 years, Ignite will invest £10 million alongside our people's expertise to grow social enterprises. In 2014, £5 million was deployed.

Securing energy responsibly

Sourcing competitive and efficient long-term energy supplies, while managing our impact

Gas at the centre of our strategy

We see gas as a vital part of the energy mix alongside our existing investments in low carbon nuclear and renewables. It provides a reliable back-up for intermittent renewable energy, is the lowest carbon fossil fuel and remains more affordable than other fuels apart from coal, which is high carbon. Gas is expected to continue to heat around 80% of UK homes into 2030.

Diversifying gas supplies

While gas reserves are more readily available in North America, UK imports have increased as North Sea oil and gas reserves continue to decline.

To meet this challenge, we are seeking new sources of gas and competing in global markets. We are exploring the potential of natural gas from shale in the UK through our 25% stake in the Bowland exploration licence, operated by Cuadrilla Resources.

Long-term deals to obtain LNG have also been secured, including a 20-year agreement with our partner, Cheniere, in the US.

Managing our operations responsibly

We have a responsibility to secure energy supplies in a way that reduces adverse impacts on communities and the environment.

We work closely with Cuadrilla to ensure our strong track record in safe and responsible development for oil and gas, alongside the contractual best practice obligations we have implemented, are applied in the exploration of natural gas from shale as part of our partnership.

In a UK first, we have commitment to open the two proposed exploration sites to the British Geological Survey. Upon approval, they will undertake independent monitoring during the hydraulic fracturing process.

Reducing carbon emissions

Cutting carbon in homes, businesses and across our operations

Limiting customer carbon

Our customers' energy use forms the biggest source of emissions associated with our business. We are helping reduce energy use, emissions and bills by installing products that help improve energy efficiency such as insulation and smart meters, which give customers greater understanding of their energy consumption.

We calculate that the products we have installed in UK homes and businesses since 2010 have saved over 13mtCO_2e, which is comparable to the average annual emissions of 2.6 million UK homes. This includes nearly 282,000 energy efficiency measures installed in 2014 through the UK government's mandatory ECO programme, which will generate lifetime carbon savings of 5.5mtCO_2e. Over £510 million will also be saved on bills for vulnerable people.

We also help our customers save carbon through solar installations. In 2014, Direct Energy acquired Astrum Solar, enabling us to install solar panels in homes across North America. Since the acquisition in July 2014, we have installed 5.5MWp of generation capacity. Our investment fund with SolarCity financed 17.9MWp of solar projects for business customers.

Reducing our carbon footprint

The majority of our direct emissions relate to our power stations. In 2014, our carbon intensity of power generation declined 23% from 2013 to 154gCO_2/kWh. This reduction exceeded our target and was due primarily to the sale of gas-fired power plants in North America. We are reassessing our carbon intensity target of power generation in 2015 now that there is more certainty following the UK capacity market auctions.

We are working to reduce the carbon emitted during the production of oil and gas. For example, by improving the energy efficiency of our Netherlands offshore operations, we have avoided over 40,000tCO_2e since 1998.

We have greater control over the emissions from our property, fleet and travel. Across our core business, emissions have fallen by over 25% since 2007 against our 20% reduction target due by the end of 2015. This brings our internal carbon footprint to 80,288tCO_2e in 2014. We are a UK leader in electric commercial fleet transport, which helps reduce our emissions and deliver savings from running costs.

Our greenhouse gas emissions

In 2014, our total carbon emissions (Scope 1 and 2) reduced to 5,583,902tCO_2e from 7,044,012tCO_2e in 2013. This reduction was primarily driven by the sale of our North American gas-fired power stations. Our Scope 1 emissions from power stations, upstream production, offices and fleet were 5,452,507tCO_2e, down from 6,928,589tCO_2e in 2013. Scope 2 emissions, which include those from electricity we purchase for our own use, were 131,395tCO_2e, compared with 115,423tCO_2e in 2013. Our Group carbon intensity based on revenue improved to 190tCO_2e/£m, from 265tCO_2e/£m in 2013.

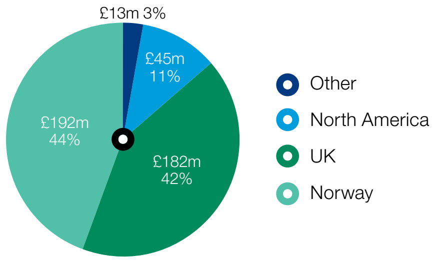
We report on an equity basis with practices drawn from WRI/WBCSD Greenhouse Gas Protocol, IPIECA's Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions and Defra's Environmental Reporting Guidelines.

HOW WE DO BUSINESS CONTINUED

Our view on taxation

The Group takes its obligations to pay and collect the correct amount of tax very seriously. Responsibility for tax governance and strategy lies with the Chief Financial Officer, with the oversight of the Board and the Audit Committee.

Group adjusted tax charge



Taxes paid in the UK

A more detailed explanation of the way the Group's tax liability is calculated and the timing of cash payments is provided on our website at centrica.com/responsibletax.

We maintain a transparent and constructive relationship with HMRC in the UK. This includes regular, open dialogue on issues of significance to HMRC and Centrica. Our relationship with fiscal authorities in other countries where we do business is conducted on the same principles.

We carefully manage the tax risks and costs inherent in every commercial transaction, in the same way as any other cost. However, we do not enter into artificial arrangements in order to avoid taxation nor to defeat the stated purpose of tax legislation.

We actively engage in consultation with government on tax policy where we believe we are in a position as a Group to provide valuable commercial insight.

Taxes paid outside the UK

Wherever in the world we do business we take great care to ensure we fully comply with all of our obligations to pay or collect taxes and to meet local reporting and disclosure requirements.

We are always transparent and fully disclose information on ownership, transactions and financing structures to the relevant tax authorities. Our cross-border tax reporting reflects the underlying commercial reality of our business.

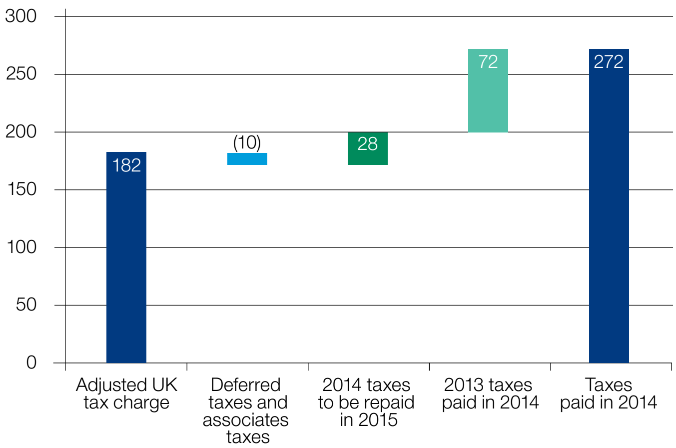
We ensure that income and costs, including costs of financing operations, are appropriately recognised on a fair and sustainable basis across all countries where the Group has a business presence. We understand that this is not an exact science and we engage openly with tax authorities to explain our approach.

Outside the UK, the Group carries on business and realises profits primarily in countries with high statutory rates of tax.

Group activities	Statutory tax rates on profits %
UK supply of energy and services	21
UK oil and gas production	62/81
Norway oil and gas production	78
Netherlands oil and gas production	50
United States supply of energy and services	35
Canada supply of energy and services and oil and gas production	25
Republic of Ireland supply of energy and services	12.5

As at December 2014.

Breakdown of UK adjusted tax charge £m



BRITISH GAS

British Gas has a clear strategy focused on three priorities: deliver great service, transform to grow and engage our stakeholders.

What we do

British Gas Residential
We supply gas and electricity to residential customers in the UK. We lead the industry in technology, innovation and smart connected homes. Driving service excellence is a core priority and our innovative products and digital platforms enable us to offer customers convenience as well as helping them to reduce their consumption and save money.

British Gas Services
We provide a comprehensive range of services from boiler installation and repair to plumbing and drain cover, all underpinned by a nationwide network of engineers, six engineering academies and a state-of-the-art nationwide parts distribution centre.

British Gas Business
We supply gas and electricity as well as energy-related services to businesses throughout the UK.

Risks

- Restoring public trust.
- Further political and regulatory intervention and reform.
- Compliance with existing laws and regulation.
- Challenging competitive environments and market conditions.
- The need to manage exposure to volatile commodity prices and adverse weather.
- Health and safety risks arising from our operations.
- The need to maintain service levels.
- Maintaining our data security and integrity.

Principal Risks and Uncertainties 40

The year in figures

Year ended 31 December	2014	2013
Residential energy supply operating profit (BGR)	£439m	£571m
Residential services operating profit (BGS)	£270m	£318m
Business energy supply and services operating profit (BGB)	£114m	£141m
Total British Gas operating profit	£823m	£1,030m
BGR post-tax margin	4.1%	4.5%
BGR customer accounts (year end, '000)[i]	14,778	15,146
BGS product holdings (year end, '000)	7,970	8,227
BGB supply points (year end, '000)[ii]	854	916
BGR average gas consumption per customer (therms)	408	492
BGR average electricity consumption per customer (kWh)	3,498	3,688
British Gas total gas consumption (mmth)	4,085	5,126
British Gas total electricity consumption (TWh)	39.1	42.4

(i) 2013 residential energy customer accounts have been restated to exclude 110,000 accounts subsequently reclassified as dormant.
(ii) 2013 business energy supply points have been restated to include 4,000 supply points to align to industry reporting changes.

See our full performance measures at centrica.com/performance >

The net promoter score for our engineers increased to a record high.

Corporate responsibility

- Improved customer service systems contributed to higher customer satisfaction measured by our net promoter score which increased to +23 from +15 in 2013.
- Installed around 1.3 million residential smart meters in the UK.
- Helped nearly 1.8 million vulnerable households with bill assistance, debt advice and energy efficiency improvements.

How We Do Business 21

BRITISH GAS CONTINUED

British Gas faced a challenging environment in 2014, with the warmest year on record in the UK, difficult trading conditions, major systems migrations and continued political, regulatory and media focus. Against this backdrop, British Gas has a clear strategy focused on three priorities: deliver great service, transform to grow and engage our stakeholders.

British Gas Residential

British Gas Residential operating profit fell, reflecting lower average gas and electricity consumption predominantly due to the mild weather in the UK in 2014 compared to colder than normal temperatures in 2013. The average actual customer bill of £1,152 in 2014 was around £100 lower than in 2013 and the average profit per customer of £42 was nearly £10 lower than last year.

The number of residential accounts on supply reduced by 368,000 in 2014 and ended the year at 14.8 million. At the end of the year, we reviewed our definition of energy accounts on supply, which resulted in a downwards restatement of the number of opening accounts by 110,000. We experienced significant losses in the first quarter of the year, following an increase in residential prices in November 2013. However, the rate of losses was reduced over the balance of the year, with British Gas being the first energy company to reduce prices following proposed changes to the Energy Company Obligation (ECO) programme announced in December 2013, improved service levels and the launch of competitively priced offerings. The market remains highly competitive, with recent reductions in standard tariffs and most suppliers also offering a range of fixed price products.

Service levels in British Gas Residential improved with average call answering times lower than 2013, helping drive a significant improvement in our contact net promoter score (NPS). The British Gas brand NPS also recovered during the year, ending in positive territory for the first time since March 2012. In the fourth quarter, we completed the migration of all our residential customers onto a new customer relationship management (CRM) platform and the new system is helping deliver a more integrated customer experience.

A simplified product range

We have simplified our product range to four residential tariffs and have made further improvements in our transparency of bill costs. We were the first energy supplier to reduce retail tariffs in 2014, following proposed ECO changes.

Listening to what customers want

The British Gas Customer Board, made up of independent representatives and chaired by Ann Robinson, Head of Consumer Policy at uSwitch.com, was set up three years ago as part of our commitment to listen to customers. The Board continues to challenge and advise us on issues such as customer service, simplifying the bill and smart meter roll-out.

Innovation and smart connected homes

In the UK, we continue to lead the industry in technology, innovation and smart connected homes. Around two-thirds of our customer interactions are made through digital channels, with around half of those now initiated from a mobile or tablet device. Customer downloads of our top-rated app have now surpassed 1.5 million and we were recently awarded 'Most Popular Website' in the utility category in the 'Website of the Year' 2014 awards.

We have installed around 1.3 million residential smart meters in the UK. Over 500,000 British Gas customers with smart meters now regularly receive our unique smart energy report, 'my energy', which provides a comprehensive analysis of their energy consumption including a breakdown by type of use, benchmarking against similar homes, personalised energy saving tips and access to an online tool. The report is helping to improve levels of customer satisfaction and the overall perception of British Gas.

We have taken the lead in the roll-out of smart meters to prepayment customers and the ongoing trial of our SMETS1 capable prepayment meter will enable us to commence the full roll-out by the end of 2015. Additionally, leveraging our experience from Direct Energy, we have also successfully trialled our smart meter enabled 'Free Saturdays or Sundays' energy tariffs, with a full launch planned in the second half of 2015.

The end of estimated bills

Smart meters work by sending meter readings direct to the energy supplier and, for residential customers, they come with an in-home monitor to show how much energy is being used and how much it is costing in real time. They put an end to estimated billing and are transforming the way customers think about and use energy.

We have now sold over 170,000 smart thermostats with sales of our Hive Active Heating™ product currently running at around 3,000 a week and have established retail partnerships with Apple, John Lewis and Amazon. Hive has been received extremely positively with over 90% of customers recommending the product and 96% saying they feel more in control of their heating than before. In February 2015, we announced the acquisition of AlertMe, the provider of the technical platform that underpins our existing connected homes activity, including Hive, and will enable ownership and control over a scalable technology platform, software development capability, data analytics and a patent portfolio. We have a strong development pipeline of further innovative products with a 'connected boiler' and 'virtual in home display' both currently on commercial trial and with planned launch dates in the second half of 2015.

Helping people today

Helping customers to reduce and control their energy consumption is the most sustainable way to keep bills down. We have made good progress in delivering our commitments under the ECO programme and we completed our March 2015 targets in December 2014, subject to Ofgem confirmation. To date, we have delivered energy efficiency measures to over 350,000 households under the programme.

We continue to lead the industry in helping customers most in need and in 2014 we helped nearly 1.8 million households. There are also fewer residential energy customers in debt than a year ago and on average these customers have lower levels of debt. We have one of the widest eligibility criteria among all energy suppliers for the Warm Home Discount, which benefited over 500,000 customers during the year by up to £140. The bills of our customers most in need were on average 13% lower in 2014 than in 2013.

British Gas Services

British Gas Services operating profit reduced reflecting the decline in the number of contract holdings, lower on-demand volumes due to warmer weather, higher pension costs and the change in product mix towards flexible, cheaper product offerings.

While retention levels for contract customers remained high, the sales environment has been challenging. As a result, the number of product holdings fell by 257,000 in the year, to slightly under eight million. However, we returned to growth in the final quarter of the year. This follows the migration of all accounts onto the new billing and CRM platform and the completion of comprehensive sales and conduct training for our front-line staff, as well as the development of an enhanced digital offering and innovative customer propositions. The market for central heating installations showed signs of recovery in the year and the number of boilers installed increased by 3% in the year compared to 2013.

British Gas Services delivered very high levels of customer service in 2014, both in our contact centres and in customers' homes. Customer complaints fell by 14% compared to last year, while the NPS for our engineers increased to a record high of +68 in December 2014. New terms and conditions, aimed at delivering greater operational flexibility to meet customer needs, were agreed with our engineers and their union in 2014 and are now in place.

British Gas Business

British Gas Business operating profit fell, primarily due to lower average consumption as a result of the mild weather, competitive pressures leading to lower margins and accounts and a higher bad debt charge due to the impact of the transition to a new billing system.

The number of business supply points fell by 62,000 in 2014 reflecting the highly competitive conditions in the business energy market and our decision to lead the industry in ending the auto-rollover of contracts at renewal. Towards the end of the year, cleansing of data following the implementation of the new billing system resulted in the removal of 49,000 supply points.

As a result of some transitional issues following the implementation of a new billing system, which we are now resolving, we now expect to deliver £100 million of targeted reductions in operating costs and bad debt by the end of 2016, a year later than originally planned. These savings will help to offset the margin pressures from a competitive market.

To drive growth in BGB, we are focusing our proposition development on dual fuel, energy efficiency and joint energy and services offers. We continue to develop our business services capabilities and revenues from these activities grew by 10% in the year. In July 2014, we announced our participation in the Generation Community scheme to deliver up to £60 million in solar photovoltaic solutions for Local Authority and Housing Association properties. The ability to offer energy management services, products and technologies is a key differentiator and will help us retain existing customers and acquire new ones.

DIRECT ENERGY

We are differentiating our offering through innovative propositions that are attractive to the most valuable customer segments.

What we do

Direct Energy Residential
We supply gas and electricity to customers' homes throughout North America. We are focused on differentiating our offering by developing innovative bundled energy and protection plan products.

Direct Energy Business
We supply gas, electricity and energy management solutions to commercial and industrial customers. We also have trading activities in the North American wholesale energy markets.

Direct Energy Services
We provide our residential customers with choice and support in managing their energy use and cutting costs through our portfolio of innovative products and services. We provide services from air conditioning and plumbing to solar installations.

Risks

- Further political and regulatory intervention and reform.
- Challenging competitive environments and market conditions.
- The need to manage exposure to volatile commodity prices and adverse weather.
- Health and safety risks arising from our operations.
- Compliance with existing laws and regulation.
- The need to maintain service levels.
- Recruitment and retention of skilled personnel.

Principal Risks and Uncertainties 40

The year in figures

Year ended 31 December	2014	2013
Residential energy supply operating profit (DER)	£90m	£163m
Business energy supply operating profit (DEB)	£32m	£77m
Residential and business services operating profit (DES)	£28m	£36m
Total Direct Energy operating profit	£150m	£276m
Total Direct Energy operating profit (excluding polar vortex impact)	£215m	£276m
DER customer accounts (year end, '000)	3,256	3,360
DES product holdings (year end, '000)[i]	897	2,608
DER average gas consumption per customer (therms)	1,403	1,296
DER average electricity consumption per customer (kWh)	10,888	10,862
DEB total gas volumes (mmth)	5,923	1,839
DEB total electricity volumes (TWh)	96.9	63.9
Direct Energy total gas volumes (mmth)	8,163	3,883
Direct Energy total electricity volumes (TWh)	116.3	83.4

(i) DES 2014 product holding reflects the disposal of the Ontario home services business, which had 1.9 million product holdings at the time of disposal.

See our full performance measures at centrica.com/performance >

We continue to develop a broad range of innovative energy and services product offerings.

Corporate responsibility

- Completed around 600 residential solar installations (5.5MWp of generation capacity), following our acquisition of Astrum Solar in July 2014.
- Provided $538,000 to the Neighbor-to-Neighbor bill assistance programme in Texas.
- Awarded grants totalling $225,000 to 45 non-profit organisations through our energy efficiency programme, Reduce Your Use For Good.

How We Do Business 21

Direct Energy faced challenging conditions in 2014, with extreme weather caused by the polar vortex in the first quarter of the year leading to additional network system charges estimated at approximately $110 million (£65 million) and margin pressures across most of our markets in energy supply. Overall operating profit fell by 46% compared to 2013 and on a constant currency basis fell by 43%. However, during the year we added significant value through the completion of disposals of non-core assets, recognising a £219 million profit on disposal on the sale of our Texas gas-fired power stations and a £122 million profit on disposal from the sale of our Ontario home services business.

A $100 million cost reduction programme was launched at the start of the year, to help improve Direct Energy's competitive position. The programme was successfully completed towards the end of 2014.

The outlook for 2015 is more positive and we are positioned for growth, with the effect of increased sold B2B unit margins in 2014 following the polar vortex starting to positively impact profitability. We also continue to develop a broad range of innovative energy and services product offerings to improve customer retention and attract the highest value customers in our residential energy business, to build innovative partnership offerings in our B2B business in compressed natural gas (CNG) and solar and have additional growth opportunities in residential services following our acquisition of Astrum Solar.

Direct Energy Residential

Direct Energy Residential operating profit fell due to additional costs relating to the extreme weather conditions in early 2014 and a competitive sales environment in both Texas and the US North East, which led to a reduction in unit margins. The number of residential energy accounts decreased by 104,000 over 2014, predominantly reflecting the expected decline in Ontario, with the Energy Consumer Protection Act (ECPA) making retention of customers difficult, and the impact of the competitive market in Texas. Against this challenging backdrop, we remain focused on delivering high levels of customer service and higher levels of customer retention and we have now successfully implemented a new residential billing platform in Alberta.

Sales through digital channels doubled in 2014 compared to 2013, with the acquisition of Bounce Energy in 2013 having provided a leading internet-based platform and digital marketing capabilities. We are also focused on differentiating our offering to the more valuable customer segments through the development of innovative products and bundled energy and services offerings, which we started selling in the first half of the year and now have over 189,000 joint residential and services customers with sales averaging around 6,000 per week during the fourth quarter. We have also sold over 39,000 smart thermostats through our partnerships with Nest and Honeywell.

Direct Energy Business

The integration of the Hess Energy Marketing acquisition is now fully completed and the business is performing ahead of our investment case. Direct Energy is now the largest commercial and industrial (C&I) gas supplier and the second largest C&I power supplier in the competitive US retail market, as well as a top 10 wholesale gas marketer in North America in the Platts third quarter rankings. In addition to enhanced scale, the business is also set up to benefit from portfolio diversification and expansion along the gas value chain.

Despite increased volumes resulting from the Hess Energy Marketing acquisition, Direct Energy Business operating profit fell, reflecting the one-off impact of the polar vortex, lower margins on power sales made in prior periods and mild weather late in the year resulting in low levels of commodity price volatility and leading to fewer optimisation opportunities. However, average C&I sold unit margins in the second half of 2014 were 35% higher for gas and 50% higher for power compared to the second half of 2013, reflecting a repricing of risk following the polar vortex, with second half profit being significantly higher than in 2013. Combined with a lower amortisation charge relating to the Hess acquisition, this leaves the business well placed for strong underlying growth in 2015.

We continue to develop innovative propositions for our C&I customers. We have a partnership agreement with Panoramic Power to offer wireless energy sensors to help customers better understand their power consumption. We are also helping our customers implement energy efficiency projects through a network of partners across the US. In the fourth quarter, we agreed a joint venture with Xpress Natural Gas on a CNG station in New York State, that will enable us to transport CNG to customers with no access to distributed natural gas. In solar, to date we have deployed around 60% of our $125 million fund with SolarCity and are expanding our offering, both in funds and the types of projects we support.

In January 2014, we completed the sale of our three Texas gas-fired power stations for £411 million. Following the sale, we are supporting our downstream demand needs in Texas through a combination of the liquid physical and financial power markets and a three-year heat rate call option for an equivalent amount of capacity.

Direct Energy Services

In Direct Energy Services we completed the sale of the Ontario home services business for C$532 million (£294 million) in October 2014. This was an attractive opportunity to realise value from the business in a region where joint energy and services opportunities are more limited and focus our attention on opportunities in the US and Alberta, where we see good prospects for growth.

Total Direct Energy Services operating profit reduced by 22%, although profit from the non-Ontario business remained flat. Excluding the Ontario home services business, which had 1.9 million customer accounts, the number of services accounts was up 23%. We now have over 312,000 protection plan customers across the US, while our HVAC (heating, ventilation and air conditioning) leasing proposition continues to perform well as customers are willing to undertake a higher value of work when purchased through rental payments as opposed to upfront payment. In addition, the future pipeline of work for our residential new construction, commercial and solar business was $79 million, a record for the business. The business continued to deliver high levels of customer service, with NPS closing the year at +62.

In July 2014, we entered the rapidly growing US residential solar market through the acquisition of Astrum Solar. This transaction enables Direct Energy to sell solar alongside its existing range of energy and services products, as we look to develop further attractive propositions to attract the highest value customers. We completed around 600 residential solar installations in 2014 following the acquisition, 50% more than Astrum Solar installed over the same period in 2013.

BORD GÁIS ENERGY

Our acquisition of Bord Gáis Energy gives us a leading position in an adjacent deregulated market and provides a platform for growth.

What we do

Bord Gáis Energy is a leading energy supplier in the Republic of Ireland and offers a wide range of customer focused solutions including flexible payment options, online account management capabilities and a number of simple price plans. We also have an emergency breakdown service and are committed to helping customers by remaining true to our core values of simplicity, integrity and understanding.

Our CCGT plant – the 445MW Whitegate plant, in County Cork – is capable of providing power for up to 400,000 homes.

Risks

- Maintaining public trust.
- Further political and regulatory intervention and reform.
- Challenging competitive environments and market conditions.
- The need to manage exposure to volatile commodity prices and adverse weather.
- Maintaining expected levels of plant reliability and availability.
- Health and safety risks arising from our operations.
- Compliance with existing laws and regulation.

Principal Risks and Uncertainties 40

Six months in figures

Period ended 31 December	2014
Total Bord Gáis Energy operating profit	£7m
Residential energy customer accounts (year end, '000)	608
Residential average gas consumption per customer (therms)	127
Residential average electricity consumption per customer (kWh)	2,373
Total gas volumes (mmth)	106
Total electricity volumes (TWh)	1.4
Total power generated (TWh)	0.9

See our full performance measures at centrica.com/performance

Corporate responsibility

- Invested €239,000 in the Better Energy Communities energy efficiency scheme, run by the Sustainable Energy Authority of Ireland.
- Donated €50,000 to the Society of St. Vincent de Paul, which gives practical assistance to vulnerable people.

How We Do Business 21

On 30 June 2014, Centrica completed the acquisition of Bord Gáis Energy in the Republic of Ireland, a supply business with power generation capacity in an adjacent deregulated market, providing a good platform for growth. Bord Gáis Energy is the incumbent gas supplier and largest dual fuel supplier in the Republic of Ireland with over 600,000 residential accounts and 30,000 business supply points.

The business made an operating profit of £7 million in the first six months of Centrica's ownership, including one-time integration and acquisition costs and some unplanned outages at the Whitegate gas-fired power station. In 2015 we expect the business to contribute around €40 million (£31 million) EBITDA, in line with the investment case.

CENTRICA ENERGY

We have a responsibility to secure energy supplies in a way that reduces adverse impacts on communities and the environment.

What we do

Exploration and production
Our upstream oil and gas business operates in the Irish Sea, the UK, Norwegian and Dutch sectors of the North Sea and North America.

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

Midstream
Our midstream trading and optimisation operation trades in oil, gas and power to ensure we meet the energy needs of our customers. It also includes our growing LNG business.

Risks

- Exposure to adverse long-term trends in commodity prices as well as short-term price volatility.
- Further political and regulatory intervention and reform.
- Health and safety risks arising from our assets and operations.
- Realising full value from our portfolio of assets and contracts.
- Successful execution of major capital projects.

Principal Risks and Uncertainties 40

The year in figures

Year ended 31 December	**2014**	2013
Gas operating profit	**£606m**	£1,155m
Power operating profit/(loss)	**£131m**	£171m
Gas-fired	**(£120m)**	(£133m)
Renewables (operating assets)	**£27m**	£36m
Renewables (one-off write-offs, profit/loss on disposal)	**(£17m)**	(£11m)
Nuclear	**£210m**	£250m
Midstream	**£31m**	£29m
Total Centrica Energy operating profit	**£737m**	£1,326m
Gas operating profit after tax	**£302m**	£325m
Gas production (mmth)[i]	**3,772**	3,557
Liquids production (mmboe)[i]	**17.3**	18.7
Total gas and liquids production (mmth)[i]	**4,822**	4,690
Total gas and liquids production (mmboe)[i]	**79.5**	77.3
Upstream proven and probable reserves (mmboe)[ii]	**585**	711
Total UK power generated (TWh)	**22.1**	21.7

(i) Includes 100% share of Canadian assets owned in partnership with QPI.
(ii) Centrica's share of reserves, including a 60% share of Canadian assets owned in partnership with QPI, and excluding Rough cushion gas of 30mmboe. Includes the impact of QPI's investment in 40% of our wholly-owned Canadian gas and liquids assets in the year.

Corporate responsibility

- Long-term contracts totalling £47 billion in commitments so far to supply gas and power to our customers.
- Commitment to open the two proposed exploration sites for natural gas from shale, of which we have a 25% non-operating share, to the British Geological Survey. This ensures independent monitoring during the hydraulic fracturing process.
- Zero significant process safety events occurred in 2014.

How We Do Business 21

See our full performance measures at centrica.com/performance >

We are seeking new sources of gas and competing in global markets.

CENTRICA ENERGY CONTINUED

Centrica Energy's diversified upstream and midstream portfolio and hedging helped to mitigate against the impact of a falling wholesale oil and gas price environment in 2014. However, the lower wholesale price environment creates a challenging backdrop and we are enforcing strict financial discipline, with the management team taking action to reduce capital expenditure and costs and progressing asset disposals to release capital.

Gas

Our E&P business continued to see good production from previous investments in Norway and Canada. However, production from the UK and Netherlands was disappointing. Total gas and liquids production increased by 3% to 79.5mmboe, with gas volumes up 6% and liquids volumes down 7%.

Production in the Americas increased by 68% reflecting a full year of production from the assets acquired from Suncor in September 2013, in partnership with Qatar Petroleum International (QPI). During 2014, we strengthened our relationship with QPI, who invested in 40% of our wholly owned Canadian gas and liquids assets in October for C$215 million (£119 million), fully aligning our interests in the region. The partnership also acquired a package of natural gas assets in Alberta from Shell Canada Energy for C$42 million (£23 million) and production from these assets, combined with new production wells, helped the Canadian business end the year at record high production volumes.

Production in Europe decreased by 16%, partly as a result of the disposals of three packages of North Sea assets, all announced in late 2013. We experienced some production issues in the UK and Netherlands, with gas export constraints in the Greater Markham Area (GMA) and lower than expected flows from York. However, production rates in the GMA increased towards the end of the year and a fourth well was brought online at York in the second half. Our assets in Norway performed well, with strong production from the Kvitebjorn asset, ahead of our original investment case.

Energy choices

We are deeply conscious of the cost of living challenge facing many of our customers and are fully committed to tackling climate change. This is why we have been exploring options for future UK energy policy. Our findings are published in a detailed report that has been widely reviewed. Our intention is to offer ideas and solutions that help deliver carbon savings without adding unnecessary costs on to households and businesses.

Download the report at centrica.com/energychoices >

Securing gas supplies

The gas market is becoming increasingly global. We are diversifying our sources of gas and recently we have focused on growing our presence in LNG imports. Shipping LNG – where the gas is cooled to minus 161 degrees Celsius to liquid form, at 1/600 of its original volume, for ease of transport – is an increasingly important part of how Centrica is working to secure the UK's energy needs.

Partners for success

Building strong relationships with our industry partners, such as Cheniere and QPI, has been critical to our success. We want and need to be a Group that people desire to work with. Reputation is important to us and we conduct ourselves with integrity and respect and seek to do repeat business with our key partners.

The large scale Valemon project in the Norwegian North Sea was brought on-stream in January 2015, with further wells being drilled over 2015 and into 2016 to maximise the recoverable reserves from the field. The Cygnus project in the Southern North Sea remains on schedule to produce first gas around the end of 2015. We also produced first gas from the Kew field at the start of 2014 and from an additional well drilled at Grove in the second half of the year. Two wells drilled adjacent to the Butch discovery, Butch East and Butch South West, did not find further commercial hydrocarbons. However, the results contributed valuable information that will enable us to optimise the development of the main Butch field.

On exploration, six out of seven wells drilled in Europe were successful in finding hydrocarbons and three, Valemon North, Cepheus and Pegasus, were classified as commercial discoveries. We also wrote down exploration costs in respect of Solberg, Ivory and Novus drilled in 2014 and Fulham and Olympus, which were drilled in previous years and face significant development challenges to be commercial in the current price environment. In addition we wrote off exploration licences originally acquired as part of the Venture acquisition and impaired the Bains asset and a recent failed well drilled on Buckland.

In the year we recognised exceptional post-tax impairments of £712 million relating to our E&P assets, predominantly as a result of declining oil and gas prices, including £265 million on our assets in Trinidad and Tobago. We will continue to review our options to release capital from these assets.

Centrica Energy's proven and probable (2P) reserves reduced by 18% to 585mmboe, reflecting production in the year and the sale of a 40% share of our wholly owned gas assets in Western Canada to QPI. This also reflects a reduction in reserve expectations from some UK fields, with updated production flow data as well as the lower price environment making a number of future developments uneconomic and leading to an earlier forecast cessation of production on some assets.

In view of the current oil and gas price levels, we have taken action to scale back exploration and development expenditure across the portfolio, particularly in Canada where we have flexibility to manage drilling programmes in line with the sharp price drop. In 2014, total E&P capital expenditure was above £1 billion and we expect this to reduce to approximately £800 million in 2015. We have taken further steps to reduce expenditure in 2016 to approximately £650 million, which is substantially below previous guidance. Reflecting lower capital expenditure, we expect total production in 2015 to be around 75mmboe.

Our midstream business performed well as we managed periods of wholesale market volatility and falling commodity prices. We also optimised our flexible gas contracts during the fall in summer gas prices to realise additional value, resulting in a significant increase in the midstream gas profit in 2014, partially offset by a consequential reduction in expected results for 2015. In LNG, Federal Energy Regulatory Commission (FERC) approval for the fifth train at Cheniere's Sabine Pass export facility is anticipated around the end of the first quarter of 2015, and the project remains on course to enable the first commercial delivery through our contract by the end of 2018. We also took delivery of our first 'Free on Board' cargoes in the fourth quarter, as we look to increase our presence and capability in LNG.

Gas operating profit fell by 48% despite increased production, reflecting lower wholesale oil and gas prices. However, profit after tax was only down 7%, reflecting the benefits from forward hedging, a strong midstream performance, production mix weighted towards lower taxed assets, non-recurring small field tax allowances and a tax credit relating to the disposal of the Greater Kittiwake assets. Unit lifting and other cash production costs increased by 6%, principally reflecting lower production from European fields.

In the low wholesale price environment, we have acted to manage our cost base, examining all our internal and external supply costs for our operated fields. We are also working with our partners to reduce costs where we are not the operator. Reflecting these actions, we are targeting our 2016 lifting and other cash production costs to be around 2013 levels. This requires a 10% reduction on 2014 as well as absorbing the incremental costs of Valemon and Cygnus which will be on-stream.

Power

In December 2014, the UK's first power capacity auction took place for capacity in 2018/19. The auction clearing price was £19.40/kw/year, significantly below market expectations. Our Humber and Langage gas-fired power stations were both successful in the auction, as were all the nuclear reactors in which we have a 20% equity interest. However, our remaining four operational gas-fired stations at Barry, Brigg, Killingholme and Peterborough were unsuccessful, as was King's Lynn which is currently mothballed.

During the year, we commenced a process to dispose of our three larger UK gas-fired power stations. However, the low capacity auction price resulted in an expected consequential decline in bidder confidence, and we decided that a disposal was no longer highly probable. As a result, the assets were reclassified out of assets held for sale as at 31 December 2014. In 2015 we received bids that were lower than our internal valuation and we have concluded that it is not in the best interest of shareholders to proceed with the disposal of these stations. Humber and Langage are cash generative at the operating level in the current environment and we will, therefore, retain these assets. However, following a review, we plan to close the Killingholme and Brigg power stations. We will also be taking action to make the management of our power portfolio more efficient.

Reflecting the result of the capacity auction and declining power prices, we recognised a post-tax impairment of £459 million on our UK gas-fired power generation assets and a post-tax impairment of £214 million on our investment in the UK nuclear fleet.

In 2014, output from our interest in the UK nuclear fleet was down 7% compared to 2013, reflecting the temporary shut down of four reactors at the Heysham 1 and Hartlepool power stations following discovery of a boiler spine issue at Heysham 1 in August. All reactors have now returned to service following inspections of all boiler spines at the affected reactors which found no further defects. However, the four affected reactors will operate at 75–80% power until modifications are made to the boilers during standard maintenance periods in 2015 and 2016. Reflecting the lower output, nuclear operating profit fell 16%.

Gas-fired generation volumes were 12% higher than in 2013, although market spark spreads remained low throughout the year and the forward market currently shows little sign of recovery in 2015. Our gas-fired business reported a reduced operating loss of £120 million, which includes a £39 million depreciation saving as a result of the three larger power stations being classified as held for sale assets for eight months in 2014.

Our wind assets delivered generation volumes up 20%, reflecting a full contribution from the Lincs offshore wind farm. Reflecting our focus on capital discipline, at the half year we reviewed the economic viability of the Round 3 Irish Sea Zone project, Celtic Array, following discussions with The Crown Estate and our partners in the project, DONG Energy, and we have now handed the licence back to The Crown Estate. As a result, we recognised a charge of £40 million, principally in respect of writing off the total book value of the project. In November 2014, the sale of the Lincs transmission assets under the offshore transmission owner (OFTO) regime was completed in line with book value, while in December 2014, we sold our 50% non-operated interest in the Barrow offshore wind farm to DONG Energy for £50 million, with Centrica recognising a £26 million pre-tax profit from the disposal.

Renewables operating profit fell by 60% compared to 2013, reflecting a reduced contribution from the disposal of assets and increased costs associated with writing down developments.

CENTRICA STORAGE

Our Rough gas storage facility makes an important contribution to the UK's security of supply.

What we do

Our Rough gas storage facility is the largest in the UK, able to meet approximately 10% of the UK's winter peak day demand and representing more than 70% of the UK's current storage capacity. Rough is situated in the North Sea, 18 miles off the coast of East Yorkshire. Centrica Storage also owns and operates the Easington gas processing terminal, which processes both gas from Rough and from Centrica Energy's York gas field for onward distribution via the National Transmission System.

In accordance with undertakings given to the Secretary of State for Trade and Industry in 2003, Centrica Storage is legally, financially and physically separate from all other Centrica businesses.

Risks

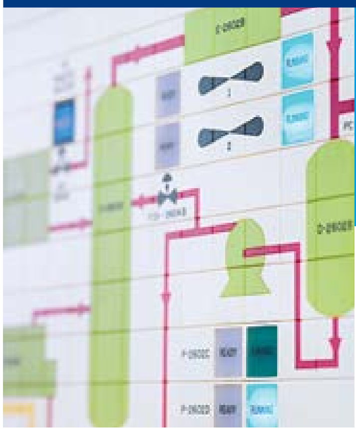
- Compliance with existing laws and regulation.
- Further political and regulatory intervention and reform.
- Exposure to the spread between winter and summer gas prices.
- Health and safety risks arising from our assets and operations.

Principal Risks and Uncertainties 40

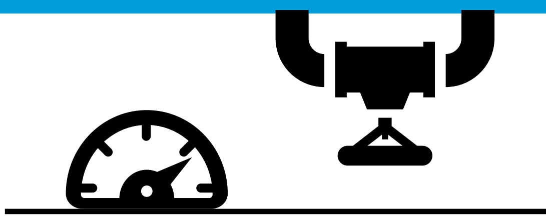
The year in figures

Year ended 31 December	2014	2013
Total Centrica Storage operating profit	£29m	£63m

See our full performance measures at centrica.com/performance >



Rough represents 70% of the UK's current storage capacity.



Corporate responsibility

- Continued our focus on safety, with one lost time injury in 2014, equalling 2013.
- Zero significant process safety events occurred in 2014.

How We Do Business 21

The Rough gas storage asset reached its highest ever net reservoir volume (NRV) in November 2014, reflecting the lower level of withdrawal in the first quarter due to the warmer than normal weather combined with continued good asset reliability.

Seasonal gas price spreads fell to historic lows towards the end of 2013 due to the abundance of flexible supply across North West Europe and warm weather. As a result the average Standard Bundled Unit (SBU) price for the 2014/15 storage year fell to 20.0 pence, lower than the 23.3 pence achieved in 2013/14 and the 33.9 pence achieved in 2012/13. This resulted in a 21% reduction in SBU revenue in 2014 compared to 2013 and operating profit fell by 54%.

At the start of 2014, we commenced a three-year programme to deliver £15 million of cost reductions through operational improvements and capital discipline. We are on track to deliver this with significant progress in the year on business restructuring, reductions in capital expenditure and improved maintenance planning.

GROUP FINANCIAL REVIEW

Against the low commodity price backdrop we are taking positive action to improve earnings and cash flows in 2015 and 2016.

Group revenue
£29.4bn
2013: £26.6 billion

Net assets
£3,071m
2013: £5,257 million

Net finance cost
£266m
2013: £243 million

Adjusted operating profit
£1,746m
2013: £2,695 million

Net debt
£5,196m
2013: £4,942 million

Operating cash flow
£1,217m
2013: £2,940 million

Adjusted tax charge
£432m
2013: £1,022 million

Statutory (loss)/profit
(£1,012m)
2013: £950 million

Dividend
13.5p
2013: 17.0 pence

Adjusted basic EPS
19.2p
2013: 26.6 pence

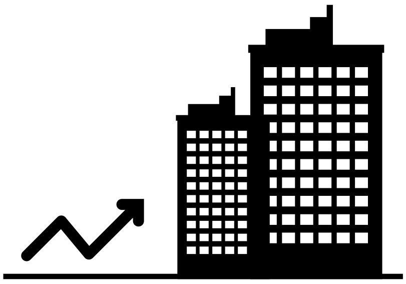
GROUP FINANCIAL REVIEW CONTINUED

Group revenue

Group revenue increased by 11% to £29.4 billion (2013: £26.6 billion). British Gas gross revenue decreased by 9%, reflecting the impact of record mild weather in the UK in 2014 compared to colder than normal temperatures in 2013. Residential energy supply gross revenue fell by 12%, with the warmer weather resulting in a 21% fall in total gas consumption and a 9% fall in total electricity consumption. Residential services gross revenue was broadly flat, with the impact of higher central heating installation volumes and inflationary price increases offset by lower product holdings and a shift towards lower priced offerings. Business energy supply and services gross revenue fell by 3%, with lower consumption due to the warm weather and lower average accounts only partially offset by higher retail tariffs.

Direct Energy gross revenue increased by 62%. This primarily reflects a full year of revenue from the Hess Energy Marketing acquisition completed in November 2013, with business energy supply gross revenue more than doubling as a result. Residential energy supply gross revenue increased by 2%, reflecting additional gas volume as a result of extreme weather conditions across much of North America. Residential and business services gross revenue fell by 8%, reflecting the disposal of the Ontario home services business in October.
Bord Gáis Energy reported gross revenue of £391 million in the six months of trading following completion of the acquisition at the end of June 2014.

Centrica Energy gross revenue fell by 17%. Gas gross revenue fell by 21%, reflecting falling oil and gas prices and power gross revenue fell by 3% primarily reflecting lower nuclear output. Centrica Storage gross revenue fell by 21% reflecting lower seasonal gas price spreads.



Operating profit

Throughout the Annual Report and Accounts, reference is made to a number of different profit measures, which are shown below:

Year ended 31 December	Notes	**2014** Business performance £m	**2014** Exceptional items and certain re-measurements £m	**2014** Statutory result £m	2013 Business performance £m	2013 Exceptional items and certain re-measurements £m	2013 Statutory result £m
Adjusted operating profit							
British Gas		823			1,030		
Direct Energy		150			276		
Bord Gáis Energy		7			–		
Centrica Energy		737			1,326		
Centrica Storage		29			63		
Total adjusted operating profit	4c	1,746			2,695		
Depreciation of fair value uplifts from Strategic Investments (nuclear post-tax)	4c	(78)			(66)		
Interest and taxation on joint ventures and associates	4c	(100)			(111)		
Group operating (loss)/profit	4c	1,568	(2,705)	(1,137)	2,518	(626)	1,892
Net finance cost	8	(266)	–	(266)	(243)	–	(243)
Taxation	7, 9	(375)	773	398	(942)	243	(699)
(Loss)/profit for the year		927	(1,932)	(1,005)	1,333	(383)	950
Attributable to non-controlling interests		(24)			–		
Depreciation of fair value uplifts from Strategic Investments, after taxation	10	59			37		
Adjusted earnings		962			1,370		

British Gas operating profit fell by 20%. Residential energy supply operating profit fell by 23%, with lower revenue only partially offset by lower total wholesale commodity costs. Residential energy supply operating profit also included £46 million of costs from transportation and LNG capacity, previously reported in Centrica Energy, which enables the business to bring gas into the UK. Residential services profit fell by 15% reflecting lower margins in challenging trading conditions and a lower average number of contracts. Business energy supply and services operating profit fell 19% reflecting the lower revenue, competitive pressures resulting in lower margins, and a higher bad debt charge due to the impact of the transition to a new billing system.

Direct Energy operating profit fell by 46%. This predominantly reflects challenging competitive market conditions leading to a narrowing of margins in both residential and business energy supply, in particular in our legacy B2B power business, and additional ancillary and other charges incurred as a result of the polar vortex, estimated at approximately $110 million (£65 million). Residential energy supply profit fell by 45% and business energy supply profit fell by 58%. Residential and business services profitability fell by 22%, reflecting the sale of the Ontario home services business.

Bord Gáis Energy made an operating profit of £7 million in the six months post acquisition, including one-time acquisition-related costs.

Centrica Energy operating profit fell by 44%. In gas, despite increased production, the benefits of prior year hedging and strong midstream performance, operating profit almost halved reflecting the impact of a lower wholesale price environment. Power profitability fell by 23%, reflecting lower output from the nuclear fleet and higher net losses associated with asset impairments and disposals.

Centrica Storage operating profit more than halved, reflecting the impact of low seasonal gas price spreads.

Group finance charge and tax

Net finance cost increased to £266 million (2013: £243 million), reflecting higher notional interest. The taxation charge reduced to £375 million (2013: £942 million) and after taking account of tax on joint ventures and associates and the impact of fair value uplifts, the adjusted tax charge was £432 million (2013: £1,022 million). The resultant adjusted effective tax rate for the Group was 30% (2013: 43%), reflecting a shift in the mix of profit towards the lower taxed downstream businesses. In addition, a number of items acted to reduce the rate, specifically upstream small field tax allowances, deferred tax credits relating to the disposal of the Greater Kittiwake assets and a reorganisation of Power legal entities. Without these allowances and credits, the adjusted UK effective tax rate would have been 29%. An effective tax rate calculation, showing the UK and non-UK components, is shown below.

On 30 June 2014, the Group acquired Bord Gáis Energy's gas and electricity supply business in the Republic of Ireland, including the Whitegate gas-fired power station.

Bord Gáis Energy 30

Effective tax rate calculation

Year ended 31 December	**2014 UK £m**	**2014 Non-UK £m**	**2014 Total £m**	2013 UK £m	2013 Non-UK £m	2013 Total £m
Adjusted operating profit	**1,285**	**461**	**1,746**	1,903	792	2,695
Share of joint ventures'/associates' interest	**(62)**	**–**	**(62)**	(60)	–	(60)
Net finance cost	**(152)**	**(114)**	**(266)**	(146)	(97)	(243)
Adjusted profit before taxation	**1,071**	**347**	**1,418**	1,697	695	2,392
Taxation on profit	**125**	**250**	**375**	493	449	942
Tax impact of depreciation of Venture fair value uplift	**19**	**–**	**19**	29	–	29
Share of joint ventures'/associates' taxation	**38**	**–**	**38**	51	–	51
Adjusted tax charge	**182**	**250**	**432**	573	449	1,022
Adjusted effective tax rate	**17%**	**72%**	**30%**	34%	65%	43%

GROUP FINANCIAL REVIEW CONTINUED

Group earnings and dividend

Reflecting all of the above, profit for the year fell to £927 million (2013: £1,333 million) and after adjusting for profits attributable to non-controlling interests and fair value uplifts, adjusted earnings were £962 million (2013: £1,370 million). Adjusted basic earnings per share (EPS) was 19.2 pence (2013: 26.6 pence).

The statutory loss attributable to shareholders for the year was £1,012 million (2013: profit £950 million). The reconciling items between Group profit for the year from business performance and statutory loss/profit are related to exceptional items and certain re-measurements. The change compared to 2013 is due to lower profit from business performance, a net loss from certain re-measurements of £771 million (2013: profit £284 million) and higher net exceptional charges of £1,161 million (2013: £667 million). The Group reported a statutory basic EPS loss of 20.2 pence (2013: profit 18.4 pence).

In addition to the interim dividend of 5.1 pence per share, we propose a final dividend of 8.4 pence, giving a total ordinary dividend of 13.5 pence for the year (2013: 17.0 pence).

Group cash flow, net debt and balance sheet

Group operating cash flow before movements in working capital was lower at £2,726 million (2013: £3,737 million), reflecting the reduced profit from business performance. After working capital adjustments, tax, and payments relating to exceptional charges, net cash flow from operating activities was £1,217 million (2013: £2,940 million), which includes the impact of a net outflow of £640 million (2013: £82 million inflow) of cash collateral due to falling commodity prices.

The net cash outflow from investing activities was lower at £651 million (2013: £2,351 million), reflecting the disposal of the Texas gas-fired power stations and Ontario home services business and significant acquisition spend in 2013 primarily related to the Hess Energy Marketing acquisition.

On 29 July 2014, the Group acquired a 100% equity interest in Astrum Solar's residential business in the US.

Direct Energy 28

The net cash outflow from financing activities was £663 million (2013: £791 million). The outflow was lower than in 2013 due to the investment by QPI in our Canadian upstream gas business and a lower cash outflow from the purchase of treasury shares under the share repurchase programme.

Reflecting all of the above, the Group's net debt at 31 December 2014 was £5,196 million (2013: £4,942 million), which now includes within its definition cash collateral posted or received, to support wholesale energy procurement.

During the year, net assets reduced to £3,071 million (2013: £5,257 million). This reflects the impact of dividend payments, the share repurchase programme and the statutory loss in the year.

Exceptional items

Net exceptional pre-tax charges of £1,597 million were incurred during the year (2013: £1,064 million). Taxation on these charges generated a credit of £436 million (2013: £397 million) which resulted in exceptional post-tax charges of £1,161 million (2013: £667 million).

Reflecting declining wholesale oil and gas prices, the Group recognised a total pre-tax impairment charge of £1,189 million (post-tax charge £712 million) on a number of E&P assets.

Reflecting declining clean spark spreads and capacity market auction prices, the Group recognised a pre-tax impairment charge of £371 million (post-tax charge £297 million) relating to Langage and Humber power stations and a pre-tax impairment charge of £164 million (post-tax charge £162 million) on its other UK gas-fired power stations. The Group also recognised an impairment charge of £214 million (post-tax charge £214 million) on its nuclear investment, also due to declining power prices and the capacity market auction prices.

On 22 January 2014, the Group disposed of its Texas gas-fired power stations to Blackstone Group LP for consideration of $685 million (£411 million). As a result, an exceptional pre-tax gain of £219 million was recognised during the year. Taxation on this gain generated a charge of £77 million, resulting in an exceptional post-tax gain of £142 million.

On 20 October 2014, the Group disposed of the Ontario home services business for cash consideration of C$426 million (£235 million) as well as shares in the acquirer, Enercare Inc., of C$106 million (£59 million), which are listed on the Toronto Stock Exchange (TSX). As a result, an exceptional pre-tax gain of £122 million was recognised during the year. Taxation on this gain generated a charge of £40 million, resulting in an exceptional post-tax gain of £82 million.

Certain re-measurements

The Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as 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. The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. The operating loss in the statutory results includes net pre-tax losses of £1,108 million (2013: net gains of £438 million) relating to these re-measurements, largely as a result of falling forward prices, particularly in the second half of the year. The Group recognises the realised gains and losses on these contracts in business performance when the underlying transaction occurs. The profits 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. See note 7 for further details.

Acquisitions and disposals

On 30 June 2014, the Group acquired Bord Gáis Energy's gas and electricity supply business in the Republic of Ireland, including the Whitegate gas-fired power station, for total consideration of €214 million (£172 million).

On 29 July 2014, the Group acquired a 100% equity interest in Astrum Solar's residential business for consideration of $53 million (£33 million).

On 27 June 2014, the Group acquired natural gas assets in the Foothills region of Alberta from Shell Canada Energy for C$42 million (£23 million). The assets were acquired by CQECP, the 60:40 partnership with QPI.

In addition to the disposals of the Ontario home services business and the Texas gas-fired power stations, referenced in 'Exceptional items', the Group disposed of the Barrow offshore wind farm to DONG Energy for a consideration of £50 million.

Further details on acquisitions, plus details of asset purchases, disposals and disposal groups are included in notes 4(f) and 12.

Events after the balance sheet date

On 13 February 2015, Centrica announced that British Gas will acquire AlertMe, a UK-based connected homes company that provides innovative energy management products and services. The net cost to British Gas will be £44 million, taking into account an existing 21% holding in AlertMe. It is anticipated that the transaction will close by the end of the first quarter of 2015.

Further details of events after the balance sheet are described in note 26.

Risks and capital management

The Group's principal risks and uncertainties as disclosed in 2013 remain largely unchanged. However, the combination of a number of individual risks coming together in 2014 have impacted the results, as outlined above. Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note S3. Details on the Group's capital management processes are provided under sources of finance in note 24.

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) as adopted by the European Union. The Group's specific accounting measures, including changes of accounting presentation and selected key sources of estimation uncertainty, are explained in notes 1, 2 and 3.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Health, safety, environment and security (HSES)

Risk climate

No change

Strategic priorities

What are the risks?

There are inherent hazards in our operations, in particular those relating to the integrity of our physical operating assets and to oil and gas exploration, production, transportation and storage and power generation. This includes non-controlled interests in organisations with whom we contract. The management of these assets is also subject to various laws, regulations and permits.

In addition, our engineers visit customer premises to undertake essential repair and maintenance work on gas and electrical installations, appliances and plumbing and drain services.

Security events such as malicious attacks, criminal or activist activity can also cause disruption to our operations.

Failure to manage risks arising from these assets and operations could result in major injuries or loss of life, significant disruption to production or services, damage to our reputation and environmental damage. The costs related to the recovery, clean up or any resultant litigation could have a material financial impact.

Insurance proceeds may not be adequate to fully cover all liabilities, lost revenue or increased expenses resulting from a major incident, particularly involving oil and gas exploration and production activities or the nuclear fleet.

Compliance with laws, regulations and permits, or changes to existing commitments, could significantly impact the cost of operation and make it uneconomic to continue managing certain assets.

How do we manage these risks?

The management of HSES risk is overseen by the Board and Executive Committee and remains one of our core priorities with a continued focus across all our assets and operations.

We undertake regular reviews and independent assessments of the processes in place to manage these risks to ensure they remain effective and continue to develop. This includes any third parties involved in our operations and building strong relationships and supporting any local communities we work within. We also continue to invest in training to ensure we maintain safe operating practices in both our upstream and downstream businesses.

Security intelligence and operating procedures, together with crisis management and business continuity plans, are regularly evaluated and tested to provide assurance that we are capable of responding promptly and adequately to such events.

Further information on our safety activities and performance can be found in 'How We Do Business' on page 21.

Looking forward

- Delivery of process safety improvement plans in our upstream business.
- Increased volume of smart meter installations in customer premises.

Political, regulatory and compliance

Risk climate

Risk has increased

What are the risks?

The markets in which we operate are subject to detailed legislation and regulation across different jurisdictions. This complex structure is continually evolving and any changes or uncertainty, or ineffective or incomplete implementation of any new obligations could adversely affect our business.

A worsening of the international political climate increases the possibility of sanctions or other trade limiting actions that could impact our ability to source commodities. Political and regulatory direction will play a major part in our continued progress. Future LNG exports from our gas facility project in North America could face US government limitations or refusal.

Following the 2014 Scottish referendum, there is uncertainty over the new powers, including areas such as fuel poverty and energy efficiency, that will be devolved to Scotland and also any changes that could be made to the tax system in Scotland compared to the rest of the UK.

The lead-up to the UK general election has and could continue to result in consumer group lobbying, political statements and manifesto pledges that do not translate well into considered policy. This could increase the pressure on regulators to act, resulting in sharp fluctuations in investor confidence, an increase in the cost of capital and a reduction in the credit worthiness of energy buyers.

Innovate to drive growth and service excellence

Integrate our natural gas business, linked to our core markets

Increase our returns through efficiency and continued capital discipline

More on strategic priorities 17

Strategic priorities

The CMA market investigation is due to conclude at the end of 2015 and could result in recommendations that are unfavourable to our business model. Ofgem is also focused on increasing transparency over energy company finances, as well as increasing pressure to lower retail energy bills as wholesale energy prices have decreased.

How do we manage these risks?

Our Group business principles, policy framework and corporate responsibility framework govern how we conduct our affairs.

We are committed to an open, transparent and competitive UK energy market that provides choice for consumers. We lead the industry in putting our customers in charge of their energy consumption through innovative products such as our Tariff Checker and Hive Active Heating™.

We proactively engage with our stakeholders, including government, legislators and regulators in order to shape proposals and manage risks. We work with regulators to find a better approach to intervention that agrees clear targets, for example switching times or complaint handling, against which we could demonstrate progress. We work with political parties to develop a consensus on energy policy that supports the transition to a secure, low cost, low carbon UK.

Looking forward

- Decision and any resulting remedial actions from the CMA energy market investigation.

Trust, perception and customer service

Risk climate

No change

What are the risks?

The challenges of day-to-day costs of living, including energy, have had a very negative impact on the public's perception of energy suppliers. The fall in wholesale energy prices and the timing of the reduction in consumers' bills, has further heightened political and media attention in this area. This is not only a concern for our customers but also damages investor confidence, increasing the prospect of potential further government or regulatory intervention at a time when substantial investment is required to secure supplies of energy.

Media attention and the position taken by political parties in the run-up to the UK general election could also lead to further uncertainty, as the political consensus that existed over key questions of energy policy has broken down.

Customers may switch supplier if they experience unacceptable customer service levels or if it is perceived that we are failing to maintain service quality.

The increased use of social media allows customers and consumer groups to engage, share views and take part in direct action and other campaigns more readily than before. Poor perception of the Centrica brands, our service levels or our level of transparency could undermine trust in us and lead to campaigns for change, as well as challenges in attracting and retaining new customers.

Hydraulic fracturing in the UK together with the Group's exploration licence in Norwegian waters close to the Arctic could cause adverse publicity and damage to our brands as we explore opportunities for unconventional energy supply and generation or related technologies as part of our business strategy.

Strategic priorities

How do we manage these risks?

We remain focused on providing affordable energy and excellent service, working to deliver a fair, simplified and transparent offering to consumers and protecting the most vulnerable, fuel-poor households through initiatives to improve energy efficiency or with financial advice and aid. Through improved customer billing and CRM systems, taking the lead on smart metering and developing new innovative products, we help put customers in control of their energy consumption and reduce carbon emissions. In 2014, we led the industry in deciding to end the auto-rollover of contracts at renewal for our business customers.

To help people today and secure energy for tomorrow, we engage with NGOs, consumer and customer groups, political parties, regulators, charities and other stakeholders to understand their views and concerns, working together to identify solutions to help reduce bills and improve transparency to help rebuild trust in the industry. We have entered into initiatives, including our partnership with Shelter, and the launch last year of the Centrica backed pioneering social impact investment fund Ignite.

We actively manage our reputation with a number of different stakeholders including customers, investors, opinion-formers, employees, the media, governments and government agencies, political parties, and regulatory and trade union bodies.

Looking forward

- Media and political effect of the UK general election.
- Progressing with development of our UK hydraulic fracturing interest.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Strategic growth

Risk climate

Risk has increased

Strategic priorities

What are the risks?

Despite positive signs of recovery in the UK, uncertainty remains in the global economy and the economic sentiment could impact many parts of our business.

The UK market faces potential pressure in both the run-up to the UK general election and in the policy decisions taken by the next government.

The UK is also becoming increasingly dependent on gas imports and, as a result, international energy prices.

Growth in our North American downstream business will also be dependent in part on the successful integration of a number of newly acquired businesses.

The current political debate has exacerbated significant uncertainty in the UK energy landscape. This could impact future power, storage and upstream investment and the attractiveness of the UK energy supply business.

A number of emerging technologies and innovations have the potential to be disruptive to our business. In our upstream business, we face competition in developing and applying new technology to maximise recovery, in making unconventional sources of oil and gas economic and in generating power through low carbon solutions.

Improved energy efficiency and changing customer behaviour as a result of greater environmental awareness, reaction to past price increases and long-term weather patterns have led to a reduction in energy demand in our downstream business.

In the UK, gas demand is forecast to continue to decline over the next decade with the emergence of smart connected home solutions and electricity demand is forecast to decline by a smaller amount or remain flat. The retail energy environment is highly competitive across residential and business segments as well as energy services, including new business areas, such as smart enabled applications.

In the UK, the number of small suppliers has grown significantly and we have seen increasing levels of switching for the supply of energy and services. We could see heightened competitive pressures as new players, such as insurance companies, telecom companies, supermarkets and other large retail companies enter the services market and seek to strengthen their positions. The value of customer data has increased and the widening range of virtual interaction with customers through digital media, smart technology, the internet and mobile devices plays a greater role in the retail energy sector.

Climate change, new technologies and global economic conditions may be subject to circumstances beyond our control resulting in an adverse impact on our strategic growth.

How do we manage these risks?

We continue to pursue a range of options across the energy chain and in different geographies to both deepen our customer relationships and secure our future energy requirements. We remain committed to developing diverse alternative sources of supply and continue to explore for shale gas in the UK.

We continue to seek cost efficiency through innovation and investment in systems, positioning ourselves to deliver targets whilst maintaining a stable platform for investment.

The way we heat, power and light our homes is changing through a combination of environmental and financial concerns and the ease of use and prevalence of mobile and connected devices. The investment we are making in smart connected homes through smart meters, personalised customer energy usage reports, smart and time of use tariffs, applications for remote heating control and US appliance rental programmes has allowed us to create greater consumer visibility and control over energy consumption. Our innovative products will radically alter the way we operate and we continue to lead the industry as we look to develop connected boiler technology.

In 2014 we bought the former state-owned Irish energy company Bord Gáis Energy as we continue our focus on entering new deregulated markets. We will look to expand a services capability in this new market and introduce some of our established smart technology and products for the benefit of our new customer base.

Looking forward

- Impact of new market entrants (community, small, unconventional and existing).
- Impact of technology and innovation.

Commodity costs

Risk climate

Risk has increased

Strategic priorities

What are the risks?

A significant proportion of our profitability and price competitiveness is dependent upon our ability to manage exposure to increasingly volatile world energy markets. Commodity prices can fluctuate based on a large number of factors including supply and demand, as well as political and economic factors. Current international political factors may trigger an expectation of or actual disruption in supplies.

The price of gas in the UK market is particularly important for us given we supply a significant proportion of Britain's gas needs. As the country secures an increasing proportion of gas from abroad, its price and availability will be increasingly shaped by international forces, combined with the additional challenge of transitioning to lower carbon generation.

Shale gas has already transformed the US energy market where gas prices have fallen to historic lows. The low cost of natural gas may result in new market entrants and cause margins to tighten. Shale gas could further influence global energy markets over time, in particular liquefied natural gas (LNG), which is becoming an increasingly important source of natural gas in the UK.

Seasonal variations and economic conditions make it difficult to forecast future energy demand, leading to significant uncertainties around commodity prices and the potential to result in a surplus of gas which cannot be sold profitably in the wholesale market or with short commodity positions that cannot be covered at a cost that can be passed on to customers. The Group also has a number of contractual capacity contracts, the economic value of which depends on market prices.

In 2014, we saw a significant fall in commodity prices, particularly in the second half of the year, impacting the profitability of our UK businesses. In the US, the extreme weather of the polar vortex caused significant market volatility in electricity and natural gas prices. Commodity price increases or decreases may require us to change the price at which we sell energy to our customers on variable tariffs. We may not be able to pass through all increases in commodity prices to customers in a given year. Where we do pass increased commodity prices on, or if we fail to pass on decreased commodity prices, customers may seek to switch to competitors.

Commodity price decreases may reduce profits and over the longer term may make certain exploration and development projects and existing operating assets uneconomic. Assets, including goodwill, may be impaired if future cash flows from such assets are insufficient to cover their cost on the balance sheet.

How do we manage these risks?

We have an active forward buying and selling programme to mitigate the risks of sudden commodity price movements and track supply chain risks to ensure security of supply.

Strategic investment decisions are made within a capital allocation framework that tests projected returns against various commodity price scenarios and are rigorously evaluated against Board-approved criteria prior to commitment.

We continue to selectively invest in assets around our existing hubs, while managing costs, looking to divest non-core and uneconomic assets, delivering new projects and purchasing stakes in other assets.

We continue to secure energy contracts, invest in low carbon and gas-fired power generation and purchase gas and oil producing assets to develop our portfolio, support downstream operations through contractual arrangements, asset ownership and make progress accessing new markets and securing new sources of gas. This enables us to secure energy supplies for the future whilst sheltering customers from volatility in the wholesale gas market.

Looking forward

- Impact of sustained downward pressure on oil and gas prices.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Change management

Risk climate

No change

Strategic priorities

What are the risks?

The successful delivery of business change is fundamental to our future success and includes organisational, cultural and technical transformation.

The delivery of certain large change programmes is technically complex. Planning to deliver too much change could result in a stretch on resources, undermine system integrity, cost more than originally planned or take longer than estimated to implement. Change programmes could also suffer from quality issues and planned benefits may not be realised or individual products as widely accepted as anticipated.

The scale of change in our downstream business is significant. Delays or challenges with changes to billing and other systems, the implementation of smart connected home products in the UK and US and integration of a number of acquisitions could adversely affect our operations, reputation and financial position if not successfully delivered.

We regularly review our assets, investments and organisational structures, seeking to divest or change those that no longer meet expected returns, to keep our cost base as low as possible. These changes can involve difficult decisions for our people and there is a risk that industrial relations could deteriorate.

How do we manage these risks?

Change activity is managed through a combination of programme and project boards and is regularly reviewed at both the business unit and executive level.

We have a defined capital allocation framework against which to review business asset and investment performance and will be increasingly selective in our investments, directing capital towards projects based on their ability to deliver business benefits against the framework.

We have a dedicated project management directorate to improve governance of large capital change programmes undertaken in our upstream business. Dedicated programme and project managers are assigned to all major change initiatives and apply defined methodologies and tools, together with defined governance processes, supported by both functional and business unit teams.

As part of our ambition to lead the energy industry and have the strong future we are capable of, we embrace innovative technology in our product offerings to customers, our IT systems and the way in which we operate our business. We have implemented new billing and CRM systems in our energy and services businesses in the UK and North America. We have developed new products that put UK and US customers in greater control of their energy consumption and we have led the smart meter roll-out in the UK.

Looking forward

- The delivery of a number of UK and Norwegian upstream projects.
- Embedding new billing and customer relationship management systems.

Information systems and security

Risk climate

Risk has increased

What are the risks?

Our business operations rely on information systems maintaining a high degree of availability, integrity and security, including those from third-party providers.

With the increasing digitisation of information, the use of social media and the continually evolving external cyberthreat landscape, corporate organisations are targets for malicious and unauthorised attempts to access information. Our businesses could be compromised by an incident arising from the accidental or deliberate exposure of sensitive data or intellectual property, inadvertent or deliberate changes to data or changes in asset control systems.

Attempts to appropriately collect, secure and dispose of information now face far greater scrutiny from regulators, customers and employees. Information security breaches could seriously affect our reputation, lead to legal action and regulatory sanctions and system outages that could cause financial and operational loss.

EU, US and Canadian data privacy requirements and proposed amendments, as well as regulatory changes, increase the requirements around public notification of any data breach and also the ability of the regulator to impose associated fines or penalties for non-compliance.

Strategic priorities

How do we manage these risks?
Our information security strategy seeks to integrate information system, personnel and physical aspects, overseen by the Information Risk Steering Group, which reports to the Group Risk Management Committee.

We seek to detect and investigate threats and incidents, including engaging with key technology partners and suppliers, to ensure potentially vulnerable systems are identified.

We regularly evaluate the adequacy of our infrastructure and IT security controls, undertake employee awareness and training and test our contingency and recovery processes.

We work collaboratively with working groups across the energy industry and public and private sectors.

These measures allow for controls and responses to be put in place that are both effective and proportionate, including cybersecurity crisis management and business continuity plans that have been evaluated and tested to provide assurance that they are capable of responding promptly and adequately to any such events, whilst recognising the evolving nature of the threat landscape.

Looking forward
- Compliance with the 2014 EU Data Protection Regulation and introduction of the 2014 EU Cyber Mandate.
- Increase in the Smart Metering and Connected Homes programme with the inherent risks associated with sensitive data.

People

Risk climate
Risk has increased

Strategic priorities

What are the risks?
The attraction, retention, development and succession of senior management and individuals with key skills are critical factors in the successful execution of strategy.

Cultural transformation, ambitious technical-change programmes, changes to our current structure and business operations could all result in challenges with attraction and retention for key roles across the business and have an adverse impact on the engagement of our people.

Ineffective trade union relationships could result in the threat of industrial action in our upstream business operations and engineering workforce.

Insufficient capability and capacity, at a time when we are subject to high levels of public scrutiny, could limit our ability to exploit opportunities and/or realise the full value of investments.

How do we manage these risks?
We have a clearly defined people strategy based on developing the right culture and engagement, talent development, training and reward and recognition.

We regularly review our organisational capability, critical business areas, reward strategies for key skills, talent management and learning and development programmes. We also perform external benchmarking to ensure we are attracting and retaining the talent we need to be competitive.

We engage with trade unions on restructuring and issues that could impact terms and conditions with clear and open processes to promote an environment of trust and honesty.

We provide channels for employees to discuss concerns, including whistleblowing, and regularly review the procedures in place to support them in the delivery and development of their role.

We continually promote wellbeing and equality through processes and campaigns to improve the vitality and fair treatment of all our people.

Looking forward
- Engagement and development of senior management team.
- Identification and succession of British Gas Managing Director and Chief Financial Officer positions.

The Strategic Report was approved by a duly authorised Committee of the Board of Directors on 19 February 2015 and signed on its behalf by:

Grant Dawson
General Counsel & Company Secretary
19 February 2015

BOARD OF DIRECTORS

Full biographies can be found at centrica.com.

Committee membership key

A – Audit
CR – Corporate Responsibility
D – Disclosure
E – Executive
N – Nominations
R – Remuneration

1. Rick Haythornthwaite

Chairman

Rick joined the Board as a Non-Executive Director on 14 October 2013. He was appointed Chairman of the Board on 1 January 2014 and is Chairman of the Nominations Committee.

Committee membership: N (Chairman), R

Skills and experience: Rick has a wealth of knowledge in the energy industry and has significant board experience, both as an executive and non-executive. He led the rescue of Invensys from 2001 to 2005 and the defence, turnaround and subsequent sale of Blue Circle Industries from 1997 to 2001. He has served on the boards of Network Rail as chairman and Cookson, Lafarge, ICI and Land Securities as non-executive director.

External appointments: Chairman of the global board of MasterCard Inc. and PSI, a private fund. Chairman of the Southbank Centre in London and the World Wide Web Foundation.

2. Iain Conn

Chief Executive

Iain was appointed Chief Executive on 1 January 2015. He is Chairman of the Executive Committee and the Disclosure Committee.

Committee membership: E (Chairman), CR, D (Chairman)

Skills and experience: Iain has a wealth of experience heading a global consumer brand. He possesses a deep understanding of the energy sector built up over a lifetime in the industry with a commitment to customers and safety. Iain was previously Chief Executive, Downstream, of BP's refining and marketing division. Iain was a Board member of BP for 10 years from 2004 and has previously held a number of senior roles throughout BP.

External appointments: Iain is a non-executive director of BT Group plc. He is Chairman of the Advisory Board of Imperial College Business School and a member of the Council of Imperial College.

3. Margherita Della Valle

Non-Executive Director

Margherita joined the Board on 1 January 2011 and became Chairman of the Audit Committee on 1 July 2013.

Committee membership: A (Chairman), CR, N, R

Skills and experience: Margherita brings considerable corporate finance and accounting experience and she has a sound background in marketing. She was chief financial officer for Vodafone's European region from April 2007 to October 2010 and chief financial officer of Vodafone Italy from 2004 to 2007. Previously she joined Omnitel Pronto Italia in Italy in 1994 and held various consumer marketing positions in business analytics and customer base management prior to moving to finance. Omnitel was acquired by Vodafone Group in 2000.

External appointments: Group financial controller of Vodafone Group plc.

4. Mark Hanafin

Managing Director, International Upstream

Mark was appointed to the Board on 14 July 2008.

Committee membership: E

Skills and experience: Mark has senior management experience across the energy value chain from E&P through to product sales. He has excellent midstream and trading credentials as well as a strong track record in developing supply and marketing businesses. Before joining Centrica, Mark spent 21 years with Royal Dutch Shell, most recently as CEO of Shell Energy North America in Houston. Prior to joining Shell, he worked for General Electric Company having qualified as a chartered engineer.

External appointments: Non-executive director of EDF Energy Nuclear Generation Group Limited.

5. Lesley Knox

Non-Executive Director

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

Committee membership: A, N, R (Chairman)

Skills and experience: Lesley brings a wealth of strategic and financial experience across a range of businesses to the Board and she is an experienced remuneration committee chair. She was previously with British Linen Bank and a founder director of British Linen Advisers. She was senior non-executive director of Hays Plc and also spent 15 years with Kleinwort Benson.

External appointments: Non-executive director of SABMiller Plc, trustee of the Grosvenor Estates and chairman of Grosvenor Group Limited.

6. Mike Linn

Non-Executive Director

Mike joined the Board on 1 June 2013.

Committee membership: A, N, R

Skills and experience: Mike has considerable experience in the energy sector, particularly exploration and production and the US market. He founded and was previously chairman, CEO and president of LINN Energy, LLC.

External appointments: Non-executive director of LINN Energy, LLC, non-executive board member of Nabors Industries, Black Stone Minerals and Western Refining Logistics and senior advisor to Quantum Energy Partners. Member of the National Petroleum Council and inducted into the All American Wildcatters.

7. Ian Meakins

Senior Independent Director

Ian joined the Board on 1 October 2010 and became Senior Independent Director on 1 January 2015.

Committee membership: A, N, R

Skills and experience: Ian has broad general management and board experience and considerable knowledge of managing businesses with strong brands. Ian is currently CEO of Wolseley plc and was, until April 2009, chief executive of Travelex Holdings Ltd. Between 2000 and 2004, he was president, European Major Markets and Global Supply for Diageo plc, spending over 12 years with the company in a variety of international management positions.

External appointments: Group chief executive of Wolseley plc.

8. Carlos Pascual

Non-Executive Director

Carlos joined the Board on 1 January 2015.

Committee membership: A, N, R

Skills and experience: Carlos has held a number of senior positions in the energy industry and is a senior leader in energy geopolitics and economic and commercial development. Between 2011 and 2014 Carlos established and directed the US State Department's Energy Resource Bureau. Until August 2014, Carlos was Special Envoy and Coordinator for International Energy Affairs, acting as senior adviser to the US Secretary of State on energy issues. He has also served as US Ambassador in Mexico and Ukraine.

External appointments: Carlos is a senior vice president at IHS Inc. and a non-resident senior fellow at the Centre on Global Energy Policy at Columbia University.

9: Steve Pusey

Non-Executive Director

Steve will join the Board on 1 April 2015.

Committee membership: A, N, R

Skills and experience: Steve has a wealth of international experience as a senior customer facing business technology leader. He has considerable experience in the telecommunications industry in both the wireline and wireless sectors and in business applications and solutions. Steve has also worked with Nortel and British Telecom and is a graduate of the Advanced Management Program at Harvard University.

External appointments: Chief Technology Officer of Vodafone Group plc. Steve will retire from this role on 31 July 2015.

Past Directors

Mary Francis CBE

Retired as a director on 31 December 2014.

Sam Laidlaw

Retired as a director on 31 December 2014.

Nick Luff

Resigned as a director on 31 August 2014.

Paul Rayner

Retired as a director on 31 December 2014.

Chris Weston

Resigned as a director on 30 December 2014.

SENIOR EXECUTIVES

1. Jeff Bell

Interim Chief Financial Officer

Appointed Interim Chief Financial Officer on 1 September 2014.

Skills and experience: Jeff has a broad range of finance experience. He joined the Group's Direct Energy business in Toronto in 2002 as Vice President of Finance and moved to the Group's head office in 2008 to support the Group Chief Executive and to lead the Group Strategy team. In 2011, he was appointed Director of Corporate Finance. Prior to Centrica, Jeff worked in Toronto for both KPMG, where he qualified as a chartered accountant, and the Boston Consulting Group.

2. Grant Dawson

General Counsel & Company Secretary

Appointed as General Counsel & Company Secretary since the demerger from British Gas plc in February 1997 having joined British Gas in October 1996.

Skills and experience: Grant was called to the Bar in 1982, he spent most of his career in industry joining the legal department of Racal Electronics plc in 1984 and then STC plc as legal adviser in 1986 until they were taken over in 1991 by Northern Telecom Limited. Between 1991 and 1996 he was the Associate General Counsel for Nortel in Europe, Africa and the Middle East.

3. Badar Khan

President and CEO, Direct Energy

Appointed President and CEO, Direct Energy on 1 April 2013, having joined Centrica in July 2003.

Skills and experience: Badar has extensive expertise in both upstream and customer facing energy businesses. Prior to his appointment as President and CEO, Direct Energy, from August 2009 Badar was President, Upstream and Trading of Direct Energy. Badar's previous roles within Centrica include Managing Director, British Gas Business and Vice President (and subsequently Senior Vice President), Direct Energy, responsible for the US North. Previously, he was a senior officer of a private retail energy company in the US and a management consultant with Deloitte.

4. Ian Peters

Interim Managing Director, British Gas

Appointed Interim Managing Director, British Gas on 1 December 2014.

Skills and experience: Ian has extensive management expertise in a range of energy and financial service positions. Prior to his appointment as Interim Managing Director, British Gas, Ian was Managing Director of Residential Energy in British Gas from 2010 having been Chief Operating Officer from 2007. Ian's previous roles at Centrica have included overseeing the acquisition of Dyno-Rod and Managing Director of British Gas Business. Ian joined Centrica in 2002 as Managing Director of Goldfish Bank. Previously, he worked for Marsh, NatWest and Royal Bank of Scotland.

5. Jill Shedden

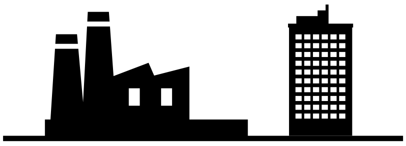
Group Director, Human Resources

Appointed as Group Director, Human Resources on 1 July 2011.

Skills and experience: Jill was previously HR Director for Centrica Energy having joined British Gas plc as a graduate in 1988 and has since held a wide range of roles across the Group including HR Director for British Gas Business and British Gas Residential.

CORPORATE GOVERNANCE REPORT

"Maintaining high standards of corporate governance is fundamental to the Centrica way of business and is key to our performance. It helps us to do things in the right way and to make decisions effectively."



The Board is proactive in obtaining an understanding of shareholder views on a number of key matters.

Read more on page 62

I am pleased to present the governance report which sets out the way we comply with good corporate governance principles, the work of the Centrica Board and its Committees and our approach to risk management and internal control. The Group relies on a robust governance framework to support the organisation and responsibility for its delivery lies with the Board.

How we work is important for ensuring the continuing success of Centrica and the delivery of long-term sustainable value creation for all of Centrica's stakeholders. I firmly believe that good corporate governance is an important enabler to the success and reputation of the Group and provides the framework for the way in which we conduct our business and deliver our strategic objectives. The Board is accountable to shareholders and remains committed to the highest standards of corporate governance as set out in the UK Corporate Governance Code (the Code).

As I discussed in greater detail in my Chairman's Statement, during the year we have seen a number of changes to the Board constitution with Sam Laidlaw retiring as Chief Executive at the end of 2014 together with Mary Francis and Paul Rayner retiring as Non-Executive Directors. We were delighted to welcome Iain Conn onto the Board as Chief Executive from the beginning of this year. Carlos Pascual also joined us as a Non-Executive Director from 1 January 2015 and as announced on 18 February 2015, Steve Pusey has been appointed a Non-Executive Director from 1 April 2015. In addition, Ian Meakins was appointed as our Senior Independent Director. I look forward to working with them in driving excellence in governance both in the boardroom and throughout the Group.

During this transitional period, we were delighted to appoint Jeff Bell as Interim Chief Financial Officer and Ian Peters as Interim Managing Director, British Gas following the resignations of Nick Luff and Chris Weston during 2014. Jeff and Ian have been appointed to the Executive Committee and bring with them a wealth of experience having both been with Centrica since 2002.

The Board considers that its own continuing effectiveness is vital to the Group delivering its strategic objectives. Towards the end of the year, the Board conducted its annual evaluation of its own performance. In accordance with the requirements of the Code, this was externally facilitated and the findings provided a clear agenda for Board development. More detail can be found on page 52 of the Governance Report. It is likely that as the refreshed Board settles in 2015, we will once again seek to hold an external review of the effectiveness of the Board and its Committees towards the end of the year.

The Corporate Governance Report that follows has been prepared in order to provide shareholders with a comprehensive understanding of Centrica's governance framework and has been prepared to meet the requirements of the Code, the Listing Rules and the Disclosure and Transparency Rules.

Rick Haythornthwaite
Chairman
19 February 2015

CORPORATE GOVERNANCE REPORT CONTINUED

Corporate governance compliance

As a company listed on the London Stock Exchange, Centrica is bound by the UK Corporate Governance Code (the Code). A copy of the Code is available at frc.org.uk. The Board confirms that throughout the financial year ended 31 December 2014 and as at the date of this report, the Company has complied with the provisions of the Code. As reported in our 2013 Annual Report, Mary Francis and Paul Rayner continued in post for 2014 beyond their nine-year terms of office. However, the Board felt that their continued service was of great benefit to the Board during a transitional period and that both these Non-Executive Directors continued to demonstrate independence and judgement in carrying out their roles. Both Mary Francis and Paul Rayner stepped down as Directors of the Company on 31 December 2014.

This report sets out how the Company applied the principles of the Code and the extent to which the Company complied with the provisions of the Code in the year to 31 December 2014.

The Board

Board of Directors

The Board believes that good corporate governance is central to contributing to Centrica's performance. A clearly defined framework of roles, responsibilities and delegated authorities is in place and this supports the Board's aim to deliver sustainable growth for the benefit of shareholders, employees and customers. The powers of the Directors are set out in the Company's Articles of Association (Articles), which are available on the Company's website. The Articles may be amended by special resolution. In addition, the Directors have responsibilities and duties under legislation, in particular the Companies Act 2006 (the Act).

The Board has a schedule of matters specifically reserved for its approval which is reviewed annually to ensure best practice. A summary is shown below and the full schedule is available on our website. The Board also delegates other matters to Board Committees and management as appropriate.

The Board is responsible for:

- development of strategy and major policies;
- the Group's corporate governance and systems of internal control;
- reviewing performance;
- approving interim dividend payments and recommending final dividend payments;
- approval of the annual operating plan, Financial Statements and major acquisitions and disposals;
- the Group's corporate responsibility arrangements including health, safety and environmental matters; and
- the appointment and removal of Directors and the Company Secretary.

As part of its responsibilities, the Board approves and monitors the development of the Group's strategy. At its 2014 strategy conference, the Board reviewed the progress against strategic priorities and debated the challenges within our current markets.

Key strategic considerations included:

- the competitive landscape and market conditions;
- a discussion on the outlook for global gas markets, and the UK and US energy markets;
- a review of the Group's long-term financial profile, and the recommended portfolio direction based on identified growth options; and
- consideration of the options for further midstream growth while ensuring adequate controls for risk management.

Board meetings

The Board holds regular scheduled meetings throughout the year. In 2014, the Board met nine times.

The Board continuously assesses and reviews key priorities and business issues for the Group over the short, medium and long term. Comprehensive papers are presented to the Board which facilitate meaningful debate on the performance and the future direction of the Company.

All Directors are expected to attend all Board and relevant Committee meetings. Details of attendance by Directors at Board meetings during 2014 are set out in the table below and attendance at Committee meetings is included on pages 53 to 62. Where a Director was not in attendance, this was due to other prior work commitments. Directors who were unable to attend specific Board or Committee meetings reviewed the relevant papers and provided their comments to the Chairman of the Board or Committee, as appropriate. In addition, any Director who misses a meeting will, as a matter of course, receive the minutes of that meeting for future reference.

	Number of meetings	Meetings attended
Rick Haythornthwaite	9	9
Margherita Della Valle	9	9
Mary Francis(i)	9	8
Mark Hanafin	9	9
Sam Laidlaw(i)	9	9
Lesley Knox	9	9
Ian Meakins	9	7
Nick Luff(ii)	6	6
Mike Linn	9	8
Paul Rayner(i)	9	9
Chris Weston(iii)	9	9

(i) Mary Francis, Sam Laidlaw and Paul Rayner retired as Directors on 31 December 2014.
(ii) Nick Luff resigned as a Director on 31 August 2014.
(iii) Chris Weston resigned as a Director on 30 December 2014.

Board constitution and appointments

During the year under review, there were a number of changes to the Board. Both Nick Luff and Chris Weston resigned as Directors on 31 August 2014 and 30 December 2014 respectively. Sam Laidlaw, Paul Rayner and Mary Francis retired as Directors of the Company on 31 December 2014. As announced in December 2014, Ian Meakins succeeded Mary Francis to become the Company's Senior Independent Director with effect from 1 January 2015.

Iain Conn was appointed as a Director of the Company and became Chief Executive on 1 January 2015. In addition, Carlos Pascual was appointed as a Director of the Company with effect from 1 January 2015. On 18 February 2015, it was announced that Steve Pusey would be appointed as a Director of the Company with effect from 1 April 2015.

The Board comprises a balance of Executive Directors and independent Non-Executive Directors which promotes thorough debate and consideration of the important issues facing Centrica and the Group's performance. At present, there are a total of eight Directors of which two are Executive and five are Non-Executive, in addition to our Chairman. The roles of Chairman and Chief Executive are separate, formalised in writing and have been approved by the Board. A summary of these roles is shown below and details are available on the Company's website, together with an explanation of the roles of the Non-Executive Directors.

The Chairman is responsible for the leadership and management of the Board. In doing so, he is responsible for promoting high ethical standards and best practice in corporate governance and ensures the effective contribution of all Directors.

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

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

On the appointment of Rick Haythornthwaite as Chairman of the Company in January 2014, the Board considered that he met the independence criteria set out in the Code. The role of our Non-Executive Directors is to challenge the Board and to help develop proposals on strategy for the business. All of our Non-Executive Directors are considered to be independent and free from any business interest which could materially interfere with the exercise of their judgement. In addition, all of our Non-Executive Directors have assured the Board that they remain committed to their respective roles and, having considered these assurances, the Board is satisfied that each Non-Executive Director is able to dedicate the necessary amount of time to the Company's affairs. They form the Audit, Nominations and Remuneration Committees.

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

During the year the Non-Executive Directors, including the Chairman, met independently of management. In addition, the Senior Independent Director met with the independent Non-Executive Directors in the absence of the Chairman to appraise the Chairman's performance.

A formal, rigorous and transparent process is followed during the selection and subsequent appointment of new Directors to the Board. This process is described in the section on the Nominations Committee on page 60.

The Act and the Articles require the Board to consider any potential conflicts of interest. The Board considers and, if appropriate, authorises each Director's reported actual and potential conflicts of interest regularly. The conflicts of interest register is reviewed at least annually by the Board. Each Director abstains from approving their own reported conflicts.

The Board has agreed that each Director shall stand for reappointment at each AGM.

Details of the Directors of the Company are set out with their biographies on pages 46 and 47. Details of Directors' service contracts or letters of appointment, in the case of Non-Executive Directors, emoluments and share interests are set out in the Remuneration Report on pages 63 to 81. Copies of Directors' service contracts and letters of appointment for the Non-Executive Directors are available for inspection by shareholders at each AGM and during normal business hours at the Company's registered office.

Board performance

Board development

All new Directors appointed to the Board receive a comprehensive induction programme tailored to meet their individual needs. The Chairman and General Counsel & Company Secretary are responsible for delivering an effective induction programme for newly appointed Directors.

Iain Conn and Carlos Pascual, both recently appointed to the Board, discussed with the General Counsel & Company Secretary what briefings and meetings would be most beneficial to them to ensure an effective induction following their appointments on 1 January 2015. As a result, tailored induction programmes have been designed for both Iain Conn, Carlos Pascual and Steve Pusey which will include briefings from members of the Executive team on key areas of the business including the internal audit function, an overview of the Group's risk management processes, the key risks facing the business, site visits and a briefing in respect of the corporate governance framework within Centrica.

Ongoing development and training is also provided to all Directors, as agreed with the Chairman, at Board and Committee meetings. During the year, Directors received regular updates and presentations on changes and developments to the business and to the legislative and regulatory environments in which the Group operates. In particular, the Board was briefed on the following key issues during 2014:

- UK Energy Sector updates;
- North American market developments;
- Barrow terminal optimisation project;
- initiatives on relationships with customers;
- implications of the review of the Competition and Markets Authority investigation into the energy industry;
- company law, corporate governance, reporting and remuneration reporting developments; and
- health, safety and environmental governance and strategy.

CORPORATE GOVERNANCE REPORT CONTINUED

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

Board evaluation

Our policy over many years has been to conduct a thorough review of Board process, practice and culture on an annual basis with the input of an external facilitator at least once every three years. The Board considers the annual review of the Board, its Committees and Directors as an essential part of good corporate governance. On each occasion, the Board has received positive reports and has adopted recommendations to improve Board, Committee and individual Director performance.

The Board's review of its effectiveness was facilitated by Independent Audit Limited using their 'Thinking Board' online assessment service. Their facilitation helped ensure that our review was rigorous and covered the important influences on the Board's effectiveness. As independent advisers, they discussed with us the focus and coverage of our Board and Committee questionnaires, administered the questionnaires on a confidential basis, analysed the results independently from the Board and management, and presented the findings and their suggestions in a paper which was discussed with the Chairman and provided to all Directors.

The external facilitator also reviewed the Company's Board minutes for the previous 12 months and conducted face-to-face interviews with relevant Directors, the General Counsel & Company Secretary and Centrica's external audit partner.

The evaluation was set against a background of change at Board level during the previous 12 months. Recognising that it may take some time for the new Board to 'settle', it may be appropriate to conduct a further external evaluation towards the end of the year.

Each of the Board Committees has also reviewed the outcome from the evaluation in 2014. These reviews identified a number of areas of good practice and a number of areas that could be improved but no material issues were found. Independent Audit Limited have no other connection to the Company.

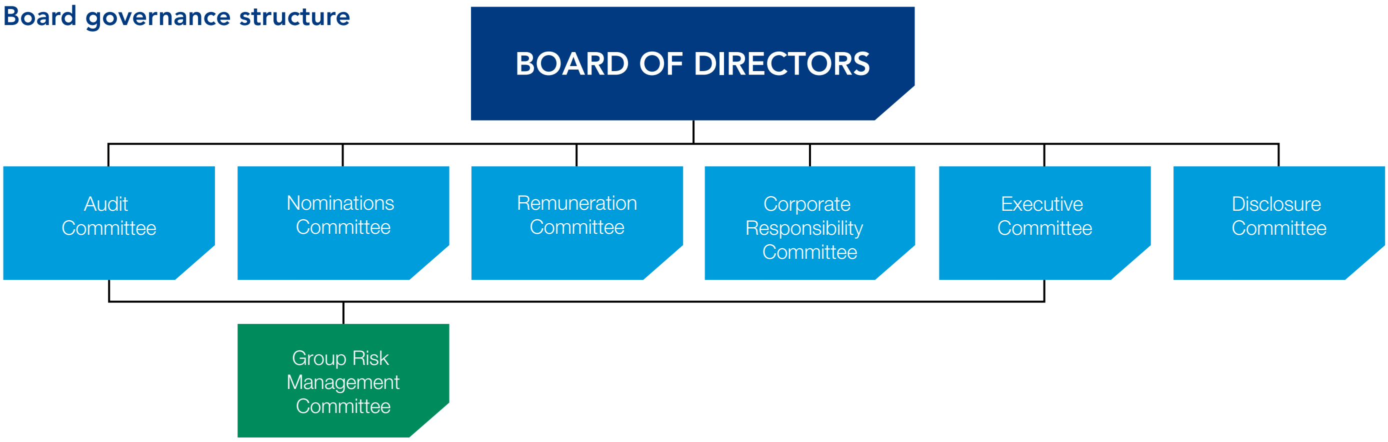
Balance and independence of the Board

As part of the evaluation process, the Board considers the balance of skills, knowledge, experience and independence to ensure the Board and Committees effectively discharge their duties and responsibilities. As part of its annual review of corporate governance, the Board considered the independence of each Non-Executive Director, other than the Chairman, against the criteria in the Code and determined that each Non-Executive Director remained independent. It is important that the Directors have a varied range of skills and experience to ensure they can exercise their independent judgement on issues of strategy, performance and resources. Details of Directors' skills and experience can be found on pages 46 and 47.

Directors' indemnities and insurance

In accordance with the Articles, the Company has granted a deed of indemnity, to the extent permitted by law, to Directors and members of the Executive Committee. Qualifying third-party indemnity provisions (as defined by section 234 of the Act) were in force during the year ended 31 December 2014 and remain in force. The Company also maintains directors' and officers' liability insurance for its Directors and officers.

Board governance structure



Board Committees

The Board currently operates six Committees to oversee the standards of the Group: Audit, Nominations, Remuneration, Corporate Responsibility, Executive and Disclosure. The Board is currently reviewing the Board Committees' structure in order to ensure there is a thorough assessment of both financial and non-financial risk and associated issues.

The independent Non-Executive Directors are members of the Audit, Nominations and Remuneration Committees. The Committees are supported in the same way as the Board in order to ensure information flows in a timely, accurate and complete manner.

The Board reviews each Committee's terms of reference and membership against best practice as well as taking into account any relevant changes in circumstances. The roles and responsibilities for each Committee are set out in formal terms of reference which are approved by the Board and are available on our website. A review of the Committee structure is underway in early 2015 in order to ensure a thorough assessment of financial and non-financial risks and issues.

Minutes of Committee meetings are made available to all Directors and the Chairman of each Committee provides regular updates to the Board.

A chart setting out the Company's Board and Executive Committees' structure can be found on page 52. The responsibilities of each Board Committee, its membership and the key issues considered by each one during 2014 are set out in the following Committee reports.

Audit Committee

Role of the Committee

The Committee's key function is to support the Board in fulfilling its responsibilities in reviewing the effectiveness of the Company's financial reporting, internal controls and risk management. As part of this role, the Committee provides advice to the Board on whether the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders to assess the Company's performance, business model and strategy.

Membership and attendance during the year:

	Number of meetings	Meetings attended
Margherita Della Valle (Chairman)	4	4
Mary Francis[(i)]	4	4
Lesley Knox	4	4
Mike Linn	4	3
Ian Meakins	4	4
Paul Rayner[(i)]	4	4

(i) Mary Francis and Paul Rayner stepped down from the Committee on 31 December 2014.

Margherita Della Valle, as Group financial controller of Vodafone Group plc, is considered by the Board to have recent and relevant financial experience as required by the Code. In addition, Paul Rayner who served on the Committee during the year was considered by the Board to have recent and relevant financial experience having held several senior financial positions. Carlos Pascual was appointed to the Committee on 1 January 2015 and Steve Pusey will join the Committee on 1 April 2015. Each member of the Committee is an independent Non-Executive Director who has a wide range of relevant business experience. Further details regarding the Directors' skills and experience can be found in their biographies on page 47. The Board is satisfied that the Committee has the resources and expertise to fulfil its responsibilities.

Meetings of the Committee are attended by the Chairman of the Board, Chief Executive, Chief Financial Officer, General Counsel & Company Secretary and the Head of Internal Audit, none of whom do so as of right. Other senior executives will attend as required to provide information on matters being discussed which fall into their area of responsibility. The external auditors, PricewaterhouseCoopers (PwC), also attend each meeting. The Committee meets individually with the external auditors and the Internal Audit Chief Operating Officer at each meeting without Executives present.

The Committee members participated in two training sessions during the year: one in July 2014 focusing on Ofgem's Standards of Conduct and one in November 2014 in respect of the Market Risk Management of LNG and other long-term contracts.

Responsibilities of the Audit Committee:

- to support the Board in fulfilling its responsibilities in effective governance of the Company's financial reporting, internal controls and risk management;
- to provide advice to the Board on whether the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders to assess the Company's performance, business model and strategy;
- monitoring and reviewing the operation and effectiveness of the Group's internal audit function, including its strategic focus, activities, plans and resources;
- the appointment and removal of the Head of Internal Audit;
- managing the relationship with the Group's external auditors on behalf of the Board including the policy on the award of non-audit services;
- conduct a tender for the external audit contract at least every 10 years and make appointment recommendations to the Board;
- consider and review legal and regulatory compliance issues; and
- to establish and oversee whistleblowing and fraud prevention arrangements within the Group.

Key issues considered by the Audit Committee:

- review of the 2013 preliminary results, the 2013 Annual Report and Accounts and 2014 half-year results;
- consideration of updates to the Code and its application to the 2013 Annual Report and Accounts;
- assessment of the effectiveness of Internal Control;
- review and approval of audit and non-audit fees;
- consideration and recommendation that the accounts, when taken as a whole, are fair, balanced and understandable;
- review of effectiveness of external auditors (PwC);
- review of Group Assurance Report and Group Compliance Report;
- consideration of adherence across the Group with regulatory and compliance requirements, including the undertakings in respect of Centrica Storage Limited;
- review of internal audit activity;
- consideration of whether the judgements, estimates and assumptions used in the presentation of the Financial Statements were reasonable and consistent; and
- regular updates of cases reported to the Company's 'Speak Up' helpline.

CORPORATE GOVERNANCE REPORT CONTINUED

Risk management and internal controls
Further details of risk management and internal controls are set out on pages 57 to 59.

Internal audit
The Committee is responsible for monitoring and reviewing the operation and effectiveness of the Group's internal audit function, including its strategic focus, activities, plans and resources. The appointment and removal of the Head of Internal Audit is also a matter for the Committee.

The Group's internal audit three-year plan for the period 2015 to 2017 was approved by the Committee, which was primarily risk-based and also focused on the assurance of core processes. The Committee also reviewed staffing levels and qualifications to ensure these were appropriate and adequate for the delivery of the plan.

During the year, the Committee received regular reports summarising the findings from the Group's internal audit function's work and action plans to resolve any highlighted areas.

The Committee monitored the progress of the most significant action plans to ensure these were completed satisfactorily.

The Board's review of the system of internal controls
Each year, an extensive process of self-certification operates throughout the Group whereby the effectiveness of internal controls and compliance with the Group's business principles and policies are assessed. Self-certification is completed both at the half year and full year. The results of the annual process, together with the conclusions of the internal reviews by internal audit, inform the annual assessment performed by the Audit Committee.

External auditors
The Committee manages the relationship with the Group's external auditors on behalf of the Board. The Committee considers annually the scope, fee, performance and independence of the external auditors as well as whether a formal tender process is required. PwC were reappointed auditors of the Group at the AGM held in May 2014.

The Board considers it of prime importance that the external auditors remain independent and objective and as a safeguard against this being compromised, the Committee implemented and monitors a policy on the independence of external auditors. This policy details the process for the appointment of the external auditors, the tendering policy, the provision of non-audit services, the setting of audit fees and the rotation of audit partner and staff. There are no contractual or similar obligations restricting the Group's choice of external auditors.

Effectiveness and independence of the external auditors
To assess the effectiveness and independence of the external auditors, the Committee carried out an assessment of PwC. This included a review of the report issued by the audit quality review team regarding PwC and an internal questionnaire completed by Committee members and relevant members of management on their views of PwC's performance. The questionnaire covered a review of the audit partner and team, the audit approach, audit plan execution, auditor independence and objectivity and robustness of challenge of management. The feedback received was reviewed by management and reported to the Committee and the Board.

In addition, to ensure the independence of the external auditors and in accordance with International Standards on Auditing (UK & Ireland) 260 and Ethical Statement 1 issued by the Accounting Practices Board and as a matter of best practice, PwC have confirmed their independence as auditors of the Company, in a letter addressed to the Directors. Together with PwC's confirmation and report on their approach to audit quality and transparency, the Committee concluded that PwC demonstrated appropriate qualifications and expertise and remained independent of the Group and that the audit process was effective.

Non-audit fees
In order to preserve the independence of the external auditor, the Committee is responsible for the policy on the award of non-audit services to the external auditors. A copy of this policy is available on our website. The award of non-audit work, within permitted categories, is subject to pre-clearance by the Committee, should the fees in a given year exceed a specified threshold. All significant non-audit work is tendered and where PwC were appointed, it was considered that their skills and experience made them the most appropriate supplier of the work. Significant engagements undertaken during 2014 included tax compliance and advice on corporate finance support for acquisitions and disposals. On a quarterly basis, the Committee is provided with reports of all non-audit assignments awarded to the external auditors and a full breakdown of non-audit fees incurred. A summary of fees paid to the external auditors is set out in note S9 to the Financial Statements.

Appointment of the external auditors
PwC have been the external auditors of the Group since the demerger of British Gas in 1997. In accordance with the Code, the Group expects to perform an audit tender before 2017, but will continue to monitor the implications from any potential new corporate governance guidance or changes in business requirements. As in past years, at the Committee's request, and following PwC's review of prior year audit, they presented a formal audit plan and fee proposal for 2014.

Following a full review and having given full consideration to the performance and independence of the external auditors, the Committee has recommended to the Board that a resolution to reappoint PwC be proposed at the 2015 AGM and the Board has accepted and endorsed this recommendation.

Audit information
Each of the Directors who held office at the date of approval of the Annual Report and Accounts confirms that, so far as they are aware, there is no relevant audit information of which PwC are unaware and that they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that PwC are aware of that information.

Key judgements and financial reporting matters in 2014	Audit Committee reviews and conclusions
Impairment of goodwill, upstream gas and oil assets, power generation assets and storage facility assets The Group makes judgements and estimates in considering whether the carrying amounts of its assets are recoverable. These judgements include primarily the achievement of Board approved business plans, long-term projected cash flows, generation and production levels (including reserve estimates) and macroeconomic assumptions such as the growth and discount rates and long-term commodity and capacity auction prices used in the valuation process. In the forecasts, where forward market prices are not available, prices are determined based on internal model inputs.	The Committee reviewed management reports detailing the carrying and recoverable value of the assets and the key judgements and estimates used. At the year end it concluded pre-tax impairments of Centrica Energy upstream gas and oil assets of £1,189 million relating to the Trinidad and Tobago gas assets (£309 million), UK and Norwegian gas and oil assets (£837 million) and Canadian upstream assets (£43 million) were required, primarily due to declining market gas and oil prices. Reductions in forecast capacity market auction prices and shorter-term baseload power prices, have led the Committee to conclude pre-tax impairments of the Group's power assets were also required. These related to the UK gas-fired power stations of £535 million (a £13 million charge was also recognised in other comprehensive income) and the Nuclear investment (in associate) of £214 million. The Committee reviewed the recoverable amount of all other significant balance sheet assets and concluded they had recoverable values in excess of the carrying value and were not impaired. The external auditors held discussions with the Committee on the key judgements and assumptions used in the impairment tests and provided their own analytical report. The Committee also noted that the proposed disposal of Langage, Humber and Killingholme power stations was not highly probable at the year end and accordingly the assets were no longer classified as held for sale. Further detail on impairments arising and the assumptions used in determining the recoverable amounts is provided in notes 7 and S2 on pages 110, 111, 145 and 146.
Decommissioning costs The Group makes significant judgements and estimates in determining the level of provision required for the Group's oil and gas field decommissioning obligations. The estimated cost of decommissioning is based on reserves, price levels and technology at the balance sheet date. The triennial review of decommissioning costs was performed in the Group's upstream business during the year.	During the year, the decommissioning cost provision increased by £613 million following the triennial review. The increase was largely driven by increased well cost estimates based on new internal and external information. The Committee reviewed management reports detailing the key judgements and assumptions in establishing the Group's provision for decommissioning costs. Third-party advisers assist management in determining decommissioning costs. The external auditors also provided detailed reporting and held discussions with the Committee on the key judgements and assumptions used. The Committee requested management review the annual decommissioning update process prospectively and refine and reinforce this where necessary. Further details on the decommissioning cost provision are provided in note 21 on page 128.
Presentation of certain re-measurements and exceptional items The Group reflects its underlying financial results in the business performance column of the Group Income Statement. To be able to provide this clearly and with consistent presentation, the effects of certain re-measurements of financial instruments and exceptional items are reported separately in a different column in the Group Income Statement.	In the prior year the Committee received training on the classification of exceptional items and certain re-measurements on the face of the income statement. The Committee reviewed management reports detailing the judgements regarding the appropriate presentation of items as certain re-measurements and exceptional items. The Committee considered the size, nature and incidence of these items and concluded that separate disclosure of these items was appropriate in the Financial Statements. Exceptional items include the upstream gas impairments in the UK, Norway, North America and Trinidad and Tobago, impairment of the Group's investment in associate (Nuclear) and of its UK gas-fired power station assets, along with the gains on disposal of the Texas gas-fired power stations and the Ontario home services business in North America. Further detail is provided in note 7 on page 110.
Downstream revenue recognition The Group's revenue for energy supply activities includes an estimate of energy supplied to customers between the date of the last meter reading and an estimated year-end meter reading. It is estimated through the billing systems, using historical consumption patterns, on a customer by customer basis, taking into account weather patterns, load forecasts and the differences between actual meter readings being returned and system estimates. An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits which will flow to the Group, including bill cancellation and re-bill rates. To the extent that the economic benefits are not expected to flow to the Group, revenue is not recognised.	The Committee has reviewed and held discussions with the external auditors on the level of provisions made during the year. The implementation of a new billing system in British Gas Business has meant that the determination of the appropriate level of unbilled revenue and of bad debt provisions has required more judgement than in previous years. The Committee has reviewed management reports detailing these judgements and has concluded the level of provisions is adequate. Further detail of accrued energy income is provided in note 17 on page 124.

CORPORATE GOVERNANCE REPORT CONTINUED

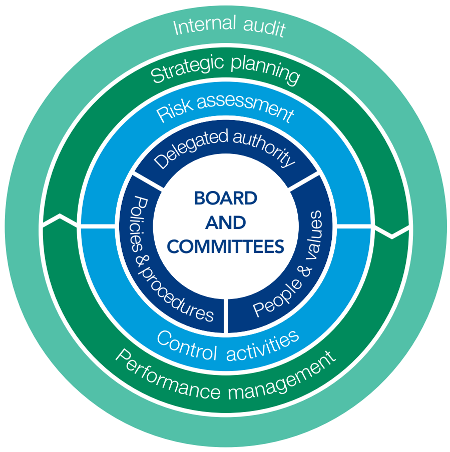
Key judgements and financial reporting matters in 2014	Audit Committee reviews and conclusions
Determination of fair values for energy derivatives The fair values of derivative financial instruments in North America and Europe are based primarily on quoted market prices. However, certain energy contracts extend beyond the active period of the market. The fair value of contracts are determined by reference in part to published price quotations in active markets where they exist and in part by using valuation techniques based on commodity prices derived using assumptions that are based on internal market expectations and expected volumes, discounted using an average discount rate. A significant number of judgements and assumptions are used in deriving future commodity curves.	The Committee reviewed management reports detailing the key developments during the year and a summary of price changes and drivers. The Committee also reviewed the proposed valuation commodity curves versus those of external third parties. The Committee noted appropriate control improvements being implemented in North America to address a control weakness identified in the IAS 39 reporting process. The external auditors also provided detailed reporting and held discussions with the Committee on the potential impact of changes in the commodity curves. More detail on the assumptions used in determining fair valuations is provided in note S6 on page 158.
Onerous contracts The Group makes judgements and estimates in considering whether the unavoidable costs of meeting specific obligations exceed the associated future net benefits.	A review and discussion of provisions with management was undertaken by the Committee and by the external auditors, including the utilisation and release of existing provisions and any new provisions made during the year. The Committee reviewed management reports detailing the key judgements and estimates used. Further detail on provisions and the assumptions used in determining the value is provided in note 3 on page 101 and note 21 on page 128.
Business combinations During the year, the Group acquired Bord Gáis Energy's gas and electricity supply and generation business in the Republic of Ireland. Business combinations require a fair value exercise to be undertaken to allocate the purchase price (cost) to the fair value of the acquired identifiable assets, liabilities, contingent liabilities and goodwill. As a result of the nature of fair value assessments in the energy industry, this purchase price allocation exercise requires subjective judgements based on a wide range of complex variables at a point in time. Specifically, judgement is required in valuing the customer relationships and the gas-fired power station.	The Committee reviewed management reports detailing the valuations and the key judgements and estimates including the main assumptions and the discount rates used in valuing the customer relationships and the gas-fired power station. The Committee also approved the disclosures in note 12. The external auditors provided detailed reporting and held discussions with the Committee on the key judgements and assumptions used. Further details on business combinations are set out in note 12 on pages 116 and 117.
Pensions The cost, assets and liabilities associated with providing benefits under defined benefit schemes is determined separately for each of the Group's schemes. Judgement is required in setting the key assumptions used for the actuarial valuation which determines the ultimate cost of providing post-employment benefits, especially given the length of the Group's expected liabilities.	The Committee reviewed and approved the key assumptions and disclosures in the Financial Statements. Independent actuaries are consulted on the appropriateness of the assumptions and discussions are held with the external auditors. Further details on pensions are set out in note 22 on pages 129 to 133.
Going concern and liquidity risk The Group experiences significant movements in its liquidity position due primarily to the seasonal nature of its business and margin cash. To mitigate this risk the Group holds cash on deposit and maintains significant committed facilities. The Group regularly prepares an assessment detailing these available resources to support the going concern assumption in preparing the Financial Statements.	The Committee reviewed management's funding forecasts and sensitivity analysis and the impact of various possible adverse events including significant commodity price movements and credit rating downgrades. The external auditors also provide detailed reporting and held discussions with the Committee. Following the review, the Committee recommended to the Board the adoption of the going concern statement in the Annual Report and Accounts 2014. Further details on sources of finance are set out in note 24 on pages 136 to 138.
Ofgem Consolidated Segmental Statement The Group is required to prepare an annual regulatory statement (Consolidated Segmental Statement (CSS)) for Ofgem which breaks down our licensed activities for the financial year into a generation, domestic and non-domestic and electricity and gas result. The CSS is reconciled to our externally reported IFRS Annual Report and Accounts. The Group publishes the CSS at the same time as our full year Annual Report and Accounts and the CSS is independently audited. In preparing the CSS, judgement is required in the allocation of non-specific costs between domestic and non-domestic and electricity and gas and the distinction between licensed and non-licensed activities.	The Committee reviewed the Ofgem Consolidated Segmental Statement and the key judgements and disclosures made in its preparation. The external auditors also provided a detailed report and held discussions with the Committee. The Committee reviewed the Basis of Preparation of the CSS and were satisfied with this year's disclosure, including any changes in methodology. The full CSS and the independent audit opinion approved by the Committee for publication are set out on pages 176 to 186.

Governance, risk and control

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic priorities. The Board supports this by maintaining a sound system of risk management and internal control.

The following diagram shows some of the key elements in the governance framework by which our operations are conducted:

- the work of the Board and its Committees are at the heart of this process and set:
  - objectives;
  - performance targets and their definitions; and
  - policies.
- designed to:
  - achieve a balanced and transparent approach to the management of risks facing our operations.
- underpinned by:
  - a clear delegation of authority;
  - Group policies covering key areas of our operation; and
  - a set of business principles which are communicated to our employees.



We have processes in place for identifying, evaluating and managing principal risks to the achievement of our strategic priorities. These processes are reinforced through regular performance management. They are subject to internal and external review, to identify areas where we can further enhance our risk management activities, as well as to provide us with an independent and impartial assessment of the effectiveness of the control framework.

We operate a 'three lines of defence' model, which enables accountability for risk management and the control environment within Centrica.

Integrated assurance operating model

CORPORATE GOVERNANCE REPORT CONTINUED

The 1st line of defence is the implementation by business unit management teams of the policies approved by the Board.

The 2nd line of defence involves risk and control teams and other monitoring functions. They help with policy implementation, and provide assurance to business unit management over policy compliance and the related controls.

The 3rd line of defence is the Internal Audit team, which independently assesses the risks and controls designed and implemented by the 1st line of defence, and the assurance provided by the 2nd line of defence, and reports those results to the Audit Committee.

As with any such system, the processes are designed to manage rather than eliminate the risk of failure to achieve the objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Details of our principal risks and uncertainties, both short and long term, are set out in pages 40 to 45 of the Strategic Report.

Improvements in 2014

Throughout 2014 we continued to develop an integrated approach to our risk and assurance activities. Specifically the following improvements were implemented:

- development of a risk universe designed to ensure a more consistent and comprehensive approach to risk identification;
- improved and more explicit consideration of business risk as part of our capital allocation framework process;
- refresh of our process, to identify and assess Black Swan and High Impact Low Likelihood risks;
- greater interaction with specialist risk areas, such as Information Security and Health, Safety, Environment and Security, allowing for a more consistent approach to risk identification and reporting;
- greater engagement with the Executive Committee through changes to the Group risk report with inclusion of more diverse analysis; and
- increased resourcing in a number of 2nd line of defence functions.

Improvements for 2015

In September 2014, the Financial Reporting Council (FRC) replaced the Internal Control: Guidance for Directors (2005) and Going Concern and Liquidity Risk: Guidance for Directors (2009) with one set of integrated guidance, The UK Corporate Governance Code (2014). The changes and additions to the Code require us to formulate a programme of work to ensure compliance. This will form the basis for a proportion of our improvement activity during 2015, specifically with an articulation of the Group's risk appetite for our principal risks. Outside of this, we will continue to improve our risk management processes with a number of initiatives, including:

- scheduled refresh of our risk management and control policies, standards, guidelines and assessment matrices;
- a review of the existing governance structure and relationship of all risk committees to the Group Risk Management Committee (GRMC), including a terms of reference review; and
- integration of Bord Gáis Energy with the Group's risk management process.

Group risk governance structure

Group Risk Management Committee

The GRMC plays a pivotal role in the governance of risk. Each of our business units has a dedicated Business Risk Management Committee, or equivalent, whose role is to evaluate, report and advise on principal risks and to consider the adequacy of controls and the actions planned to mitigate those risks. The most material risks are then reported to the GRMC so that it has a clear understanding of our aggregate risk profile and can ensure that control processes are in place for the management of these risks. The GRMC is chaired by the Chief Executive and membership reflects that of the Executive Committee. In 2014, the GRMC met four times.

Group Financial Risk Management Committee

The Group Financial Risk Management Committee (GFRMC) focuses specifically on financial risk (market, credit, liquidity risks and operational risks within the trading operations).

Additional monitoring of our financial risk is performed by local Financial Risk Management Committees. Material financial risk exposures are reported to the GFRMC for consideration. The GFRMC monitors the design and implementation of financial risk policies and compliance with Group-wide financial risk limits and appetite. Quarterly overviews of the GFRMC's activity are provided to the GRMC.

The GFRMC is chaired by the Chief Financial Officer and membership comprises senior finance and risk personnel. The GFRMC met 15 times in 2014. Further details of the Group's financial risk management are provided in note S3 to the Financial Statements on pages 150 to 154.

Centrica Controls Board

The Centrica Controls Board (CCB) is responsible for ensuring that appropriate internal controls are in place over key operational and financial reporting processes and related IT systems. The CCB met four times in 2014 and is chaired by the Chief Financial Officer and membership comprises, the Director of Corporate Finance, the Head of Risk and Controls and finance directors for each business unit. The responsibilities of the CCB are discharged through the Centrica Controls Steering Group (CCSG) and the Information Risk Steering Group (IRSG).

The CCSG met three times during 2014 and is chaired by the Group Head of Risk and Controls.

The IRSG monitors our control environment for information systems, providing robust challenge to the business units to ensure that risk management remains effective and appropriate.

The IRSG met four times during 2014 and is chaired by the Group Head of Information Risk.

Executive Committee and Audit Committee

Our principal risks are reported to the Executive Committee via the GRMC. In addition, the Executive Committee regularly undertakes in-depth reviews of specific risks as appropriate.

At each of its meetings in 2014 the Audit Committee received a risk update as part of an overall Group assurance report. This provided an assessment of the key principal risks facing the Company, including those that would threaten the business model, future performance, solvency or liquidity, and the adequacy of the associated controls. The Audit Committee assessed findings from reviews conducted by the Internal Audit team in accordance with the annual audit plan. These reports, supplemented by management presentations and discussion with the Audit Committee, enable it to track issues, monitor performance and ensure that necessary action is taken to remedy any significant failings or weaknesses identified.

The Company is also aware that the integrity and reputation of our public financial reporting is of utmost importance. In addition to the controls described above, there are a number of further processes to provide assurance over the completeness and accuracy of our public financial reporting, including:

- review by members of the Executive Committee;
- verification exercises;
- review and recommendation by the Audit Committee; and
- review and approval by the Board.

Centrica Storage and other Group companies

Centrica Storage Limited, which is subject to undertakings given to the UK Secretary of State for Business, Innovation and Skills, operates separately but to the same standards of internal control and risk management as the rest of the Group. The internal control and risk management processes of newly acquired companies are also integrated with those of the Group.

The Board's review of the system of risk management and internal control

Each year, an extensive process of self-certification operates throughout the Group whereby the effectiveness of risk management and internal control and compliance with Group business principles and policies are assessed. The self-certification was completed at the half year and full year. The results of the self-certifications, together with the conclusions of the reviews by the Internal Audit team, inform the annual assessment performed by the Audit Committee.

The Board, with the advice of the Audit Committee, has reviewed the effectiveness of the system of risk management and internal control, for the period from 1 January 2014 to the date of this report and is satisfied that the Group complies with the FRC's Guidance. The Board will continue to routinely challenge management in order to ensure that the system of risk management and internal control is constantly improving and remains fit for purpose.

CORPORATE GOVERNANCE REPORT CONTINUED

Nominations Committee

Rick Haythornthwaite became Chairman of the Committee on 1 January 2014.

The Committee ensures there is a formal and appropriate procedure for the appointment of new Directors to the Board. The Committee is responsible for leading this process and making recommendations to the Board. Carlos Pascual was appointed to the Committee on 1 January 2015 and Steve Pusey will be appointed on 1 April 2015.

Membership and attendance during the year:

	Number of meetings	Meetings attended
Rick Haythornthwaite[i]	8	8
Margherita Della Valle	8	7
Mary Francis[ii]	8	7
Lesley Knox	8	7
Mike Linn	8	4
Ian Meakins	8	7
Paul Rayner[ii]	8	7

(i) Rick Haythornthwaite was appointed as Chairman with effect from 1 January 2014.
(ii) Mary Francis and Paul Rayner stepped down from the Committee with effect from 31 December 2014.

In addition to the above meetings, the Committee met with the Chief Executive and the Group Director, Human Resources to undertake a succession review for senior management.

Key issues reviewed by the Nominations Committee:

- review of Committee membership;
- the appointment of Iain Conn, Carlos Pascual and Steve Pusey;
- consideration of exposure to loss of key personnel;
- succession planning for the Chief Financial Officer;
- succession planning for the British Gas MD;
- succession planning for the Non-Executive Directors;
- a review of Non-Executive Directors whose length of service was more than six years; and
- a review of the skills of each of the Directors and the independence of each of the independent Non-Executive Directors prior to the 2014 AGM and recommendation that each of them be subject to re-election at the 2014 AGM.

Recruitment process

Led by the Chairman the recruitment processes undertaken for the appointment of Iain Conn, Carlos Pascual and Steve Pusey were formal, rigorous and transparent. The Committee appointed several executive search agents to assist in the search for a new Chief Executive, and both Executive and Non-Executive Directors. The agents engaged included Russell Reynolds Associates, The Zygos Partnership, JCA Group and Spencer Stuart. The following process was undertaken for each assignment where an appointment was made:

- a job specification was prepared against which potential candidates were considered;
- the Committee considered the candidates against the objective criteria set out in the profile, having due regard for the benefits of Board diversity;
- a shortlist of preferred candidates was selected from a list of candidates;
- the Committee appointed a sub-committee to have meetings with the shortlisted candidates;
- a preferred candidate recommendation was made by the Committee to the Board for consideration; and
- the Board considered and approved the appointments.

None of the executive search agents listed above provide any other services to the Company.

Diversity

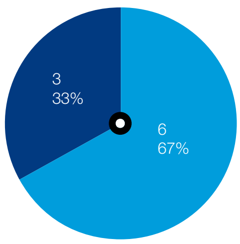
Centrica is committed to the merits of diversity in all its forms at Board level and throughout the Group. As at 31 December 2014, 33% of the Board were women, although due to the Board changes that took place in January 2015 this figure reduced to 25%. Centrica is committed to maintaining its current level of women on the Board and would increase the percentage if the skills, experience and knowledge of the individual were appropriate and in keeping with the business' needs.

Our employment policies and practices reflect a culture where decisions are based on individual ability and potential in relation to the business' needs. We are committed to promoting equal opportunities and diversity as part of creating an inclusive working environment that attracts and retains the best people and that enables everyone in Centrica to fulfil their potential. Individuals are treated in a non-discriminatory manner at all stages of their employment, including recruitment and selection, reward, training and development and promotion and career development.

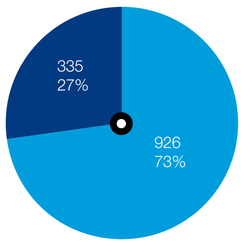
At senior management level, 27% are women, whilst 30% of employees excluding the Board and senior management are women as indicated in the charts below. Our senior management level includes categories of employees as defined in the Act. During the year, Centrica was ranked as 19th in the 2014 'Female FTSE 100 Index', was recognised for its family-friendly policies in the 2014 Top Employers for Working Families Benchmark and received a special award for flexible working practices. Centrica has various initiatives taking place relating to gender diversity. These include coaching and mentoring and the Pearls Programme which identified 25 women across the business to participate in a programme designed to deliver a unique environment for growth and learning. Centrica has partnered with the Women's Oil Council which is a business network in the oil and gas industry and is working with the Women's Business Council which makes recommendations to government and UK businesses on how women's contribution to growth can be optimised.

Breakdown by gender

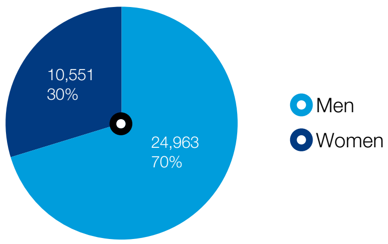
Board



Senior management



Other employees



Centrica's Group Director, Human Resources, Jill Shedden jointly hosted a roundtable meeting with the Women's Business Council (of which she is a member) in London to discuss the contribution of older female workers to the economy. Discussions focused on the opportunities and challenges faced in the recruitment, retention and training of older women workers and the programmes that have been particularly effective. The output of the discussions will help inform the report that the government-appointed Business Champion for Older Workers, Dr Ros Altmann CBE, is due to present to the UK government this spring.

Remuneration Committee

The role of the Committee is to determine and make recommendations to the Board on the Company's policy for the remuneration of the Chairman of the Board, the Company's Executive Directors and other senior executives.

Membership and attendance during the year:

	Number of meetings	Meetings attended
Lesley Knox (Chairman)	10	10
Margherita Della Valle	10	9
Mary Francis (i)	10	10
Rick Haythornthwaite	10	10
Mike Linn	10	9
Ian Meakins	10	6
Paul Rayner (i)	10	9

(i) Mary Francis and Paul Rayner stepped down from the Committee on 31 December 2014.

Carlos Pascual was appointed to the Committee on 1 January 2015 and Steve Pusey will be appointed on 1 April 2015. The Board has determined that each member of the Committee is independent. No Director is involved in the determination of, or votes on, any matters relating to his or her own remuneration.

Responsibilities of the Remuneration Committee:

- to determine total individual remuneration packages and terms and conditions for the Board and senior executives;
- approve the design of, and determine targets for, any performance related pay schemes for the Executive Committee and approve the total annual and long-term incentive plan payments;
- review the design of all share incentive plans for approval by the Board and the Company's shareholders; and
- prepare and recommend to the Board for approval each year a report on remuneration policy and a separate report on the implementation of the policy in the last financial year.

Key issues reviewed by the Remuneration Committee:

- review and agree recommendation for 2015 remuneration policy;
- arrangements for shareholder consultations and review feedback;
- consider and agree new Chief Executive reward arrangements;
- agree arrangements for other Executive changes;
- determine and review annual and long-term incentive plan targets;
- updates on performance measures relating to short-term and long-term share plans;
- agree and recommend new incentive plans;
- review Centrica Unapproved Pension Scheme; and
- monitor minimum shareholding updates.

Further details of the activities of the Committee are contained in the Remuneration Report on pages 63 to 81.

Corporate Responsibility Committee

The role of the Committee is to ensure that Centrica effectively manages its impact on society, the environment and the wider economy. The Executive Committee has overall responsibility for implementing Corporate Responsibility (CR) strategy across the Group.

The Committee members and their attendance during the year is shown in the table below. Meetings of the Committee are also attended by the Chairman of the Board.

	Number of meetings	Meetings attended
Mary Francis (Chairman) (i)	4	4
Sam Laidlaw (i)	4	4
Margherita Della Valle	4	4
Grant Dawson	4	4
Chris Weston (ii)	4	4

(i) Mary Francis and Sam Laidlaw stepped down from the Committee on 31 December 2014.
(ii) Chris Weston stepped down from the Committee on 30 December 2014.

Key issues reviewed by the Corporate Responsibility Committee:

- developing the Group's strategy for CR;
- reviewing the 2013 CR Report;
- assessment of the supply chain against CR criteria; and
- reviewing key CR issues and initiatives in each business unit including climate change, fuel poverty and energy efficiency.

Executive Committee

The Executive Committee is responsible for the day-to-day management of the Group's operations within the limits set out in the Group's delegation of authority. The Committee also has a schedule of matters specifically reserved for its approval, including health, safety and environmental policies and standards.

The Executive Committee met formally 11 times during the year with regular weekly meetings being held during the year as necessary.

Membership and attendance during the year is set out below. Badar Khan, President and CEO, Direct Energy, was appointed to the Committee on 5 January 2015.

	Number of meetings	Meetings attended
Sam Laidlaw (Chairman) (i)	11	11
Grant Dawson	11	11
Mark Hanafin	11	11
Nick Luff (ii)	7	7
Jill Shedden	11	10
Chris Weston (iii)	11	10
Jeff Bell (iv)	4	4
Ian Peters (v)	1	1

(i) Sam Laidlaw stepped down from the Committee on 31 December 2014.
(ii) Nick Luff stepped down from the Committee on 31 August 2014.
(iii) Chris Weston stepped down from the Committee on 30 December 2014.
(iv) Jeff Bell was appointed to the Committee on 1 September 2014.
(v) Ian Peters was appointed to the Committee on 1 December 2014.

Key issues reviewed by the Executive Committee:

- the financial and operational performance of the business against the operating plan;
- health and safety performance;
- human resourcing issues including key senior management changes and succession planning;
- major proposed transactions together with announcements regarding specific projects; and
- environmental and security updates.

CORPORATE GOVERNANCE REPORT CONTINUED

Disclosure Committee

The Disclosure Committee is responsible for the implementation and monitoring of systems and controls in respect of the management and disclosure of inside information and for ensuring that regulatory announcements, shareholder circulars, prospectuses and other documents issued by the Company comply with applicable legal or regulatory requirements.

Membership and attendance during the year:

	Number of meetings	Meetings attended
Sam Laidlaw (Chairman)[(i)]	11	8
Grant Dawson	11	11
Nick Luff[(ii)]	10	8
Jeff Bell[(iii)]	1	1

(i) Sam Laidlaw stepped down from the Committee on 31 December 2014.
(ii) Nick Luff stepped down from the Committee on 31 August 2014.
(iii) Jeff Bell was appointed to the Committee on 1 September 2014.

Iain Conn was appointed to the Committee on 1 January 2015. At each Executive Committee meeting, transactions or events were considered against the disclosure obligations of the Company and whether any matter was considered to be price sensitive.

Key issues reviewed by the Disclosure Committee:

- a review of the preliminary announcement, the interim management statements and half-year results;
- consideration of the release of regulatory and industry announcements;
- key management changes; and
- announcements in respect of specific projects.

Relations with shareholders

The Board recognises and values the importance of maintaining an effective investor relations and communication programme. The Board is proactive in obtaining an understanding of shareholder views on a number of key matters affecting the Group and receives formal investor feedback regularly.

In 2014, Centrica's shareholder engagement programme included:

- formal presentations for the announcement of the Group's 2013 preliminary and 2014 interim results;
- meetings between the Chief Executive and Chief Financial Officer and the Company's major shareholders during the year;
- meetings between Iain Conn and the Company's major shareholders, as part of Iain Conn's induction process;
- the Chairman of the Remuneration Committee meeting with a number of the Company's major shareholders during the year to discuss the Company's remuneration arrangements;
- the Chairman and Senior Independent Director meeting with major institutional shareholders in order to gain a first-hand understanding of their concerns and key issues and provide regular updates of these to the Board; and
- a meeting with our largest investors and leading proxy advisers to provide insight into the key focus and considerations of the Board and its Committees and a better understanding of the governance measures operating across the business.

The Company's AGM provides all shareholders with the opportunity to develop further their understanding of the Company. Shareholders can ask questions of the full Board on the matters put to the meeting, including the Annual Report and Accounts and the running of the Company generally. The Company intends to send the Notice of AGM and any related papers to shareholders at least 20 working days before the meeting. All Directors attend the AGM unless unforeseen circumstances arise. Committee Chairmen are normally present to take questions at the AGM.

At the AGM, the Chairman and the Chief Executive present a review of the Group's business. A poll is conducted on each resolution at all Company general meetings. All shareholders have the opportunity to cast their votes in respect of proposed resolutions by proxy, either electronically or by post. Following the AGM, the voting results for each resolution are published and are available on our website.

Ian Meakins, the Senior Independent Director, is available to shareholders if they have concerns that contact through the normal channels has failed to resolve.

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

Further details of material shareholdings in the Company are set out on page 82.

Information included in the Directors' Report

Certain information that fulfils the requirements of the Corporate Governance Statement can be found in the Directors' Report in the sections headed Material shareholdings, Share capital and Repurchase of shares and is incorporated into this Corporate Governance Report by reference.

Grant Dawson
General Counsel & Company Secretary
19 February 2015

REMUNERATION REPORT

"The new executive incentive arrangement is better aligned with the strategic direction and evolved shape of the Group."

Lesley Knox

Chairman of the Remuneration Committee

Total remuneration for our Executive Directors includes variable performance related pay. Performance is measured against our key performance indicators.

Key Performance Indicators 18

On behalf of the Board I am pleased to present the Remuneration Committee's report for 2014.

Once again my summary of the year extends over the following two pages and includes a quick overview of performance targets and outcomes as well as the total remuneration opportunity and total remuneration received in respect of the 2014 performance year for Executive Directors (Executives).

Both Nick Luff and Chris Weston resigned during the year, forfeiting their potential annual incentive and long-term incentive opportunity. Therefore they are not included in the summary.

For 2014, the total variable earning opportunity remained unchanged from the prior year and stretching performance measures were set by the Committee.

Downstream, trading conditions remained challenging, with record mild weather in the UK, extreme cold weather in North America early in the year, and a highly competitive market environment on both sides of the Atlantic. Accordingly, British Gas, Direct Energy and the Group as a whole failed to reach the target operating profit level set by the Committee.

In Centrica Energy, nuclear output in UK power generation was lower than expected, reflecting the temporary shut-down of four reactors. Upstream gas post-tax earnings in the year were largely protected from falling wholesale prices by the impact of hedging, tax allowances and strong midstream performance. As a result, Centrica Energy marginally exceeded its operating profit target.

Health and safety performance remained strong during the year. Our employee engagement score declined slightly in 2014 but we remained above average when compared with our peers. We delivered improved service levels in British Gas which put us into the median net promoter score (NPS) performance zone. NPS performance in Direct Energy remained in the high performance zone which is consistent with the prior two years.

Performance against the long-term financial targets resulted in EPS growth falling short of the RPI +3% per annum minimum hurdle whilst the absolute aggregate economic profit exceeded the minimum threshold of £2.6 billion by £21 million.

The vesting level from the long-term awards related to the 2012 to 2014 three-year period appropriately reflected the mixed performance across the range of KPIs, an outcome which the Committee felt reflected the true underlying performance of the business.

Prior to the beginning of 2014, the Committee had set out future plans to review and revise the incentive arrangements for Executives, as the existing schemes come to an end. Therefore during the year we undertook two shareholder consultation exercises. The first with a group of major shareholders to explore the appetite for far reaching reform of our Executive remuneration arrangements and the second with a larger group of major shareholders to seek views on a proposed new programme developed with feedback from the first consultation in mind.

I am pleased to set out in the policy section of this report the resulting proposal for a new Executive incentive arrangement to apply from 27 April 2015 onwards. The new arrangement represents a simplification of scheme design, a reduced overall incentive opportunity and better alignment with the strategic direction and evolved shape of the Group.

During the year the Committee held 10 meetings. We discussed and agreed the structure of the two new Executive incentive plans that form the short and long-term elements of the proposed new Remuneration Policy as well as the targets, outcomes and vesting levels for the existing plans. The remuneration arrangements for Iain Conn, the new Chief Executive, were also debated along with other Executive changes.

REMUNERATION SUMMARY FOR 2014

The information in this summary relates to each Executive Director employed during the year and eligible to receive an award under one of the Company's short-term or long-term incentive plans for the 2014 financial year.

Short-term and long-term incentive performance 2014

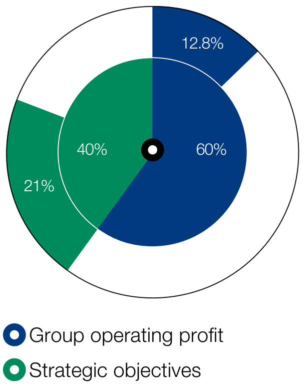
The charts below set out the measures and their weighting (inner circle) and the performance achieved against the maximum (outer circle) for both the short-term (Annual Incentive Scheme) and long-term (Long-Term Incentive Scheme and Deferred and Matching Share Scheme) incentive arrangements operated during the year.

Short-term incentive targets

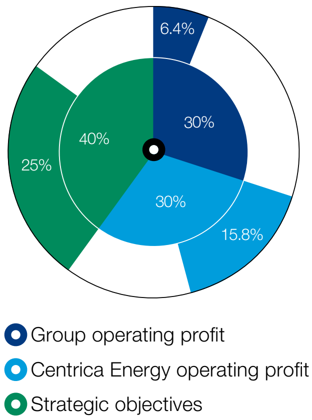
For Group, adjusted operating profit of £2,031 million was required for 50% achievement and £2,302 million for 100%.

For Centrica Energy (CE), adjusted operating profit of £733 million was required for 50% achievement and £816 million for 100%.

Sam Laidlaw



Mark Hanafin



Individual strategic objectives in 2014 for Sam Laidlaw included maintaining a strong safety performance, the roll-out of new technology to customers, the delivery of key information systems projects, succession planning and building senior leadership and executive capability and delivering business transformation programmes across the business.

Individual strategic objectives in 2014 for Mark Hanafin included maintaining a strong safety performance and sustaining safe and reliable operations, building capability and effectiveness within CE, the development and retention of key high potential senior employees, increasing returns through efficiency and continued capital discipline, implementing the LNG roadmap and delivering specific power and midstream projects as part of CE's operating plan.

Long-term incentive targets

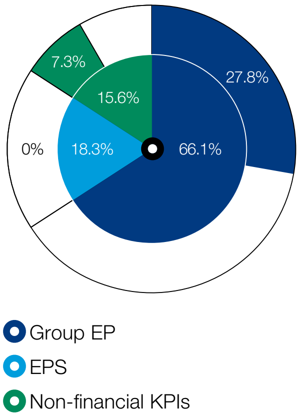
For Group economic profit (EP), £3.4 billion was required for 100% achievement.

For Group earnings per share (EPS), growth of RPI +30% was required for 100% achievement.

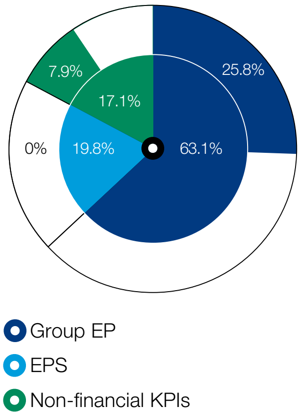
For non-financial KPIs, all elements needed to remain in the high performance zone for the entire performance period for 100% achievement.

For total shareholder return (TSR), outperformance of the FTSE 100 Index by 7% per annum would result in a 1.5 multiplier and underperformance by 7% per annum would result in a 0.667 multiplier.

Sam Laidlaw



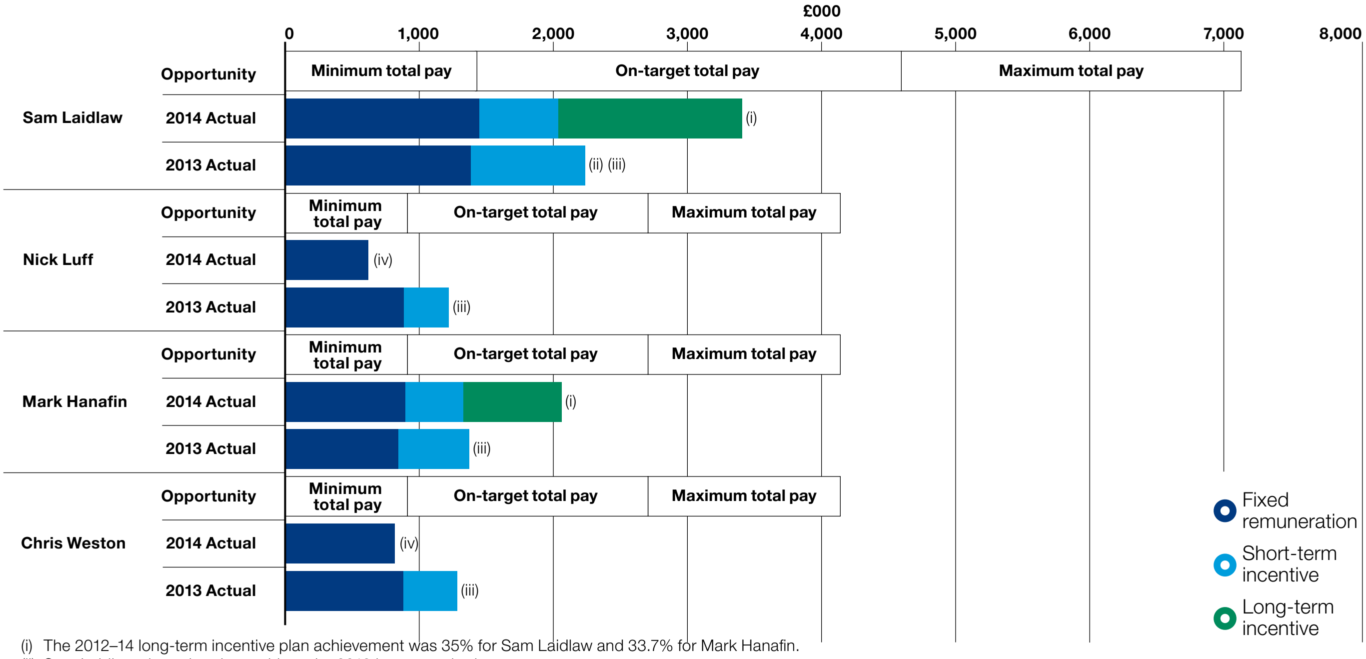
Mark Hanafin



The results above have been reduced, where applicable, by a TSR multiplier of 0.667.

Maximum total remuneration opportunity and total remuneration received in 2014

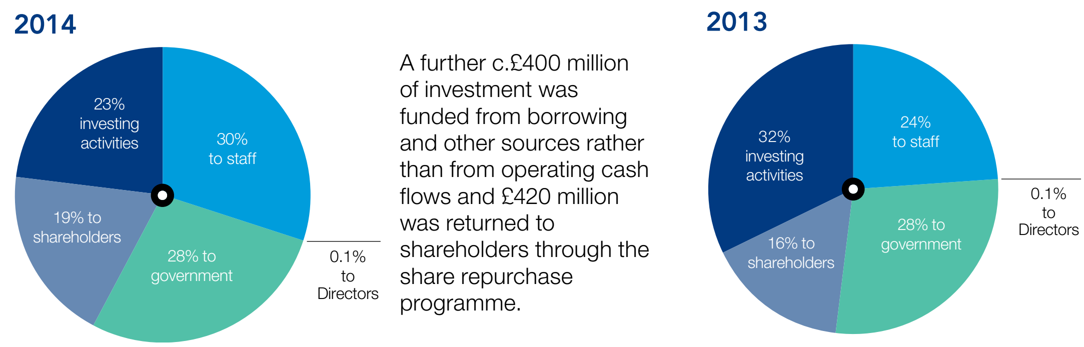
The chart below sets out the total remuneration received for the year for each Executive Director, prepared on the same basis as the single figure for total remuneration table set out on page 74. In addition, for comparison purposes, the chart provides an indication of minimum, on-target and maximum total remuneration opportunity, prepared on the same basis and in accordance with the existing Remuneration Policy.



(i) The 2012–14 long-term incentive plan achievement was 35% for Sam Laidlaw and 33.7% for Mark Hanafin.
(ii) Sam Laidlaw elected to donate his entire 2013 bonus to charity.
(iii) The 2011–13 long-term incentive plan achievement was 0%.
(iv) Nick Luff and Chris Weston ceased employment on 31 August and 30 December respectively. As a result their incentive awards were forfeit.

2014 Cash flow distribution to stakeholders

The Committee monitors the relationship between the Directors' total remuneration and cash outflows to other stakeholders. As demonstrated by the chart below, the Directors' aggregate total remuneration for the year equates to 0.1% (2013: 0.1%) of the Group's operating cash flow.



A further c.£400 million of investment was funded from borrowing and other sources rather than from operating cash flows and £420 million was returned to shareholders through the share repurchase programme.

A further c.£600 million of investment was funded from borrowing and other sources rather than from operating cash flows and £500 million was returned to shareholders through the share repurchase programme.

In 2015 the Committee will continue to keep executive remuneration under review and we will take a keen interest in external views on remuneration matters. We will maintain the engagement with our major shareholders and we thank them for their input over the last few months and their ongoing support.

At the Company's AGM on 27 April 2015, shareholders will be asked to approve two new discretionary share plans: the Centrica Long-Term Incentive Plan (LTIP) which is described on page 68 of the Remuneration Policy and a share plan for employees (but not Executive Directors), the Centrica On Track Incentive Plan, a summary of which is set out in the Notice of Meeting. In addition shareholders will be asked to approve an updated sharesave scheme to apply to all Centrica employees in the UK, to replace the current scheme which was last approved in 2006.

Lesley Knox
Chairman of the Remuneration Committee
19 February 2015

REMUNERATION POLICY

The Policy in the following pages sets out the new Executive incentive arrangements that we intend to apply, subject to shareholder approval, from 27 April 2015 onwards.

Executive Directors' remuneration

The Remuneration Committee (Committee) believes that the remuneration arrangements are completely aligned with the Executives' underlying commitment to act in the best interests of sustainable shareholder value creation, whilst ensuring behaviours remain consistent with the governance and values of the business.

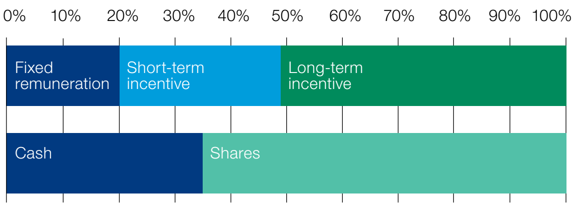
Key objectives of reward framework

The Policy aims to deliver a remuneration package:

- to attract and retain high calibre Executives in a challenging and competitive business environment;
- that delivers an appropriate balance between fixed and variable compensation for each Executive;
- that places a strong emphasis on performance, both short term and long term;
- strongly aligned to the achievement of strategic objectives and the delivery of sustainable value to shareholders; and
- that seeks to avoid creating excessive risks in the achievement of performance targets.

Reward framework

The core design of the total remuneration framework for Executives ensures that a substantial portion of the maximum opportunity is dependent upon performance as indicated below. Total remuneration comprises fixed pay and variable performance related pay, which is further divided into short-term incentive (with a one-year performance period) and long-term incentive (with a three-year performance period).



Short-term incentives relate to awards under the Annual Incentive Plan (AIP) which is described on page 67. Long-term incentives relate to awards under the Long-Term Incentive Plan (LTIP) which is described on page 68.

Key performance indicators (KPIs) have been selected that align with our vision: to be the leading integrated energy company with customers at our core and also support our strategic priorities. In addition, our underlying principles of operating safely and with an engaged workforce are included.

The KPIs, set out in detail on pages 18 and 19, influence the design and underpin the selection of performance criteria used within the incentive arrangements as demonstrated in the table below. If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee.

In addition, Executives are subject to a minimum shareholding guideline. Under the LTIP there are mandatory holding periods of three to five years from grant or award date, to provide further alignment with the returns to our shareholders.

Remuneration principles

- the potential maximum remuneration that Executives could receive is a key consideration when agreeing the level of base pay and the performance related elements of the remuneration package;
- the Committee takes account of, and is sensitive to, shareholder views, market changes, skills availability, competitive pressure and/or the economic climate when considering Executive remuneration. In so doing, the Committee follows similar principles that apply when remuneration is considered for all other employees within the Group; and
- benchmarking against UK cross-industry comparator organisations of similar size and complexity is used to assist the Committee in evaluating market movement and the relative competitive position of Executive remuneration to ensure that packages offered support the attraction and retention of high calibre individuals.

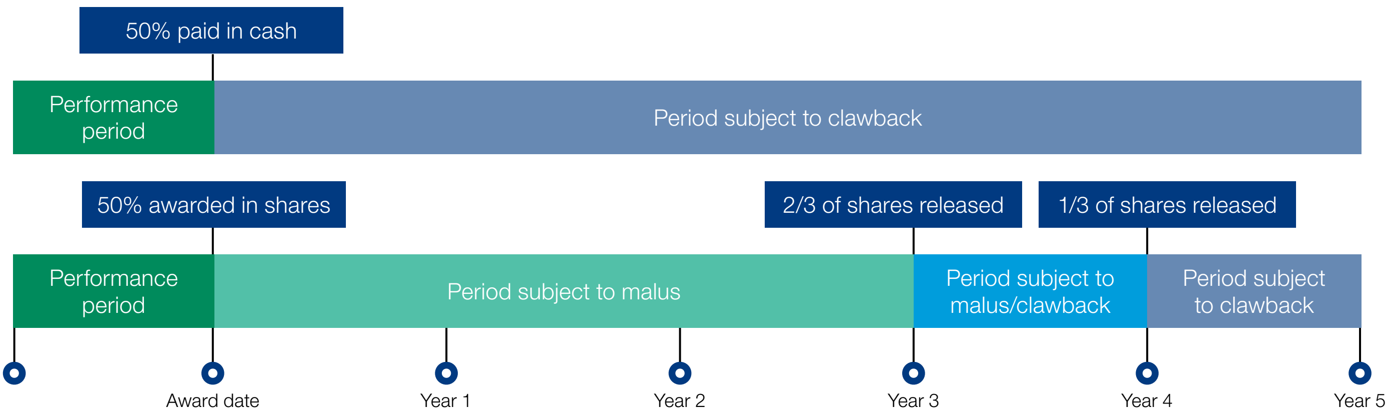
KPI	Incentive link
Adjusted operating profit	AIP primary financial measure, LTIP economic profit three-year measure
Earnings per share (EPS)	LTIP EPS growth measure
Total shareholder return (TSR)	AIP deferred share investment and minimum shareholding requirement
Lost time injury frequency rate (LTIFR)	LTIP non-financial KPI dashboard
Process safety	LTIP non-financial KPI dashboard
Customer satisfaction	LTIP non-financial KPI dashboard
Employee engagement	LTIP non-financial KPI dashboard

Remuneration Policy table

The table below sets out the new Remuneration Policy that the Committee intends to apply to Executive Directors (Executives), subject to shareholder approval, from 27 April 2015, the date of the AGM.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
Base pay/salary Reflects the scope and responsibility of the role and the skills and experience of the individual. Salaries are set at a level sufficient to allow the Company to compete for international talent and to recruit, motivate and retain individuals of the correct calibre to execute our strategy.	Base salaries are reviewed annually, taking account of performance, market conditions and pay in the Group as a whole. Changes are usually effective from 1 April each year. This is consistent with the previously approved policy.	Ordinarily, base salary increases in percentage terms will be in line with increases awarded to other employees of the Group. Increases may be made above this level to take account of individual circumstances such as a change in responsibility, progression in the role or a significant increase in the scale or size of the role. The base salary for an Executive will not exceed £1 million per annum. This is consistent with the previously approved policy.	Not applicable.
Short-term incentive plan Designed to reward the delivery of key strategic priorities for the year. These priorities position the Group for strong short-term financial performance, in service of longer-term strategic goals.	The Annual Incentive Plan (AIP) is a new plan and together with the new Long-Term Incentive Plan (LTIP) replaces the previous Annual Incentive Scheme (AIS), Deferred and Matching Share Scheme (DMSS) and Long-Term Incentive Scheme (LTIS). The AIP is designed to incentivise and reward the achievement of demanding financial and individual strategically aligned performance objectives. Following measurement of the performance outcome, half of the AIP award is paid in cash. The other half is required to be deferred into shares, two-thirds of which are released after three years and the remaining third after four years. Dividends are payable on the shares during the restricted period. If overall business performance is not deemed satisfactory, an individual's AIP payment for the year may be reduced or forfeited, at the discretion of the Committee. Malus and clawback apply to the cash and share awards (see policy table notes on page 70).	Maximum of 200% of base salary. Half the maximum is payable for on-target performance. The minimum award is 0%. The maximum was 180% of base salary under the previously approved policy. The 20% of base salary increase in maximum opportunity is offset by the 80% of base salary reduction in maximum long-term incentive opportunity and longer deferral periods.	Up to 75% of base salary based on individual strategic objectives aligned to the Group's strategic priorities, with the remainder based on operating profit adjusted for movements in tax and capital employed. Assessed over one financial year. Up to 72% of base salary was based on individual strategic objectives under the previously approved policy.

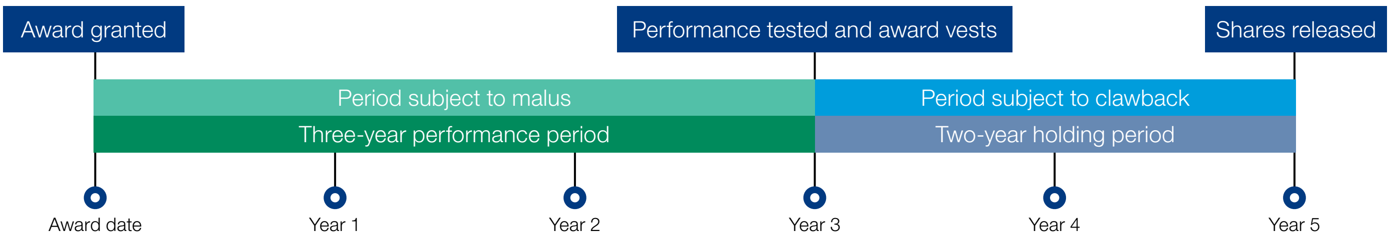
AIP timeline



REMUNERATION POLICY CONTINUED

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
Long-term incentive plan Assists with Executive retention and incentivises an appropriate balance between short-term performance and long-term value creation for shareholders. Encourages sustainable high performance. Provides a direct link between remuneration and KPIs, reinforcing the desire for sustainable high performance over the long term.	The new Long-Term Incentive Plan (LTIP) simplifies the previous long-term incentive arrangements which were delivered under two separate schemes. LTIP awards are granted to Executives each year based on a percentage of base salary at the point of award. Shares vest at the end of a three-year performance period, depending on the achievement against the Company performance targets, but are not released until the fifth anniversary of the award date. LTIP awards are usually delivered as conditional shares which vest at the end of the three-year performance period. Awards may also be granted as nil-cost options with a seven-year exercise period. It is a requirement of the LTIP that the net shares are held for a further two years following the vesting date. Malus applies to the shares during the three-year performance period and clawback applies to the shares during the two-year retention period (see policy table notes on page 70). Dividend equivalents are calculated at the end of the performance period on any conditional LTIP share awards or nil-cost options. Dividend equivalents are paid as additional shares or as cash. If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee.	Maximum of 300% of base salary plus dividend equivalents. The minimum vesting level is 0%. The maximum was 380% of base salary plus dividend equivalents under the previously approved policy.	One-third based on EPS over the three-year performance period. One-third based on absolute aggregate EP over the three-year performance period. One-third based on non-financial KPI dashboard. Where performance falls between stated points, vesting is calculated on a straight-line basis. The weighting to non-financial KPIs has marginally increased from 30% to 33.3% compared with the long-term incentive arrangements in the previously approved policy. This reflects the Committee's view of the appropriate balance between financial and non-financial measures at two-thirds/one-third respectively.

LTIP timeline



Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
Pension Positioned to provide a competitive post-retirement benefit, in a way that manages the overall cost to the Company.	Incoming Executives are entitled to participate in a Company money purchase pension arrangement or to take a fixed salary supplement (calculated as a percentage of base salary, which is excluded from any bonus calculation) in lieu of pension entitlement. The Group's policy is not to offer defined benefit arrangements to new employees at any level, unless this is specifically required by applicable legislation or an existing contractual agreement. This is consistent with the previously approved policy.	30% salary supplement for Chief Executive and 25% salary supplement for all other Executives. This is consistent with the previously approved policy.	Not applicable.
	Executives employed prior to 2013 are entitled to participate in a Centrica pension arrangement or to receive a fixed salary supplement in lieu of pension entitlement in accordance with the terms of their contracts. Mark Hanafin is entitled to receive a salary supplement equal to 40% of his base salary in lieu of pension or to participate in a Company money purchase pension arrangement. We would continue to honour defined benefit pension arrangements in the event of an individual being promoted to the Board who retains a contractual entitlement to such a pension benefit. This is consistent with the previously approved policy.	40% salary supplement for Executives employed prior to 2013. This is consistent with the previously approved policy.	
Benefits Positioned to ensure competitiveness with market practice.	The Group offers Executives a range of benefits including some or all of: • a company-provided car and fuel, or a cash allowance in lieu; • life assurance and personal accident insurance; • health and medical insurance for the Executive and their dependants; • health screening; and • a contribution towards financial planning advice. This is consistent with the previously approved policy.	Cash allowance in lieu of company car – £22,000 per annum. The benefit in kind value of other benefits will not exceed 5% of base salary. This is consistent with the previously approved policy.	Not applicable.
Relocation and expatriate assistance To enable the Group to recruit or promote the right individual into a role, to retain key skills and to provide career opportunities.	Assistance may include (but is not limited to) removal and other relocation costs, housing or temporary accommodation, education, home leave, repatriation and tax equalisation. This is consistent with the previously approved policy.	Maximum of 100% of base salary. This is consistent with the previously approved policy.	Not applicable.
All-employee share plans Provide an opportunity for employees to voluntarily invest in the Company.	UK-based Executives are entitled to participate in the HMRC-approved Sharesave and Share Incentive Plan (SIP) on the same terms as all other eligible employees. The Sharesave plan offers a three or five-year savings period, with up to a 20% discount to the market value of the shares at the point of grant. The SIP currently offers partnership and matching shares. Dividends paid on SIP shares may be reinvested in the plan. This is consistent with the previously approved policy.	Maximum contribution limits are set by legislation. Levels of participation allowed by the Board are within these limits and apply to all participants. The SIP currently awards one free matching share for every two partnership shares purchased, up to a maximum of 22 matching shares per month, although the plan allows for higher levels of matching award. This is consistent with the previously approved policy.	Not applicable.

REMUNERATION POLICY CONTINUED

Policy table notes

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

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

Pension arrangements applying to Executives

Centrica Unfunded Pension Scheme (CUPS)

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

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

The CUPS defined benefit section was closed to new members in October 2002.

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

Earnings per share (EPS)

EPS is the Company's fully diluted earnings per share adjusted for exceptional items and certain re-measurements.

Economic profit (EP)

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

Where appropriate, expenditure on assets (and related costs) that are not yet in use (pre-productive capital) is excluded from capital employed.

Non-financial KPI dashboard

The non-financial KPI dashboard is designed to reward sustained high performance over the entire three-year performance period. The equally weighted measures are:

- lost time injury frequency rate;
- significant process safety event;
- British Gas net promoter score (NPS);
- Direct Energy NPS; and
- employee engagement.

Employee engagement survey data is collected by an external provider and compared against an independent benchmark database.

Deloitte LLP review selected non-financial key performance indicators, providing limited assurance using the International Standard on Assurance Engagements (ISAE) 3000. The full assurance statement, together with the Basis of Reporting, are available online.

For each measure, three performance zones have been established, represented by the following indicators:

- High performance zone
- Median performance zone
- Low performance zone

Malus and clawback

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

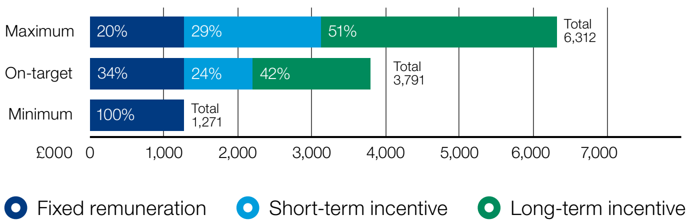
Where an award has vested, the resulting shares will generally be held for a period during which they may be subject to clawback in the event that the Committee determines that one or more of the circumstances above has occurred.

Total remuneration by performance scenario

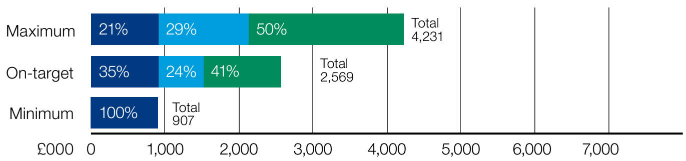
The charts below indicate the minimum, on-target and maximum remuneration that could be received by each Executive, excluding share price movement and dividends, under the proposed new Remuneration Policy. Assumptions made for each scenario are:

- minimum – fixed remuneration only (base salary at current level, together with pension and benefits as set out in the Remuneration Policy table);
- on-target – fixed remuneration plus target AIP (as set out in the Remuneration Policy table) and expected value under the LTIP on vesting of 50%; and
- maximum – fixed remuneration plus maximum AIP opportunity (as set out in the Remuneration Policy table) and maximum levels of vesting under the LTIP.

Iain Conn



Mark Hanafin



Discretion and judgement

It is important that the Committee maintains the flexibility to apply discretion and judgement to achieve fair outcomes as no remuneration policy and framework, however carefully designed and implemented, can pre-empt every possible scenario. The Committee needs to be able to exercise appropriate discretion to determine whether mechanistic or formulaic outcomes are fair, in context and can be applied in an upward or downward manner when required. Judgement is applied appropriately by the Committee, for example when considering the political and social pressures on the business, the impact of significant movements in external factors such as commodity prices, in setting and evaluating delivery against individual performance targets to ensure they are considered sufficiently stretching and that the maximum and minimum levels are appropriate and fair.

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

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

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

- determination of the result of any disputes relating to the interpretation of the rules;
- alteration of the terms of the performance targets if it feels that they are no longer a fair measure of the Company's performance, as long as the new targets are not materially less challenging than the original ones; and
- determination that any award is forfeit in whole or in part.

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

Recruitment policy

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

Whilst the maximum level of remuneration which may be granted would be within plan rules and ordinarily subject to the maximum opportunity set out in the Remuneration Policy table, in certain circumstances, an arrangement may be established specifically to facilitate recruitment of a particular individual up to 25% above the maximum opportunity, albeit that any such arrangement would be made within the context of minimising the cost to the Company. The policy for the recruitment of Executives during the policy period includes the opportunity to provide a level of compensation for forfeiture of bonus entitlements and/or unvested long-term incentive awards from an existing employer, if any, and the additional provision of benefits in kind, pensions and other allowances, as may be required in order to achieve a successful recruitment.

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

REMUNERATION POLICY CONTINUED

Termination policy

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

Save for summary dismissal, the policy is to either continue to provide base pay, pension and other benefits for any unworked period of notice or, at the option of the Company, to make a payment in lieu of notice comprising base pay only. Typically any payment in lieu of notice will be made in monthly instalments and reduce, or cease completely, in the event that remuneration from new employment is received. An AIP award for the year in which the termination occurs may be made following the normal year end assessment process, subject to achievement of the agreed performance measures and time-apportioned for the period worked. Any award would be payable at the normal time with a 50% deferral and no new long-term incentive plan awards would be made.

Except in cases of death in service, the policy is not to vest any existing long-term incentive plan awards earlier than their normal vesting date. In all cases any vesting remains subject to satisfaction of the associated performance conditions and will be time-apportioned for the period worked.

Executives leaving following resignation will forfeit any potential AIP award for the performance year in which the resignation occurs and all unvested LTIP awards. In addition, Executives summarily dismissed will also forfeit any deferred shares. Deferred awards can also be clawed back if it is subsequently discovered that the results have been achieved by behaviour which fails to reflect the governance and values of the business or where the results for any period appear inaccurate or misleading.

On a change of control, existing LTIP awards will be exchanged on similar terms or vest to the extent that the performance conditions have been met at the vesting date and be time-apportioned to the vesting date, subject to the overriding discretion of the Committee.

Pay and employment conditions across the Group

The Group operates in a number of different environments and has many employees who carry out a range of diverse roles across a number of countries. All employees, including Executives, are paid by reference to the market rate and base pay is reviewed annually. The ratio between fixed and variable pay for employees differs by level, geographic location and business unit.

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

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

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

No consultation in respect of Executive remuneration took place with employees during the year.

Shareholding guidelines

Minimum shareholding guidelines are in place for Executive Directors to build and maintain a value of shares over a five-year period equal to two times base salary.

External appointments of Executives

It is the Company's policy to allow each Executive to accept one non-executive directorship of another company, although the Board retains the discretion to vary this policy.

Fees received in respect of external appointments are retained by the individual Executive and are set out in the Directors' Annual Remuneration Report each year.

Implementation in the next financial period

A Deferred and Matching Share Scheme (DMSS) award will be made to Mark Hanafin, being the only eligible participant, following the full deferral of his 2014 Annual Incentive Scheme award. The matching award will be made within the limits set out in the approved policy and will be subject to Economic Profit (EP) performance. The Committee will set the EP target in March 2015 immediately prior to the award being made.

LTIP awards will be made to the Executives in line with the limits set out in the proposed Remuneration Policy on page 68. Performance measures will apply in accordance with the stated Remuneration Policy including the respective weighting thereof.

For EPS, the Committee ordinarily expects growth in excess of 9% over the performance period to be required for any vesting to occur and growth of at least 24% to be required for maximum vesting. However, for the first operation of the LTIP, given the significant movement in commodity pricing over the latter part of 2014 and early part of 2015, the Committee feels that measuring growth from a base of 2014 actual EPS would not reflect the true underlying performance of the business. The Committee therefore proposes to measure EPS growth over the second and third year of the performance period only using 2015 actual EPS as the base. Accordingly, growth in excess of 6% over the performance period will be required for any vesting to occur and growth of at least 16% will be required for maximum vesting. Vesting between these points will be on straight-line basis (6% growth = 0% and 16% growth = 100%). The maximum award will be reduced from 300% to 267% of base salary to reflect the shorter EPS performance period.

For EP, absolute aggregate EP in excess of £1.5bn over the performance period will be required for any vesting to occur and absolute aggregate EP of £3.5bn will be required for maximum vesting. Vesting between these points will be on a straight-line basis (£1.5bn = 0% and £3.5bn = 100%).

For Non-financial KPI's, for each measure in each year within the performance period, actual performance will be assessed providing fifteen individual results (five measures times three years). Full vesting will occur if all individual results are assessed as being in the high performance zone. For each median performance zone result a 5% reduction will apply and for each low performance zone result a 10% reduction will apply. The maximum reduction will be 100%.

Executive Directors will also participate in the AIP in line with the limits set out in the proposed Remuneration Policy on page 67. Operating profit targets adjusted for in year movements in capital employed and corporation tax, along with individual strategic objectives, are considered commercially sensitive until the year-end and will therefore be disclosed retrospectively in the Remuneration Report for the year in question.

Non-Executive Directors' remuneration

Remuneration policy

Centrica's policy on Non-Executive Directors' (Non-Executives) fees takes into account the need to attract high quality individuals, their responsibilities, time commitment and market practice.

Terms of appointment

Non-Executives, including the Chairman, do not have service contracts. Their appointments are subject to Letters of Appointment and the Articles of Association.

Remuneration Policy table

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Chairman and Non-Executive Director fees Sufficient level to secure the services of individuals possessing the skills, knowledge and experience to support and oversee the Executive Directors in their execution of the Board's approved strategies and operational plans.	The fee levels for the Chairman are reviewed every two years by the Remuneration Committee. The fee levels of the Non-Executives are reviewed every two years by the Executive Committee. Current fees were originally set in 2010. Non-Executives are paid a base fee for their services. Where individuals serve as Chairman of a Committee of the Board, additional fees are payable. The Senior Independent Director also receives an additional fee. The current base fee is £65,000 per annum. The following additional fees currently apply: • Chairman of Audit Committee – £23,000 per annum; • Chairman of Remuneration Committee – £20,000 per annum; • Chairman of Corporate Responsibility Committee – £20,000 per annum; and • Senior Independent Director – £20,000 per annum. The Company reserves the right to pay a Committee membership fee in addition to the base fees. Non-Executives are able to use 50% of their fees, after appropriate payroll withholdings, to purchase Centrica shares. Dealing commission and stamp duty is paid by the Non-Executive. The Non-Executives, including the Chairman, do not participate in any of the Company's share schemes, incentive plans or pension schemes. Non-Executives will be reimbursed for business expenses relating to the performance of their duties including travel, accommodation and subsistence. In certain circumstances these, or other incidental items, may be considered a 'benefit in kind' and if so may be grossed up for any tax due.	The maximum level of fees payable to Non-Executives, in aggregate, is set out in the Articles of Association.	Not applicable.

Service contracts

The Executive Directors' service contracts expire on their 65th birthday. Service contracts provide that either the Executive or the Company may terminate the employment by giving one year's written notice and that the Company may pay base salary only in lieu of notice.

All Executive and Non-Executive Directors are required to be re-elected at each AGM.

The Committee retains a level of flexibility, as permitted by the Code, in order to attract and retain suitable candidates. It reserves the right to offer contracts which contain an initial notice period in excess of one year, provided that at the end of the first such period the notice period reduces to one year.

Appointment dates for all Directors are set out on pages 46 and 47.

DIRECTORS' ANNUAL REMUNERATION REPORT

Directors' remuneration in 2014

This report sets out information on the remuneration of the Directors for the financial year ended 31 December 2014.

Single figure for total remuneration (audited)

£000	2014 **Salary/ fees**	2013 Salary/ fees	2014 **Bonus (cash)**	2013 Bonus (cash)	2014 **(viii) Bonus (deferred)**	2013 Bonus (deferred)	2014 **(ix) Benefits**	2013 (ix) Benefits	2014 **(x) LTIPs**	2013 LTIPs	2014 **(xi) Pension**	2013 (xi) Pension	2014 **Total**	2013 Total
Executives														
Sam Laidlaw	**967**	950	**592**	851(xii)	**–**	–	**61**	55	**1,369**	–	**418**	379	**3,407**	2,235
Phil Bentley(i)	**–**	318	**–**	238	**–**	–	**–**	22	**471**	–	**–**	48	**471**	626
Mark Hanafin	**606**	585	**–**	368	**432**	158	**25**	31	**732**	–	**265**	230	**2,060**	1,372
Nick Luff(ii)	**407**	610	**–**	333	**–**	–	**28**	29	**–**	–	**187**	246	**622**	1,218
Chris Weston(iii)	**605**	553	**–**	281	**–**	120	**46**	174	**–**	–	**166**	154	**817**	1,282
													7,377	6,733
Non-Executives														
Rick Haythornthwaite(iv)	**495**	14	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**495**	14
Sir Roger Carr(v)	**–**	490	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	490
Margherita Della Valle	**88**	77	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**88**	77
Mary Francis	**105**	105	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**105**	105
Lesley Knox	**85**	85	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**85**	85
Mike Linn(vi)	**65**	38	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**65**	38
Andrew Mackenzie(vii)	**–**	23	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	23
Ian Meakins	**65**	65	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**65**	65
Paul Rayner	**65**	77	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**65**	77
													968	974
Total													**8,345**	7,707

(i) Phil Bentley resigned as an Executive Director on 30 June 2013 and remained an employee of Centrica until 31 December 2013. During the period between 31 July and 31 December 2013, he received basic salary and benefits. The figures in this table include his emoluments for the period to 30 June 2013.
(ii) Nick Luff resigned as an Executive Director on 31 August 2014.
(iii) Chris Weston resigned as an Executive Director on 30 December 2014.
(iv) Rick Haythornthwaite was appointed as a Non-Executive Director on 14 October 2013 and as Chairman on 1 January 2014.
(v) Sir Roger Carr resigned as Chairman on 31 December 2013.
(vi) Mike Linn was appointed as a Non-Executive Director on 1 June 2013.
(vii) Andrew Mackenzie resigned as a Non-Executive Director on 10 May 2013.
(viii) Mark Hanafin deferred his full AIS award into the DMSS in accordance with the rules of the plan and as disclosed on page 72.
(ix) Benefits for Executives include car and fuel, health and medical, financial planning advice, matching shares received under the Share Incentive Plan, the gain from any options exercised under the HMRC-approved Sharesave plan and long service awards. Benefits for Chris Weston in 2013 include expenses and benefits paid under the terms of his international assignment agreement including for his relocation from the US to the UK.
(x) The long-term incentives include the value of the LTIS and DMSS matching awards due to vest in April 2015, relating to the three-year performance period ending in 2014. The share price used to calculate the value of the awards is the three-month average to 31 December 2014 which was 290.42p. Dividend equivalent values are also included. The performance outcome is set out on pages 75 and 76.
(xi) The value of the increase in defined benefit pension accrual for Phil Bentley and Chris Weston has been calculated in line with current reporting regulations at 20 times the increase in accrued pension for the year (less an allowance for the contributions paid by the member and CPI inflation of 2.2% in 2013 and 2.7% in 2014). Notional contributions of 40% of base salary to the CUPS DC Scheme for Sam Laidlaw, Mark Hanafin and Nick Luff have been included in this table as if CUPS DC were a cash balance scheme and therefore include notional investment returns.
(xii) Sam Laidlaw elected to donate his entire 2013 bonus to charity.

Base pay/salary

Base salaries were reviewed on 1 April 2014.

Sam Laidlaw's base salary increased by 2.37% to £972,500. Mark Hanafin's base salary and Chris Weston's base salary both increased by 2.52% to £610,000. Nick Luff, having tendered his resignation, did not receive a base salary increase.

Base salaries will be reviewed during the course of 2015 as part of the normal annual cycle.

Bonus (AIS)

The performance targets for the 2014 AIS are set out in the Committee Chairman's introduction. The charts on page 64 under short-term incentive targets indicate the extent of achievement for each Executive receiving a payment relating to 2014, for each component of the AIS.

Pension

Chris Weston participated in the Centrica Pension Plan (CPP), a contributory final salary arrangement and in the Centrica Unfunded Pension Scheme (CUPS) defined benefit (DB) section. Details are disclosed below.

Sam Laidlaw, Mark Hanafin and Nick Luff were entitled to receive a salary supplement of 40% of base pay or participate in the CUPS defined contribution (DC) section. During the year, they all participated in the CUPS DC section and received an unfunded promise equal to 40% of base pay. Notional contributions to the CUPS DC Scheme have been included in the single figure for total remuneration table on page 74 as if it was a cash balance scheme and therefore notional investment returns for the year have been included. The notional pension fund balances are disclosed below.

Pension benefits earned by Directors in the CPP and CUPS (audited)

Defined benefit section	(i) Accrued pension as at 31 December 2014 £	Accrued pension as at 31 December 2013 £
Chris Weston	**151,100**	137,600
Defined contribution section[(ii)]	**Total notional pension fund as at 31 December 2014 £**	Total notional pension fund as at 31 December 2013 £
Sam Laidlaw	**906,657**	475,928
Mark Hanafin	**562,121**	289,041
Nick Luff[(iii)]	**503,856**	308,496

(i) The accrued pension is that which would be paid annually on retirement at age 62 based on eligible service to, and pensionable earnings at, 30 December 2014 for Chris Weston. The pension accrual rate for 2014 for Chris Weston was 2.22% of final pensionable earnings.
(ii) The retirement age for the CUPS DC section is 62.
(iii) Nick Luff resigned from Centrica on 31 August 2014. The 2014 number above includes his notional balance as at 31 December 2014, in respect of pension contributions up to 31 August 2014.

Long-term incentive plans vesting in 2015

LTIS performance conditions are explained in full on page 78.

Earnings per share (EPS)

EPS growth during the three-year period ending with 2014 did not exceed RPI growth by 9%. Consequently, the EPS portion of the 2012 LTIS award will not vest.

Economic Profit (EP)

Aggregate EP achieved during the three-year period ending with 2014 was £2.621 billion when compared to a threshold level of £2.6 billion and a maximum level of £3.4 billion. Consequently, 51.3% of matching shares will vest from the 2012 DMSS award and 26.9% of the EP portion of the 2012 LTIS award will become eligible for vesting subject to TSR performance.

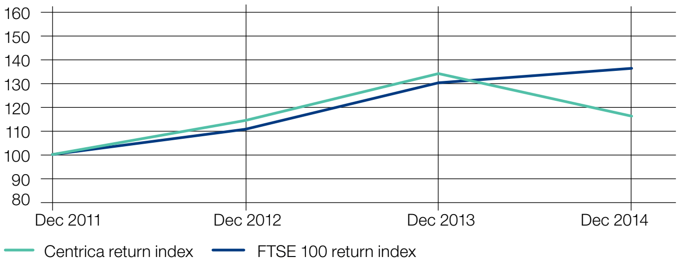
Total shareholder return (TSR)

The EPS, EP and Non-financial KPI portions of LTIS awards made in 2012 are subject to adjustment up or down with reference to relative TSR performance prior to final vesting.

The TSR graph for the three-year performance of the LTIS awards that were made in April 2012 is shown below.

TSR – three-year comparator group

Centrica and FTSE 100 comparator companies



Source: Datastream

As performance fell below the FTSE 100 return index the shares eligible for vesting were reduced by a factor of 0.667.

DIRECTORS' ANNUAL REMUNERATION REPORT CONTINUED

Long-term incentive plans vesting in 2015 (continued)

LTIS non-financial KPI dashboard

The non-financial KPI dashboard is designed to reward sustained high performance over the entire performance period, as indicated below. For each measure three performance zones have been established, represented by the following indicators:

🟢 High performance zone

🟠 Median performance zone

🔴 Low performance zone

The non-financial KPI results in 2012, 2013 and 2014 are as follows:

	Performance period – LTIS awards made in 2012		
Measure	Year 1 2012	Year 2 2013	Year 3 2014
Lost time injury frequency rate	🟢	🟢	🟢
Significant process safety event	🟢	🟢	🟢
British Gas net promoter score (NPS)	🟢	🔴	🟠
Direct Energy NPS	🟢	🟢	🟢
Employee engagement	🟠	🟠	🟠

	Performance period – LTIS awards made in 2013		
Measure	Year 1 2013	Year 2 2014	Year 3 2015
Lost time injury frequency rate	🟢	🟢	
Significant process safety event	🟢	🟢	
British Gas net promoter score (NPS)	🔴	🟠	
Direct Energy NPS	🟢	🟢	
Employee engagement	🟠	🟠	

	Performance period – LTIS awards made in 2014		
Measure	Year 1 2014	Year 2 2015	Year 3 2016
Lost time injury frequency rate	🟢		
Significant process safety event	🟢		
British Gas net promoter score (NPS)	🟠		
Direct Energy NPS	🟢		
Employee engagement	🟠		

Throughout each three-year performance period, for each median performance zone outcome, 5% of the KPI shares will be forfeited and for each low performance zone outcome, 10% of the KPI shares will be forfeited. Performance against the non-financial KPI dashboard for the three-year period ending with 2014 resulted in 70% of the KPI portion of the 2012 LTIS award becoming eligible for vesting.

As a result of the EPS, EP and non-financial KPI performance for the three-year period ending with 2014, adjusted by the TSR factor of 0.667, 20.3% of the LTIS awards originally granted in 2012 will vest and become exercisable. The charts on page 64 under long-term incentive targets display the extent of achievement for each component of the long-term incentive plans.

Recruitment of Iain Conn

In accordance with the Company's approved recruitment policy and as previously announced, the Committee agreed to provide compensation to Iain Conn for the forfeiture of existing unvested long-term incentive awards in the form of conditional Centrica shares.

Two awards of conditional shares will be granted to Iain Conn in April 2015, the first with a face value equal to £925,000 vesting on the first anniversary of the award date and the second with a face value equal to £1,850,000 vesting on the second anniversary of the award date and released in April 2018.

On vesting, to the extent that the performance criteria have been achieved, the shares comprising each award will be released immediately. Any shares released (following the sale of sufficient shares to cover the income tax and National Insurance contributions due on vesting) will be held until his shareholding is above the minimum guideline for Executives.

The vesting of both awards will be subject to the achievement of personal strategic objectives. Three-quarters of each award will vest if the Committee is satisfied that Iain Conn's performance, in relation to the objectives set, has at least matched the expectations of the Board. Each award may vest in full if the Committee considers his performance to have significantly exceeded expectations. If the Committee considers his performance to have been below expectations, the shares will not vest and the award will be forfeit.

In reviewing Iain Conn's performance, the Committee will consider progress against the following objectives:

- strategy: to establish a sustainable growth strategy for Centrica that is attractive to and earns the support of all key stakeholders (expected by end Q3 2015);
- organisational structure: to consider organisational structure, processes, systems, culture and costs and effect any change deemed appropriate (expected by end Q4 2015);
- capability: to ensure that all the capabilities crucial to the success of the growth strategy have robust development plans that can be delivered at a pace commensurate with competitive demands (expected by end Q2 2016); and
- reputation: to build relationships with society necessary to achieve a demonstrable improvement in the external belief in Centrica as a consumer-centric company, UK national leader, influential in Europe and North America and a responsible market participant (expected by end Q4 2016).

These measures are in addition to but compliment the objectives set in respect of the Annual Incentive Plan.

The Committee will ensure that the implementation section of the Company's remuneration report for each year of vesting will include detailed disclosure describing the progress made by Iain Conn against the expectations of the Board and how the assessment of performance was used by the Committee to determine the level of vesting under each award.

Retirement arrangements for Sam Laidlaw

Sam Laidlaw retired from Centrica on 31 December 2014. The terms of his departure were announced in July 2014 and are included here in line with the reporting regulations. The Committee agreed that Sam Laidlaw would be treated as a retiree under the terms of the Company's short and long-term incentive plans, subject to the requirement set out below for payments under the LTIS and the DMSS.

Sam Laidlaw received his normal salary and benefits until his leaving date. No payment was made in lieu of notice. His other remuneration arrangements followed the approved Remuneration Policy set out in the 2013 Annual Report and Accounts.

Accordingly, as he had worked for the entire 2014 bonus year, the Committee determined that Sam Laidlaw was entitled to receive a payment under the AIS, to be paid at the same time and on the same basis as other Executives. The achievement against the Group and individual performance measures for this payment is reported in the Chairman's summary on page 63 and the value of the payment is included in the single figure for total remuneration table on page 74.

In respect of Sam Laidlaw's participation in the LTIS and the DMSS, the Committee agreed that he would be treated as retiring from employment. This determination is entirely conditional on his agreement not to take up any executive role with a FTSE 100 company until such time as all of his existing share awards under the LTIS and the DMSS have vested. Awards were time-apportioned for the period worked during the usual three-year performance period. Therefore, 40% of the awards granted in 2013 and 75% of the awards granted in 2014 lapsed on his leaving date. The balance of shares will remain subject to the normal performance conditions and any vesting will be determined at the end of each performance measurement period.

Termination arrangements for Nick Luff and Chris Weston

Nick Luff resigned from Centrica on 31 August 2014 and Chris Weston resigned on 30 December 2014. They received their normal base salary and benefits until their leaving dates. No payments were made in lieu of notice.

In line with the approved Remuneration Policy set out in the 2013 Annual Report and Accounts, both Executives forfeited their AIS payments for the 2014 year and all unvested long-term incentive awards granted under the LTIS lapsed on each respective leaving date.

DMSS investment shares that had been purchased with voluntary bonus deferral in 2012 and 2013, and in accordance with the rules of the plan were not subject to continued service, were released to Nick Luff and Chris Weston shortly after leaving. All unvested DMSS deferred and matching shares lapsed on each respective leaving date.

Payments for loss of office

During 2014, there were no payments made for loss of office.

DIRECTORS' ANNUAL REMUNERATION REPORT CONTINUED

LTIS awards (audited)

	Awarded during 2014 (i)		Number of shares/options in performance period (i)	
	(i) Number of shares	(ii) (iii) Value £000	Awarded during 2013	Awarded during 2012
Sam Laidlaw	**593,313**	**1,945**	510,012	598,312
Mark Hanafin	**372,155**	**1,220**	308,691	362,136
Chris Weston[iv]	**372,155**	**1,220**	273,796	321,199
Vesting/release date	**April 2017**		April 2016	April 2015

(i) LTIS awards for UK-based Executives are delivered as nil-cost options at the end of the performance period and the options remain exercisable for seven years.
(ii) Awards were made in 2014 to Executives based on a value of 200% of salary.
(iii) The share price used to calculate the number of shares granted was 327.82p, being the average closing share price over five business days immediately preceding the grant date of 1 April 2014. The performance conditions relating to these awards are set out below. 6% of shares awarded will vest if minimum performance is achieved. 100% of shares awarded will vest if maximum performance is achieved.
(iv) All unvested LTIS awards held by Chris Weston lapsed on his resignation on 30 December 2014.

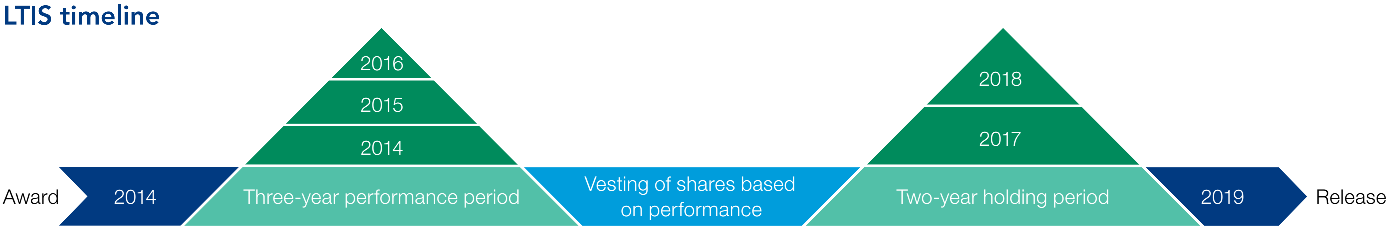
LTIS performance conditions

The performance measures relating to LTIS awards granted in 2012, 2013 and 2014 are set out below.

Vesting criteria	Performance conditions over three-year period
35% on EPS[i] growth against RPI growth	Full vesting for EPS growth exceeding RPI growth by 30% Zero vesting if EPS growth does not exceed RPI growth by 9% Vesting will increase on a straight-line basis between 25% and 100% between these points
35% on absolute aggregate EP	Full vesting for aggregate EP of £3.4 billion Zero vesting if aggregate EP is below £2.6 billion Vesting will increase on a straight-line basis between 25% and 100% between these points
30% on non-financial KPI dashboard	As disclosed on page 76
Positive/negative multiplier on TSR performance against the FTSE 100 Index	0.667 multiplier for Index -7% per annum and 1.5 multiplier for Index +7% per annum, subject to a cap at the face value of the award. Where performance falls between stated points, vesting is calculated on a straight-line basis

(i) EPS is the Group's diluted adjusted earnings per share.

LTIS timeline

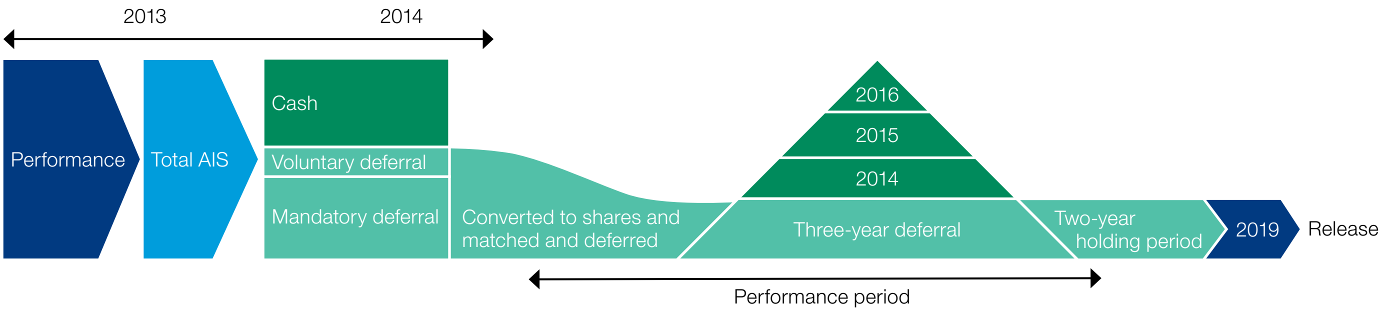


DMSS matching awards (audited)

	Awarded during 2014 (i)		Number of shares/options in performance period (i)	
	(i) (ii) Number of shares	(iii) Value £000	Awarded during 2013	Awarded during 2012
Sam Laidlaw[iv]	**0**	**0**	463,060	548,114
Mark Hanafin	**95,664**	**316**	233,562	276,462
Chris Weston[v]	**72,978**	**241**	207,158	245,210
Vesting/release date	**April 2017**		April 2016	April 2015

(i) DMSS matching awards for UK-based Executives are delivered as nil-cost options at the end of the performance period and the options remain exercisable for seven years.
(ii) DMSS matching awards granted in 2014 vest subject to absolute EP over the three-year performance period: minimum £2.6 billion and maximum £3.4 billion provides one or two matching shares respectively. Where performance falls between these points, vesting is calculated on a straight-line basis.
(iii) The share price used to calculate the number of shares granted was 329.98p, being the share price at which the corresponding deferred shares were purchased in the open market on 1 April 2014.
(iv) As Sam Laidlaw elected to donate his entire 2013 bonus to charity, there was no deferral into the DMSS in 2014 and hence he received no matching award.
(v) All unvested DMSS matching awards held by Chris Weston lapsed on his resignation on 30 December 2014.

DMSS timeline



The following table shows the interests in the ordinary shares of the Company of the Directors who held office during the year together with the minimum shareholding guideline for the Executives and the achievement against the guideline. Also included, (but not included as part of the minimum shareholder guideline calculation), are details of shares owned by the Executives that are subject to continued service and fully vested share options that may be exercised at any time.

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

	(i) Shares owned outright as at 31 December 2013	**(i) Shares owned outright as at 31 December 2014 or at leaving date**	(ii) Minimum shareholding guideline (% of salary)	**Achievement as at 31 December 2014 or at leaving date (% of salary)**	**(iii) Shares owned (subject to continued service) as at 31 December 2014 or at leaving date**	**(iv) Fully vested unexercised options as at 31 December 2014**
Executives						
Sam Laidlaw	1,897,757	**1,994,039**	200	**572**	**221,981**	**343,444**
Mark Hanafin (v)	189,923	**244,578**	125	**112**	**142,267**	**–**
Nick Luff (vi)	275,404	**316,411**	125	**166**	**100,002**	**–**
Chris Weston (vii)	477,920	**416,548**	125	**190**	**135,249**	**–**
Non-Executives						
Rick Haythornthwaite	12,500	**32,500**	–	**–**	**–**	**–**
Margherita Della Valle	7,232	**14,944**	–	**–**	**–**	**–**
Mary Francis	3,500	**3,500**	–	**–**	**–**	**–**
Lesley Knox	5,192	**12,348**	–	**–**	**–**	**–**
Mike Linn	42,575	**42,575**	–	**–**	**–**	**–**
Ian Meakins	6,276	**11,724**	–	**–**	**–**	**–**
Paul Rayner	56,875	**56,875**	–	**–**	**–**	**–**

(i) These shares are owned outright by the Director or a connected person and they are not subject to continued service or performance conditions.
(ii) Minimum shareholding guidelines during 2014 were 2 x base salary for the Chief Executive and 1.25 x base salary for other Executives. In addition, for awards made after 1 January 2011, the guidelines provided that all transferred shares under the long-term incentive arrangements be retained for a minimum period of five years from the original award or grant date.
(iii) Shares and options that are subject to the achievement of long-term performance conditions are included in the LTIS awards table on page 78 and the DMSS matching awards table on page 78.
(iv) These share options are fully vested and have achieved all required performance conditions. They may be exercised at any time, subject to the Centrica Code for Dealing.
(v) DMSS deferred shares are due to be released from the plan in April 2015. Following this release, Mark Hanafin will meet the required minimum shareholding.
(vi) In respect of Nick Luff's interest in shares, the information is as at his leaving date of 31 August 2014.
(vii) In respect of Chris Weston's interest in shares, the information is as at his leaving date of 30 December 2014.

Share options exercised in 2014 (audited)

	Exercise price per share (p)	Year options granted (i)	**Number of share options exercised**	**Exercise date**
Executives				
Sam Laidlaw	**–**	2010	**300,000**	**15/05/2014**
Mark Hanafin	**–**	2010	**267,349**	**15/05/2014**
Nick Luff	**–**	2010	**436,313**	**15/05/2014**
Chris Weston	**203.55**	2005	**130,187**	**15/05/2014**
Chris Weston	**253.80**	2006	**267,920**	**15/05/2014**

(i) These share options were all fully vested and had achieved all required performance conditions. The value of the share options as at the vesting date has been included in the single figure for total remuneration table for the appropriate year.

DIRECTORS' ANNUAL REMUNERATION REPORT CONTINUED

Percentage change in Chief Executive's remuneration compared with other employees

The table below shows the percentage change in base pay/salary, taxable benefits and bonus (annual incentive) payments between 2013 and 2014 for Sam Laidlaw, compared with a comparator group of UK employees, over the same period of time.

	Chief Executive % change	Employees % change
Salary and fees	1.8	2.9
Taxable benefits	10.9	0
Annual incentive	(30.4)	5.0

The comparator group includes management and technical or specialist employees based in the UK in Level 2 to Level 5 (where Level 1 is the Chief Executive). The employees selected have been employed in their role throughout 2013 and 2014 to give a meaningful comparison. The group has been chosen as the employees have a remuneration package with a similar structure to the Chief Executive, including base salary, benefits and annual bonus.

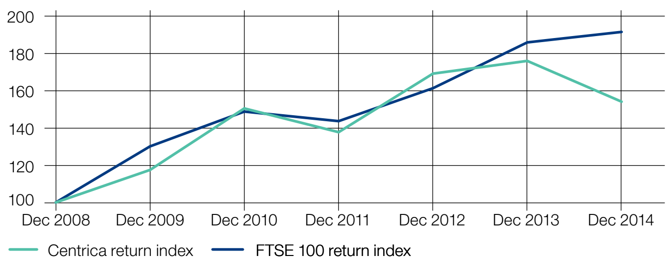
Pay for performance

The table below shows Sam Laidlaw's total remuneration over the last six years and his achieved annual variable and long-term incentive pay awards as a percentage of the plan maximum.

Year	Chief Executive single figure of total remuneration £000	AIS payout against max opportunity %	Long-term incentive vesting against max opportunity %
2014	3,407	34	35
2013	2,235	50	–
2012	5,709	61	67
2011	5,047	50	59
2010	5,322	91	62
2009	4,627	92	73

The performance graph below shows Centrica's TSR performance against the performance of the FTSE 100 Index over the six-year period to 31 December 2014. The FTSE 100 Index has been chosen as it is an index of similar sized companies and Centrica has been a constituent member throughout the period.

Total return indices – Centrica and FTSE 100



Source: Datastream, 31 December 2008 = 100

External appointments of Executive Directors

In 2014, Sam Laidlaw received £140,188 (2013: £125,000) as a non-executive director of HSBC Holdings plc and has waived his right to receive a fee for his role as the lead non-executive director of the Department of Transport.

In 2014, up until his resignation from Centrica on 31 August, Nick Luff received £90,000 (2013: £107,539) in fees as a non-executive director of Lloyds Banking Group plc.

Relative importance of spend on pay

The following table sets out the amounts paid under the share repurchase programme, in dividends and staff and employee costs for the years ended 31 December 2013 and 2014.

	2014 £m	2013 £m	% Change
Share repurchase(i)	**420**	500	-16
Dividends	**864**	862	0
Staff and employee costs(ii)	**1,927**	1,894	2

(i) 132.1 million shares were purchased during 2014.
(ii) The employee remuneration disclosure in 2013 has been replaced for 2013 and 2014 with the total employee costs as per note 5 of the Income Statement.

Funding of share schemes in 2014

During 2014, treasury shares were used to satisfy the release of shares or exercise of options under DMSS, LTIS, Executive Share Option Scheme (ESOS, under which the last options were granted in 2006), Sharesave and SIP. Market purchased shares, held in trust, were used to satisfy outstanding allocations under DMSS (deferred and investment shares), the Restricted Share Scheme (a conditional share plan for Centrica employees below the executive level) and the Deferred Bonus Plan (a plan for International Upstream employees below the executive level). At 31 December 2014, 76,860,164 shares were held in treasury (2013: 119,138,235), following the share repurchase programme throughout 2013 and 2014.

Advice to the Remuneration Committee

The membership of the Remuneration Committee during 2014 is set out in the Governance Report on page 61.

Sam Laidlaw, Grant Dawson (General Counsel & Company Secretary), Jill Shedden (Group Director, Human Resources) and David House (Group Reward and HR Operations Director) are normally invited to attend each Committee meeting and provide advice and guidance to the Committee, other than in respect of their own remuneration.

The Committee also has access to detailed external information and research on market data and trends from independent consultants. Deloitte LLP (Deloitte) was appointed by the Committee in 2011 as independent external adviser and provided support to the Committee on executive remuneration design, benchmarking, the provision of market data and advice on the recruitment of an Executive Director during 2014. The fees amounted to £24,100.

Deloitte has also provided advice to Centrica globally during 2014 in the areas of employment taxes, share schemes, pensions, corporate finance, management consulting and internal audit.

Deloitte was also appointed by the Company in 2014 to provide a TSR monitoring and reporting service. The fees for TSR reports provided to the Committee on completion of the LTIS performance cycles during 2014 amounted to £2,400. Deloitte also provided monthly TSR reports and updates to the Company which were used to keep the general LTIS population regularly updated with TSR performance.

The Committee is satisfied with the performance of Deloitte and has determined that it is not necessary to seek a tender for the services currently provided.

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

2014 voting

At the AGM held on 12 May 2014, shareholders approved the remuneration policy and the Directors' Annual Remuneration Report for the year ended 31 December 2013. Below are the results in respect of the resolutions, which required a simple majority (of 50%) of the votes cast to be in favour in order for the resolutions to be passed:

Directors' Remuneration Policy

Votes for	%	Votes against	%
3,046,094,488	96.05	125,270,535	3.95

25,291,067 votes were withheld.

Directors' Annual Remuneration Report

Votes for	%	Votes against	%
3,081,412,858	98.29	53,761,913	1.71

61,473,818 votes were withheld.

A full schedule in respect of shareholder voting on the above and all resolutions at the 2014 AGM is available at centrica.com.

Changes since 1 January 2015

Share Incentive Plan (SIP)

During the period from 1 January 2015 to 19 February 2015, Mark Hanafin acquired 130 shares through the SIP.

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

Grant Dawson
General Counsel & Company Secretary
19 February 2015

DIRECTORS' REPORT

The Directors present their report with the audited consolidated Financial Statements of the Company for the year ended 31 December 2014.

Strategic Report

The Companies Act 2006 (the Act) requires the Company to present a fair review of the business and the Group during the financial year. The Strategic Report can be found on pages 2 to 45.

Future developments

A description of future developments can be found in the Strategic Report.

Risks

A description of the Group's exposure and management of risks is provided in the Strategic Report on pages 40 to 45.

Results and dividends

The results for the year are set out on pages 92 to 95. Dividends paid and proposed are set out on page 115.

Financial instruments

Full details of the Group's financial instruments can be found in notes 19, S3 and S6 on pages 125, 150 and 157 respectively.

Corporate governance statement

The Disclosure & Transparency Rules require certain information to be included in the Corporate Governance Statement in the Directors' Report. Information that fulfils the requirements of the Corporate Governance Statement can be found in the Corporate Governance Report on pages 49 to 62 and is incorporated into this Directors' Report by reference.

Amendment of the Company's Articles of Association (Articles)

Details of the authority required to amend the Company's Articles are set out in the Corporate Governance Report on page 50.

Directors

The names of the Directors who held office during the year are set out on pages 46 and 47.

Details of the powers of Directors are set out in the Corporate Governance Report on pages 49 to 62 and details of the third-party indemnity provisions for Directors are detailed on page 52.

Employment policies

Employee involvement

We remain committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Group through personal briefings, regular meetings, email and broadcasts by the Chief Executive and members of the Board at key points in the year.

The Company's all-employee share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In the UK we offer both Sharesave, HMRC's Save as You Earn Scheme, and the Share Incentive Plan (SIP) with good levels of take-up across the Group. Currently, 53% of eligible UK employees participate in Sharesave and 36% of eligible UK employees participate in the SIP. Details of both schemes are given on page 69.

Equal opportunities

The Group is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit.

Employees with disabilities

It is our policy that people with disabilities should have full and fair consideration for all vacancies. During the year, we continued to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavour to retain employees in the workforce if they become disabled during employment.

Human rights

As an international company we have a responsibility and are committed to uphold and protect the human rights of individuals working for us in the communities and societies where we operate. We take steps to ensure that our people working in countries with a high risk to human rights are safeguarded, as set out in our Business Principles and Human Rights Policy. We also recognise the opportunity we have to contribute positively to global efforts to ensure human rights are understood and observed.

Material shareholdings

At 31 December 2014, Centrica had received notification of the following material shareholdings pursuant to the Disclosure & Transparency Rules:

	31 December 2014	
	Ordinary shares	% of share capital
Invesco Limited	251,354,895	4.99%
Aberdeen Asset Managers Limited	327,777,755	6.48%

No changes have been disclosed in accordance with these rules in the period 31 December 2014 to 19 February 2015.

Greenhouse gas emissions

Disclosures concerning the Group's greenhouse gas emissions can be found in the How we do Business section on page 23.

Political donations

Centrica's political donations policy states that Centrica operates on a politically neutral basis. No donations were made by the Group for political purposes during the year. However, in accordance with the Federal Election Campaign Act, Direct Energy has authorised the establishment of a Political Action Committee (PAC), to facilitate voluntary political contributions by its US employees. The PAC is not controlled by Centrica and contributions from the fund are determined by a governing board of PAC members. Participation in the PAC is voluntary for eligible employees. In 2014, contributions to the PAC by employees amounted to $14,687. The PAC made six political donations totalling $6,000.

Significant agreements – change of control

The following are significant agreements to which the Company is party which take effect, alter or terminate in the event of a change of control in the Company following a takeover bid:

- as part of the demerger in 1997, BG Group plc (which is a separately listed company and not a part of the Centrica Group) assigned ownership of the British Gas trademarks and related logos to Centrica for use in Great Britain. BG Group plc has the right to call for a reassignment of this intellectual property if control of Centrica is acquired by a third party; and
- in 2009, Centrica entered into certain transactions with EDF Group in relation to an investment in the former British Energy Group, which owned and operated a fleet of nuclear power stations in the UK. The transactions include rights for EDF Group and Centrica to offtake power from these nuclear power stations. As part of the arrangements, on a change of control of Centrica, the Group loses its right to participate on the boards of the companies in which it has invested. Furthermore, where the acquirer is not located in certain specified countries, EDF Group is able to require Centrica to sell out its investments to EDF Group.

Related party transactions

Related party transactions are set out in note S8 to the Financial Statements.

Events after the balance sheet date

Events after the balance sheet date are disclosed in note 26 to the Financial Statements.

Disclosures required under Listing Rule 9.8.4R

The Company is required to disclose certain information under Listing Rule 9.8.4R in the Directors' Report or advise where such relevant information is contained. The other information that may be relevant to the Directors' Report can be found in the following sections of the Annual Report and Accounts 2014.

Information	Location in Annual Report	Page(s)
Directors' indemnities	Corporate Governance Report	52
Directors' compensation	Remuneration Report	63 to 81
Capitalised interest (borrowing costs)	Financial Statements	112; note 8
Details of long-term incentive schemes	Remuneration Report	68 and 69

Share capital

The Company has a single share class which is divided into ordinary shares of $6^{14}/_{81}$ pence each. The Company was authorised at the 2014 Annual General Meeting (AGM) to allot up to 1,733,309,897 ordinary shares as permitted by the Act. As at 31 December 2014, the Company had not allotted any shares under this authority. A renewal of this authority will be proposed at the 2015 AGM. The Company's issued share capital as at 31 December 2014, together with details of shares issued during the year, is set out in note 25 to the Financial Statements.

Rights attaching to shares

Each ordinary share of the Company carries one vote. Further information on the voting and other rights of shareholders are set out in the Articles and in explanatory notes which accompany notices of general meetings, all of which are available on the Company's website.

Repurchase of shares

As permitted by the Articles, the Company obtained shareholder authority at the 2014 AGM to purchase its own shares up to a maximum of 519,992,969 ordinary shares. The minimum which must be paid for each ordinary share is its nominal value and the maximum price is the higher of (i) an amount equal to 105% of the average of the middle market quotations for an ordinary share of the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share as derived from the London Stock Exchange Trading System, in each case, exclusive of expenses.

On 18 December 2013, the Company announced a £420 million share repurchase programme which commenced on 21 February 2014 and ran until 5 November 2014. Between 21 February 2014 and 5 November 2014, 132,090,000 ordinary shares of $6^{14}/_{81}$ pence were repurchased, the aggregate amount paid for the repurchased shares was £419,986,961.32 (excluding fees). This represents approximately 2.6% of the Company's called up share capital (excluding treasury shares) as at 5 November 2014.

The shares purchased have not all been cancelled and are held as treasury shares. As at 31 December 2014, 76,860,164 shares were held as treasury shares. These shares held in treasury represent 1.5% of the Company's issued share capital (excluding treasury shares). Dividends are waived in respect of shares held in the treasury share account.

Shares held in employee benefit trusts

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

Going concern

After making enquiries, the Board has a reasonable expectation that the parent company and the Group as a whole has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the Financial Statements. Further details of the Group's liquidity position and going concern review are provided in note S3 to the Financial Statements.

DIRECTORS' REPORT CONTINUED

Directors' responsibilities statement

The Directors, who are named on pages 46 and 47, are responsible for preparing the Annual Report, the Directors' Remuneration Report, the Strategic Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Accordingly, the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the parent company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these 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 IFRS as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company Financial Statements respectively; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Act and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Furthermore, the Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts 2014, when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 46 to 47 confirm that to the best of their knowledge:

- the Group Financial Statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- the Strategic Report contained on pages 2 to 45 together with the Directors' Report on pages 82 to 84, 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;
- as outlined on page 54, there is no relevant audit information of which PwC are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Grant Dawson
General Counsel & Company Secretary
19 February 2015

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF CENTRICA PLC

Report on the Financial Statements

Our opinion

In our opinion:

- Centrica plc's Group Financial Statements and Company Financial Statements (the Financial Statements) give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2014 and of the Group's loss and cash flows for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

What we have audited

Centrica plc's Financial Statements comprise:

- the Group Balance Sheet as at 31 December 2014;
- the Company Balance Sheet as at 31 December 2014;
- the Group Income Statement and the Group Statement of Comprehensive Income for the year then ended;
- the Group Cash Flow Statement for the year then ended;
- the Group Statement of Changes in Equity for the year then ended; and
- the notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company Financial Statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The scope of our audit and our areas of focus

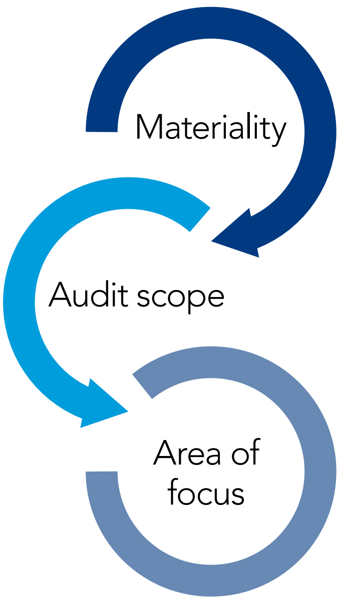
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)).

We designed our audit by determining materiality and assessing the risks of material misstatement in the Financial Statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the Financial Statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Our audit approach

Overview



- Overall Group materiality: £101 million (2013: £116 million).

- We conducted our audit work across the Group's locations including the UK, the Republic of Ireland, Europe, the US and Canada.
- Senior members of the Group audit team performed site visits across the Group's locations. This included the recent Bord Gáis Energy acquisition in Dublin and the Hess Energy Marketing division of Direct Energy in New Jersey. Visits were also made to Direct Energy in Houston, the Canadian exploration and production business and the significant parts of the UK business including British Gas and Centrica Energy.
- Taken together, the territories and functions where we performed our audit work accounted for 93% of Group revenues and 82% of Group profit before tax.

- Our areas of focus comprised:
  - Impairment assessment
  - Valuation of derivative transactions in commodity trading
  - Presentation of exceptional items and certain re-measurements
  - Onerous contracts
  - Downstream revenue recognition
  - Pensions
  - Decommissioning provisions

INDEPENDENT AUDITORS' REPORT CONTINUED

Area of focus	How the scope of our audit addressed the area of focus
Impairment assessment The Group has £6.4 billion of PP&E, the majority of which relates to gas production and storage assets and power generation assets; £2 billion of intangible assets and £2.6 billion of goodwill, arising predominantly from historical acquisitions in Centrica Energy exploration and production in Europe and Direct Energy in North America. The value of Centrica's assets is supported by either value in use calculations which are based on future cash flow forecasts or fair value less costs of disposal. Market conditions in 2014 have been very challenging. Falling oil prices have had a significant impact on the exploration and production business and outages and falling power prices have put pressure on power generation. These unfavourable macro-economic factors have heightened the possibility of a decline in the assets' value in use and fair values. As a result, taking account of declining oil, gas and power prices and expected future performance, the Directors have determined that the exploration and production assets and power generation assets, including the associated goodwill, are impaired. A total pre-tax impairment charge of £837 million was recognised in relation to the UK and Norwegian gas and oil assets, and a pre-tax impairment charge of £43 million was recognised on Canadian exploration and production assets. The Directors have also recognised a pre-tax impairment change of £309 million in relation to gas assets in Trinidad and Tobago, including £70 million of goodwill. In May 2014, the Group's three largest power stations, Langage, Humber and Killingholme, were classified as a disposal group. As at the year end the Director's believe that the disposal was no longer highly probable and the value of the plants therefore will not be recovered through a divestment. Accordingly the assets have been reclassified out of assets held for sale and their carrying value determined on the basis of a value in use calculation. In assessing their value in use, as a result of declining clean spark spreads and reduced forecast capacity market auction prices, the Group has recognised a pre-tax impairment charge of £384 million in relation to the Langage and Humber power stations, including £17 million of goodwill. A further pre-tax impairment charge of £164 million was recognised in relation to the other UK gas-fired power stations. The Group also recognised a pre-tax impairment charge of £214 million on its nuclear investment, due to declining forecasts of base load power prices and capacity market auction prices. The impairment assessments require significant judgement and there is the risk that valuation of the assets may be incorrect and any potential impairment charge miscalculated. This was therefore an area of focus for us. Refer to pages 55 and 56 for details on the Audit Committee reviews and conclusions and notes 3, 7, 13, 15 and S2 in the Financial Statements.	We assessed and challenged the impairment analysis prepared by the Directors. With regard to both the international exploration and production assets and power generation assets, we focused on the Directors' assertion that the fall in commodity prices has been the key driver of impairment. We did this through discussions with management to understand the basis of their forecasts, comparing forecasts to available industry data and performing sensitivity analysis on the assessments. We also challenged the Directors on the assessment of exceptional 'one-off' drivers that have impacted value as opposed to operational issues incurred in the normal course of business. We challenged the Directors' assessment that the disposal of the Langage, Humber and Killingholme power stations was no longer highly probable at the year end. Based on the outcome of the first capacity market auction in December 2014 and the impact of this on the expected bids compared with management's hold value, we were satisfied that this assessment is appropriate. As such we evaluated management's assessment of the carrying amount on reclassification from assets held for sale based on their value in use. With regard to the overall impairment assessments performed by the Directors, we evaluated the design of internal controls in place to check that the Group's assets are valued appropriately including those to determine any asset impairments or impairment reversals. We evaluated the Directors' assumptions and estimates used to determine the recoverable value of the gas production and storage assets, power generation assets, intangible assets, and goodwill. This includes those relating to operating cost forecasts and expected production profiles. We tested these assumptions by reference to third-party documentation where available and consultation with operational management. We utilised our specialised valuation knowledge to assess the commodity prices and discount rates used by the Directors. We benchmarked these to external data and challenged the assumptions based on our knowledge of the Group and its industry. In addition we tested management's sensitivity and stress test scenarios and found they had applied appropriate judgement. Based on our analysis, the commodity prices, discount rates and the assumptions used by management were in an acceptable range and in line with the current market view and we did not identify any material issues with the valuation of assets, the accuracy of the impairment charges and the disclosures in the Financial Statements.
Valuation of derivative transactions in commodity trading The Group enters into a number of forward energy trades to help protect and optimise the value of its underlying production and storage assets, power generation assets, and transportation assets as well as to meet the future needs of customers. Some of these arrangements are accounted for as derivative financial instruments and are recorded at fair value. Judgement is required in valuing these derivative contracts, particularly where the life of the contract is beyond the liquid market period. The fair value calculation requires bespoke models to be used that are specific to the derivative and, as such, we gave particular focus to the valuation of derivative contracts at the balance sheet date. Refer to pages 55 and 56 for details on the Audit Committee reviews and conclusions and notes 3, 7, 19 and S6 in the Financial Statements.	We assessed the overall commodity trading process, including internal risk management procedures and the system and controls around origination and maintenance of complete and accurate information relating to derivative contracts. We found the controls in place over this process to be operating effectively and therefore placed reliance on these controls in our testing. In addition, we tested the valuation of derivative contracts at the year-end date which require the use of valuation models. Our audit procedures focused on the integrity of these valuation models and the incorporation of the contract terms and the key assumptions, including future price assumptions and discount rates. Our testing identified that the models used to value the contracts were appropriate and we did not identify any material issues over the valuation of derivative transactions.

Area of focus	How the scope of our audit addressed the area of focus
Presentation of exceptional items and certain re-measurements The middle column of the Group Income Statement represents exceptional items and certain re-measurements. In the current year there is a total pre-tax exceptional charge of £1,597 million and a total £1,108 million loss relating to net re-measurements included within gross profit. The exceptional items are expected to be non-recurring and are disclosed separately by virtue of their nature, size or incidence. The current year charge is made up of a £1,938 million impairment charge relating to International gas and oil assets and power generation assets offset by a £341 million gain on disposal of the Group's Texas gas-fired power stations and the Ontario home services business. The appropriate classification of exceptional items involves subjective judgement by management including whether the item is truly exceptional and non-recurring. Our focus was on testing that the presentation and disclosure of these items is materially correct. Certain re-measurements relate to the fair valuing of forward energy trades as described above in our area of focus on the valuation of derivative transactions in commodity trading. It is the Director's view that movements in the fair value of optimisation trades do not reflect the underlying performance of the business because they are economically related to parts of the business which are not fair valued, for example exploration and production assets or downstream demand. As such these trades are only reflected in business performance when the underlying transaction or asset impacts profit or loss. Speculative trading is entered into for the purpose of making profit. Therefore all fair value movements associated with it are disclosed as part of underlying business performance. Our focus was on ensuring the correct classification of optimisation and speculative trades. Refer to pages 55 and 56 for details on the Audit Committee reviews and conclusions and notes 2 and 7 in the Financial Statements.	For each of the material exceptional items we considered management's analyses of why they were determined to be exceptional and performed our own, independent assessment by looking, primarily, at the nature of the items. The detailed work we performed on the exceptional items relating to the impairment charges is described above. Regarding the gains associated with the disposals in North America we challenged management over the principles used to determine the disclosure as exceptional. This included assessing the profit on disposal calculations associated with Ontario home services (£122 million) and the Group's Texas gas-fired power stations (£219 million). We assessed judgemental aspects of the calculations including those costs deemed as directly attributable to the sale and the allocation of goodwill to disposal groups. For certain re-measurements we audited the principles management use to determine whether a trade should be recognised as part of business performance or presented separately. We evaluated whether the agreed principles had been applied consistently by testing that a sample of the trades have been presented correctly. Based on the work performed we did not identify any material issues with the presentation of exceptional items and certain re-measurements.
Onerous contracts The Group enters into a number of significant and complex contracts, for example, forward gas purchase contracts and metering contracts. Macroeconomic factors, such as commodity price, can have a significant impact on the profitability of these contracts, and therefore management makes an assessment as to whether the impact of such factors has resulted in contracts becoming onerous. There have been no new material onerous contracts identified during the year and management's existing assessment in relation to the Rijnmond tolling contract, European gas transportation contracts, and Direct Energy wind farm power purchase agreements remains unchanged. Our focus on onerous contracts was assessing whether all material onerous contracts have been identified and that the valuation of any provision is materially correct. Refer to pages 55 and 56 for details on the Audit Committee reviews and conclusions and notes 3 and 21 in the Financial Statements.	We tested the identification and completeness of onerous contracts through discussions with management, examination of Board minutes, obtaining and reviewing the new significant contracts during the year, and testing management's assumptions for a sample of contracts. We tested the valuation of the onerous contract provisions by evaluating whether appropriate judgements and assumptions had been applied in determining the unavoidable costs of meeting the obligation and the estimate of the expected benefits to be received under the contract. Based on our evaluation we did not identify any further onerous contracts that have not been provided for or any material issues with the valuation of the existing provisions.

INDEPENDENT AUDITORS' REPORT CONTINUED

Area of focus	How the scope of our audit addressed the area of focus
Downstream revenue recognition The accuracy of the recognition of energy services revenue within British Gas, Direct Energy and Bord Gáis Energy and its presentation in the income statement is dependent on complex estimation methodologies/algorithms used to assess the amount of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity comprises both billed and unbilled revenue. The specific risk over unread revenue is the accuracy of the estimation. Where an unread estimate is billed this gives the customer opportunity to challenge the amount which when applicable can lead to the correction of estimates. Where unread estimates are unbilled there are risks over accuracy, recoverability and therefore recognition. Furthermore, during the year migration issues arising from the implementation of a new billing system in British Gas Business have resulted in the need for management to perform additional levels of review over unbilled judgements including the level of provisioning. Refer to pages 55 and 56 for details on the Audit Committee reviews and conclusions and notes 3 and 4 in the Financial Statements.	In order to test the accuracy of the unread billed and unbilled revenue we assessed the IT general controls, system application controls and management controls in relation to the revenue and billing systems. Our testing found that the IT general controls and system application controls were sufficient to enable materially accurate revenue estimations. Given the relatively short time period between the end of the financial year and the audit, the majority of unbilled revenue as at 31 December remained unbilled and uncollected. We therefore focused our substantive testing on the manual processes over revenue recognition, challenging the estimation methodologies and assessing the level of subsequent true-ups to actual bills raised. We also reconciled the unbilled reports to the general ledger at the year end. Where manual adjustments were made to the unbilled revenue we challenged the basis of the adjustments made, the source of the data used and the consistency of the adjustments with prior years. In assessing the methodology used to derive the unbilled revenue at the balance sheet date, establishing the changes made to the methodology during the financial year, and testing the performance of historical billing and collections we did not identify any material issues with the recognition of unbilled revenue. With regard to the implementation of the new billing system in British Gas Business we increased our scope of work in order to assess the impact of the migration of customers to the new system, specifically on unread and unbilled estimates. This included testing the system exceptions, expanding the level of our detailed substantive testing on revenue (billed and unbilled), and performing additional procedures on migrated customer balances in order to assess recoverability. Based on our work we did not identify any material misstatements with downstream revenue recognition.
Pensions The group has a net pension asset of £62 million, consisting of a £6,444 million asset, offset by a £6,382 million liability. The assumptions used in valuing the pension liability are both judgemental and sensitive to change. For example, 0.25% increase/decrease in the discount rate has a 6% impact on the scheme liabilities. As a result there is a risk that a small change in the judgements used will have a significant impact on the valuation of the pension liability. As such our area of focus was on the assumptions used in calculating the liability. Refer to pages 55 and 56 for details on the Audit Committee reviews and conclusions and notes 3 and 22 in the Financial Statements.	We compared the discount and inflation rates used in the valuation of the pension liability to our internally developed benchmarks. We have an internally developed range of acceptable discount rates for valuing pension liabilities, which is based on our view of various economic indicators. While our range is, itself, subjective, the discount rate adopted by management fell above the higher end of the range by 0.05%. We discussed with the Directors' the rationale for the discount rate used and they explained that it was due to the addition of a subjective 0.15% per annum margin to the discount rate to allow for uncertainty over bond yields. While it is unusual to make such an adjustment, we agreed that the approach and explanation was not unreasonable. Based on the work performed we did not identify any material issues over the assumptions used in valuing the pension liability.
Decommissioning provisions Every three years management performs a detailed assessment of the decommissioning provisions required in relation to their exploration and production assets. As a result of the assessment in 2014 the level of provision has increased to £3,102 million (2013: £2,598 million). The decommissioning provision is judgemental and based on the estimate of future costs of restoring sites to their original state. This estimate requires specialist knowledge and therefore our focus was on determining how management made their estimate and that the decommissioning provisions are materially accurate and complete. Refer to pages 55 and 56 for details on the Audit Committee reviews and conclusions and notes 3 and 21 in the Financial Statements.	Our procedures on the decommissioning provision included assessing management's methodology compared to common industry practice and evaluating management's processes and controls. We also assessed the qualifications and experience of both management's internal and external specialists including a critical examination of the scope of work performed and management's basis of estimate document. We challenged management on the key assumptions used and verified these to current market information comprising recent quotes, industry studies and benchmark data. This included discount rates and rig rates. In addition we performed detailed audit procedures on the decommissioning estimate model and performed sensitivity analysis over the decommissioning liabilities. Based on the work performed we did not identify any material issues over the methodology used to estimate the decommissioning provision and we were satisfied the provision is materially accurate and complete.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the Financial Statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured along three business lines being International Upstream, International Downstream and Centrica Storage, each made up of different business units. The Group Financial Statements are a consolidation of these business lines and comprise the Group's operating businesses and centralised functions.

Accordingly, based on size and risk characteristics we determined the business units where we would perform an audit of their complete financial information. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group Financial Statements as a whole. Across the Group, the Group team involvement comprised site visits, conference calls, review of component auditor work papers, attendance at component audit clearance meetings and other forms of communication as considered necessary. Given the recent acquisition of Bord Gáis Energy and the full year inclusion of results from Hess Energy Marketing, senior members of the Group audit team performed a number of site visits throughout the year to both the Republic of Ireland and North America.

Taken together, the territories and functions where we performed our audit work accounted for 93% of Group revenues and 82% of Group profit before tax. We also performed specific procedures on the business units not included in the scope of the audit where they contained material financial balances.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the Financial Statements as a whole.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

Overall Group materiality	£101 million (2013: £116 million).
How we determined it	5% of adjusted pre-tax profit.
Rationale for benchmark applied	Consistent with last year, we used adjusted pre-tax profit to exclude the effect of volatility on underlying performance from disclosed exceptional items and certain re-measurements.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £10 million (2013: £10 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' Statement, set out on page 84 in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' Statement, the Directors have concluded that it is appropriate to prepare the Financial Statements using the going concern basis of accounting. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the Financial Statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
Information in the Annual Report is: • materially inconsistent with the information in the audited Financial Statements; • or apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or • otherwise misleading.	We have no exceptions to report arising from this responsibility.
• the statement given by the Directors on page 84, in accordance with provision C.1.1 of the UK Corporate Governance Code (the Code), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report on pages 55 and 56, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT CONTINUED

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the corporate governance statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the Financial Statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 84, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of Financial Statements involves

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the Financial Statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Financial Statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts (the Annual Report) to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Charles Bowman
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

19 February 2015

FINANCIAL STATEMENTS

GROUP INCOME STATEMENT

Year ended 31 December	Notes	2014 Business performance £m	2014 Exceptional items and certain re-measurements £m	2014 Results for the year £m	2013 Business performance £m	2013 Exceptional items and certain re-measurements £m	2013 Results for the year £m
Group revenue	4(b)	**29,408**	**–**	**29,408**	26,571	–	26,571
Cost of sales before exceptional items and certain re-measurements	5	**(25,043)**	**–**	**(25,043)**	(21,464)	–	(21,464)
Exceptional items – onerous provision	7	**–**	**–**	**–**	–	(125)	(125)
Re-measurement of energy contracts	7	**–**	**(1,134)**	**(1,134)**	–	413	413
Cost of sales	5	**(25,043)**	**(1,134)**	**(26,177)**	(21,464)	288	(21,176)
Gross profit		**4,365**	**(1,134)**	**3,231**	5,107	288	5,395
Operating costs before exceptional items	5	**(2,903)**	**–**	**(2,903)**	(2,735)	–	(2,735)
Exceptional items – impairments	7	**–**	**(1,938)**	**(1,938)**	–	(939)	(939)
Exceptional items – gains on disposals	7	**–**	**341**	**341**	–	–	–
Operating costs	5	**(2,903)**	**(1,597)**	**(4,500)**	(2,735)	(939)	(3,674)
Share of profits of joint ventures and associates, net of interest and taxation	6, 7	**106**	**26**	**132**	146	25	171
Group operating (loss)/profit	4(c)	**1,568**	**(2,705)**	**(1,137)**	2,518	(626)	1,892
Financing costs	8	**(318)**	**–**	**(318)**	(297)	–	(297)
Investment income	8	**52**	**–**	**52**	54	–	54
Net finance cost		**(266)**	**–**	**(266)**	(243)	–	(243)
(Loss)/profit before taxation		**1,302**	**(2,705)**	**(1,403)**	2,275	(626)	1,649
Taxation on (loss)/profit	7, 9	**(375)**	**773**	**398**	(942)	243	(699)
(Loss)/profit for the year		**927**	**(1,932)**	**(1,005)**	1,333	(383)	950
Attributable to:							
Owners of the parent		**903**	**(1,915)**	**(1,012)**	1,333	(383)	950
Non-controlling interests		**24**	**(17)**	**7**	–	–	–

Earnings per ordinary share	Notes	2014 Pence	2013 Pence
Basic	10	**(20.2)**	18.4
Diluted	10	**(20.2)**	18.3
Interim dividend paid per ordinary share	11	**5.10**	4.92
Final dividend proposed per ordinary share	11	**8.40**	12.08

The notes on pages 96 to 165 form part of these Financial Statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	Notes	2014 £m	2013 £m
(Loss)/profit for the year		**(1,005)**	950
Other comprehensive income/(loss):			
Items that will be or have been recycled to the Group Income Statement:			
Gains on revaluation of available-for-sale securities, net of taxation	S4	**4**	3
Net losses on cash flow hedges	S4	**(44)**	(25)
Transferred to income and expense on cash flow hedges	S4	**46**	34
Transferred to assets and liabilities on cash flow hedges	S4	**6**	–
Taxation on cash flow hedges	S4	**(1)**	(1)
		7	8
Exchange differences on translation of foreign operations		**(165)**	(217)
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	S4	**(15)**	18
		(169)	(188)
Items that will not be recycled to the Group Income Statement:			
Net actuarial losses on defined benefit pension schemes	S4	**(83)**	(179)
Taxation on net actuarial losses on defined benefit pension schemes	S4	**18**	31
		(65)	(148)
Reversal of revaluation reserve, net of taxation and exchange differences	S4	**(10)**	(17)
Share of other comprehensive income/(loss) of joint ventures and associates, net of taxation	S4	**21**	(15)
Other comprehensive loss net of taxation		**(223)**	(368)
Total comprehensive (loss)/income for the year		**(1,228)**	582
Attributable to:			
Owners of the parent		**(1,234)**	590
Non-controlling interests		**6**	(8)

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital (note 25) £m	Share premium £m	Retained earnings £m	Other equity (note S4) £m	**Total £m**	Non-controlling interests (note S10) £m	**Total equity £m**
1 January 2013	321	929	4,186	491	5,927	–	5,927
Total comprehensive income/(loss)	–	–	950	(360)	590	(8)	582
Employee share schemes	–	2	(15)	70	57	–	57
Purchase of treasury shares	–	–	(2)	(500)	(502)	–	(502)
Amounts arising on acquisition	–	–	–	–	–	81	81
Distribution paid to non-controlling interests	–	–	–	–	–	(8)	(8)
Dividends paid to equity holders (note 11)	–	–	(864)	–	(864)	–	(864)
Taxation on share-based payments	–	–	–	(16)	(16)	–	(16)
31 December 2013	321	931	4,255	(315)	5,192	65	5,257
Total comprehensive (loss)/income	–	–	(1,012)	(222)	**(1,234)**	6	**(1,228)**
Employee share schemes	–	–	–	71	**71**	–	**71**
Purchase of treasury shares	–	–	(2)	(420)	**(422)**	–	**(422)**
Cancellations of shares held in treasury	(10)	–	(549)	559	**–**	–	**–**
Investment by non-controlling interests	–	–	–	–	**–**	283	**283**
Distribution paid to non-controlling interests	–	–	–	–	**–**	(18)	**(18)**
Dividends paid to equity holders (note 11)	–	–	(867)	–	**(867)**	–	**(867)**
Taxation on share-based payments	–	–	–	(5)	**(5)**	–	**(5)**
31 December 2014	**311**	**931**	**1,825**	**(332)**	**2,735**	**336**	**3,071**

The notes on pages 96 to 165 form part of these Financial Statements.

GROUP BALANCE SHEET

31 December	Notes	2014 £m	2013 £m
Non-current assets			
Property, plant and equipment	13	**6,377**	7,446
Interests in joint ventures and associates	14	**2,395**	2,658
Other intangible assets	15	**1,991**	1,905
Goodwill	15	**2,609**	2,819
Deferred tax assets	16	**354**	105
Trade and other receivables	17	**87**	150
Derivative financial instruments	19	**313**	227
Retirement benefit assets	22	**185**	205
Securities	24	**263**	202
		14,574	15,717
Current assets			
Trade and other receivables	17	**6,226**	5,446
Inventories	18	**555**	530
Derivative financial instruments	19	**617**	573
Current tax assets		**88**	151
Securities	24	**11**	9
Cash and cash equivalents	24	**621**	719
		8,118	7,428
Assets of disposal groups classified as held for sale		**–**	301
		8,118	7,729
Total assets		**22,692**	23,446
Current liabilities			
Derivative financial instruments	19	**(1,565)**	(506)
Trade and other payables	20	**(5,667)**	(5,630)
Current tax liabilities		**(348)**	(645)
Provisions for other liabilities and charges	21	**(395)**	(258)
Bank overdrafts, loans and other borrowings	24	**(1,635)**	(859)
		(9,610)	(7,898)
Liabilities of disposal groups classified as held for sale		**–**	(99)
		(9,610)	(7,997)
Non-current liabilities			
Deferred tax liabilities	16	**(663)**	(1,426)
Derivative financial instruments	19	**(588)**	(431)
Trade and other payables	20	**(83)**	(64)
Provisions for other liabilities and charges	21	**(3,203)**	(2,934)
Retirement benefit obligations	22	**(123)**	(165)
Bank overdrafts, loans and other borrowings	24	**(5,351)**	(5,172)
		(10,011)	(10,192)
Total liabilities		**(19,621)**	(18,189)
Net assets		**3,071**	5,257
Share capital	25	**311**	321
Share premium		**931**	931
Retained earnings		**1,825**	4,255
Other equity	S4	**(332)**	(315)
Total shareholders' equity		**2,735**	5,192
Non-controlling interests	S10	**336**	65
Total shareholders' equity and non-controlling interests		**3,071**	5,257

The Financial Statements on pages 92 to 165, of which the notes on pages 96 to 165 form part, were approved and authorised for issue by the Board of Directors on 19 February 2015 and were signed below on its behalf by:

Iain Conn
Chief Executive

GROUP CASH FLOW STATEMENT

Year ended 31 December	Notes	2014 £m	2013 £m
Group operating (loss)/profit including share of results of joint ventures and associates		**(1,137)**	1,892
Less share of profit of joint ventures and associates, net of interest and taxation	6	**(132)**	(171)
Group operating (loss)/profit before share of results of joint ventures and associates		**(1,269)**	1,721
Add back/(deduct):			
Depreciation, amortisation, write-downs and impairments		**3,288**	2,319
Profit on disposals		**(372)**	(21)
(Decrease)/increase in provisions		**(37)**	162
Defined benefit pension service cost and contributions		**(83)**	(87)
Employee share scheme costs		**39**	43
Unrealised losses/(gains) arising from re-measurement of energy contracts		**1,160**	(400)
Operating cash flows before movements in working capital		**2,726**	3,737
Decrease in inventories		**4**	78
Increase in trade and other receivables (i)		**(631)**	(456)
(Decrease)/increase in trade and other payables (i)		**(50)**	697
Operating cash flows before payments relating to taxes, interest and exceptional charges		**2,049**	4,056
Taxes paid	9(d)	**(707)**	(892)
Payments relating to exceptional charges		**(125)**	(224)
Net cash flow from operating activities		**1,217**	2,940
Purchase of businesses		**(131)**	(1,115)
Sale of businesses		**658**	140
Purchase of property, plant and equipment and intangible assets	4(f)	**(1,456)**	(1,615)
Sale of property, plant and equipment and intangible assets		**17**	17
Investments in joint ventures and associates		**(26)**	(51)
Dividends received from joint ventures and associates	14(a)	**138**	193
Repayments of loans to, and disposal of investments in, joint ventures and associates		**109**	59
Interest received		**35**	29
Sale/(purchase) of securities	24(c)	**5**	(8)
Net cash flow from investing activities		**(651)**	(2,351)
Issue and surrender of ordinary share capital for share awards, net of payments for own shares		**25**	20
Purchase of treasury shares under share repurchase programme		**(422)**	(502)
Investment by non-controlling interests	S10	**119**	–
Distribution to non-controlling interests	S10	**(18)**	(8)
Financing interest paid		**(296)**	(248)
Repayment of borrowings	24(c)	**(518)**	(400)
Cash received from borrowings, net of linked deposit	24(c)	**1,311**	1,209
Equity dividends paid		**(864)**	(862)
Net cash flow from financing activities		**(663)**	(791)
Net decrease in cash and cash equivalents		**(97)**	(202)
Cash and cash equivalents at 1 January		**719**	931
Effect of foreign exchange rate changes		**(1)**	(10)
Cash and cash equivalents at 31 December		**621**	719
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents	24(c)	**621**	719

(i) Includes net outflow of £640 million of cash collateral in 2014 (2013: £82 million inflow). See note 24(c).

The notes on pages 96 to 165 form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements provide additional information required by statute, accounting standards or Listing Rules to explain a particular feature of the consolidated Financial Statements.

The notes to these Financial Statements focus on areas that we feel are key to understanding our business. Additional information that we are required to disclose by accounting standards or regulation is disclosed in the Supplementary Information (notes S1 to S10).

In addition, for clarity, each note begins with a simple introduction outlining its purpose.

1. Summary of significant new accounting policies and reporting changes

This section details new accounting standards, amendments and interpretations, whether these are effective in 2014 or later years, and if and how these are expected to impact the financial position and performance of the Group.

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below and in the Supplementary Information (note S2). Unless otherwise stated, these policies have been consistently applied to the years presented.

Basis of preparation

The consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation and the Companies Act 2006.

The consolidated Financial Statements have been prepared on the historical cost basis, except for derivative financial instruments, available-for-sale financial assets, financial instruments designated at fair value through profit or loss on initial recognition, and the assets of the Group's defined benefit pension schemes that have been measured at fair value and the liabilities of the Group's pension schemes that have been measured using the projected unit credit valuation method. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The preparation of financial statements in conformity with IFRS, as adopted by the EU, requires the use of certain critical accounting estimates. It requires management to exercise its judgement in the processes of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the consolidated Financial Statements are described in notes 2 and 3.

(a) Standards, amendments and interpretations effective or adopted in 2014

(i) IFRIC 21

IFRIC 21: 'Levies' has been applied by the Group for the first time in the current period. This interpretation clarifies the point at which an entity should recognise a liability to pay a levy. The interpretation provides a definition of a levy and states that an obligating event must occur for a liability to be recognised – the obligating event being the activity that triggers the payment of the levy. Economic compulsion and/or preparation of the Financial Statements on the going concern basis do not imply that the Group has a present obligation to pay a levy.

In 2014, this interpretation is applicable to a number of government schemes including the Energy Company Obligation (ECO) and the Renewables Obligation in the UK. However, IFRIC 21 has not materially changed the accounting for these schemes in the Group's consolidated Financial Statements.

This interpretation will also apply to the funding of Contracts for Difference (CfDs) which are being put in place as part of the Electricity Market Reform (EMR) introduced by the UK Government. Payments made by the CfD counterparty to qualifying generators will be funded by all licensed electricity suppliers. The supplier payments will be in the scope of IFRIC 21 when they commence from 1 April 2015.

(ii) Other amendments

In the current year, the Group has applied the following amendments to IFRSs as issued by the International Accounting Standards Board (IASB) as they are mandatorily effective for accounting periods beginning on or after 1 January 2014:

- Amendments to IAS 32: 'Financial instruments: Presentation' related to offsetting financial assets and financial liabilities;
- Amendments to IAS 36: 'Impairment of assets' related to recoverable amount disclosures for non-financial assets; and
- Amendments to IAS 39: 'Financial instruments: Recognition and measurement' related to the novation of derivatives and continuation of hedge accounting.

None of the above amendments have had a material impact on the Group consolidated Financial Statements.

(b) Standards and amendments that are issued but not yet applied by the Group

The Group has not yet applied the following standards and amendments as these are not yet effective and remain subject to endorsement by the EU:

- IFRS 9: 'Financial instruments';
- IFRS 15: 'Revenue from contracts with customers';
- Amendments to IFRS 11: 'Joint arrangements' related to the acquisition of interests in joint operations and the sale or contribution of assets between an investor and its associate or joint venture;
- Amendment to IAS 16: 'Property, plant and equipment' and IAS 38: 'Intangible assets' related to the clarification of acceptable methods of depreciation and amortisation;
- Annual Improvement Project 2012–2014; and
- IAS 1: 'Presentation of financial statements'.

The following standards and amendments are not yet effective but have been endorsed by the EU:

- Annual Improvement Project 2010–2012;
- Annual Improvement Project 2011–2013; and
- Amendment to IAS 19: 'Employee benefits' related to employee contributions to defined benefit plans.

The Directors do not anticipate that the application of the Annual Improvement Projects and the Amendments to IAS 1, IAS 16, IAS 19, IAS 38 and IFRS 11 (in relation to the sale or contribution of assets between an investor and its associate or joint venture) will have a material impact on the amounts reported and disclosed.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant new accounting policies and reporting changes

The amendment to IFRS 11 in relation to acquisitions of interests in joint operations, which will be effective in the 2016 Group consolidated Financial Statements, clarifies that an acquisition of a joint operation that meets the definition of a business is accounted for in accordance with IFRS 3: 'Business combinations'. This will lead to a change to the Group's current accounting policy for this type of acquisition. However, the amendment is only applicable prospectively for acquisitions on or after 1 January 2016 and therefore the accounting of acquisitions prior to this date will not be restated.

The Group is currently in the process of assessing the impact of IFRS 9 and IFRS 15. The preliminary view for IFRS 9 is that it will not have a material impact on the Group's consolidated Financial Statements. In respect of IFRS 15, it is too early to conclude what impact this standard will have as a detailed impact assessment is required. Particular focus will need to be given to customer contracts in the Group's International Downstream business.

At this stage, it is not practicable to provide a quantified estimate of the effects of IFRS 9 and IFRS 15. This will be provided once the Group has completed the detailed reviews.

2. Centrica specific accounting measures

This section sets out the Group's specific accounting measures applied in the preparation of the consolidated Financial Statements. These measures enable the users of the accounts to understand the Group's underlying and statutory business performance separately.

Use of adjusted profit measures

The Directors believe that reporting adjusted profit and adjusted earnings per share 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 measure of operating profit used by management to evaluate segment performance is adjusted operating profit. Adjusted operating profit is defined as operating profit before:

- exceptional items;
- certain re-measurements;
- depreciation resulting from fair value uplifts to property, plant and equipment (PP&E) on the acquisition of the Strategic Investments acquired in 2009;

but including:

- the Group's share of the results from joint ventures and associates before interest and taxation.

Note 4 contains an analysis of adjusted operating profit by segment and a reconciliation of adjusted operating profit to operating profit after exceptional items and certain re-measurements. Note 4 also details an analysis of adjusted operating profit after taxation by segment and a reconciliation to the statutory result for the year. Adjusted operating profit after taxation is defined as segment operating profit after taxation, before exceptional items, certain re-measurements and impact of fair value uplifts from the Strategic Investments acquired in 2009. This includes the operating results of equity-accounted interests, net of associated taxation, before interest and associated taxation.

Adjusted earnings is defined as earnings before:

- exceptional items net of taxation;
- certain re-measurements net of taxation; and
- depreciation of fair value uplifts to PP&E on the acquisition of Strategic Investments, net of taxation.

A reconciliation of earnings is provided in note 10.

The Directors have determined that for Strategic Investments acquired in 2009, it is important to separately identify the earnings impact of increased depreciation arising from the acquisition date fair value uplifts made to PP&E 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 PP&E and the segmental results are presented on a consistent basis.

The Group has two Strategic Investments for which reported profits have been adjusted due to the impact of fair value uplifts. These Strategic Investments relate to the 2009 acquisitions of Venture Production plc (Venture); the operating results of which are included within the 'Centrica Energy – Gas' segment, and the acquisition of the 20% interest in Lake Acquisitions Limited (Nuclear), which owns the former British Energy Group nuclear power station fleet now operated by EDF; the results of which are included within the 'Centrica Energy – Power' segment.

(i) Venture

Significant adjustments have been made to the acquired PP&E to report the acquired oil and gas field interests at their acquisition date fair values which are subsequently depreciated through the Group Income Statement over their respective useful economic lives using the unit of production method. Whilst the impact of unwinding the PP&E at their acquisition date fair values is included in overall reported profit for the year, 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 after taxation.

(ii) Nuclear

The 20% interest in Nuclear is accounted for as an investment in an associate using the equity method. The Group reports its share of the associate's profit or loss, which is net of interest and taxation, within the Group Income Statement.

The most significant fair value adjustments arising on the acquisition of the 20% investment in Nuclear relate to the fair value uplifts made to the nuclear power stations to report the PP&E at their acquisition date fair values and fair value uplifts made to energy procurement contracts and energy sales contracts to report these at their acquisition date fair values.

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 included in the overall reported Group result for the year, the Directors have reversed these impacts in arriving at adjusted profit for the year. The impact of unwinding the acquisition date fair values attributable to the acquired energy procurement and energy sales contracts is included within certain re-measurements.

NOTES TO THE FINANCIAL STATEMENTS

2. Centrica specific accounting measures

Exceptional items and certain re-measurements

The Group reflects its underlying financial results in the 'business performance' column of the Group Income Statement. To be able to provide readers with this clear and consistent presentation, the effects of 'certain re-measurements' of financial instruments, and 'exceptional items', are reported in a different column in the Group Income Statement.

The Group is an integrated energy business. This means that it utilises its knowledge and experience across the gas and power (and related commodity) value chains to make profits across the core markets in which it operates. As part of this strategy, the Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers (downstream demand). These trades are designed to reduce the risk of holding such assets, contracts or downstream demand and are subject to strict risk limits and controls.

Primarily because some of these trades include terms that permit net settlement (they are prohibited from being designated as 'own use'), the rules within IAS 39 require them to be individually fair valued. Fair value movements on these commodity derivative trades do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. Therefore, these certain re-measurements are reported separately and are subsequently reflected in business performance when the underlying transaction or asset impacts profit or loss.

The arrangements discussed above and reflected as certain re-measurements are all 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 business performance column (in the results before certain re-measurements).

Exceptional items are those 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. Again, to ensure the business performance column reflects the underlying results of the Group, these exceptional items are also reported in a separate column in the Group Income Statement. Items which may be considered exceptional in nature include disposals of businesses, business restructurings, significant onerous contract charges and asset write-downs/impairments.

3. Critical accounting judgements and key sources of estimation uncertainty

This section sets out the key areas of judgement and estimation that have the most significant effect on the amounts recognised in the consolidated Financial Statements.

(a) Critical judgements in applying the Group's accounting policies

Such key judgements include the following:

- the presentation of selected items as exceptional, see notes 2 and 7;
- the use of adjusted profit and adjusted earnings per share measures, see notes 2, 4 and 10; and
- the classification of energy procurement contracts as derivative financial instruments and presentation as certain re-measurements, see notes 2, 7 and 19.

In addition, management has made the following key judgements in applying the Group's accounting policies that have the most significant effect on the Group's Financial Statements:

Wind farm disposals

In recent years, the Group has partially disposed of some of its wind farm companies by selling 50% of the equity voting capital (and 50% of the shareholder loans where relevant) in, for example, GLID Wind Farms TopCo Limited and Lincs Wind Farm Limited.

Associated with some of these disposals, the Group contracted to purchase a large percentage of the output produced by the wind farms under arm's length, 15-year off-take agreements. The Group also contracted to provide management, operational and transitional support services to these companies as directed by their boards (and shareholders). Shareholders' agreements were put in place which include a number of reserved matters and provide for joint management of the major decisions of the companies.

Accordingly, the Directors have judged that the partial disposals of equity interests constituted a loss of control as the Group was no longer able to exercise control over the relevant activities or operating and financial policies of these companies. Therefore, the remaining investments are equity accounted as investments in joint ventures (see notes 6 and 14) in accordance with IFRS 11 and IAS 28 (Revised (2011)): 'Investments in joint ventures and associates'.

The Directors have also judged that the 15-year off-take agreements are not leasing arrangements. This is because the Group is not purchasing substantially all of the economic output of the wind farms. These contracts are considered to be outside the scope of IAS 39 apart from the embedded derivatives arising from the pricing terms which are marked to market separately.

The profits and losses arising on the disposal of equity interests in wind farms are recognised within the business performance column of the Group Income Statement as part of the 'Centrica Energy – Power' segment. These divestments are in line with the Group's established wind farm strategy to realise value, share risk and reduce our capital requirements as individual projects develop, which may involve bringing in partners at an appropriate stage or full disposal.

Leases – third-party power station tolling arrangements

The Group has two long-term power station tolling contracts considered to be leases: (i) Spalding in the UK; and (ii) Rijnmond in the Netherlands. The arrangements provide Centrica with the right to nominate 100% of the plant capacity for the duration of the contracts in return for a mix of capacity payments and operating payments based on plant availability.

The Spalding contract runs until 2021 and Centrica holds an option to extend the tolling arrangement for a further eight years, exercisable by 30 September 2020. If extended, Centrica is granted an option to purchase the station at the end of this further period. The Directors have determined that the arrangement should be accounted for as a finance lease as the lease term is judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at the inception date of the arrangement amounted to substantially all of the fair value of the power station at that time.

Details of the interest charges, finance lease asset and finance lease payable are included in notes 8, 13 and 24 respectively.

NOTES TO THE FINANCIAL STATEMENTS

3. Critical accounting judgements and key sources of estimation uncertainty

The Rijnmond contract runs until 2030 and Centrica does not have the right to extend the agreement or any option to purchase the plant. The Directors have determined that the arrangement should be accounted for as an operating lease as the lease term is not judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at the inception date of the arrangement did not amount to substantially all of the fair value of the power station at that time. Details of the operating lease commitments are included in note 23.

Business combinations and asset acquisitions

Business combinations and acquisitions of associates and joint ventures require a fair value exercise to be undertaken to allocate the purchase price (cost) to the fair value of the acquired identifiable assets, liabilities, contingent liabilities and goodwill.

As a result of the nature of fair value assessments in the energy industry this purchase price allocation exercise requires subjective judgements based on a wide range of complex variables at a point in time. Management uses all available information to make the fair value determinations.

During the year the Group has made one material acquisition – Bord Gáis Energy Limited. This acquisition has been accounted for as a business combination as set out in note 12(a).

The key areas of judgement were the value of customer relationships, the favourable and unfavourable pricing terms of gas and power purchase contracts and the value of the gas-fired power station. Customer relationship valuations are based on anticipated retention rates as well as expected margins for the customer extensions based on unit margins for gas and power (these variables being key inputs for modelling purposes). Customer relationship valuations have inherent risks as they are based on estimates in respect of (i) customer performance; (ii) future margin rates; and (iii) future renewal rates (customer churn). The value of the gas and power purchase contracts as well as the valuation of the power station are based on forward market curves derived from both liquid market data and internal predictions of future prices. Any significant changes to these assumptions may have a material impact on the valuation of the business acquired.

Consolidation of the CQ Energy Canada Partnership

The Suncor upstream acquisition in 2013 involved the formation of the CQ Energy Canada Partnership (CQECP) to acquire Suncor Energy's North American oil and gas assets. CQECP is owned and funded by the Group and Qatar Petroleum International (QPI) on a 60:40 basis. The partnership provides the Group with the ability to control the business plan and budgets and consequently the general operation of the assets. Accordingly, this arrangement has been assessed under IFRS 10: 'Consolidated financial statements' and the conclusion has been reached that the Group has power over the relevant activities of CQECP. This entity has been fully consolidated into the Group's Financial Statements and QPI's ownership share is represented as a non-controlling interest.

Energy Company Obligation

The Energy Company Obligation (ECO) order requires UK-licensed energy suppliers to improve the energy efficiency of domestic households from 1 January 2013. Targets are set in proportion to the size of historic customer bases and must be delivered by 31 March 2015 (for ECO phase 1) and by 31 March 2017 (for ECO phase 2). The Group continues to judge that it is not legally obligated by this order until 31 March 2015 and 31 March 2017 respectively. Accordingly, the costs of delivery are recognised as incurred, when cash is spent or unilateral commitments made, resulting in obligations that cannot be avoided.

In prior periods, the Group had entered into a number of contractual arrangements and commitments, and issued a public statement to underline its commitment to deliver a specific proportion of the ECO requirements. Consequently, the Group's result included the costs of these contractual arrangements and commitment obligations. The Group has now delivered in excess of those commitments.

Metering contracts

The Department of Energy and Climate Change (DECC) has modified the UK gas and electricity supply licences requiring all domestic premises to be fitted with compliant smart meters for measuring energy consumption by 31 December 2020. The Group has a number of existing rental contracts for non-compliant meters that include penalty charges if these meters are removed from use before the end of their deemed useful lives. The Group considers that these contracts are not onerous until the meters have been physically removed from use and, therefore, only recognises a provision for penalty charges at this point.

As part of the smart meter roll-out, the Group has entered into new meter rental arrangements with third-parties. The Group judges these are not leases because it does not have the right to physically or operationally control the smart meters and other parties also take a significant amount of the output from the assets.

Disposal groups classified as held for sale

On 8 May 2014, the Group announced that it had undertaken a strategic review of its UK power station fleet and that it intended to focus its UK gas-fired power generation on small flexible 'peaking' plants. The Group sought to release capital from its three larger operating plants (Langage, Humber and Killingholme) in order to focus on other investment opportunities. These three power stations were classified as a disposal group held for sale as at 8 May 2014 and at the half year as the Group considered it highly probable that their value would be principally recovered through a divestment and that this disposal would occur within 12 months. The Group ran a disposal process throughout the second half of 2014 and continued to expect the value of the assets to be recovered through a divestment. In December, the first capacity market auction prices cleared at a level significantly below market expectations with an expected consequential decline in bidder confidence. These events led the Group to reassess the asset held for sale classification and decide the disposal was no longer 'highly probable'. Consequently, the assets were reclassified out of assets held for sale as at 31 December 2014. The culmination of the bid process in February 2015 provided further evidence of the conditions existing at 31 December 2014, as the bid levels were below the Group's hold value. An impairment of £384 million was recorded on reclassification to measure the assets at their recoverable amounts at the date of transfer. See note 7 for further details.

(b) Key sources of estimation uncertainty

Revenue recognition – unread gas and electricity meters

Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity comprises both billed and unbilled revenue. It is estimated through the billing systems, using historical consumption patterns, on a customer by customer basis, taking into account weather patterns, load forecasts and the differences between actual meter reads being returned and system estimates. Actual meter reads continue to be compared to system estimates between the balance sheet date and the finalisation of the accounts.

NOTES TO THE FINANCIAL STATEMENTS

3. Critical accounting judgements and key sources of estimation uncertainty

An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits which will flow to the Group, including bill cancellation and re-bill rates. To the extent that the economic benefits are not expected to flow to the Group, the value of that revenue is not recognised. The judgements applied, and the assumptions underpinning these judgements, are considered to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognised.

Industry reconciliation process – cost of sales

Industry reconciliation procedures are required as differences arise between the estimated quantity of gas and electricity the Group deems to have supplied and billed customers, and the estimated quantity industry system operators deem the individual suppliers, including the Group, to have supplied to customers. The difference in deemed supply is referred to as imbalance. The reconciliation procedures can result in either a higher or lower value of industry deemed supply than has been estimated as being supplied to customers by the Group, but in practice tends to result in a higher value of industry deemed supply. The Group reviews the difference to ascertain whether there is evidence that its estimate of amounts supplied to customers is inaccurate or whether the difference arises from other causes. The Group's share of the resulting imbalance is included within commodity costs charged to cost of sales. Management estimates the level of recovery of imbalance which will be achieved either through subsequent customer billing or through developing industry settlement procedures.

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of fields (including storage facility assets) is reviewed periodically and is based on reserves, price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be incurred until 2055, with the majority of the costs expected to be paid between 2020 and 2030.

Significant judgements and estimates are also made about the costs of decommissioning nuclear power stations and the costs of waste management and spent fuel. These estimates impact the carrying value of our Nuclear investment. Various arrangements and indemnities are in place with the Secretary of State with respect to these costs, as explained in note S2.

Gas and liquids reserves

The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production method of depreciating producing gas and liquids PP&E as well as being a significant estimate affecting decommissioning and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition is described on page 174.

The impact of a change in estimated 2P reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If 2P reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value.

Determination of fair values – energy derivatives

Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. Quoted market prices considered for valuation purposes are the bid price for assets held and/or liabilities to be issued, or the offer price for assets to be acquired and/or liabilities held, although the mid-market price or another pricing convention may be used as a practical expedient (where typically used by other market participants). More detail on the assumptions used in determining fair valuations of energy derivatives is provided in note S6.

Impairment of long-lived assets

The Group has several material long-lived assets that are assessed or tested for impairment at each reporting date in accordance with the Group's accounting policy as described in note 7. The Group makes judgements and estimates in considering whether the carrying amounts of these assets or cash generating units (CGUs) are recoverable. The key assets that are subjected to impairment tests are upstream gas and oil assets, power generation assets, storage facility assets, Nuclear investment (investment in associate) and goodwill.

Upstream gas and oil assets

The recoverable amount of the Group's gas and oil assets is determined by discounting the post-tax cash flows expected to be generated by the assets over their lives taking into account those assumptions that market participants would take into account when assessing fair value. The cash flows are derived from projected production profiles of each field, based predominantly on expected 2P reserves and take into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on internal model inputs.

Further details of the assumptions used in determining the recoverable amounts and the impairments booked during the year are provided in note 7.

Power generation assets

The recoverable amount of the Group's power generation assets is calculated by discounting the pre-tax cash flows expected to be generated by the assets and is dependent on views of forecast power generation and forecast power, gas, carbon and capacity prices (where applicable) and the timing and extent of capital expenditure. Where forward market prices are not available, prices are determined based on internal model inputs. Further details of the impairments booked during the year are provided in note 7.

Storage facility assets

The recoverable amount of our operational and planned storage facilities is calculated by discounting the post-tax cash flows expected to be generated by the assets based on predictions of seasonal gas price differentials and shorter term price volatilities and the value from extracting cushion gas at the end of the field life less any related capital and operating expenditure.

Nuclear investment

The recoverable amount of the Nuclear investment is based on the value of the existing UK nuclear fleet operated by EDF. The existing fleet value is calculated by discounting post-tax cash flows derived from the stations based on forecast power generation and power prices, whilst taking account of planned outages and the possibility of life extensions. Further details of the impairments booked during the year are provided in note 7.

NOTES TO THE FINANCIAL STATEMENTS

3. Critical accounting judgements and key sources of estimation uncertainty

Goodwill

Goodwill does not generate independent cash flows and accordingly is allocated at inception to specific CGUs or groups of CGUs for impairment testing purposes. The recoverable amounts of these CGUs are derived from estimates of future cash flows (as described in the asset classes above) and hence the goodwill impairment tests are also subject to these key estimates. The results of these tests may then be verified by reference to external market valuation data.

Further detail on impairments arising and the assumptions used in determining the recoverable amounts is provided in notes 7 and 15.

Credit provisions for trade and other receivables

The methodology for determining provisions for credit losses on trade and other receivables and the level of such provisions is set out in note 17. Although the provisions recognised are considered appropriate, the use of different assumptions or changes in economic conditions could lead to movements in the provisions and therefore impact the Group Income Statement.

Pensions and other post employment benefits

The cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post employment benefits, on which further detail is provided in note 22.

Provisions for onerous contracts

The Group has entered into a number of commodity procurement and capacity contracts related to specific assets in the ordinary course of its business. Where the unavoidable costs of meeting the obligations under these contracts exceed the associated expected future net benefits, an onerous contract provision is recognised. The calculation of these provisions will involve the use of estimates. The key onerous provisions are as follows:

Rijnmond power station operating lease

The onerous provision is calculated by taking the unavoidable costs that will be incurred under the contract and deducting any estimated revenues.

European gas transportation capacity contracts

The onerous provision is calculated using capacity costs incurred under the contracts, less any predicted income. The provision assumes that contracts for capacity in continental Europe are onerous but those that enable gas to be transported directly back into the UK may be necessary to achieve security of supply in the future. Therefore, no provision has been recognised relating to these latter contracts.

Direct Energy wind farm power purchase agreements

The onerous nature of the power purchase agreements is measured using estimates relating to wind forecasts, forward curves for energy prices, balancing costs and renewable energy certificates.

NOTES TO THE FINANCIAL STATEMENTS

4. Segmental analysis

The Group's operating segments are those used internally by management to run the business and make decisions. The Group's operating segments are based on products and services. The operating segments are also the Group's reportable segments. The Group's results are discussed in the Business Review (pages 25 to 34).

(a) Segmental structure

On 30 June 2014, the Group acquired 100% of Bord Gáis Energy's gas and electricity supply business in the Republic of Ireland, including the Whitegate gas-fired power station. Bord Gáis Energy is reported as a separate segment within International Downstream.

The types of products and services from which each reportable segment derived its revenues during the year are detailed below.

Segment	Description
International Downstream	
British Gas:	
Residential energy supply	The supply of gas and electricity to residential customers in the UK
Residential services	Installation, repair and maintenance of domestic central heating, plumbing and drains, gas appliances and kitchen appliances, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in the UK
Business energy supply and services	The supply of gas and electricity and provision of energy-related services to business customers in the UK
Direct Energy:	
Residential energy supply	The supply of gas and electricity to residential customers in North America
Business energy supply	(i) The supply of gas, electricity and energy management solutions to commercial and industrial customers in North America; (ii) power generation; and (iii) procurement and trading activities in the North American wholesale energy markets
Residential and business services	Installation and maintenance of heating, ventilation and air conditioning (HVAC) equipment, water heaters, solar power generating equipment and the provision of breakdown services, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in North America
Bord Gáis Energy	(i) The supply of gas, electricity and energy management solutions to residential, commercial and industrial customers; and (ii) power generation in the Republic of Ireland
International Upstream	
Centrica Energy:	
Gas	Production, processing, trading and optimisation of gas and oil and the development of new fields to grow reserves
Power	Generation, trading and optimisation of power from thermal, nuclear and wind sources
Centrica Storage	Gas storage in the UK

NOTES TO THE FINANCIAL STATEMENTS

4. Segmental analysis
(b) Revenue

Gross segment revenue represents revenue generated from the sale of products and services to both third parties and to other reportable segments of the Group. Group revenue reflects only the sale of products and services to third parties.

Year ended 31 December	2014 Gross segment revenue £m	2014 Less inter-segment revenue £m	2014 Group revenue £m	2013 Gross segment revenue £m	2013 Less inter-segment revenue £m	2013 Group revenue £m
International Downstream						
Residential energy supply	8,328	(3)	8,325	9,487	–	9,487
Residential services	1,658	(156)	1,502	1,655	(149)	1,506
Business energy supply and services	2,981	(47)	2,934	3,084	(38)	3,046
British Gas	12,967	(206)	12,761	14,226	(187)	14,039
Residential energy supply	2,571	–	2,571	2,517	–	2,517
Business energy supply	8,744	(6)	8,738	4,238	(55)	4,183
Residential and business services	523	–	523	570	–	570
Direct Energy	11,838	(6)	11,832	7,325	(55)	7,270
Bord Gáis Energy	391	–	391	–	–	–
International Upstream						
Gas	3,644	(326)	3,318	4,596	(455)	4,141
Power	1,347	(343)	1,004	1,386	(402)	984
Centrica Energy	4,991	(669)	4,322	5,982	(857)	5,125
Centrica Storage	149	(47)	102	188	(51)	137
	30,336	(928)	29,408	27,721	(1,150)	26,571

The Group does not monitor and manage performance by geographic territory, but we provide below an analysis of revenue and certain non-current assets by geography.

Year ended 31 December	Revenue (based on location of customer) 2014 £m	Revenue 2013 £m	Non-current assets (based on location of assets) (i) 2014 £m	Non-current assets 2013 £m
UK	15,880	17,463	8,132	8,985
North America	11,996	7,530	3,421	3,534
Norway	478	695	1,564	1,813
Rest of the world	1,054	883	255	496
	29,408	26,571	13,372	14,828

(i) Non-current assets include goodwill, other intangible assets, PP&E and interests in joint ventures and associates.

NOTES TO THE FINANCIAL STATEMENTS

4. Segmental analysis
(c) Operating profit before and after taxation

The measure of profit used by the Group is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements and before depreciation on fair value uplifts on the Strategic Investments acquired in 2009. This includes results of equity-accounted interests before interest and taxation.

This note also details adjusted operating profit after taxation. Both measures are reconciled to their statutory equivalents.

Year ended 31 December	Adjusted operating profit (i) 2014 £m	Adjusted operating profit (i) 2013 £m	Adjusted operating profit after taxation (ii) 2014 £m	Adjusted operating profit after taxation (ii) 2013 £m
International Downstream				
Residential energy supply	**439**	571	**344**	423
Residential services	**270**	318	**212**	241
Business energy supply and services	**114**	141	**91**	113
British Gas	**823**	1,030	**647**	777
Residential energy supply	**90**	163	**62**	111
Business energy supply	**32**	77	**17**	53
Residential and business services	**28**	36	**20**	25
Direct Energy	**150**	276	**99**	189
Bord Gáis Energy	**7**	–	**3**	–
International Upstream				
Gas (iii)	**606**	1,155	**302**	325
Power (iii) (iv)	**131**	171	**158**	143
Centrica Energy	**737**	1,326	**460**	468
Centrica Storage	**29**	63	**21**	48
	1,746	2,695	**1,230**	1,482
Share of joint ventures'/associates' interest and taxation	**(100)**	(111)		
Depreciation of fair value uplifts to property, plant and equipment – Venture (iii)	**(31)**	(48)		
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) – associates – Nuclear (iii)	**(47)**	(18)		
	1,568	2,518		
Exceptional items (note 7)	**(1,597)**	(1,064)		
Certain re-measurements included within gross profit (note 7)	**(1,134)**	413		
Certain re-measurements of associates' energy contracts (net of taxation) (note 7)	**26**	25		
Operating (loss)/profit after exceptional items and certain re-measurements	**(1,137)**	1,892		

Year ended 31 December	2014 £m	2013 £m
Adjusted operating profit after taxation (ii)	**1,230**	1,482
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) (iii)	**(59)**	(37)
Impact of changes to UK corporation tax rates (note 9) (v)	**(2)**	64
Corporate and other taxation, and interest (net of taxation) (vi)	**(242)**	(176)
Business performance profit for the year	**927**	1,333
Exceptional items and certain re-measurements (net of taxation) (note 7)	**(1,932)**	(383)
Statutory (loss)/profit for the year	**(1,005)**	950

(i) Segment operating profit before exceptional items, certain re-measurements and impact of fair value uplifts from the Strategic Investments acquired in 2009. This includes results of equity-accounted interests before interest and taxation.
(ii) Segment operating profit after taxation, before exceptional items, certain re-measurements and impact of fair value uplifts from the Strategic Investments acquired in 2009. This includes operating results of equity-accounted interests, net of associated taxation, before interest and associated taxation. Segment operating profit after taxation includes £28 million (2013: £1 million) attributable to non-controlling interests.
(iii) See notes 2 and 10 for an explanation of the depreciation on fair value uplifts to PP&E on the Strategic Investments acquired in 2009.
(iv) Power adjusted operating profit after taxation includes a one-off deferred tax benefit of £44 million (2013: nil) following a legal entity reorganisation.
(v) Excludes nil (2013: £29 million credit) relating to equity accounted interests.
(vi) Includes joint ventures'/associates' interest, net of associated taxation.

NOTES TO THE FINANCIAL STATEMENTS

4. Segmental analysis
(d) Included within adjusted operating profit

Presented below are certain items included within adjusted operating profit, including further details of impairments of property, plant and equipment and write-downs relating to exploration and evaluation assets.

Year ended 31 December	Share of results of joint ventures and associates before interest and taxation (i) 2014 £m	2013 £m	Depreciation and impairments of property, plant and equipment 2014 £m	2013 £m	Amortisation, write-downs and impairments of intangibles 2014 £m	2013 £m
International Downstream						
Residential energy supply	**(1)**	(7)	**(17)**	(16)	**(57)**	(48)
Residential services	**–**	–	**(27)**	(23)	**(7)**	(8)
Business energy supply and services	**–**	–	**(2)**	(2)	**(8)**	(7)
British Gas	**(1)**	(7)	**(46)**	(41)	**(72)**	(63)
Residential energy supply	**–**	–	**(1)**	(1)	**(23)**	(24)
Business energy supply	**–**	–	**(1)**	(16)	**(77)**	(36)
Residential and business services	**–**	–	**(3)**	(2)	**(7)**	(7)
Direct Energy	**–**	–	**(5)**	(19)	**(107)**	(67)
Bord Gáis Energy	**–**	–	**(1)**	–	**(3)**	–
International Upstream						
Gas (ii)	**–**	–	**(809)**	(886)	**(154)**	(111)
Power (ii)	**254**	282	**(55)**	(93)	**(2)**	(4)
Centrica Energy	**254**	282	**(864)**	(979)	**(156)**	(115)
Centrica Storage	**–**	–	**(34)**	(30)	**–**	–
Other (iii)	**–**	–	**(12)**	(15)	**(15)**	(20)
	253	275	**(962)**	(1,084)	**(353)**	(265)

(i) The share of results of joint ventures and associates is before interest, taxation, certain re-measurements and depreciation of fair value uplifts to PP&E on the Strategic Investments acquired in 2009.
(ii) Depreciation of PP&E is stated before depreciation of fair value uplifts for the Strategic Investments acquired in 2009.
(iii) The Other segment includes corporate functions.

Impairment of property, plant and equipment
During 2014, a £34 million (2013: nil) impairment charge was recognised in the 'Centrica Energy – Gas' segment within business performance.

Write-downs of intangible assets
During 2014, £135 million (2013: £95 million) of write-downs relating to exploration and evaluation assets were recognised in the 'Centrica Energy – Gas' segment within operating costs before exceptional items.

NOTES TO THE FINANCIAL STATEMENTS

4. Segmental analysis
(e) Average capital employed

Capital employed represents the investment required to operate each of the Group's segments. Capital employed is used by the Group to calculate the return on capital employed for each of the Group's segments.

Year ended 31 December	2014 Total average capital employed £m	2014 Pre-productive capital employed £m	2014 Productive capital employed £m	2013 Total average capital employed £m	2013 Pre-productive capital employed £m	2013 Productive capital employed £m
International Downstream						
Residential energy supply	(7)	–	(7)	101	–	101
Residential services	173	–	173	218	–	218
Business energy supply and services	428	–	428	539	–	539
British Gas	594	–	594	858	–	858
Residential energy supply	982	–	982	820	–	820
Business energy supply	1,268	–	1,268	783	–	783
Residential and business services	333	–	333	384	–	384
Direct Energy	2,583	–	2,583	1,987	–	1,987
Bord Gáis Energy	54	–	54	–	–	–
International Upstream						
Gas (i)	3,761	(1,326)	2,435	3,932	(1,292)	2,640
Power	3,490	(24)	3,466	3,717	(282)	3,435
Centrica Energy	7,251	(1,350)	5,901	7,649	(1,574)	6,075
Centrica Storage	256	–	256	435	(130)	305
Total average segmental capital employed	10,738	(1,350)	9,388	10,929	(1,704)	9,225

(i) Capital employed includes £133 million (2013: £35 million) attributable to non-controlling interests.

Reconciliation of total average segmental capital employed to net assets in the Group Balance Sheet

Year ended 31 December	2014 £m	2013 £m
Total average segmental capital employed	10,738	10,929
Add back/(deduct):		
Average intra-group, margin cash and cash balances	668	281
Effect of averaging	(336)	(81)
Total segmental net operating assets at 31 December	11,070	11,129
(Deduct)/add back:		
Bank overdrafts and loans, securities and treasury derivatives	(6,641)	(5,785)
Certain derivative financial instruments including balances held by joint ventures/associates	(1,302)	(257)
Corporate (liabilities)/assets	(118)	130
Net retirement benefit asset	62	40
Net assets in Group Balance Sheet	3,071	5,257

NOTES TO THE FINANCIAL STATEMENTS

4. Segmental analysis
(f) Capital expenditure

Capital expenditure represents additions, other than assets acquired as part of business combinations, to property, plant and equipment, and intangible assets. Capital expenditure has been reconciled to the related cash outflow.

Year ended 31 December	Capital expenditure on property, plant and equipment (note 13) 2014 £m	2013 £m	Capital expenditure on intangible assets other than goodwill (note 15) 2014 £m	2013 £m
International Downstream				
Residential energy supply	**28**	27	**348**	287
Residential services	**33**	59	**13**	12
Business energy supply and services	**1**	1	**166**	121
British Gas	**62**	87	**527**	420
Residential energy supply	**24**	9	**24**	33
Business energy supply	**3**	19	**84**	64
Residential and business services	**4**	3	**–**	1
Direct Energy	**31**	31	**108**	98
Bord Gáis Energy	**2**	–	**3**	–
International Upstream				
Gas	**923**	982	**217**	147
Power	**62**	32	**67**	74
Centrica Energy	**985**	1,014	**284**	221
Centrica Storage	**21**	37	**2**	3
Other (i)	**11**	15	**15**	39
Capital expenditure	**1,112**	1,184	**939**	781
Capitalised borrowing costs	**(45)**	(43)	**(5)**	(8)
Movements in payables and prepayments related to capital expenditure	**3**	123	**(1)**	9
Purchases of emissions allowances and renewable obligation certificates	**–**	–	**(547)**	(431)
Net cash outflow (ii)	**1,070**	1,264	**386**	351

(i) The Other segment relates to corporate assets.
(ii) The £386 million (2013: £351 million) purchase of intangible assets includes £201 million (2013: £121 million) relating to exploration and evaluation of oil and gas assets.

NOTES TO THE FINANCIAL STATEMENTS

5. Costs of operations

Costs of operations details the types of costs the Group incurs and the number of employees in each of our operations.

(a) Analysis of costs by nature

Year ended 31 December	2014 Cost of sales £m	2014 Operating costs £m	2014 Total costs £m	2013 Cost of sales £m	2013 Operating costs £m	2013 Total costs £m
Transportation, distribution and metering costs	**(4,347)**	**–**	**(4,347)**	(4,182)	–	(4,182)
Commodity costs	**(15,875)**	**–**	**(15,875)**	(12,243)	–	(12,243)
Depreciation, amortisation, impairments and write-downs	**(957)**	**(392)**	**(1,349)**	(1,105)	(322)	(1,427)
Employee costs	**(709)**	**(1,218)**	**(1,927)**	(759)	(1,135)	(1,894)
Impairment of trade receivables (note 17)	**–**	**(240)**	**(240)**	–	(220)	(220)
Other direct costs relating to the upstream businesses	**(748)**	**(108)**	**(856)**	(1,072)	(159)	(1,231)
Other direct costs relating to the downstream businesses	**(2,407)**	**(945)**	**(3,352)**	(2,103)	(899)	(3,002)
Total costs before exceptional items and certain re-measurements	**(25,043)**	**(2,903)**	**(27,946)**	(21,464)	(2,735)	(24,199)
Exceptional items and certain re-measurements (note 7)	**(1,134)**	**(1,597)**	**(2,731)**	288	(939)	(651)
Total costs	**(26,177)**	**(4,500)**	**(30,677)**	(21,176)	(3,674)	(24,850)

(b) Employee costs [i]

Year ended 31 December	2014 £m	2013 £m
Wages and salaries	**(1,622)**	(1,586)
Social security costs	**(145)**	(144)
Pension and other post employment benefits costs	**(167)**	(154)
Share scheme costs	**(39)**	(43)
	(1,973)	(1,927)
Capitalised employee costs	**46**	33
Employee costs recognised in the Group Income Statement	**(1,927)**	(1,894)

(i) Details of Directors' remuneration, share-based payments and pension entitlements in the Remuneration Report on pages 63 to 81 form part of these Financial Statements. Details of the remuneration of key management personnel are given in note S8.

(c) Average number of employees during the year

Year ended 31 December	2014 Number	2013 Number
British Gas	**28,814**	28,579
Direct Energy	**5,980**	5,910
Bord Gáis Energy [i]	**151**	–
Centrica Energy	**2,280**	2,158
Centrica Storage	**305**	319
	37,530	36,966

(i) Average employee numbers shown are based on 12-month averages. Average number of employees of Bord Gáis Energy for the period from acquisition to the end of the year is 280.

NOTES TO THE FINANCIAL STATEMENTS

6. Share of results of joint ventures and associates

Share of results of joint ventures and associates represents the results of businesses where we exercise joint control or significant influence and generally have an equity holding of up to 50%.

(a) Share of results of joint ventures and associates

The Group's share of results of joint ventures and associates for the year ended 31 December 2014 principally arises from its interests in the following entities (predominantly reported in the Centrica Energy – Power segment):

- Wind farms – Barrow Offshore Wind Limited, Celtic Array Limited (Round 3), GLID Wind Farms TopCo Limited and Lincs Wind Farm Limited[(i)].
- Nuclear – Lake Acquisitions Limited.

Year ended 31 December	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	**2014 Total £m**	2013 Total £m
Income	96	620	6	**722**	735
Expenses excluding certain re-measurements [(ii)]	(104)	(416)	(7)	**(527)**	(521)
Certain re-measurements	–	25	–	**25**	23
	(8)	229	(1)	**220**	237
Interest paid	(47)	(15)	–	**(62)**	(60)
Taxation excluding certain re-measurements [(ii)]	8	(35)	–	**(27)**	(8)
Taxation on certain re-measurements	–	1	–	**1**	2
Share of post-taxation results of joint ventures and associates	**(47)**	**180**	**(1)**	**132**	171

(i) As part of the finance arrangements entered into by GLID Wind Farms TopCo Limited and Lincs Wind Farm Limited, the Group's shares in these companies are secured in favour of third parties. The securities would only be enforced in the event that GLID Wind Farms TopCo Limited or Lincs Wind Farm Limited default on any of their obligations under their respective finance arrangements.
(ii) Includes £58 million (2013: £61 million) relating to depreciation of fair value uplifts to PP&E on investment in Nuclear. The associated tax impact is £11 million credit (2013: £43 million credit).

Nuclear

In November 2009 the Group acquired a 20% interest in Lake Acquisitions Limited (Nuclear). The Group's share of profit arising from its investment in Nuclear for the year to 31 December 2014, as set out in the above table, includes the effect of unwinding the fair value uplifts recognised at acquisition. As explained in note 2, 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 4(c) and 10.

(b) Reconciliation of share of results of joint ventures and associates to share of adjusted results of joint ventures and associates

Year ended 31 December	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	**2014 Total £m**	2013 Total £m
Share of post-taxation results of joint ventures and associates	(47)	180	(1)	**132**	171
Certain re-measurements (net of taxation)	–	(26)	–	**(26)**	(25)
Depreciation – Nuclear (net of taxation) [(i)]	–	47	–	**47**	18
Interest paid	47	15	–	**62**	60
Taxation (excluding taxation on certain re-measurements and Nuclear depreciation)	(8)	46	–	**38**	51
Share of adjusted results of joint ventures and associates	**(8)**	**262**	**(1)**	**253**	275

(i) Relates to depreciation of fair value uplifts to PP&E on investment in Nuclear.

Further information on the Group's investments in joint ventures and associates is provided in notes 14 and S10.

NOTES TO THE FINANCIAL STATEMENTS

7. Exceptional items and certain re-measurements

Exceptional items are those 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. Items which may be considered exceptional in nature include disposals of businesses, business restructurings, significant onerous contract charges and asset write-downs.

(a) Exceptional items

Year ended 31 December	2014 £m	2013 £m
Provision for onerous power procurement contract	–	(125)
Exceptional items included within gross profit	–	(125)
Impairment of Centrica Energy exploration and production assets (i)	(1,189)	(699)
Impairment of UK power generation assets (ii)	(535)	–
Impairment of Nuclear investment (iii)	(214)	–
Impairment of UK gas storage assets and associated provision for onerous capacity contracts	–	(240)
Gain on disposal of Texas gas-fired power stations (note 12(c))	219	–
Gain on disposal of Ontario home services business (note 12(c))	122	–
	(1,597)	(939)
Exceptional items included within Group operating profit	(1,597)	(1,064)
Taxation on exceptional items (note 9)	436	397
Net exceptional items after taxation	(1,161)	(667)

(i) Impairment of Centrica Energy exploration and production assets has been recognised predominantly due to declining gas and oil prices. The Group recognised a pre-tax impairment charge of £1,189 million (post-tax charge £712 million) in the 'Centrica Energy – Gas' segment, which included a pre-tax impairment charge of £309 million (post-tax charge £265 million) on the Trinidad and Tobago gas assets (including £70 million of goodwill), a pre-tax impairment charge of £837 million (post-tax charge £410 million) on UK and Norwegian gas and oil assets and a pre-tax impairment charge of £43 million (post-tax charge £37 million) on Canadian upstream assets. Further details on how the recoverable amounts of fields are calculated on a fair value less cost of disposal (FVLCD) basis are provided below.

(ii) The Group's larger UK gas-fired power stations, Langage, Humber and Killingholme were classified as held for sale on 8 May 2014. The Group reassessed the likelihood of the value of these assets being recovered principally through a divestment at 31 December 2014 and, since the disposal was no longer considered to be 'highly probable', the assets have been reclassified out of held for sale, see note 3 for further details. A pre-tax impairment charge of £371 million (post-tax charge of £297 million) has been recognised in the 'Centrica Energy – Power' segment (including £17 million of goodwill), predominantly due to declining forecast capacity market auction prices and clean spark spread prices together with other changes in assumptions following information gained during the disposal process. A further £13 million charge (£10 million net of taxation) was recognised in other comprehensive income to reverse previous upwards valuations of the impaired assets. The Group also recognised a pre-tax impairment charge of £164 million (post-tax £162 million) on its other UK gas-fired power stations based on the same assumptions. Further details on how the recoverable amount of the assets is calculated on a VIU basis are provided below.

(iii) The Group recognised an impairment charge of £214 million (post-tax charge of £214 million) on its Nuclear investment within the 'Centrica Energy – Power' segment due to declining forecast power prices and capacity market auction prices. Further details on how the recoverable amount of the investment is calculated on a FVLCD basis are provided below.

Certain re-measurements are the fair value movements on energy contracts entered into to meet the future needs of our customers or to sell the energy produced from our upstream assets. These contracts are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued, and are therefore separately identified in the current period and reflected in business performance in future periods when the underlying transaction or asset impacts the Group Income Statement.

(b) Certain re-measurements

Year ended 31 December	2014 £m	2013 £m
Certain re-measurements recognised in relation to energy contracts (note 2):		
Net (losses)/gains arising on delivery of contracts	(63)	317
Net (losses)/gains arising on market price movements and new contracts	(1,071)	96
Net re-measurements included within gross profit	(1,134)	413
Net gains arising on re-measurement of associates' energy contracts (net of taxation)	26	25
Net re-measurements included within Group operating profit	(1,108)	438
Taxation on certain re-measurements (note 9)	337	(154)
Net re-measurements after taxation	(771)	284

The Group is generally a net buyer of commodity, procuring gas and power for our customers. Following significant decreases in commodity prices, net losses arising on market price movements and new contracts of £1,071 million have been recorded.

(c) Impairment accounting policy, process and sensitivities

The Group reviews the carrying amounts of goodwill, PP&E and intangible assets (with the exception of exploration assets – see note S2) annually, or more frequently if events or changes in circumstances indicate that the recoverable amounts may be lower than their carrying amounts. Interests in joint ventures and associates are reviewed annually for indicators of impairment and tested for impairment where such an indicator arises. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount is the higher of VIU and FVLCD.

NOTES TO THE FINANCIAL STATEMENTS

7. Exceptional items and certain re-measurements

At inception, goodwill is allocated to each of the Group's CGUs or groups of CGUs that expect to benefit from the business combination in which the goodwill arose. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. Any impairment is expensed immediately in the Group Income Statement. Any CGU impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

VIU calculations have been used to determine recoverable amounts for all CGUs that include goodwill and indefinite-lived intangible asset balances with the exception of the impairment tests for the Centrica Energy – Upstream gas and oil CGUs, where FVLCD has been used. This methodology is deemed to be more appropriate for this CGU as it is based on the post-tax cash flows arising from the underlying assets and is consistent with the approach taken by management to evaluate the economic value of the underlying assets. Subsequently, the specific, underlying Upstream gas and oil PP&E assets and, in addition, the Group's associate investment in Nuclear and the Storage PP&E assets have also used the FVLCD impairment methodology. UK power generation assets have used the VIU impairment methodology. Further details of the approach and assumptions used in the VIU calculations are provided in note S2.

FVLCD discount rate and cash-flow assumptions

Centrica Energy – Gas – Upstream gas and oil production

An impairment charge of £1,189 million has been recorded within exceptional items for Centrica Energy exploration and production assets. The associated recoverable amounts (net of decommissioning costs) of £552 million are categorised within Level 3 of the fair value hierarchy. FVLCD is determined by discounting the post-tax cash flows expected to be generated by the gas and oil production and development assets, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows are derived from projected production profiles of each field, taking into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on internal model inputs. Note S6 provides additional detail on the active period of each of the commodity markets in which the Group operates. The date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, production costs, the contractual duration of the licence area and the selling price of the gas and liquids produced. As each field has specific reservoir characteristics and economic circumstances, the post-tax cash flows for each field are computed using individual economic models. Post-tax cash flows used in the FVLCD calculation for the first three years are based on the Group's Board-approved three-year business plans and, thereafter, are based on long-term production and cash flow forecasts.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 9% (2013: 9%) to determine the FVLCD. The discount rate and inflation rate used in the FVLCD calculation are determined in the same manner as the rates used in the VIU calculations described in note S2, with the exception of the adjustment required to determine an equivalent pre-tax discount rate.

The valuation of Centrica Energy – Gas goodwill is particularly sensitive to the price assumptions made in the impairment calculations. To illustrate this, the price assumptions for gas and oil have been varied by +/–10%. Changes in price generate different production profiles and in some cases the date that an asset ceases production and this has been considered in the sensitivity analysis. Otherwise, all other operating costs, life of field capital expenditure and abandonment expenditure assumptions remain unchanged. For exploration and production assets, an increase in gas and oil prices of 10% would reverse £142 million of post-tax impairment charges recorded at the year end. A reduction of 10% would give rise to further post-tax impairments of the underlying exploration and production assets of £254 million and an impairment of goodwill of £251 million in the UK/Norway/Netherlands CGU.

Centrica Energy – Power – Nuclear

An impairment charge of £214 million has been recorded within exceptional items for the Group's associate investment in Nuclear. FVLCD is determined by discounting the post-tax cash flows expected to be generated by the investment, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows are derived from projected production profiles of the underlying nuclear power stations, planned and unplanned outage assumptions and forward prices for power and forecast capacity market auction prices. Where forward market prices are not available, prices are determined based on internal model inputs. Note S6 provides additional detail of the active period of each of the commodity markets in which the Group operates. Post-tax cash flows used in the FVLCD calculations for the first three years are based on the Group's Board-approved three-year business plans and, thereafter, are based on long-term production and cash flow forecasts.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 8% (2013: 8%) to determine the FVLCD. The discount rate and inflation rate used in the FVLCD calculation are determined in the same manner as the rates used in the VIU calculations described in note S2, with the exception of the adjustment required to determine an equivalent pre-tax discount rate.

The valuation of the Group's investment in Nuclear, which is categorised within Level 3 of the fair value hierarchy, is particularly sensitive to assumptions/variations in the power price. To illustrate this, sensitivities were performed at the year end to vary the power price assumptions in the Group's internal valuation model by +/–10%. An increase in power prices of 10%, assuming all other assumptions remain constant, would result in the reversal of the impairment of £214 million recorded at the year end and would provide headroom of £310 million. A reduction of 10% would give rise to a further impairment charge of £522 million.

VIU discount rate and cash-flow assumptions

Centrica Energy – Power – Upstream Power

An impairment charge of £535 million has been recorded within exceptional items for the UK gas-fired power stations. The recoverable amounts have been determined using VIU calculations, with future cash flows discounted using a pre-tax nominal discount rate of 7.4% (2013: 7.4%). Cash inflows are based on forecast production profiles, forward prices for power, gas and carbon and forecast capacity market auction prices. Where forward market prices are not available, prices are determined based on internal model inputs. Note S6 provides additional detail on the active period of each of the commodity markets in which the Group operates. Cash outflows for operating and capital expenditure are based, for the first three years, on the Group's Board-approved three-year business plans and, thereafter, are based on long-term production and cash flow forecasts.

NOTES TO THE FINANCIAL STATEMENTS

8. Net finance cost

Financing costs mainly comprise interest on bonds, bank debt and commercial paper, the results of hedging activities used to manage foreign exchange and interest rate movements on the Group's borrowings, and notional interest arising on discounting of decommissioning provisions. An element of financing cost is capitalised on qualifying projects.

Investment income predominantly includes interest received on short-term investments in money market funds, bank deposits, government bonds and notional interest on pensions.

Year ended 31 December	**2014** Financing costs £m	**2014** Investment income £m	**2014** Total £m	2013 Financing costs £m	2013 Investment income £m	2013 Total £m
Cost of servicing net debt						
Interest income	**–**	**46**	**46**	–	43	43
Interest cost on bonds, bank loans and overdrafts (i)	**(257)**	**–**	**(257)**	(252)	–	(252)
Interest cost on finance leases	**(16)**	**–**	**(16)**	(17)	–	(17)
	(273)	**46**	**(227)**	(269)	43	(226)
Net losses on revaluation (ii)	**(14)**	**–**	**(14)**	(6)	–	(6)
Notional interest arising from discounting and other interest	**(81)**	**6**	**(75)**	(73)	11	(62)
	(368)	**52**	**(316)**	(348)	54	(294)
Capitalised borrowing costs (iii)	**50**	**–**	**50**	51	–	51
(Cost)/income	**(318)**	**52**	**(266)**	(297)	54	(243)

(i) During 2014 the Group increased its outstanding bond debt principal by $200 million, ¥30 billion, €100 million and £51 million, and decreased it by $100 million and £315 million. See note 24(d).
(ii) Includes gains and losses on fair value hedges, movements in fair value of other derivatives primarily used to hedge foreign exchange exposure associated with inter-company loans, and foreign currency gains and losses on the translation of inter-company loans.
(iii) Borrowing costs have been capitalised using an average rate of 4.0% (2013: 4.6%). Capitalised interest has attracted tax deductions totalling £13 million (2013: £14 million), with deferred tax liabilities being set up for the same amounts.

9. Taxation

The taxation note details the different tax charges and rates, including current and deferred tax arising in the Group. The current tax charge is the tax payable on this year's taxable profits. This tax charge excludes taxation on the Group's share of results of joint ventures and associates. Deferred tax represents the tax on differences between the accounting carrying values of assets and liabilities and their tax bases. These differences are temporary and are expected to unwind in the future.

(a) Analysis of tax charge

Year ended 31 December	**2014** Business performance £m	**2014** Exceptional items and certain re-measurements £m	**2014** Results for the year £m	2013 Business performance £m	2013 Exceptional items and certain re-measurements £m	2013 Results for the year £m
Current tax						
UK corporation tax	**(186)**	**–**	**(186)**	(346)	(1)	(347)
UK petroleum revenue tax	**(53)**	**–**	**(53)**	(210)	–	(210)
Non-UK tax (i)	**(234)**	**(130)**	**(364)**	(504)	–	(504)
Adjustments in respect of prior years – UK	**86**	**–**	**86**	140	–	140
Adjustments in respect of prior years – non-UK	**2**	**–**	**2**	28	–	28
Total current tax	**(385)**	**(130)**	**(515)**	(892)	(1)	(893)
Deferred tax						
Origination and reversal of temporary differences – UK	**109**	**538**	**647**	(85)	370	285
UK petroleum revenue tax	**(7)**	**8**	**1**	37	–	37
Origination and reversal of temporary differences – non-UK	**(6)**	**374**	**368**	55	(121)	(66)
Change in tax rates	**(2)**	**(17)**	**(19)**	64	(5)	59
Adjustments in respect of prior years – UK	**(72)**	**–**	**(72)**	(94)	–	(94)
Adjustments in respect of prior years – non-UK	**(12)**	**–**	**(12)**	(27)	–	(27)
Total deferred tax	**10**	**903**	**913**	(50)	244	194
Total tax on (loss)/profit (ii)	**(375)**	**773**	**398**	(942)	243	(699)

(i) Non-UK tax on exceptional items and certain re-measurements arose on the gains on disposal of the Texas gas-fired power stations and Ontario home services business in 2014.
(ii) Total tax on (loss)/profit excludes taxation on the Group's share of profits of joint ventures and associates.

NOTES TO THE FINANCIAL STATEMENTS

9. Taxation

Tax on items taken directly to equity is disclosed in note S4. The Group earns the majority of its profits in the UK. Most activities in the UK are subject to the standard rate for UK corporation tax, which from 1 April 2014 was 21% (2013: 23%). Upstream oil and gas production activities are taxed at a UK corporation tax rate of 30% (2013: 30%) plus a supplementary charge of 32% (2013: 32%) to give an overall rate of 62% (2013: 62%). In addition, certain upstream assets in the UK attract petroleum revenue tax (PRT) at 50% (2013: 50%) which is deductible against corporation tax, giving an overall effective rate of 81% (2013: 81%). Norwegian upstream profits are taxed at the standard rate of 27% (2013: 28%) plus a special tax of 51% (2013: 50%) resulting in an aggregate tax rate of 78%. Taxation for other jurisdictions is calculated at the rates prevailing in those respective jurisdictions.

On 2 July 2013, the UK Government substantively enacted Finance Act 2013 which included a reduction in the main UK corporation tax rate to 20% from 1 April 2015. At 31 December 2014, the relevant UK deferred tax assets and liabilities included in these Financial Statements were based on the reduced rate.

On 3 December 2014, the UK Government announced a 2% reduction to the rate of supplementary charge from 32% to 30% effective 1 January 2015. This reduction had not been substantively enacted at 31 December 2014 and so these financial statements have not applied the reduced rate. The effect of the announced reduction would be to decrease net deferred tax liabilities by £19 million.

(b) Factors affecting the tax charge

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

			2014			2013
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
(Loss)/profit before tax	**1,302**	**(2,705)**	**(1,403)**	2,275	(626)	1,649
Less: share of profits in joint ventures and associates, net of interest and taxation	**(106)**	**(26)**	**(132)**	(146)	(25)	(171)
Group (loss)/profit before tax	**1,196**	**(2,731)**	**(1,535)**	2,129	(651)	1,478
Tax on (loss)/profit at standard UK corporation tax rate of 21.5% (2013: 23.25%)	**(257)**	**587**	**330**	(495)	151	(344)
Effects of:						
Net expenses not deductible for tax purposes	**(27)**	**(219)**	**(246)**	(7)	(61)	(68)
Additional charges applicable to upstream profits	**(59)**	**299**	**240**	(357)	241	(116)
UK petroleum revenue tax rates	**(23)**	**3**	**(20)**	(131)	–	(131)
Non-UK tax rates (i)	**(14)**	**124**	**110**	(41)	(53)	(94)
Movement in unrecognised deferred tax assets	**3**	**(4)**	**(1)**	(22)	(30)	(52)
Changes to tax rates	**(2)**	**(17)**	**(19)**	64	(5)	59
Adjustments in respect of prior years	**4**	**–**	**4**	47	–	47
Taxation on (loss)/profit for the year	**(375)**	**773**	**398**	(942)	243	(699)

(i) Excludes additional non-UK tax applicable to upstream profits.

(c) Factors that may affect future tax charges

The Group's effective tax rates are impacted by changes to the mix of activities and production across the territories in which it operates.

The Group's UK profits earned away from gas and oil production will benefit from reduced rates of corporation tax in 2015 and beyond (20% from 1 April 2015). UK gas and oil production profits will benefit from a 2% reduction to the supplementary charge from 1 January 2015.

Profits from oil and gas production in the UK continue to be taxed at rates above the UK statutory rate and PRT will continue to be applied to certain upstream profits. The PRT borne is expected to decrease as production activity in the relevant fields declines over time.

Income earned in territories outside the UK, notably in the US and Norway, is generally subject to higher effective rates of tax than the current UK statutory rate.

In the medium term, the Group's effective tax rate is expected to remain significantly above the UK statutory rate.

NOTES TO THE FINANCIAL STATEMENTS

9. Taxation

(d) Relationship between current tax charge and taxes paid

Year ended 31 December	UK £m	Non-UK £m	**2014 £m**	UK £m	Non-UK £m	2013 £m
Current tax charge:						
Corporation tax	100	362	**462**	207	476	683
Petroleum revenue tax	53	–	**53**	210	–	210
	153	**362**	**515**	417	476	893
Taxes paid:						
Corporation tax	116	435	**551**	330	316	646
Petroleum revenue tax	156	–	**156**	246	–	246
	272	**435**	**707**	576	316	892

Differences between current tax charged and taxes paid arose principally due to the following factors:

- corporation tax payments are generally based on estimated profits, partly during the year and partly in the following year and cash tax balancing on agreement with tax authorities will also occur in future periods. Fluctuations in profits from year to year may therefore give rise to divergence between the charge for the current year and taxes paid; and
- petroleum revenue tax payments are based on income realised in the preceding period, with subsequent adjustments to reflect actual profits. Variations in production from period to period may therefore lead to temporary differences between the tax charged and the tax paid.

10. Earnings per ordinary share

Earnings per share (EPS) is the amount of loss or profit attributable to each share. Basic EPS is the amount of loss or profit for the year divided by the weighted average number of shares in issue during the year. Diluted EPS includes the impact of outstanding share options as if they were exercised at the year end.

Basic earnings per ordinary share has been calculated by dividing the loss attributable to equity holders of the Company for the year of £1,012 million (2013: £950 million profit) by the weighted average number of ordinary shares in issue during the year of 5,022 million (2013: 5,150 million). The number of shares excludes 82 million ordinary shares (2013: 50 million), being the weighted average number of the Company's own shares held in the employee share trust and treasury shares purchased by the Group as part of the share repurchase programme.

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 the Strategic Investments acquired in 2009, assists with understanding the underlying performance of the Group, as explained in note 2.

During the year, the Group purchased 132.1 million (2013: 137.3 million) ordinary shares of $6^{14}/_{81}$ pence each, representing 2.6% of the called up share capital as at 31 December 2014 (2013: 2.7%) at an average price of £3.18 (2013: £3.64) per share for a total consideration including expenses of £422 million (2013: £502 million). The current year shares were purchased as part of the £420 million share repurchase programme announced on 18 December 2013. The prior year shares were purchased as part of the £500 million share repurchase programme announced on 4 February 2013. These shares are held as treasury shares once purchased and are deducted from equity, unless they are cancelled (see note S4).

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 loss or profit for either 2014 or 2013, however, the weighted average number of shares used as the denominator is adjusted for potentially dilutive ordinary shares.

Weighted average number of shares

Year ended 31 December	**2014 Million shares**	2013 Million shares
Weighted average number of shares – basic	**5,022**	5,150
Dilutive impact of share-based payment schemes (i)	**27**	33
Weighted average number of shares – diluted	**5,049**	5,183

(i) The dilutive impact of share-based payment schemes is included in the calculation of diluted EPS, unless it has the effect of increasing the profit or decreasing the loss attributable to each share. Therefore, these shares are excluded from the calculation of basic diluted EPS in 2014.

NOTES TO THE FINANCIAL STATEMENTS

10. Earnings per ordinary share

Basic to adjusted basic earnings per share reconciliation

Year ended 31 December	2014 £m	2014 Pence per ordinary share	2013 £m	2013 Pence per ordinary share
(Loss)/earnings – basic	**(1,012)**	**(20.2)**	950	18.4
Net exceptional items after taxation (notes 2 and 7[(i)])	**1,144**	**22.8**	667	13.0
Certain re-measurement gains after taxation (notes 2 and 7)	**771**	**15.4**	(284)	(5.5)
Depreciation of fair value uplifts to property, plant and equipment from the Strategic Investments acquired in 2009, net of taxation	**59**	**1.2**	37	0.7
Earnings – adjusted basic	**962**	**19.2**	1,370	26.6
(Loss)/earnings – diluted	**(1,012)**	**(20.2)**	950	18.3
Earnings – adjusted diluted	**962**	**19.1**	1,370	26.4

(i) Net exceptional items after taxation of £1,161 million are reduced by £17 million for the purpose of calculating adjusted basic and adjusted diluted EPS. The adjustment reflects the share of net exceptional items attributable to non-controlling interests.

Strategic Investments

During 2009, the Group acquired a 20% interest in Lake Acquisitions Limited (Nuclear) and the entire share capital of Venture. As explained in note 2, the depreciation relating to fair value uplifts of the acquired Venture PP&E and associated taxation is excluded in arriving at adjusted earnings for the year, which amounted to £31 million (2013: £48 million) depreciation and a taxation credit of £19 million (2013: £29 million) in the period. Additionally, 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-taxation results of the associate is excluded in arriving at adjusted earnings for the period, which amounted to £47 million (2013: £18 million) net of taxation.

11. Dividends

Dividends represent the cash return of profits to shareholders and are paid twice a year, in June and November. Dividends are paid as an amount per ordinary share held. The Group retains part of the profits generated to meet future investment plans or to fund share repurchase programmes.

	2014 £m	2014 Pence per share	2014 Date of payment	2013 £m	2013 Pence per share	2013 Date of payment
Prior year final dividend	**610**	**12.08**	**11 Jun 2014**	611	11.78	12 Jun 2013
Interim dividend	**257**	**5.10**	**12 Nov 2014**	253	4.92	13 Nov 2013
	867			864		

The Directors propose a final dividend of 8.4 pence per ordinary share (totalling £417 million) for the year ended 31 December 2014. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 27 April 2015 and, subject to approval, will be paid on 25 June 2015 to those shareholders registered on 1 May 2015.

NOTES TO THE FINANCIAL STATEMENTS

12. Acquisitions and disposals

(a) Business combinations

During the period, the Group acquired Bord Gáis Energy's gas and electricity supply and generation business, Astrum Solar's residential solar installation business and certain upstream Canadian natural gas assets. The business combinations section details the consideration paid and/or payable, as well as the provisional fair values of the net assets acquired.

The fair values are provisional unless stated otherwise. Note 3(a) sets out the assumptions used to derive the fair values. Goodwill recognised on these acquisitions is attributable to enhanced synergies, growth opportunities and technical goodwill from items such as deferred tax.

Bord Gáis Energy

On 30 June 2014, the Group acquired 100% of Bord Gáis Energy's gas and electricity supply business in the Republic of Ireland, including the Whitegate gas-fired power station, for consideration of €214 million (£172 million). The transaction provides a platform for growth in an adjacent downstream market to the UK. This business is a separate reportable segment of International Downstream. Goodwill of €20 million (£16 million) was recognised and is not tax deductible. The opening balance sheet includes an amount of €153 million (£123 million) related to the fair value of receivables with a gross contractual value of €183 million (£147 million).

Provisional fair value of the identifiable acquired assets and liabilities

	Bord Gáis Energy £m
Balance Sheet items	
Non-current assets	89
Current assets (including £62 million of cash and cash equivalents)	244
Current liabilities	(159)
Non-current liabilities	(18)
Net identifiable assets (i)	156
Goodwill (i)	16
Net assets acquired (i)	172
Consideration comprises:	
Cash consideration paid	158
Contingent consideration (ii)	14
Total consideration (i)	172
Income Statement items (iii)	
Revenue recognised since the acquisition date in the Group Income Statement (iii)	391
Profit since the acquisition date in the Group Income Statement (iii)	3

(i) Net identifiable assets were disclosed in the interim accounts as at 30 June 2014 totalling £160 million. Cash consideration paid at the acquisition date was £150 million. Post-completion, a true-up of working capital amounts resulted in an additional payment of £8 million. Together with updated valuations, predominantly of certain commodity contracts, this gave rise to a goodwill balance of £16 million.
(ii) Contingent consideration is stated at fair value at the reporting date and is classified as an other financial liability (Level 3 in terms of fair value hierarchy). Fair value is based on a set of key assumptions which take into consideration the probability of meeting underlying EBITDA targets between 2014 and 2016, as well as the impact of the discount rate. Future developments may require further revisions to the estimate. The maximum consideration to be paid to the vendor amounts to €21 million (£17 million).
(iii) Revenue and profits from business performance between the acquisition date and the balance sheet date exclude exceptional items and certain re-measurements.

Acquisition-related costs of £12 million have been charged to operating costs before exceptional items in the Group Income Statement for the year ended 31 December 2014.

Astrum Solar

On 29 July 2014, the Group acquired a 100% equity interest in the privately owned Astrum Solar's residential business for consideration of $53 million (£33 million). The business designs, installs and maintains solar power generating equipment for use in the home. Goodwill of $50 million (£31 million) arose on acquisition, which is not tax deductible. This business forms part of the 'Direct Energy – Residential and business services' segment.

Canadian natural gas assets

On 27 June 2014, the Group acquired natural gas assets in the Foothills region of Alberta from Shell Canada Energy for C$42 million (£23 million). The assets were acquired by CQECP, the 60:40 partnership with QPI. As part of the transaction, the Group disposed of its interests in the Burnt Timber gas processing plant and the Waterton undeveloped lands in south-west Alberta. The Group has judged that the assets acquired meet the definition of a business and that the Group has power over the relevant activities; therefore the acquisition is treated as a business combination of the Group. No goodwill arose on this transaction.

NOTES TO THE FINANCIAL STATEMENTS

12. Acquisitions and disposals

Pro forma information

The pro forma consolidated results of the Group, as if the acquisitions had been made at the beginning of the year, would show revenue of £29,898 million (compared to reported revenue of £29,408 million) and profit after taxation before exceptional items and certain re-measurements of £936 million (compared to reported profit after taxation of £927 million). This pro forma information includes the revenue and profits/losses made by the acquired businesses between the beginning of the financial year and the date of acquisition, not restated for accounting policy alignments and/or the impact of the fair value uplifts resulting from purchase accounting considerations. This pro forma aggregated information is not necessarily indicative of the results of the combined Group that would have occurred had the acquisitions actually been made at the beginning of the year presented, or indicative of the future results of the combined Group.

2013 business combinations – fair value updates

The Group acquired Hess Energy Marketing (HEM) on 1 November 2013. During the measurement period a true-up of working capital was agreed with the vendor, Hess Corporation, resulting in a repayment of $31 million (£21 million) cash consideration.

There have been no other significant updates during the measurement period to the fair values recognised for businesses acquired in 2013, although changes to the opening balance sheets of these previously acquired businesses have offset the goodwill recognised on Astrum Solar and Bord Gáis Energy by £31 million.

(b) Assets and liabilities of disposal groups classified as held for sale

Assets and associated liabilities that are expected to be recovered principally through a sale have been classified as held for sale and are presented separately on the face of the Group Balance Sheet.

UK power stations

On 8 May 2014, the Group announced that it had undertaken a strategic review of its UK power station fleet and that it intended to focus its UK gas-fired power generation on small flexible 'peaking' plants. Consequently, the Group sought to release capital from its larger operating plants, Langage, Humber and Killingholme in order to focus on other investment opportunities. These assets and liabilities were classified as a disposal group held for sale at the half year.

The Group ran a disposal process throughout the second half of 2014 and continued to expect the value to be recovered through a divestment. In December, the first capacity market auction prices cleared at a level significantly below market expectations with an expected consequential decline in bidder confidence. These events led the Group to reassess the asset classification and decide the disposal was no longer 'highly probable'. Consequently, the assets were reclassified out of assets held for sale as at 31 December 2014. The culmination of the bid process in February 2015 provided further evidence of the conditions existing at 31 December 2014, as the bid levels were below the Group's hold value. An impairment of £384 million was recorded on reclassification to measure the assets at their recoverable amounts at the date of transfer. See note 7 for further details.

Other

The Ontario home services and Amethyst/Ravenspurn assets were classified as held for sale in the second half of the year and subsequently disposed of before year end.

NOTES TO THE FINANCIAL STATEMENTS

12. Acquisitions and disposals
(c) Disposals

The Group's Texas gas-fired power stations and Greater Kittiwake upstream gas assets classified as disposal groups held for sale at 31 December 2013 have now been disposed. This note details the consideration received, the assets and liabilities disposed of and the profit before and after tax arising on disposal. The Ontario home services, Amethyst/Ravenspurn upstream gas assets and Barrow offshore wind farm businesses were also disposed of during the year.

Date of disposal:	22 January 2014	1 March 2014	30 September 2014	20 October 2014	19 December 2014
Business/assets disposed of by the Group:	Texas gas-fired power stations (i)	Greater Kittiwake upstream gas assets (ii)	Amethyst/Ravenspurn upstream gas assets	Ontario home services (iii)	Barrow offshore wind farm (iv)
Sold to:	Blackstone Group LP	Enquest Heather Limited	Perenco UK Limited	Enercare Inc.	DONG Energy
	£m	£m	£m	£m	£m
Goodwill	–	–	–	150	–
Property, plant and equipment	186	89	10	–	–
Interest in joint ventures	–	–	–	–	24
Other assets	9	8	–	–	–
Other liabilities	–	(15)	–	(2)	–
Non-current provisions for other liabilities and charges	(3)	(46)	(35)	–	–
Net assets/(liabilities) disposed of	192	36	(25)	148	24
Cash consideration received	411	18	1	235	50
Other forms of consideration	–	–	2	59	–
Disposal costs	–	–	–	(24)	–
Profit/(loss) on disposal before tax	219	(18)	28	122	26
Taxation	(77)	31	(14)	(40)	(4)
Profit on disposal after tax	142	13	14	82	22

(i) The profit on disposal of the Texas gas-fired power stations has been treated as an exceptional item. See note 7.
(ii) Further consideration of up to $130 million (£83 million) is receivable from the vendor, contingent on approval of certain field development plans by the Secretary of State. No amounts have been recorded at the balance sheet date as the likelihood of receipt is not yet considered probable.
(iii) The profit on disposal of the Ontario home services has been treated as an exceptional item, as shown in note 7. The consideration received comprises cash of C$426 million (£235 million) as well as shares in the acquirer, Enercare Inc., of C$106 million (£59 million), which are listed on the Toronto Stock Exchange (TSX). The shares transferred as consideration upon disposal of the Ontario home services business were valued at fair value, which is their quoted market price discounted to reflect the application of a lock-up period of 18 months to these financial assets. The assets are classified as Level 2 within the fair value hierarchy. An amount of £15 million of disposal costs remained unpaid as at the balance sheet date.
(iv) Consideration for the disposal of Barrow offshore wind farm includes £19 million for the termination of the power purchase agreement the Group had with Barrow offshore wind farm which is shown in 'Net cash flow from operating activities' in the Group Cash Flow Statement, with the remaining consideration included in 'Repayments of loans to, and disposal of investments in, joint ventures and associates'. Of the profit on disposal after tax, £2 million was allocated to the 'British Gas – Residential energy supply' segment.

All other disposals undertaken by the Group were immaterial, both individually and in aggregate, with net cash consideration of £2 million.

None of these disposals are shown as discontinued operations on the face of the Group Income Statement as they do not represent a separate major line of business or geographical area of operation.

NOTES TO THE FINANCIAL STATEMENTS

13. Property, plant and equipment

PP&E includes significant investment in power stations, gas production and gas storage assets. Once operational, all assets are depreciated over their useful economic lives.

(a) Carrying amounts

	2014					2013				
	Land and buildings £m	Plant, equipment and vehicles £m	Power generation (i) £m	Gas production and storage (i) £m	**Total £m**	Land and buildings £m	Plant, equipment and vehicles £m	Power generation (i) £m	Gas production and storage (i) £m	Total £m
Cost										
1 January	29	537	2,052	14,052	**16,670**	26	462	2,382	12,902	15,772
Additions and capitalised borrowing costs (notes 8 and 4(f))	–	107	64	941	**1,112**	6	116	51	1,011	1,184
Acquisitions	–	1	30	40	**71**	–	1	–	771	772
Disposals	–	(9)	(90)	(8)	**(107)**	(1)	(33)	(58)	(246)	(338)
Transfers (ii)	–	–	1	18	**19**	–	–	–	23	23
Transfers to disposal groups held for sale	–	(5)	–	(105)	**(110)**	(2)	–	(326)	(248)	(576)
Decommissioning liability revisions and additions (note 21)	–	–	4	609	**613**	–	–	9	205	214
Exchange adjustments	–	2	–	(389)	**(387)**	–	(9)	(6)	(366)	(381)
31 December	**29**	**633**	**2,061**	**15,158**	**17,881**	29	537	2,052	14,052	16,670
Accumulated depreciation and impairment										
1 January	14	277	1,137	7,796	**9,224**	14	232	1,176	6,385	7,807
Charge for the year	1	65	55	838	**959**	2	64	108	958	1,132
Impairments	–	–	532	1,130	**1,662**	–	–	–	824	824
Disposals	–	(6)	(85)	(5)	**(96)**	(1)	(13)	(4)	(117)	(135)
Transfers	–	–	–	(3)	**(3)**	–	–	–	–	–
Transfers to disposal groups held for sale	–	(5)	–	(95)	**(100)**	(1)	–	(140)	(159)	(300)
Exchange adjustments	–	(1)	–	(141)	**(142)**	–	(6)	(3)	(95)	(104)
31 December	**15**	**330**	**1,639**	**9,520**	**11,504**	14	277	1,137	7,796	9,224
NBV at 31 December	**14**	**303**	**422**	**5,638**	**6,377**	15	260	915	6,256	7,446

(i) The NBV of decommissioning assets included within power generation and gas production and storage assets was £1,592 million (2013: £1,562 million).
(ii) Transfers to/from other balance sheet accounts includes £18 million (2013: £58 million) transfers from intangible assets for exploration licences where the field is now being developed. Transfers in 2013 also included a £35 million transfer to inventories.

(b) Assets in the course of construction included in above carrying amounts

31 December	**2014 £m**	2013 £m
Plant, equipment and vehicles	**101**	58
Gas production and storage	**1,136**	748

NOTES TO THE FINANCIAL STATEMENTS

13. Property, plant and equipment

(c) Assets held under finance leases and to which title was restricted included in above carrying amounts

	Plant, equipment and vehicles £m	Power generation £m	Gas production and storage £m	2014 Total £m	Plant, equipment and vehicles £m	Power generation £m	Gas production and storage £m	2013 Total £m
Cost at 1 January	–	469	415	**884**	2	469	415	886
Disposals	–	–	–	**–**	(2)	–	–	(2)
Cost at 31 December	**–**	**469**	**415**	**884**	–	469	415	884
Aggregate depreciation at 1 January	–	257	390	**647**	1	229	385	615
Charge for the year	–	28	4	**32**	–	28	5	33
Impairments	–	150	–	**150**	–	–	–	–
Disposals	–	–	–	**–**	(1)	–	–	(1)
Aggregate depreciation at 31 December	**–**	**435**	**394**	**829**	–	257	390	647
NBV at 31 December	**–**	**34**	**21**	**55**	–	212	25	237

14. Interests in joint ventures and associates

Investments in joint ventures and associates represent businesses where we exercise joint control or significant influence and generally have an equity holding of up to 50%. These include investments in the existing EDF UK nuclear power station fleet and various UK wind farms.

(a) Interests in joint ventures and associates

	Investments in joint ventures and associates £m	Shareholder loans £m	2014 Total £m	Investments in joint ventures and associates £m	Shareholder loans £m	2013 Total £m
1 January	2,259	399	**2,658**	2,316	405	2,721
Additions	24	24	**48**	55	20	75
Disposals	(24)	–	**(24)**	(29)	(5)	(34)
Decrease in shareholder loans	–	(73)	**(73)**	–	–	–
Share of profits for the year	132	–	**132**	171	–	171
Share of other comprehensive income	6	–	**6**	3	–	3
Impairment (note 7)	(214)	–	**(214)**	(64)	(21)	(85)
Dividends	(138)	–	**(138)**	(193)	–	(193)
31 December	**2,045**	**350**	**2,395**	2,259	399	2,658

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

31 December	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	2014 Total £m	2013 Total £m
Share of non-current assets	603	3,491	23	**4,117**	4,390
Share of current assets	58	639	2	**699**	689
	661	4,130	25	**4,816**	5,079
Share of current liabilities	(130)	(189)	(2)	**(321)**	(450)
Share of non-current liabilities	(472)	(1,755)	(1)	**(2,228)**	(2,362)
	(602)	(1,944)	(3)	**(2,549)**	(2,812)
Impairment (note 7)	–	(214)	–	**(214)**	–
Restricted interest on shareholder loan [(i)]	(8)	–	–	**(8)**	(8)
Share of net assets of joint ventures and associates	51	1,972	22	**2,045**	2,259
Shareholder loans	348	–	2	**350**	399
Interests in joint ventures and associates	**399**	**1,972**	**24**	**2,395**	2,658
Net (debt)/cash included in share of net assets	(453)	73	–	**(380)**	(534)

(i) The Group restricted an element of interest received on the shareholder loan to Lincs Wind Farm Limited.

Further information on the Group's investments in joint ventures and associates is provided in notes 6 and S10.

NOTES TO THE FINANCIAL STATEMENTS

15. Other intangible assets and goodwill

The Group Balance Sheet contains significant intangible assets. Goodwill, customer relationships and brands arise when we acquire a business. Goodwill is attributable to enhanced geographical presence, cost savings, synergies, growth opportunities and technical goodwill from items such as deferred tax. Goodwill is not amortised but is assessed for recoverability each year.

The Group uses European Union Allowances (EUAs) and Renewable Obligation Certificates (ROCs) to satisfy its related obligations.

Upstream exploration and evaluation expenditure is capitalised as an intangible asset until development of the asset commences, at which point it is transferred to PP&E or is deemed to not be commercially viable and is written down.

(a) Carrying amounts

						2014						2013
	Customer relation-ships and brands £m	Application software (i) £m	EUAs and ROCs £m	Exploration and evaluation expenditure £m	Goodwill £m	**Total £m**	Customer relation-ships and brands £m	Application software (i) £m	EUAs and ROCs £m	Exploration and evaluation expenditure £m	Goodwill £m	Total £m
Cost												
1 January	593	1,346	179	566	2,862	**5,546**	382	1,137	144	566	2,553	4,782
Additions and capitalised borrowing costs (notes 8 and 4(f))	–	191	547	201	–	**939**	–	229	431	121	–	781
Acquisitions	44	–	1	1	16	**62**	220	13	–	105	400	738
Disposals and surrenders	(3)	(3)	(473)	–	–	**(479)**	–	(22)	(396)	(27)	–	(445)
Write-downs	–	–	–	(135)	–	**(135)**	–	–	–	(95)	–	(95)
Transfers (ii)	–	(32)	–	(20)	(154)	**(206)**	–	–	–	(58)	–	(58)
Exchange adjustments	20	3	6	(51)	12	**(10)**	(9)	(11)	–	(46)	(91)	(157)
31 December	**654**	**1,505**	**260**	**562**	**2,736**	**5,717**	593	1,346	179	566	2,862	5,546
Accumulated amortisation												
1 January	185	591	3	–	43	**822**	129	515	6	–	10	660
Amortisation	103	114	–	–	–	**217**	60	98	–	–	–	158
Impairments (notes 7 and 15(b))	–	–	1	22	87	**110**	–	1	11	–	33	45
Disposals and surrenders	(3)	(1)	(2)	–	–	**(6)**	–	(15)	(14)	–	–	(29)
Transfers (ii)	–	(29)	–	–	(3)	**(32)**	–	–	–	–	–	–
Exchange adjustments	12	(6)	–	–	–	**6**	(4)	(8)	–	–	–	(12)
31 December	**297**	**669**	**2**	**22**	**127**	**1,117**	185	591	3	–	43	822
NBV at 31 December	**357**	**836**	**258**	**540**	**2,609**	**4,600**	408	755	176	566	2,819	4,724

(i) Application software includes assets under construction with a cost of £220 million (2013: £339 million).
(ii) Transfers to/from other balance sheet accounts, including to property, plant and equipment and to disposal groups classified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

15. Other intangible assets and goodwill

(b) Carrying amount of goodwill and intangible assets with indefinite useful lives allocated to CGUs

Goodwill acquired through business combinations, and indefinite-lived intangible assets, has been allocated for impairment testing purposes to individual CGUs or groups of CGUs, each representing the lowest level within the Group at which the goodwill or indefinite-lived intangible asset is monitored for internal management purposes.

31 December	Principal acquisitions to which goodwill and intangibles with indefinite useful lives relate	**Carrying amount of goodwill £m**	**Carrying amount of indefinite-lived intangible assets (i) £m**	**2014 Total £m**	Carrying amount of goodwill £m	Carrying amount of indefinite-lived intangible assets (i) £m	2013 Total £m
CGUs							
British Gas:							
Business energy supply and services	Enron Direct/Electricity Direct	**178**	**–**	**178**	178	–	178
Residential services	Dyno-Rod	**38**	**57**	**95**	38	57	95
Bord Gáis Energy	Bord Gáis Energy	**15**	**–**	**15**	–	–	–
Centrica Energy Gas:							
UK/Norway/Netherlands	Newfield/Heimdal/Venture	**880**	**–**	**880**	909	–	909
North America	Suncor	**110**	**–**	**110**	150	–	150
Trinidad and Tobago	Trinidad and Tobago	**–**	**–**	**–**	66	–	66
Direct Energy:							
Residential energy supply	Direct Energy/ATCO/CPL/WTU/FCP/Bounce	**742**	**–**	**742**	726	–	726
Residential and business services	Residential Services Group/Clockwork/Astrum Solar	**191**	**12**	**203**	303	12	315
Business energy supply	Direct Energy/ATCO/Strategic Energy/FCP/HEM	**455**	**–**	**455**	433	–	433
Other	Various	**–**	**1**	**1**	16	1	17
		2,609	**70**	**2,679**	2,819	70	2,889

(i) The indefinite-lived assets mainly relate to the Mr Sparky and Benjamin Franklin brands acquired as part of the Clockwork business combination, and the Dyno-Rod brand.

(c) Impairment reviews – summary of results

During the year, £70 million of goodwill in the Trinidad and Tobago CGU and £17 million of goodwill in the Other CGU relating to the gas-fired power stations was impaired (see note 7 for further details). For all other material CGUs, the recoverable amounts exceed their carrying values at the impairment test date. Details of the impairment test methodologies and assumptions used are provided in note 7 and note S2. Reasonably possible changes in the key assumptions listed in note 7 and note S2 would not cause the recoverable amounts of the goodwill balances to be less than the carrying amounts except as detailed in note 7.

NOTES TO THE FINANCIAL STATEMENTS

16. Deferred tax liabilities and assets

Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future as a result of differences in the accounting and tax bases of assets and liabilities. The principal deferred tax liabilities and assets recognised by the Group relate to capital investments, fair value movements on derivative financial instruments, petroleum revenue tax and pensions.

	Accelerated tax depreciation (corporation tax) £m	Other timing differences including losses carried forward £m	Marked to market £m	Net deferred petroleum revenue tax (i) £m	Retirement benefit obligation and other provisions £m	Total £m
1 January 2013	(2,279)	601	144	58	(19)	(1,495)
Credit/(charge) to income – change to tax rates	16	26	(5)	–	22	59
Credit/(charge) to income – other	254	91	(149)	20	(81)	135
Credit/(charge) to equity	5	(16)	(1)	–	31	19
Acquisition/disposal of businesses	(86)	2	–	–	–	(84)
Transfer to liabilities of disposal groups classified as held for sale	29	–	–	–	–	29
Exchange and other adjustments	16	1	2	(2)	(1)	16
31 December 2013	(2,045)	705	(9)	76	(48)	(1,321)
Charge to income – change to tax rates	(1)	(7)	(11)	–	–	**(19)**
Credit/(charge) to income – other	583	64	348	(12)	(51)	**932**
(Charge)/credit to equity	–	(3)	(1)	–	18	**14**
Acquisition/disposal of businesses	8	4	–	–	1	**13**
Transfer of liabilities to non-controlling interests	32	–	–	–	–	**32**
Exchange and other adjustments	20	17	3	–	–	**40**
31 December 2014	**(1,403)**	**780**	**330**	**64**	**(80)**	**(309)**

(i) The deferred petroleum revenue tax amounts include the effect of deferred corporation tax as petroleum revenue taxation is deductible for corporation tax purposes.

Certain deferred tax assets and liabilities have been offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is an analysis of the gross deferred tax balances and associated offsetting balances for financial reporting purposes:

31 December	**2014** Assets £m	**2014** Liabilities £m	2013 Assets £m	2013 Liabilities £m
Gross deferred tax balances crystallising within one year	**301**	**(365)**	149	(190)
Gross deferred tax balances crystallising after one year	**1,362**	**(1,607)**	801	(2,081)
	1,663	**(1,972)**	950	(2,271)
Offsetting deferred tax balances	**(1,309)**	**1,309**	(845)	845
Net deferred tax balances (after offsetting for financial reporting purposes)	**354**	**(663)**	105	(1,426)

Deferred tax assets arise principally on decommissioning provisions, trading losses carried forward and marked to market positions. Forecasts indicate that there will be suitable taxable profits to utilise those deferred tax assets not offset against deferred tax liabilities.

At the balance sheet date the Group had certain unrecognised deductible temporary differences of £881 million (2013: £804 million) of which £266 million (2013: £262 million) are carried forward tax losses available for utilisation against future taxable profits. Some £127 million (2013: £144 million) of these losses will expire within one to five years. All other temporary differences have no expiry date. No deferred tax asset has been recognised in respect of these temporary differences, due to the unpredictability of future profit streams. At the balance sheet date, no taxable temporary differences existed in respect of the Group's overseas investments (2013: nil). The deferred tax liability arising on these temporary differences is estimated to be nil (2013: nil).

NOTES TO THE FINANCIAL STATEMENTS

17. Trade and other receivables

Trade and other receivables include accrued income, and are amounts owed by our customers for goods we have delivered or services we have provided. These balances are valued net of expected irrecoverable debts. Other receivables include deposits with Societe Generale and payments made in advance to our suppliers.

31 December	2014 Current £m	2014 Non-current £m	2013 Current £m	2013 Non-current £m
Financial assets:				
Trade receivables	**2,405**	**–**	2,511	3
Accrued energy income	**2,311**	**–**	2,255	–
Other accrued income	**160**	**–**	202	–
Cash collateral posted (note 24(c))	**961**	**–**	160	–
Other receivables (including loans) [(i)]	**365**	**24**	379	15
	6,202	**24**	5,507	18
Less: provision for credit losses	**(634)**	**–**	(603)	–
	5,568	**24**	4,904	18
Non-financial assets: prepayments and other receivables	**658**	**63**	542	132
	6,226	**87**	5,446	150

(i) 2014 includes a deposit with Societe Generale (2013: nil) classified as 'Loans and other receivables'. See note 24(c).

Trade and other receivables include financial assets representing the contractual right to receive cash or other financial assets from residential customers, business customers and treasury, trading and energy procurement counterparties as follows:

31 December	2014 Current £m	2014 Non-current £m	2013 Current £m	2013 Non-current £m
Financial assets by class:				
Residential customers	**1,856**	**6**	2,023	6
Business customers	**2,940**	**13**	2,178	8
Treasury, trading and energy procurement counterparties	**1,406**	**5**	1,306	4
	6,202	**24**	5,507	18
Less: provision for credit losses	**(634)**	**–**	(603)	–
	5,568	**24**	4,904	18

Receivables from residential and business customers are generally considered to be fully performing until such time as the payment that is due remains outstanding past the contractual due date. Contractual due dates range from falling due upon receipt to falling due in 30 days from receipt. Receivables from residential customers are generally reviewed for impairment on an individual basis once a customer discontinues their relationship with the Group.

Current financial assets within trade and other receivables net of provision for credit losses on an undiscounted basis

31 December	2014 £m	2013 £m
Balances that are not past due	**3,749**	3,540
Balances that are past due but not considered to be individually impaired	**1,783**	1,310
Balances with customers that are considered to be individually impaired	**36**	54
	5,568	4,904

An ageing of the carrying value of trade and other receivables that are past due that are not considered to be individually impaired is as follows:

Financial assets within trade and other receivables on an undiscounted basis

31 December	2014 £m	2013 £m
Days past due:		
Less than 30 days	**905**	688
30 to 89 days	**397**	219
Less than 90 days	**1,302**	907
90 to 182 days	**179**	119
183 to 365 days	**183**	158
Greater than 365 days	**119**	126
	1,783	1,310

NOTES TO THE FINANCIAL STATEMENTS

17. Trade and other receivables

The provision for credit losses is based on an incurred loss model and is determined by application of expected default and loss factors, informed by historical loss experience and current sampling to the various balances receivable from residential and business customers on a portfolio basis, in addition to provisions taken against individual accounts. Balances are written off when recoverability is assessed as being remote. The impairment charge in trade receivables is stated net of credits for the release of specific provisions made in previous years, which are no longer required. These relate primarily to residential customers in the UK. Movements in the provision for credit losses by class are as follows:

				2014				2013
	Residential customers £m	Business customers £m	Treasury, trading and energy procurement counterparties £m	**Total £m**	Residential customers £m	Business customers £m	Treasury, trading and energy procurement counterparties £m	Total £m
1 January	(374)	(226)	(3)	**(603)**	(304)	(206)	(1)	(511)
Impairment of trade receivables (i)	(132)	(133)	–	**(265)**	(132)	(86)	(2)	(220)
Receivables written off	118	116	–	**234**	62	66	–	128
31 December	**(388)**	**(243)**	**(3)**	**(634)**	(374)	(226)	(3)	(603)

(i) 2014 includes £25 million (2013: nil) of existing provisions acquired with business combinations during the year.

18. Inventories

Inventories represent assets that we intend to use in future periods, either by selling the asset itself (for example gas in storage) or by using it to provide a service to a customer.

31 December	**2014 £m**	2013 £m
Gas in storage and transportation	**344**	316
Other raw materials and consumables	**169**	167
Finished goods and goods for resale	**42**	47
	555	530

The Group consumed £804 million of inventories (2013: £850 million) during the year.

19. Derivative financial instruments

The Group uses derivative financial instruments to manage the risk arising from fluctuations in the value of certain assets or liabilities, associated with treasury management, energy sales and procurement. These derivatives are held at fair value, and are predominantly unrealised positions, expected to unwind in future periods. The Group also uses derivatives for proprietary energy trading purposes.

Purpose	**Accounting treatment**
Proprietary energy trading and treasury management	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(i)
Energy procurement/ optimisation	Carried at fair value, with changes in fair value reflected in certain re-measurements(ii)

(i) With the exception of certain energy derivatives related to cross-border transportation and capacity contracts.
(ii) Energy contracts designated at fair value through profit or loss include certain energy contracts that the Group has, at its option, designated at fair value through profit or loss under IAS 39 because the energy contract contains one or more embedded derivatives that significantly modify the cash flows under the contract (note S2).

In cases where a derivative qualifies for hedge accounting, derivatives are classified as fair value hedges or cash flow hedges. Note S5 provides further detail on the Group's hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS

19. Derivative financial instruments

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

31 December	2014 Assets £m	2014 Liabilities £m	2013 Assets £m	2013 Liabilities £m
Derivative financial instruments – held for trading under IAS 39:				
Energy derivatives – for procurement/optimisation	644	(1,878)	512	(750)
Energy derivatives – for proprietary trading	44	(17)	56	–
Interest rate derivatives [(i)]	–	(30)	–	(26)
Foreign exchange derivatives [(i)]	58	(125)	106	(96)
Energy derivative contracts designated at fair value through profit or loss	16	(14)	24	(1)
Derivative financial instruments in hedge accounting relationships:				
Energy derivatives	–	–	–	(2)
Interest rate derivatives [(i)]	158	(2)	95	(22)
Foreign exchange derivatives [(i)]	10	(87)	7	(40)
Total derivative financial instruments	**930**	**(2,153)**	800	(937)
Included within:				
Derivative financial instruments – current	617	(1,565)	573	(506)
Derivative financial instruments – non-current	313	(588)	227	(431)

(i) Included within these categories are £89 million (2013: £52 million) of derivatives used to hedge movements in net debt. See note 24(c).

The contracts included within energy derivatives are subject to a wide range of detailed specific terms but comprise the following general components, analysed on a net carrying value basis:

31 December	2014 £m	2013 £m
Short-term forward market purchases and sales of gas and electricity:		
UK and Europe	(302)	(30)
North America	(721)	22
Structured gas purchase contracts	(105)	(54)
Structured gas sales contracts	(14)	(54)
Structured power purchase contracts	(67)	(41)
Other	4	(4)
Net total	**(1,205)**	(161)

Net (losses)/gains on derivative financial instruments due to re-measurement

31 December	2014 Income Statement £m	2014 Equity £m	2013 Income Statement £m	2013 Equity £m
Financial assets and liabilities measured at fair value:				
Derivative financial instruments – held for proprietary energy trading	(27)	–	(13)	–
Derivative financial instruments – held for trading under IAS 39	(1,137)	–	505	–
Energy contracts designated at fair value through profit or loss	(21)	–	(42)	–
Derivative financial instruments in hedge accounting relationships	60	(29)	(82)	(5)
	(1,125)	(29)	368	(5)

NOTES TO THE FINANCIAL STATEMENTS

20. Trade and other payables

Trade and other payables include accruals, and are principally amounts we owe to our suppliers. Financial deferred income represents monies received from customers in advance of the delivery of goods or the performance of services by the Group.

31 December	**2014** Current £m	**2014** Non-current £m	2013 Current £m	2013 Non-current £m
Financial liabilities:				
Trade payables	**(864)**	**–**	(1,032)	–
Deferred income	**(506)**	**–**	(327)	–
Capital payables	**(190)**	**–**	(132)	–
Other payables	**(727)**	**(43)**	(683)	(6)
Accruals:				
Commodity costs	**(1,438)**	**–**	(1,295)	–
Transportation, distribution and metering costs	**(354)**	**–**	(379)	–
Operating and other accruals	**(876)**	**–**	(965)	–
	(2,668)	**–**	(2,639)	–
	(4,955)	**(43)**	(4,813)	(6)
Non-financial liabilities:				
Other payables and accruals	**(547)**	**(26)**	(673)	(41)
Deferred income	**(165)**	**(14)**	(144)	(17)
	(5,667)	**(83)**	(5,630)	(64)

Financial liabilities within current trade and other payables

31 December	**2014 £m**	2013 £m
Less than 90 days	**(4,864)**	(4,570)
90 to 182 days	**(24)**	(58)
183 to 365 days	**(67)**	(185)
	(4,955)	(4,813)

NOTES TO THE FINANCIAL STATEMENTS

21. Provisions for other liabilities and charges

Provisions are recognised when an obligation exists that can be reliably measured, but where there is uncertainty over the timing of the payment. The main provisions relate to decommissioning costs for upstream assets we own, or have owned, which require restoration or remediation. Further provisions relate to purchase contracts we have entered into that are now onerous, restructuring costs, and legal and regulatory matters.

Current provisions for other liabilities and charges	1 January 2014 £m	Acquisitions and disposals £m	Charged in the year £m	Notional interest £m	Unused and reversed in the year £m	Utilised £m	Transfers (iv) £m	Exchange adjustments £m	31 December 2014 £m
Restructuring costs (i)	(42)	–	(5)	–	–	23	–	1	(23)
Decommissioning costs (ii)	(38)	–	–	–	–	49	(121)	–	(110)
Purchase contract loss provision (iii)	(88)	–	–	(4)	–	81	(179)	6	(184)
Other	(90)	–	(46)	–	22	37	(2)	1	(78)
	(258)	–	(51)	(4)	22	190	(302)	8	(395)

Non-current provisions for other liabilities and charges	1 January 2014 £m	Acquisitions and disposals £m	Charged in the year £m	Notional interest £m	Unused and reversed in the year £m	Revisions and additions £m	Transfers (iv) £m	Exchange adjustments £m	31 December 2014 £m
Restructuring costs (i)	(15)	–	–	–	–	–	2	–	(13)
Decommissioning costs (ii)	(2,560)	(10)	–	(60)	–	(613)	155	96	(2,992)
Purchase contract loss provision (iii)	(296)	–	–	(15)	–	–	177	–	(134)
Other	(63)	–	(3)	–	–	–	2	–	(64)
	(2,934)	(10)	(3)	(75)	–	(613)	336	96	(3,203)

Included within the above liabilities are the following financial liabilities:

Financial liabilities 31 December	2014 Current £m	2014 Non-current £m	2013 Current £m	2013 Non-current £m
Restructuring costs (i)	(23)	(11)	(42)	(15)
Provisions other than restructuring costs	(238)	(122)	(158)	(272)
	(261)	(133)	(200)	(287)

(i) The brought forward restructuring provisions relate to restructuring programmes announced in prior years.
(ii) Provision has been made for the estimated net present cost of decommissioning gas production and storage facilities at the end of their useful lives. The estimate has been based on 2P reserves, price levels and technology at the balance sheet date. The timing of decommissioning payments is dependent on the lives of the facilities but is expected to occur by 2055, with the majority of the provision being utilised between 2020 and 2030.
(iii) The purchase contract loss provision relates to a number of European gas transportation contracts, the Rijnmond tolling contract and Direct Energy wind farm power purchase agreements. The majority of the provision is expected to be utilised by 2020.
(iv) Includes transfers to/from other balance sheet accounts including retirement benefit obligations and liabilities of disposal groups classified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

22. Post retirement benefits

The Group manages a number of final salary and career average defined benefit pension schemes. It also has defined contribution schemes. The majority of these schemes are in the UK.

(a) Summary of main post retirement benefit schemes

Name of scheme	Type of benefit	Status	Country	Number of active members as at 31 December 2014	Total membership as at 31 December 2014
Centrica Engineers Pension Scheme	Defined benefit final salary pension	Closed to new members in 2006	UK	4,358	8,695
	Defined benefit career average pension	Open to service engineers only	UK	3,783	4,716
Centrica Pension Plan	Defined benefit final salary pension	Closed to new members in 2003	UK	4,119	8,770
Centrica Pension Scheme	Defined benefit final salary pension	Closed to new members in 2003	UK	25	10,785
	Defined benefit career average pension	Closed to new members in 2008	UK	2,000	4,151
	Defined contribution pension	Open to new members	UK	14,211	17,580
Bord Gáis Energy Company Defined Benefit Pension Scheme	Defined benefit final salary pension	Closed to new members in 2014	Republic of Ireland	171	175
Bord Gáis Energy Company Defined Contribution Pension Plan	Defined contribution pension	Open to new members	Republic of Ireland	117	124
Direct Energy Marketing Limited Pension Plan	Defined benefit final salary pension	Closed to new members in 2004	Canada	48	413
Direct Energy Marketing Limited	Post retirement benefits	Closed to new members in 2012	Canada	162	366

The Centrica Engineers Pension Scheme (CEPS), Centrica Pension Plan (CPP) and Centrica Pension Scheme (CPS) form the significant majority of the Group's defined benefit obligation and are referred to below as the 'Registered Pension Schemes'. The other schemes are individually, and in aggregate, immaterial.

Independent valuations

The Registered Pensions Schemes 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.

The latest full actuarial valuations were carried out at the following dates: the Registered Pensions Schemes at 31 March 2012 and the Direct Energy Marketing Limited Pension Plan at 1 August 2014. These have been updated to 31 December 2014 for the purposes of meeting the requirements of IAS 19: 'Employee Benefits' (2011). Investments have been valued for this purpose at market value.

Governance

The 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 majority of the combined assets of the participating schemes. The board of the CCCIF is currently comprised of nine Directors; three independent Directors, three Directors appointed by Centrica plc (including the Chairman) and one Director appointed by each of the three participating schemes.

Under the terms of the Pensions Act 2004, Centrica plc 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 has been reflected in subsequent valuations, including the 31 March 2012 valuations.

NOTES TO THE FINANCIAL STATEMENTS

22. Post retirement benefits

(b) Risks

The Registered Pension Schemes expose the Group to the following risks:

Asset volatility

The pension liabilities are calculated using a discount rate set with reference to AA corporate bond yields; if the growth in plan assets is lower than this, this will create an actuarial loss within other equity. The CCCIF is responsible for managing the assets of each scheme in line with the liability-related investment objectives that have been set by the trustees of the schemes, and invests in a diversified portfolio of assets. The schemes are relatively young in nature (the schemes opened in 1997 on the formation of Centrica plc on demerger from BG plc (formerly British Gas plc), and only took on liabilities in respect of active employees). Therefore, the CCCIF holds a significant proportion of return-seeking assets; such assets are generally expected to provide a higher return than corporate bonds, but result in greater exposure to volatility and risk in the short-term. The investment objectives are to achieve a target return above a return based on a portfolio of gilts, subject to a maximum volatility ceiling. If there have been advantageous asset movements relative to liabilities above a set threshold, then de-risking is undertaken, and as a consequence the return target and maximum volatility ceiling are reduced. Whilst there is no explicit target for the level or rate of de-risking, the pace of de-risking is regularly monitored and is typically restricted to once a quarter.

Interest rate

A decrease in the bond interest rate will increase the net present value of the pension liabilities. The relative immaturity of the schemes means that the duration of the liabilities is longer than average for typical UK pension schemes, resulting in a relatively higher exposure to interest rate risk.

Inflation

Pensions in deferment, pensions in payment and pensions accrued under the career average schemes increase in line with the Retail Price Index (RPI) and the Consumer Price Index (CPI). Therefore scheme liabilities will increase if inflation is higher than assumed, although in some cases caps are in place to limit the impact of significant movements in inflation. During the year the Group initiated a pension increase exchange (PIE). This PIE offered retired pensioners the option to receive a higher current pension in return for giving up certain future increases linked to RPI. A past service credit of £10 million arose in the year in relation to those pensioners who accepted the PIE.

Longevity

The majority of the schemes' obligations are to provide benefits for the life of scheme members and their surviving spouses; therefore increases in life expectancy will result in an increase in the pension liabilities. The relative immaturity of the schemes means that there is comparatively little observable mortality data to assess the rates of mortality experienced by the schemes, and means that the schemes' liabilities will be paid over a long period of time, making it particularly difficult to predict the life expectancy of the current membership. Furthermore, pension payments are subject to inflationary increases, resulting in a higher sensitivity to changes in life expectancy.

Salary

For final salary schemes, the pension liabilities are calculated by reference to the future salaries of active members, and hence salary rises in excess of assumed increases will increase scheme liabilities. During 2011 changes were introduced to the final salary sections of CEPS and CPP such that annual increases in pensionable pay are capped to 2%, resulting in a reduction in salary risk.

Foreign exchange

Certain of the assets held by the CCCIF are denominated in foreign currencies, and hence their values are subject to exchange rate risk.

The CCCIF has long-term hedging programmes in place to manage interest rate, inflation and foreign exchange risks.

The table below analyses the total liabilities of the Registered Pension Schemes, calculated in accordance with accounting principles, by type of liability, as at 31 December 2014.

Total liabilities of the Registered Pension Schemes 31 December	2014 %
Actives – final salary – capped	30
Actives – final salary – uncapped and crystallised benefits	5
Actives – career average	4
Deferred pensioners	32
Pensioners	29
	100

NOTES TO THE FINANCIAL STATEMENTS

22. Post retirement benefits

(c) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes have been given below:

Major assumptions used for the actuarial valuation 31 December	**2014** **%**	2013 %
Rate of increase in employee earnings:		
Subject to cap	**1.7**	1.7
Other	**3.0**	3.3
Rate of increase in pensions in payment	**3.0**	3.3
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**1.9**	2.3
In line with RPI	**3.0**	3.3
Discount rate	**3.9**	4.6

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 an allowance for future improvements in mortality. The longevity assumptions for members in normal health are as follows:

Life expectancy at age 65 for a member 31 December		**2014**		2013
	Male Years	**Female Years**	Male Years	Female Years
Currently aged 65	**22.7**	**25.1**	22.9	25.3
Currently aged 45	**24.4**	**27.0**	24.7	27.3

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 valuations of the pension schemes.

Reasonably possible changes as at 31 December to one of the actuarial assumptions would have affected the scheme liabilities as set out below:

Impact of changing material assumptions 31 December		**2014**		2013
	Increase/ decrease in assumption	**Indicative effect on scheme liabilities %**	Increase/ decrease in assumption	Indicative effect on scheme liabilities %
Rate of increase in employee earnings subject to cap	**0.25%**	**+/–1**	0.25%	+/–1
Rate of increase in pensions in payment and deferred pensions	**0.25%**	**+/–5**	0.25%	+/–5
Discount rate	**0.25%**	**–/+6**	0.25%	–/+6
Inflation assumption	**0.25%**	**+/–5**	0.25%	+/–5
Longevity assumption	**1 year**	**+/–3**	1 year	+/–3

The indicative effects on scheme liabilities have been calculated by changing each assumption in isolation and assessing the impact on the liabilities. For the reasonably possible change in the inflation assumption, it has been assumed that a change to the inflation assumption would lead to corresponding changes in the assumed rates of increase in uncapped pensionable pay, pensions in payment and deferred pensions.

The remaining disclosures in this note cover all of the Group's defined benefit schemes.

(d) Amounts included in the Group Balance Sheet

31 December	**2014** **£m**	2013 £m
Fair value of plan assets	**6,444**	5,683
Present value of defined benefit obligation	**(6,382)**	(5,643)
Net asset recognised in the Group Balance Sheet	**62**	40
Pension asset presented in the Group Balance Sheet as:		
Retirement benefit assets	**185**	205
Retirement benefit liabilities	**(123)**	(165)
Net pension asset	**62**	40

NOTES TO THE FINANCIAL STATEMENTS

22. Post retirement benefits

(e) Movement in the year

	2014 Pension liabilities £m	2014 Pension assets £m	2013 Pension liabilities £m	2013 Pension assets £m
1 January	**(5,643)**	**5,683**	(5,045)	5,133
Items included in the Group Income Statement:				
Current service cost	**(115)**	**–**	(103)	–
Contributions by employer in respect of employee salary sacrifice arrangements (i)	**(25)**	**–**	(19)	–
Total current service cost	**(140)**	**–**	(122)	–
Past service credit	**10**	**–**	–	–
Interest (expense)/income	**(260)**	**266**	(242)	249
Items included in the Group Statement of Comprehensive Income:				
Returns on plan assets, excluding interest income	**–**	**467**	–	187
Actuarial gain/(loss) from changes to demographic assumptions	**67**	**–**	(64)	–
Actuarial loss from changes in financial assumptions	**(609)**	**–**	(311)	–
Actuarial (loss)/gain from experience adjustments	**(8)**	**–**	9	–
Exchange adjustments	**1**	**(2)**	12	(6)
Items included in the Group Cash Flow Statement:				
Employer contributions	**–**	**191**	–	232
Contributions by employer in respect of employee salary sacrifice arrangements (i)	**–**	**25**	–	19
Other movements:				
Plan participants' contributions	**(1)**	**1**	(7)	7
Benefits paid from schemes	**153**	**(153)**	138	(138)
Acquisition/disposal of businesses	**50**	**(34)**	–	–
Transfers from provisions for other liabilities and charges	**(2)**	**–**	(11)	–
31 December	**(6,382)**	**6,444**	(5,643)	5,683

(i) A salary sacrifice arrangement was introduced on 1 April 2013 for pension scheme members. The contributions paid via the salary sacrifice arrangement have been treated as employer contributions, and included within current service cost, with a corresponding reduction in salary costs.

In addition to current service cost on the Group's defined benefit pension schemes, the Group also charged £37 million (2013: £32 million) to operating profit in respect of defined contribution pension schemes. This included contributions of £12 million (2013: £8 million) paid via a salary sacrifice arrangement.

(f) Pension scheme assets

The market value of plan assets were:

31 December	2014 Quoted £m	2014 Unquoted £m	2014 Total £m	2013 Quoted £m	2013 Unquoted £m	2013 Total £m
Equities	**1,950**	**211**	**2,161**	1,636	163	1,799
Diversified asset funds	**42**	**113**	**155**	305	98	403
Corporate bonds	**1,813**	**–**	**1,813**	1,571	–	1,571
High-yield debt	**182**	**275**	**457**	155	207	362
Liability matching assets	**1,052**	**415**	**1,467**	1,012	258	1,270
Property	**–**	**328**	**328**	–	271	271
Cash pending investment	**63**	**–**	**63**	7	–	7
	5,102	**1,342**	**6,444**	4,686	997	5,683

NOTES TO THE FINANCIAL STATEMENTS

22. Post retirement benefits

Included within equities are £2 million (2013: £2 million) of ordinary shares of Centrica plc via pooled funds that include a benchmark allocation to UK equities. Included within corporate bonds are £3 million (2013: £4 million) of bonds issued by Centrica plc held within pooled funds over which the CCCIF has no ability to direct investment decisions. Apart from the investment in the Scottish Limited Partnerships described in note 22(g), no direct investments are made in securities issued by Centrica plc or any of its subsidiaries or property leased to or owned by Centrica plc or any of its subsidiaries.

Included within the Group Balance Sheet within non-current securities are £75 million (2013: £67 million) of investments, held in trust on behalf of the Group, as security in respect of the Centrica Unfunded Pension Scheme. Of the pension scheme liabilities above, £49 million (2013: £42 million) relate to this scheme. More information on the Centrica Unfunded Pension Scheme is included in the Remuneration Report on pages 63 to 81.

(g) Pension scheme contributions

Based on the latest triennial valuations at 31 March 2012, the Group and the trustees of the Registered Pension Schemes agreed to fund the scheduled deficit payments using asset-backed contribution arrangements. Under the arrangements, certain loans to UK Group companies were transferred to Scottish Limited Partnerships established by the Group. During 2012 and 2013 the Group made special contributions to the Registered Pension Schemes of £444 million, which the schemes immediately used to acquire interests in the partnerships for their fair value of £444 million. The schemes' total partnership interests entitle them to distributions from the income of the partnerships over a period of between four and 15 years. Between 2014 and 2016 this income will amount to £77 million per annum but will reduce thereafter. The partnerships are controlled by Centrica and their results are consolidated by the Group. As the trustees' interests in the partnerships do not meet the definition of a plan asset under IAS 19, they are not reflected in the Group Balance Sheet. Distributions from the partnerships to the schemes will be recognised as scheme assets in the future as they occur.

Deficit payments are also being made in respect of the Direct Energy Marketing Limited Pension Plan in Canada. £4 million was paid in the year to 31 December 2014. £1 million is to be paid in 2015, £2 million is to be paid in 2016 and £1 million is to be paid in 2017, 2018 and 2019.

The Group estimates that it will pay £100 million of ordinary employer contributions during 2015 at an average rate of 20.5% of pensionable pay, together with £25 million of contributions paid via the salary sacrifice arrangement. At 31 March 2012 (the date of the latest full actuarial valuations) the weighted average duration of the liabilities of the Registered Pension Schemes was 24 years.

23. Commitments and contingencies

(a) Commitments

Commitments are not held on the Group's Balance Sheet as these are executory arrangements, and relate to amounts that we are contractually required to pay in the future as long as the other party meets its contractual obligations.

The Group procures commodities through a mixture of production from gas fields, power stations, wind farms and procurement contracts. Procurement contracts include short-term forward market purchases of gas and electricity at fixed and floating prices. They also include gas and electricity contracts indexed to market prices and long-term gas contracts with non-gas indexation. The commitments in relation to commodity purchase contracts disclosed below are stated net of amounts receivable under commodity sales contracts, where there is a right of offset with the counterparty.

The total volume of gas to be taken under certain long-term structured contracts depends on a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis. The commitments disclosed below are based on the minimum quantities of gas and other commodities that the Group is contracted to buy at estimated future prices.

NOTES TO THE FINANCIAL STATEMENTS

23. Commitments and contingencies

The commitments in this note differ in scope and in basis from the maturity analysis of energy derivatives disclosed in note S3. Whilst the commitments in relation to commodity purchase contracts include all purchase contracts, only certain procurement and sales contracts are within the scope of IAS 39 and included in note S3. In addition, the volumes used in calculating the maturity analysis in note S3 are estimated using valuation techniques, rather than being based on minimum contractual quantities.

On 25 March 2013, the Group and Company announced that it had entered into a 20-year agreement with Cheniere to purchase 89bcf per annum of LNG volumes for export from the Sabine Pass liquefaction plant in the US, subject to a number of project milestones and regulatory approvals being achieved. Under the terms of the agreement the Group is committed to make capacity payments of up to £3.6 billion (included in 'LNG capacity' below) between 2018 and 2038. The Group may also make up to £7 billion of commodity purchases based on market gas prices and foreign exchange rates as at the balance sheet date. The target date for first commercial delivery is September 2018.

31 December	2014 £m	2013 £m
Commitments in relation to the acquisition of property, plant and equipment:		
Development of Norwegian oil and gas assets	76	159
Development of Cygnus gas field	182	146
Other capital expenditure	23	51
Commitments in relation to the acquisition of intangible assets:		
Renewable obligation certificates to be purchased from joint ventures [(i)]	1,063	1,169
Renewable obligation certificates to be purchased from other parties	2,024	1,516
Other intangible assets	247	205
Other commitments:		
Commodity purchase contracts	39,563	49,831
LNG capacity	4,388	4,452
Transportation capacity	942	939
Outsourcing of services	148	226
Commitments to invest in joint ventures	5	130
Energy Company Obligation	39	255
Power station tolling fees	110	125
Smart meters	67	62
Power station operating and maintenance	162	138
Heat rate call options	146	–
Other long-term commitments	396	333
Operating lease commitments:		
Future minimum lease payments under non-cancellable operating leases	810	975

(i) Renewable obligation certificates are purchased from several joint ventures which produce power from wind energy under long-term off-take agreements (up to 15 years). The commitments disclosed above are the gross contractual commitments and do not take into account the Group's economic interest in the joint venture.

NOTES TO THE FINANCIAL STATEMENTS

23. Commitments and contingencies

At 31 December the maturity analyses for commodity purchase contract commitments and the total minimum lease payments under non-cancellable operating leases were:

31 December	Commodity purchase contract commitments 2014 £billion	2013 £billion	Total minimum lease payments under non-cancellable operating leases 2014 £m	2013 £m
<1 year	**10.4**	11.1	**154**	217
1–2 years	**6.4**	8.1	**117**	138
2–3 years	**3.3**	5.8	**79**	89
3–4 years	**3.0**	3.8	**60**	64
4–5 years	**2.2**	3.7	**50**	54
>5 years	**14.3**	17.3	**350**	413
	39.6	49.8	**810**	975

Operating lease payments recognised as an expense in the year were as follows:

Year ended 31 December	2014 £m	2013 £m
Minimum lease payments (net of sub-lease receipts)	**113**	112
Contingent rents – renewables (i)	**98**	109

(i) The Group has entered into long-term arrangements with renewable providers to purchase physical power, renewable obligation certificates and levy exemption certificates from renewable sources. Payments made under these contracts are contingent upon actual production and so there is no commitment to a minimum lease payment (2013: nil). Payments made for physical power are charged to the Group Income Statement as incurred and disclosed as contingent rents.

(b) Guarantees and indemnities

This section discloses any guarantees and indemnities that the Group has given, where we may have to provide security in the future against existing and future obligations that will remain for a specific period.

In connection with the Group's energy trading, transportation and upstream activities, certain Group companies have entered into contracts under which they may be required to prepay, provide credit support or provide other collateral in the event of a significant deterioration in creditworthiness. The extent of credit support is contingent upon the balance owing to the third party at the point of deterioration.

The Group has provided a number of guarantees and indemnities in respect of decommissioning costs; the most significant indemnities relate to the decommissioning costs associated with the Morecambe, Statfjord and Kvitebjorn fields. These indemnities are to the previous owners of these fields. Under the licence conditions of the fields, the previous owners will have exposure to the decommissioning costs should these liabilities not be fully discharged by the Group.

With regard to Morecambe the security is to be provided when the estimated future net revenue stream from the associated gas field falls below a predetermined proportion of the estimated decommissioning cost. The nature of the security may take a number of different forms and will remain in force until the costs of such decommissioning have been irrevocably discharged and the relevant legal decommissioning notices in respect of the relevant fields have been revoked.

Following legislation being executed, the UK Government is now signing contracts (Decommissioning Relief Deeds – DRDs) with industry, providing certainty on decommissioning tax relief via the tax code or DRD. These deeds should permit industry to move to post-tax Decommissioning Security Agreements (DSAs), cutting the cost of these and freeing capital for investment. Centrica now has a signed DRD, discussions are ongoing on moving to a post-tax DSA, whilst we continue to analyse options to update the South Morecambe DSA.

Security for Statfjord and Kvitebjorn is slightly different in this respect as it was provided to the previous owners as part of the acquisition of these fields.

(c) Contingent liabilities

On 13 June 2013, the Group acquired a 25% interest in the Bowland exploration licence in Lancashire from Cuadrilla Resources Ltd and AJ Lucas Group Ltd for £44 million in cash. The Group may pay up to £36 million additional costs under a carry arrangement which is contingent on consents being received. Following the exploration and appraisal phase, if the Group elects to continue into the development phase, a further contingent consideration of £60 million will become payable.

There are no other material contingent liabilities.

NOTES TO THE FINANCIAL STATEMENTS

24. Sources of finance

(a) Capital structure

The Group seeks to maintain an efficient capital structure with a balance of debt and equity as shown in the table below:

31 December	2014 £m	2013 (restated) (i) £m
Net debt	5,196	4,942
Equity	2,735	5,192
Capital	7,931	10,134

(i) Net debt has been restated to include cash posted or received as collateral under margin and collateral agreements to more accurately reflect management's view of net debt.

Debt levels are restricted to limit the risk of financial distress and, in particular, to maintain a strong credit profile. The Group's credit standing is important for several reasons: to maintain a low cost of debt, limit collateral requirements in energy trading, hedging and decommissioning security arrangements; and to ensure the Group is an attractive counterparty to energy producers and long-term customers.

The Group monitors its current and projected capital position on a regular basis, considering a medium-term view of three to five years, and different stress case scenarios, including the impact of changes in the Group's credit ratings and significant movements in commodity prices. A number of financial ratios are monitored; including those used by the credit rating agencies, such as debt to cash flow ratios and adjusted EBITDA to gross interest expense. At 31 December 2014, the ratio of the Group's net debt to adjusted EBITDA was 1.8 (2013: 1.3). Adjusted EBITDA to gross interest expense for the year ended 31 December 2014 was 8.8 (2013: 12.8).

British Gas Insurance Limited (BGIL) is required under PRA regulations to hold a minimum capital amount and has complied with this requirement in 2014 (and 2013). For the remainder of the Group, 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 £5.0 billion and a gearing ratio of three times adjusted capital and reserves. Based on adjusted capital and reserves as at 31 December 2014 of £3.1 billion, the limit for net debt was £9.3 billion. The Group funds its long term debt requirements through issuing bonds in the capital markets and taking bank debt. Short term debt requirements are met primarily through issuance of commercial paper. The Group maintains substantial committed facilities and uses these to provide liquidity for general corporate purposes, including short term business requirements and back-up for commercial paper.

(b) Liquidity risk management and going concern

The Group has a number of treasury and risk 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, 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 2014, the Group had undrawn committed credit facilities of £3,751 million (2013: £3,780 million) and £374 million (2013: £484 million) of unrestricted cash and cash equivalents. 112% (2013 (restated): 115%) 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 12.8 years (2013: 13.8 years).

The Group's liquidity is impacted by the cash posted or received under margin and collateral agreements. The terms and conditions of these depend on the counterparty and the specific details of the transaction. Cash is generally returned to the Group or by the Group within two days of trade settlement. Refer to note 24(c) for movement in cash posted or received as collateral.

The relatively high level of undrawn committed bank borrowing facilities and available cash resources has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern. The statement of going concern is included in the Directors' Report – Governance, on page 83.

NOTES TO THE FINANCIAL STATEMENTS

24. Sources of finance
(c) Net debt summary

Net debt predominantly includes capital market borrowings offset by cash, cash posted or received as collateral, securities and certain hedging financial instruments used to manage interest rate and foreign exchange movements on borrowings.

	Cash and cash equivalents (i) £m	Cash posted/(received) as collateral (ii) £m	Current and non-current securities (iii) £m	Current and non-current borrowings, net of related deposits (iv) £m	Derivatives £m	Net debt £m
1 January 2013 (restated) (v)	931	102	206	(5,328)	144	(3,945)
Cash outflow from purchase of securities	(8)	–	8	–	–	–
Cash inflow from additional borrowings	1,209	–	–	(1,209)	–	–
Cash outflow from payment of capital element of finance leases	(30)	–	–	30	–	–
Cash outflow from repayment of borrowings	(370)	–	–	370	–	–
Net cash outflow increasing net debt	(1,085)	–	–	–	–	(1,085)
Cash inflow from collateral received	82	(82)	–	–	–	–
Revaluation	–	–	(2)	87	(96)	(11)
(Increase)/decrease in interest payable and amortisation of borrowings	–	–	–	(11)	4	(7)
Acquisition of businesses	–	93	–	–	–	93
Exchange adjustments	(10)	(6)	(1)	30	–	13
31 December 2013 (restated) (v)	719	107	211	(6,031)	52	(4,942)
Cash inflow from sale of securities	5	–	(5)	–	–	**–**
Cash inflow from additional borrowings (iv)	1,311	–	–	(1,311)	–	**–**
Cash outflow from payment of capital element of finance leases	(32)	–	–	32	–	**–**
Cash outflow from repayment of borrowings	(486)	–	–	486	–	**–**
Net cash outflow increasing net debt	(255)	–	–	–	–	**(255)**
Cash outflow from collateral posted (ii)	(640)	640	–	–	–	**–**
Revaluation	–	–	8	(61)	21	**(32)**
(Increase)/decrease in interest payable and amortisation of borrowings	–	–	–	(9)	16	**7**
Exchange adjustments	(1)	29	1	(62)	–	**(33)**
Other non-cash movements (vi)	–	–	59	–	–	**59**
31 December 2014	**621**	**776**	**274**	**(6,956)**	**89**	**(5,196)**

(i) Cash and cash equivalents includes £247 million (2013: £235 million) of restricted cash mostly held by the Group's insurance undertakings that is not readily available to be used for other purposes within the Group.

(ii) Collateral is posted or received to support energy trading and procurement activities. It is posted when contracts with marginable counterparties are out of the money and is received when contracts are in the money. These positions reverse when contracts are settled and the collateral is returned. As a net procurer of energy, the fall in commodity prices at the end of 2014 resulted in significant out of the money energy contracts which required £640 million of collateral to be posted during the year. Of the net cash collateral posted at the year end, £185 million (2013: £53 million) is included within trade payables and £961 million (2013: £160 million) within trade receivables.

(iii) Securities balances include £129 million (2013: £126 million) of index-linked gilts which the Group uses for short-term liquidity management purposes and £86 million of available-for-sale financial assets (2013: £85 million). The Group has posted £29 million (2013: £28 million) of non-current securities as collateral against an index-linked swap maturing on 16 April 2020.

(iv) A £30 million deposit with Societe Generale in relation to a rolling credit facility is included within this category. The deposit is classified as an other receivable (see note 17) but the matching loan is included in borrowings.

(v) Net debt has been restated to include cash posted or received as collateral under margin and collateral agreements, to more accurately reflect management's view of net debt. The items to which the cash posted as collateral relate are not included within net debt.

(vi) Shares in Enercare Inc. with a value of C$106 million (£59 million), were received as part consideration for the disposal of Ontario home services. See note 12(c) for further details.

NOTES TO THE FINANCIAL STATEMENTS

24. Sources of finance
(d) Borrowings summary

31 December	Coupon rate %	Principal m	Current £m	Non-current £m	2014 Total £m	Current £m	Non-current £m	2013 Total £m
Bank overdrafts and loans (i)			(427)	(312)	(739)	(16)	(305)	(321)
Bonds (by maturity date):								
4 November 2014	Floating	$100	–	–	–	(60)	–	(60)
10 December 2014	5.125	£315	–	–	–	(323)	–	(323)
31 March 2015	Floating	$70	(45)	–	(45)	–	(42)	(42)
10 September 2015	0.320	¥30,000	(161)	–	(161)	–	–	–
11 September 2015	Floating	£51	(51)	–	(51)	–	–	–
12 September 2015	Floating	€100	(78)	–	(78)	–	–	–
24 October 2016	5.500	£300	–	(316)	(316)	–	(321)	(321)
14 April 2017	Floating	$200	–	(128)	(128)	–	–	–
19 September 2018	7.000	£400	–	(444)	(444)	–	(443)	(443)
1 February 2019	3.213	€100	–	(78)	(78)	–	(83)	(83)
25 September 2020	Floating	$80	–	(51)	(51)	–	(48)	(48)
22 February 2022	3.680	HK$450	–	(37)	(37)	–	(35)	(35)
10 March 2022	6.375	£500	–	(528)	(528)	–	(490)	(490)
16 October 2023	4.000	$750	–	(494)	(494)	–	(444)	(444)
4 September 2026	6.400	£200	–	(225)	(225)	–	(212)	(212)
16 April 2027	5.900	$70	–	(45)	(45)	–	(42)	(42)
13 March 2029	4.375	£750	–	(741)	(741)	–	(740)	(740)
5 January 2032 (ii)	Zero	€50	–	(41)	(41)	–	(46)	(46)
19 September 2033	7.000	£770	–	(762)	(762)	–	(762)	(762)
16 October 2043	5.375	$600	–	(379)	(379)	–	(356)	(356)
12 September 2044	4.250	£550	–	(536)	(536)	–	(536)	(536)
25 September 2045	5.250	$50	–	(32)	(32)	–	(30)	(30)
			(335)	(4,837)	(5,172)	(383)	(4,630)	(5,013)
Commercial paper			(735)	–	(735)	(325)	–	(325)
Obligations under finance leases			(35)	(202)	(237)	(32)	(237)	(269)
Interest accruals			(103)	–	(103)	(103)	–	(103)
			(1,635)	(5,351)	(6,986)	(859)	(5,172)	(6,031)

(i) Current bank overdrafts and loans include £300 million (2013: nil) of short-term borrowings drawn under committed facilities with maturities of 1 April 2019.
(ii) €50 million of zero coupon notes have an accrual yield of 4.200%, which will result in a €114 million repayment on maturity.

Maturity analysis for non-current bank loans at 31 December	2014 £m	2013 £m
1–2 years	–	–
2–5 years	(96)	(90)
>5 years	(216)	(215)
	(312)	(305)

25. Share capital

Ordinary share capital represents the total number of shares issued which are publicly traded. We also disclose the number of own and treasury shares the Company holds, which the Company has bought itself, principally as part of the share repurchase programme.

Allotted and fully paid share capital of the Company 31 December	2014 £m	2013 £m
5,045,590,478 ordinary shares of 6 14/81 pence each (2013: 5,199,929,692)	311	321

The number of allotted and fully paid shares of the Company issued under employee share schemes for the year was nil (2013: one million). During the year 154.3 million (2013: nil) shares were cancelled.

NOTES TO THE FINANCIAL STATEMENTS

25. Share capital

The closing price of one Centrica ordinary share on 31 December 2014 was 279.0 pence (2013: 347.7 pence). Centrica employee share ownership trusts purchase Centrica ordinary shares from the open market and receive newly issued shares and treasury shares to satisfy future obligations of certain employee share schemes. The movements in own and treasury shares during the year are shown below:

	Own shares		Treasury shares	
	2014 Million shares	2013 Million shares	**2014 Million shares**	2013 Million shares
1 January	**6.4**	6.2	**119.1**	–
Shares purchased	**1.9**	3.3	**132.1**	137.3
Shares cancelled	**–**	–	**(154.3)**	–
Newly allocated shares received	**–**	0.5	**–**	–
Treasury shares placed into trust	**3.3**	2.1	**(3.3)**	(2.1)
Shares released to employees on vesting	**(6.1)**	(5.7)	**(16.7)**	(16.1)
31 December (i)	**5.5**	6.4	**76.9**	119.1

(i) The closing balance in the treasury and own share reserve of own shares was £18 million (2013: £21 million) and treasury shares was £238 million (2013: £435 million).

26. Events after the balance sheet date

The Group updates disclosures in light of new information being received, or a significant event occurring, in the period between 31 December 2014 and the date of this report.

Acquisition

On 13 February 2015, Centrica announced that British Gas will acquire AlertMe, a UK-based connected homes company that provides innovative energy management products and services. The net cost to British Gas will be £44 million, taking into account an existing 21% holding in AlertMe. It is anticipated that the transaction will close by the end of the first quarter of 2015.

Dividends

The Directors propose a final dividend of 8.4 pence per ordinary share (totalling £417 million) for the year ended 31 December 2014. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 27 April 2015 and, subject to approval, will be paid on 25 June 2015 to those shareholders registered on 1 May 2015.

NOTES TO THE FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

Supplementary information includes additional information and disclosures we are required to make by accounting standards or regulation.

S1. General information

Centrica plc is a Company domiciled and incorporated in the UK. The address of the registered office is Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD. The nature of the Group's operations and principal activities are set out in note 4(a) and on pages 1 to 45.

The consolidated Financial Statements of Centrica plc are presented in pounds sterling. Operations and transactions conducted in currencies other than pounds sterling are included in the consolidated Financial Statements in accordance with the foreign currencies accounting policy set out in note S2.

S2. Summary of significant accounting policies

This section sets out the Group's significant accounting policies in addition to the critical accounting policies applied in the preparation of these consolidated Financial Statements. These accounting policies have been consistently applied to the years presented.

Income Statement presentation

The Group 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.

Basis of consolidation

The Group Financial Statements consolidate the Financial Statements of the Company and entities controlled by the Company. Subsidiaries are all entities (including structured entities) over which the Group has control. Control is exercised over an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Transactions with non-controlling interests which relate to their ownership interests and do not result in a loss of control are accounted for as equity transactions.

The results of subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition (at which point the Group gains control over a business as defined by IFRS 3 (Revised (2008)), and applies the acquisition method to account for the transaction as a business combination) or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the Financial Statements of subsidiaries, associates and joint ventures to align the accounting policies with those used by the Group.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as a joint venture, associate or financial asset.

Segmental reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to and regularly reviewed by the Group's Executive Committee for the purposes of evaluating segment performance and allocating resources.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably. Revenue includes amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates, VAT and other sales-related taxes.

Energy supply: revenue is recognised on the basis of energy supplied during the year. Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity is estimated using historical consumption patterns, taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and is included in accrued energy income within trade and other receivables.

Proprietary energy trading: revenue comprises both realised (settled) and unrealised (fair value changes) net gains and losses from trading in physical and financial energy contracts.

Fixed-fee service and insurance contracts: revenue from these contracts is recognised in the Group Income Statement with regard to the incidence of risk over the life of the contract, reflecting the seasonal propensity of claims to be made under the contracts and the benefits receivable by the customer, which span the life of the contract as a result of emergency maintenance being available throughout the contract term.

Amounts paid in advance are treated as deferred income, with any amount in arrears recognised as accrued income. For one-off services, such as installations, revenue is recognised at the date of service provision.

Storage services: storage capacity revenues are recognised evenly over the contract period, whilst commodity revenues for the injection and withdrawal of gas are recognised at the point of gas flowing into or out of the storage facilities. Gas purchases and gas sales transactions entered into to optimise the performance of the gas storage facilities are presented net within revenue.

NOTES TO THE FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION

S2. Summary of significant accounting policies
Upstream production: revenue associated with exploration and production sales (of natural gas, crude oil and condensates) is recognised when title passes to the customer. Revenue from the production of natural gas, oil and condensates in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production sharing arrangements (the entitlement method). Where differences arise between production sold and the Group's share of production, this is accounted for as an overlift or underlift (see separate accounting policy). Purchases and sales entered into to optimise the performance of production facilities are presented net within revenue.

Power generation: revenue is recognised on the basis of power supplied during the period. Power purchases and sales entered into to optimise the performance of power generation facilities are presented net within revenue.

Interest income: interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

Cost of sales
Energy supply includes the cost of gas and electricity produced and purchased during the year taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and related transportation, distribution, royalty costs and bought-in materials and services.

Cost of sales relating to fixed-fee service and insurance contracts includes direct labour and related overheads on installation work, repairs and service contracts in the year.

Cost of sales relating to gas and oil production includes depreciation of assets used in production of gas and oil, royalty costs and direct labour costs.

Cost of sales within power generation businesses includes the depreciation of assets included in generating power, fuel purchase costs, direct labour costs and carbon emissions costs.

Borrowing costs
Borrowing costs that arise in connection with the acquisition, construction or production of a qualifying asset are capitalised and subsequently amortised in line with the depreciation of the related asset. Borrowing costs are capitalised from the time of acquisition or from the beginning of construction or production until the point at which the qualifying asset is ready for use. Where a specific financing arrangement is in place, the specific borrowing rate for that arrangement is applied. For non-specific financing arrangements, a Group financing rate representative of the weighted average borrowing rate of the Group is used (2014: 4.0%, 2013: 4.6%). Borrowing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

Foreign currencies
The consolidated Financial Statements are presented in pounds sterling, which is the functional currency of the Company and the Group's presentational currency. Each entity in the Group determines its own functional currency and items included in the Financial Statements of each entity are measured using that functional currency. Transactions in foreign currencies are, on initial recognition, recorded in the functional currency of the entity at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All exchange movements are included in the Group Income Statement for the period. In previous periods, the Group utilised net investment hedging and exchange differences on foreign currency borrowings that provided a hedge against a net investment in a foreign entity were taken directly to equity. Upon the disposal or partial disposal of the net investment any accumulated foreign exchange reserves related to the investment are recognised in the Group Income Statement. The Group no longer uses net investment hedging but historic exchange differences remain in equity until the disposal of the specific investments.

Non-monetary items that are measured at historical cost in a currency other than the functional currency of the entity concerned are translated using the exchange rate prevailing at the dates of the initial transaction.

For the purpose of presenting consolidated Financial Statements, the assets and liabilities of the Group's non-sterling functional currency subsidiary undertakings, joint ventures and associates are translated into pounds sterling at exchange rates prevailing at the balance sheet date. The results of these (generally foreign) subsidiary undertakings, joint ventures and associates are translated into pounds sterling at the average rates of exchange for the relevant period. The relevant exchange rates are shown below:

Exchange rate per pound sterling (£)	Closing rate at 31 December		Average rate for the year ended 31 December	
	2014	2013	**2014**	2013
US dollars	**1.56**	1.66	**1.65**	1.57
Canadian dollars	**1.81**	1.76	**1.82**	1.62
Euro	**1.29**	1.20	**1.24**	1.18
Norwegian kroner	**11.67**	10.04	**10.40**	9.22

Exchange adjustments arising from the retranslation of the opening net assets and results of non-sterling functional currency operations are transferred to the Group's foreign currency translation reserve, a separate component of equity, and are reported in the Statement of Comprehensive Income. In the event of the disposal of an undertaking with assets and liabilities denominated in a foreign currency, the cumulative translation difference arising in the foreign currency translation reserve is charged or credited to the Group Income Statement on disposal.

NOTES TO THE FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

S2. Summary of significant accounting policies

Employee share schemes

The Group operates a number of employee share schemes, detailed in the Remuneration Report on pages 63 to 81, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

The majority of the share-based payment charge arises from four schemes. More information is included in the Remuneration Report on pages 63 to 81.

Deferred Matching Share Scheme (DMSS):

- Applicable employees: Senior Executive Group.
- This scheme is to be replaced by the Annual Incentive Plan (AIP) and Long Term Incentive Plan (LTIP) for Executive Directors and On Track Incentive Plan (OTIP) for Senior Executives and senior management.
- Vesting period of four years, comprising bonus year and three-year performance period.
- Participants must defer between 20% and 40% of annual pre-tax bonus into scheme (deferred shares) and can elect to invest additional amounts of annual bonus up to a maximum of 50% of total potential bonus (investment shares).
- Deferred and investment shares will be matched with conditional shares. On achievement of performance targets over three-year period, matching shares are either released immediately or delivered as nil cost options exercisable for seven years.
- Performance measured through Group and segment Economic Profit (EP) targets.
- Leaving prior to vesting date will normally mean forfeiting rights to deferred and matching shares.

Long Term Incentive Scheme (LTIS):

- Applicable employees: senior management.
- This scheme is to be replaced by the Annual Incentive Plan (AIP) and Long Term Incentive Plan (LTIP) for Executive Directors and On Track Incentive Plan (OTIP) for Senior Executives and senior management.
- Vesting period of three years following grant date.
- Grants after 2012: number of shares calculated according to EPS, Group EP, total shareholder return (TSR) and non-financial KPIs.
- Grants before 2012: number of shares calculated according to EPS growth and TSR.
- Following the end of the assessed performance period, and subject to continued employment at that date, shares are either released immediately or delivered as nil cost options exercisable for seven years.

Share Award Scheme (SAS):

- Applicable employees: middle management.
- Shares vest subject to continued employment within the Group in two stages: half after two years, the other half after three years.

On Track Incentive Plan (OTIP):

- Applicable employees: Senior Executives, senior and middle management.
- Shares vest subject to continued employment within the Group in two stages: half after two years, the other half after three years.
- Leaving prior to vesting date will normally mean forfeiting rights to the invested share awards.

Fair value is measured using methods appropriate to each of the different schemes as follows:

LTIS: EPS, EP and KPI awards	Market value on the date of grant
LTIS: TSR awards	A Monte Carlo simulation to predict the total shareholder return performance
SAS, DMSS and OTIP	Market value on the date of grant

NOTES TO THE FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

S2. Summary of significant accounting policies

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the acquisition method (at the point the Group gains control over a business as defined by IFRS 3 (Revised (2008)): 'Business combinations'). The cost of the acquisition is measured as the cash paid and the aggregate of the fair values, at the date of exchange, of other assets transferred, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement at the acquisition date.

Acquisition-related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5: 'Non-current assets held for sale and discontinued operations', which are recognised and measured at FVLCD. The Group recognises any non-controlling interests in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of acquiree's identifiable net assets.

Goodwill arising on a business combination represents the excess of the consideration transferred, the amount of the non-controlling interests and the acquisition date fair value of any previously held interest in the acquiree over the Group's interest in the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of a stake in a joint venture or an associate represents the excess of the consideration transferred over the Group's interest in the fair value of the identifiable assets and liabilities of the investee at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The goodwill arising on an investment in a joint venture or in an associate is not recognised separately, but is shown under 'Interests in joint ventures and associates' in the Group Balance Sheet. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the Group Income Statement.

On disposal of a subsidiary, associate or joint venture entity, any amount of goodwill attributed to that entity is included in the determination of the profit or loss on disposal. A similar accounting treatment is applied on disposal of assets that represent a business.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include contractual customer relationships, brands, application software, emissions trading schemes, renewable obligation certificates, and certain exploration and evaluation expenditures, the accounting policies for which are dealt with separately below. For purchased application software, for example investments in customer relationship management and billing systems, cost includes contractors' charges, materials, directly attributable labour and directly attributable overheads.

Capitalisation begins when expenditure for the asset is being incurred and activities necessary to prepare the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Amortisation commences at the point of commercial deployment. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset could be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for on a prospective basis by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from their use.

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the intangible asset could be impaired, either individually or at the CGU level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The amortisation periods for the principal categories of intangible assets are as follows:

Contractual customer relationships	Up to 20 years
Strategic identifiable acquired brand	Indefinite
Application software	Up to 15 years
Licences	Up to 20 years

EU Emissions Trading Scheme and renewable obligation certificates

Purchased carbon dioxide emissions allowances are recognised initially at cost (purchase price) within intangible assets. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date, with movements in the liability recognised in operating profit.

Forward contracts for the purchase or sale of carbon dioxide emissions allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the Group Income Statement. The intangible asset is surrendered and the liability is utilised at the end of the compliance period to reflect the consumption of economic benefits.

Purchased renewable obligation certificates are recognised initially at cost within intangible assets. A liability for the renewables obligation is recognised based on the level of electricity supplied to customers, and is calculated in accordance with percentages set by the UK Government and the renewable obligation certificate buyout price for that period.

NOTES TO THE FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

S2. Summary of significant accounting policies

The intangible asset is surrendered and the liability is utilised at the end of the compliance period to reflect the consumption of economic benefits. Any recycling benefit related to the submission of renewable obligation certificates is recognised in the Group Income Statement when received.

Exploration, evaluation, development and production assets

The Group uses the successful efforts method of accounting for exploration and evaluation expenditure. Exploration and evaluation expenditure associated with an exploration well, including acquisition costs related to exploration and evaluation activities are capitalised initially as intangible assets. Certain expenditures such as geological and geophysical exploration costs are expensed. If the prospects are subsequently determined to be successful on completion of evaluation, the relevant expenditure including licence acquisition costs is transferred to PP&E. If the prospects are subsequently determined to be unsuccessful on completion of evaluation, the associated costs are expensed in the period in which that determination is made.

All field development costs are capitalised as PP&E. Such costs relate to the acquisition and installation of production facilities and include development drilling costs, project-related engineering and other technical services costs. PP&E, including rights and concessions related to production activities, are depreciated from the commencement of production in the fields concerned, using the unit of production method, based on all of the 2P reserves of those fields. Changes in these estimates are dealt with prospectively.

The net carrying value of fields in production and development is compared on a field-by-field basis with the likely discounted future net revenues to be derived from the remaining commercial reserves. An impairment loss is recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues. Exploration assets are reviewed annually for indicators of impairment and production and development assets are tested annually for impairment.

Interests in joint arrangements and associates

Under IFRS 11, joint arrangements are those that convey joint control which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Associates are investments over which the Group has significant influence but not control or joint control, and generally holds between 20% and 50% of the voting rights. The Group's joint ventures and associates (as defined in note 6) are accounted for using the equity method.

Under the equity method, investments are carried at cost plus post-acquisition changes in the Group's share of net assets, less any impairment in value in individual investments. The Group Income Statement reflects the Group's share of the results of operations after tax and interest. Accounting policies of the joint ventures and associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Upon initial acquisition goodwill may arise and is recognised within 'interests in joint ventures and associates' in the Group Balance Sheet.

The Group's interests in joint operations (oil and gas exploration and production licence arrangements) are accounted for by recognising its assets (including its share of assets held jointly), its liabilities (including its share of liabilities incurred jointly), its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation and its expenses (including its share of any expenses incurred jointly).

Where the Group has an equity stake or a participating interest in operations governed by a joint arrangement for which it is acting as operator, an assessment is carried out to confirm whether the Group is acting as agent or principal. As the terms and conditions negotiated between business partners usually provide joint control to the parties over the relevant activities of the oil and gas fields and/or wind farms that are governed by joint arrangements, the Group is usually deemed to be an agent when it is appointed as operator and not a principal (as the contracts entered into do not convey control to the parties). Accordingly, the Group recognises its equity share of these arrangements as outlined above except that it presents gross liabilities and gross receivables of the joint venture (including amounts due to or from non-operating partners) in the Group Balance Sheet in accordance with the netting rules of IAS 32.

Property, plant and equipment

PP&E is included in the Group Balance Sheet at cost, less accumulated depreciation and any provisions for impairment. The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Subsequent expenditure in respect of items of PP&E such as the replacement of major parts, major inspections or overhauls, are capitalised as part of the cost of the related asset where it is probable that future economic benefits will arise as a result of the expenditure and the cost can be reliably measured. All other subsequent expenditure, including the costs of day-to-day servicing, repairs and maintenance, is expensed as incurred.

Freehold land is not depreciated. Other PP&E, with the exception of upstream production assets (see above), are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives. The depreciation periods for the principal categories of assets are as follows:

Freehold and leasehold buildings	Up to 50 years
Plant	Five to 20 years
Equipment and vehicles	Three to 10 years
Power stations and wind farms	Up to 30 years
Gas storage	Up to 40 years

Assets held under finance leases are depreciated over their expected useful economic lives on the same basis as for owned assets, or where shorter, the lease term.

NOTES TO THE FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

S2. Summary of significant accounting policies

The carrying values of PP&E are tested annually for impairment and are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Residual values and useful lives are reassessed annually and if necessary changes are accounted for prospectively.

Impairment assumptions

Details of the approach taken to impairment are included in note 7(c). The following provides further information on the assumptions used in the VIU calculations:

VIU – Key assumptions used

The VIU calculations use pre-tax cash flow projections based on the Group's Board-approved three-year business plans. The Group's business plans are based on past experience, and adjusted to reflect market trends, economic conditions, key risks, the implementation of strategic objectives and changes in commodity prices, as appropriate. Commodity prices used in the planning process are based in part on observable market data and in part on internal estimates. The extent to which the commodity prices used in the business plans are based on observable market data is determined by the extent to which the market for the underlying commodity is judged to be active. Note S6 provides additional detail on the active period of each of the commodity markets in which the Group operates.

(a) VIU – Growth rates and discount rates

Cash flows beyond the three-year plan period have been extrapolated using long-term growth rates in the market where the CGU operates. Long-term growth rates are determined using a blend of publicly available historical data and long-term growth rate forecasts published by external analysts. Cash flows are discounted using a discount rate specific to each CGU. Discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital of each CGU. Additionally, risks specific to the cash flows of the CGUs are reflected within cash flow forecasts. Each CGU's weighted average cost of capital is then adjusted to reflect the impact of tax in order to calculate an equivalent pre-tax discount rate.

Long-term growth rates and pre-tax discount rates used in the VIU calculations for each of the Group's CGUs are provided in the table below:

2014	British Gas – Business energy supply and services %	British Gas – Residential services %	Direct Energy – Residential energy supply (i) %	Direct Energy – Business energy supply (i) %	Direct Energy – Residential and business services (i) %
Growth rate to perpetuity	**2.1**	**2.1**	**2.2**	**2.2**	**2.2**
Pre-tax discount rate	**7.4**	**7.4**	**8.4/8.0**	**8.4/8.0**	**8.4/8.0**

2013	British Gas – Business energy supply and services %	British Gas – Residential services %	Direct Energy – Residential energy supply (i) %	Direct Energy – Business energy supply (i) %	Direct Energy – Residential and business services (i) %
Growth rate to perpetuity	2.1	2.1	2.2	2.2	2.2
Pre-tax discount rate	7.4	7.4	8.4/8.0	8.4/8.0	8.4/8.0

(i) US/Canada respectively.

(b) VIU – Inflation rates

Inflation rates used in the three-year business plan were based on a blend of a number of publicly available inflation forecasts for the UK, Canada and the US. Inflation rates used for the value in use calculations were as follows: UK: 2.0% (2013: 2.2%); Canada: 2.0% (2013: 2.0%); and the US: 2.2% (2013: 2.2%).

NOTES TO THE FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION

S2. Summary of significant accounting policies
(c) Key operating assumptions by CGUs using VIU

The key operating assumptions across all CGUs are gross margin, revenues and operating costs. Each of these assumptions is tailored to the specific CGU using management's knowledge of the environment, as shown in the table below:

CGU	Gross margin	Revenues	Operating costs
British Gas – Business energy supply and services	Existing customers: based on contractual terms. New customers and renewals: based on gross margins achieved in the period leading up to the date of the business plan. Both adjusted for current market conditions and transportation cost inflation.	Market share: percentage immediately prior to business plan. Adjusted for: growth forecasts which are based on sales and marketing activity and recent customer acquisitions. Gas and electricity revenues based on forward market prices.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Credit losses: historical assumptions regarding provisions have been updated to reflect the current UK environment.
British Gas – Residential services	Future sales: based on percentages achieved in the period up to the approval of the business plan.	Market share: percentage immediately prior to business plan. Adjusted for: change in growth rates to reflect the current economic environment in the UK.	Wages: projected headcount in line with expected efficiency programme. Credit losses: historical assumptions regarding provisions have been updated to reflect the current UK environment.
Direct Energy – Residential energy supply	Existing customers: based on contractual terms. New customers and renewals: based on gross margins achieved in the period leading up to the date of the business plan. Adjusted for: competitor data.	Market share: average percentage immediately prior to business plan. Adjusted for: expectations of growth or decline to reflect competitive differences.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Future developments: reduction in costs to reflect planned business process efficiencies. Customer acquisition: based on experience of costs required to support acquisition, renewal and other servicing activities. Credit losses: historical assumptions regarding provisions have been updated to reflect the current North American environment.
Direct Energy – Business energy supply	Existing customers: based on contractual terms. New customers and renewals: based on gross margins achieved historically.	Market share: based on historical growth trends and planned sales activities by individual market sector. Adjusted for: prices based on contractual terms for fixed price contracts and forward market curves for both gas and electricity in Canada and the US.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Future developments: reduction in costs to reflect expected savings. Customer acquisition: based on experience of costs required to support acquisition, renewal and other servicing activities. Credit losses: historical assumptions regarding provisions have been updated to reflect the current North American environment.
Direct Energy – Residential and business services	New customers and renewals: based on gross margins achieved in the period leading up to the date of the business plan. Adjusted for: current economic conditions, consumer confidence and the status of the housing market as appropriate.	Market share: based on historical growth trends by individual market sector. Adjusted for: new product offerings and continued penetration into new markets.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Credit losses: estimated bad debt and allowances based on historical collection rights and trends which are evaluated by business.

NOTES TO THE FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

S2. Summary of significant accounting policies

Overlift and underlift

Off-take arrangements for oil and gas produced from joint operations are often such that it is not practical for each participant to receive or sell its precise share of the overall production during the period. This results in short-term imbalances between cumulative production entitlement and cumulative sales, referred to as overlift and underlift.

An overlift payable, or underlift receivable, is recognised at the balance sheet date within trade and other payables, or trade and other receivables, respectively and measured at market value, with movements in the period recognised within cost of sales.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset or assets. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are capitalised and included in PP&E at their fair value, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within bank loans and other borrowings, with the amount payable within 12 months included in bank overdrafts and loans within current liabilities.

Lease payments are apportioned between finance charges and reduction of the finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Payments under operating leases are charged to the Group Income Statement on a straight-line basis over the term of the relevant lease.

Inventories

Inventories are valued on a weighted-average cost basis, at the lower of cost, or estimated net realisable value after allowance for redundant and slow-moving items.

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning gas and oil production facilities at the end of the producing lives of fields, and storage facilities and power stations at the end of their useful lives, based on price levels and technology at the balance sheet date.

When this provision relates to an asset with sufficient future economic benefits, a decommissioning asset is recognised and included as part of the associated PP&E and depreciated accordingly. Changes in these estimates and changes to the discount rates are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset included within PP&E. The unwinding of the discount on the provision is included in the Group Income Statement within interest expense.

Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. No depreciation is charged in respect of non-current assets classified as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset (or disposal group) is available for immediate sale in its present condition and management is committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The profits or losses and cash flows that relate to a major component of the Group that has been sold or is classified as held for sale are presented separately from continuing operations as discontinued operations within the Group Income Statement and Group Cash Flow Statement.

Pensions and other post employment benefits

The Group operates a number of defined benefit and defined contribution pension schemes. The cost of providing benefits under the defined benefit schemes is determined separately for each scheme using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in the period in which they occur in the Group Statement of Comprehensive Income.

The cost of providing retirement pensions and other benefits is charged to the Group Income Statement over the periods benefiting from employees' service. Past service cost is recognised immediately. Costs of administering the schemes are charged to the Group Income Statement. Net interest, being the change in the net defined benefit liability or asset due to the passage of time is recognised in the Group Income Statement net finance cost.

The net defined benefit liability or asset recognised in the Group Balance Sheet represents the present value of the defined benefit obligation of the schemes, and the fair value of the schemes' assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits are paid, and that have terms of maturity approximating to the terms of the related pension liability.

Payments to defined contribution retirement benefit schemes are recognised in the Group Income Statement as they fall due.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Where discounting is used, the increase in the provision due to the passage of time is recognised in the Group Income Statement within interest expense. Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceed the economic

NOTES TO THE FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

S2. Summary of significant accounting policies

benefits expected to be received under it. Contracts to purchase or sell energy are reviewed on a portfolio basis given the fungible nature of energy, whereby it is assumed that the highest priced purchase contract supplies the highest priced sales contract and the lowest priced sales contract is supplied by the lowest priced purchase contract.

Taxation

Current tax, including UK corporation tax, UK petroleum revenue tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill (if impairment of goodwill is not deductible for tax purposes) or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Group's assets and liabilities and their tax base.

Deferred tax liabilities may be offset against deferred tax assets within the same taxable entity or qualifying local tax group. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future, against which the deductible temporary difference can be utilised.

Deferred tax is provided on temporary differences arising on subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected from the manner in which the asset or liability is recovered or settled.

Financial instruments

Financial assets and financial liabilities are recognised in the Group Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Group no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

(a) Trade receivables

Trade receivables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost using the effective interest rate method less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group may not be able to collect the trade receivable. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less receivables are classified as current assets. If not they are presented as non-current assets.

(b) Trade payables

Trade payables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost using the effective interest rate method. If payment is due within one year or less payables are classified as current liabilities. If not, they are presented as non-current liabilities.

(c) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are reacquired (treasury or own shares) are deducted from equity. No gain or loss is recognised in the Group Income Statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

For the purpose of the Group Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(e) Interest-bearing loans and other borrowings

All interest-bearing loans and other borrowings with banks and similar institutions are initially recognised at fair value net of directly attributable transaction costs. After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost using the effective interest method, except when they are the hedged item in an effective fair value hedge relationship where the carrying value is also adjusted to reflect the fair value movements associated with the hedged risks. Such fair value movements are recognised in the Group Income Statement. Amortised cost is calculated by taking into account any issue costs, discount or premium.

(f) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, which are recognised initially at fair value within the Group Balance Sheet. Available-for-sale financial assets are re-measured subsequently at fair value with gains and losses arising from changes in fair value recognised directly in equity and presented in the Group Statement of Comprehensive Income, until the asset is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the Group Income Statement for the period. Accrued interest or dividends arising on available-for-sale financial assets are recognised in the Group Income Statement.

At each balance sheet date the Group assesses whether there is objective evidence that available-for-sale financial assets are impaired. If any such evidence exists, cumulative losses recognised in equity are removed from equity and recognised in the Group Income Statement. The cumulative loss removed from equity represents the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the Group Income Statement.

NOTES TO THE FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION

S2. Summary of significant accounting policies

Impairment losses recognised in the Group Income Statement for equity investments classified as available-for-sale are not subsequently reversed through the Group Income Statement. Impairment losses recognised in the Group Income Statement for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(g) Financial assets at fair value through profit or loss

The Group holds investments in gilts which it designates as fair value through profit or loss. Investments are measured at fair value on initial recognition and are re-measured to fair value in each subsequent reporting period. Gains and losses arising from changes in fair value are recognised in the Group Income Statement within interest income or interest expense.

(h) Derivative financial instruments

The Group routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. A portion of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the physical commodity in accordance with the Group's expected sale, purchase or usage requirements (own use), and are not within the scope of IAS 39. The assessment of whether a contract is deemed to be 'own use' is conducted on a Group basis without reference to underlying book structures, business units or legal entities.

Certain purchase and sales contracts for the physical delivery of gas, power and oil are within the scope of IAS 39 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IAS 39 and are recognised in the Group Balance Sheet at fair value. Gains and losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the Group Income Statement for the year.

The Group uses a range of derivatives for both trading and to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies which are approved by the Board of Directors. Further detail on the Group's risk management policies is included within the Strategic Report – Principal Risks and Uncertainties on pages 40 to 45 and in note S3.

The accounting treatment for derivatives is dependent on whether they are entered into for trading or hedging purposes. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Group in line with the Group's risk management policies and is in accordance with established guidelines, which require the hedging relationship to be documented at its inception, ensure that the derivative is highly effective in achieving its objective, and require that its effectiveness can be reliably measured. The Group also holds derivatives which are not designated as hedges and are held for trading.

All derivatives are recognised at fair value on the date on which the derivative is entered into and are re-measured to fair value at each reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and derivative liabilities are offset and presented on a net basis only when both a legal right of set-off exists and the intention to net settle the derivative contracts is present.

The Group enters into certain energy derivative contracts covering periods for which observable market data does not exist. The fair value of such derivatives is estimated by reference in part to published price quotations from active markets, to the extent that such observable market data exists, and in part by using valuation techniques, whose inputs include data which is not based on or derived from observable markets. Where the fair value at initial recognition for such contracts differs from the transaction price, a fair value gain or fair value loss will arise. This is referred to as a day-one gain or day-one loss. Such gains and losses are deferred (not recognised) and amortised to the Group Income Statement based on volumes purchased or delivered over the contractual period until such time observable market data becomes available. When observable market data becomes available, any remaining deferred day-one gains or losses are recognised within the Group Income Statement. Recognition of the gains or losses resulting from changes in fair value depends on the purpose for issuing or holding the derivative. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the Group Income Statement and are included within gross profit or interest income and interest expense. Gains and losses arising on derivatives entered into for speculative energy trading purposes are presented on a net basis within revenue.

Embedded derivatives: derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in the Group Income Statement. The closely related nature of embedded derivatives is reassessed when there is a change in the terms of the contract which significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives, and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in the Group Income Statement.

(i) Hedge accounting

For the purposes of hedge accounting, hedges are classified as either fair value hedges or cash flow hedges. Note S5 details the Group's accounting policies in relation to derivatives qualifying for hedge accounting under IAS 39.

Nuclear activity

The Group's investment in Lake Acquisitions Limited ('Nuclear') is accounted for as an associate. The following accounting policies are specific to the accounting for the nuclear activity of this associate.

(a) Fuel costs – nuclear front end

Front end fuel costs consist of the costs of procurement of uranium, conversion and enrichment services and fuel element fabrication.
All costs are capitalised into inventory and charged to the Group Income Statement in proportion to the amount of fuel burnt.

NOTES TO THE FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION

S2. Summary of significant accounting policies
(b) Fuel costs – nuclear back end
Advanced gas-cooled reactors (AGR)
Spent fuel extracted from the reactors is sent for reprocessing and/or long-term storage and eventual disposal of resulting waste products. Back end fuel costs comprise a loading related cost per tonne of uranium and a rebate/surcharge to this cost dependent on the out-turn market electricity price in the year and are capitalised into inventory and charged to the Group Income Statement in proportion to the amount of fuel burnt.

Pressurised water reactor (PWR)
Back end fuel costs are based on wet storage in station ponds followed by dry storage and subsequent direct disposal of fuel. Back end fuel costs are capitalised into inventory on loading and charged to the Group Income Statement in proportion to the amount of fuel burnt.

(c) Nuclear property, plant and equipment and depreciation
The nuclear fleet is depreciated from the date of the Group acquiring its share of the fleet on a straight-line basis, with remaining depreciable periods currently of up to 21 years.

Expenditure on major inspection and overhauls of production plant is depreciated over the period until the next outage which for AGR power stations is three years and for the PWR power station is 18 months.

(d) Nuclear Liabilities Fund (NLF) funding arrangements
Under the arrangements in place with the Secretary of State, the NLF will fund, subject to certain exceptions, qualifying uncontracted nuclear liabilities and qualifying decommissioning costs.

In part consideration for the assumption of these liabilities by the Secretary of State and the NLF, the former British Energy Group agreed to pay fixed decommissioning contributions each year and £150,000 (indexed to RPI) for every tonne of uranium in PWR fuel loaded into the Sizewell B reactor after the date of these arrangements.

(e) NLF and nuclear liabilities receivables
The UK Government indemnity is provided to indemnify any future shortfall on NLF funding of qualifying uncontracted nuclear liabilities (including PWR back end fuel services) and qualifying nuclear decommissioning costs such that the receivable equals the present value of the associated qualifying nuclear liabilities.

(f) Nuclear liabilities
Nuclear liabilities represent provision for liabilities in respect of the costs of waste management of spent fuel and nuclear decommissioning.

(g) Unburnt fuels at shutdown
Due to the nature of the nuclear fuel process there will be quantities of unburnt fuel in the reactors at station closure. The costs relating to this unburnt fuel (final core) are estimated by applying a long-term inflation index to the projected costs, which are then discounted.

S3. Financial risk management

The Group's normal operating, investing and financing activities expose it to a variety of financial risks: market risk (including commodity price risk, currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall financial risk management processes are designed to identify, manage and mitigate these risks.

Further detail on the Group's overall risk management processes is included within the Strategic Report – Principal Risks and Uncertainties on pages 40 to 45.

Financial risk management is overseen by the 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 Committees and their respective financial risk management policies, as approved by the GFRMC under delegated authority from the Board. Treasury risk management, including management of currency risk, interest rate 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 wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's credit risk policy and collateral risk policy. Downstream credit risk management is carried out in accordance with individual business unit credit policies.

Market risk management
Market risk is the risk of loss that results from changes in market prices (commodity prices, foreign exchange rates and interest rates). The level of market risk to which the Group is exposed at a point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the Group's physical asset and contract portfolios.

(a) Commodity price risk management
The Group is exposed to commodity price risk in its upstream assets, energy procurement contracts, downstream and proprietary energy trading activities and uses specific limits to manage the exposure to commodity prices associated with the Group's activities to an acceptable level. The Group uses Profit at Risk (PaR) limits to control exposures to market prices. These are complemented by other limits including Value at Risk (VaR), volumetric or stop-loss limits to control risk around trading activities.

NOTES TO THE FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

S3. Financial risk management

(i) Energy procurement, upstream and downstream activities

The Group's energy procurement, upstream and downstream activities consist of equity gas and liquids production, equity power generation, bilateral procurement and sales contracts, market-traded purchase and sales contracts and derivative positions taken on with the intent of securing gas and power for the Group's downstream customers in the UK, North America and the Republic of Ireland from a variety of sources at an optimal cost. The Group actively manages commodity price risk by optimising its asset and contract portfolios and making use of volume flexibility.

The Group is exposed to commodity price risk in its energy procurement, upstream and downstream activities because the cost of procuring gas and electricity to serve its downstream customers varies with wholesale commodity prices. The risk is primarily that market prices for commodities will fluctuate between the time that sales prices are fixed or tariffs are set and the time at which the corresponding procurement cost is fixed, thereby potentially reducing expected margins or making sales unprofitable.

The Group is also exposed to volumetric risk in the form of an uncertain consumption profile arising from a range of factors, including weather, energy consumption changes, customer attrition and economic climate. There is also risk associated with ensuring there is sufficient commodity available to secure supply to customers.

In order to manage the exposure to market prices associated with the Group's energy procurement, upstream and downstream activities the Group uses a specific set of limits (including volumetric, VaR, PaR and stop-loss) established by the Board, Executive Committee, GFRMC or business unit Financial Risk Committees.

PaR measures the estimated potential loss in a position or portfolio of positions associated with the movement of a commodity price for a given confidence level, over the remaining term of the position or contract. VaR measures the estimated potential loss for a given confidence level over a predetermined holding period. The standard confidence level used is 95%. In addition, stress and scenario tests are regularly performed to evaluate the impact on the portfolio of possible substantial movements in commodity prices.

The Group measures and manages the commodity price risk associated with the Group's entire energy procurement, upstream and downstream portfolio. Only certain of the Group's energy procurement, upstream and downstream contracts constitute financial instruments under IAS 39 (note S6).

As a result, while the Group manages the commodity price risk associated with both financial and non-financial energy procurement, upstream and downstream contracts, it is the notional value of energy contracts being carried at fair value that represents the exposure of the Group's energy procurement, upstream and downstream activities to commodity price risk according to IFRS 7: 'Financial instruments: disclosures'. This is because energy contracts that are financial instruments under IAS 39 are accounted for on a fair value basis and changes in fair value immediately impact profit or equity. Conversely, energy contracts that are not financial instruments under IAS 39 are accounted for as executory contracts and changes in fair value do not immediately impact profit or equity, and as such, are not exposed to commodity price risk as defined by IFRS 7. So whilst the PaR or VaR associated with energy procurement and downstream contracts outside the scope of IAS 39 is monitored for internal risk management purposes, only those energy contracts within the scope of IAS 39 are within the scope of the IFRS 7 disclosure requirements.

(ii) Proprietary energy trading

The Group's proprietary energy trading activities consist of physical and financial commodity purchases and sales contracts taken on with the intent of benefiting in the short-term from changes in market prices or differences between buying and selling prices. The Group conducts its trading activities in the over-the-counter market and through exchanges in the UK, North America and continental Europe. The Group is exposed to commodity price risk as a result of its proprietary energy trading activities because the value of its trading assets and liabilities will fluctuate with changes in market prices for commodities.

The Group sets volumetric and VaR limits to manage the commodity price risk exposure associated with the Group's proprietary energy trading activities. VaR measures the estimated potential loss at a 95% confidence level over a one-day holding period. The carrying value of energy contracts used in proprietary energy trading activities at 31 December 2014 is disclosed in note 19.

As with any modelled risk measure, there are certain limitations that arise from the assumptions used in the VaR calculation. VaR assumes that historical price behaviours will continue in the future and that the Group's trading positions can be unwound or hedged within the predetermined holding period. Furthermore, the use of a 95% confidence level, by definition, does not take into account changes in value that might occur beyond this confidence level.

(b) Currency risk management

The Group is exposed to currency risk on foreign currency denominated forecast transactions, firm commitments, monetary assets and liabilities (transactional exposure) and on its net investments in foreign operations (translational exposure).

IFRS 7 only requires disclosure of currency risk arising on financial instruments denominated in a currency other than the functional currency of the commercial operation transacting. As a result, for the purposes of IFRS 7, currency risk excludes the Group's net investments in North America and Europe as well as foreign currency denominated forecast transactions and firm commitments.

(i) Transactional currency risk

The Group is exposed to transactional currency risk on transactions denominated in currencies other than the underlying functional currency of the commercial operation transacting. The Group's primary functional currencies are pounds sterling in the UK, Canadian dollars in Canada, US dollars in the US, Norwegian kroner in Norway and euros in the Netherlands and the Republic of Ireland. The risk is that the functional currency value of cash flows will vary as a result of movements in exchange rates. Transactional exposure arises from the Group's energy procurement and upstream activities, where many transactions are denominated in foreign currencies. In addition, in order to optimise the cost of funding, the Group has, in certain cases, issued foreign currency denominated debt, primarily in US dollars, euros, Japanese yen or Hong Kong dollars.

NOTES TO THE FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION

S3. Financial risk management
It is the Group's policy to hedge material transactional exposures using forward contracts to fix the functional currency value of non-functional currency cash flows, except where there is an economic hedge inherent in the transaction. At 31 December 2014, there were no material unhedged non-functional currency monetary assets or liabilities, firm commitments or probable forecast transactions (2013: nil), other than transactions which have an inherent economic hedge and foreign currency borrowings used to hedge translational exposures.

(ii) Translational currency risk
The Group is exposed to translational currency risk as a result of its net investments in North America and Europe. The risk is that the pounds sterling value of the net assets of foreign operations will decrease with changes in foreign exchange rates. The Group's policy is to protect the pounds sterling book value of its net investments in foreign operations where appropriate, subject to certain parameters monitored by the GFRMC, by holding foreign currency debt, entering into foreign currency derivatives, or a mixture of both.

The Group manages translational currency risk taking into consideration the cash impact of any hedging activity as well as the risk to the net asset numbers in the Group's Financial Statements. The translation hedging programme including the potential cash impact is monitored by the GFRMC.

(c) Interest rate risk management
In the normal course of business the Group borrows to finance its operations. The Group is exposed to interest rate risk because the fair value of fixed rate borrowings and the cash flows associated with floating rate borrowings will fluctuate with changes in interest rates. The Group's policy is to manage the interest rate risk on long-term borrowings by ensuring the exposure to floating interest rates remains within a 30% to 70% range, including the impact of interest rate derivatives.

(d) Sensitivity analysis
IFRS 7 requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables (commodity prices, foreign exchange rates and interest rates) as a result of changes in the fair value or cash flows associated with the Group's financial instruments. The sensitivity analysis provided discloses the effect on profit or loss and equity at 31 December 2014, assuming that a reasonably possible change in the relevant risk variable had occurred at 31 December 2014, and been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in price on profit or loss and equity to the next annual reporting date. Reasonably possible changes in market variables used in the sensitivity analysis are based on implied volatilities, where available, or historical data for energy prices and foreign exchange rates. Reasonably possible changes in interest rates are based on management judgement and historical experience.

The sensitivity analysis has been prepared based on 31 December 2014 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and derivatives, the proportion of energy contracts that are financial instruments, the proportion of financial instruments in foreign currencies and the hedge designations in place at 31 December 2014 are all constant. Excluded from this analysis are all non-financial assets and liabilities and energy contracts that are not financial instruments under IAS 39. The sensitivity to foreign exchange rates relates only to monetary assets and liabilities denominated in a currency other than the functional currency of the commercial operation transacting, and excludes the translation of the net assets of foreign operations to pounds sterling, but includes the corresponding impact of financial instruments used in net investment hedges.

The sensitivity analysis provided is hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates is changing constantly as the Group's portfolio of commodity, debt and foreign currency contracts changes. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group. The sensitivity analysis provided excludes the impact of proprietary energy trading assets and liabilities because the VaR associated with the Group's proprietary energy trading activities is less than £5 million.

(i) Transactional currency risk
The Group has performed an analysis of the sensitivity of the Group's financial position and performance to changes in the fair value or future cash flows of foreign currency denominated financial instruments. The Group deems 10% movements to US dollar, Canadian dollar and euro currency rates relative to pounds sterling to be reasonably possible. The impact of such movements on profit and equity, both after taxation, is immaterial to the Group.

(ii) Interest rate risk
The Group has performed an analysis of the sensitivity of the Group's financial position and performance to changes in interest rates. The Group deems 1% movements to UK, US and euro interest rates to be reasonably possible. The impact of such movements on profit and equity, both after taxation, is immaterial to the Group.

NOTES TO THE FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION

S3. Financial risk management
(iii) Commodity price risk
The impacts of reasonably possible changes in commodity prices on profit and equity, both after taxation, based on the assumptions set out above are as follows:

Energy prices	2014 Base price (i)	2014 Reasonably possible change in variable % (ii)	2013 Base price (i)	2013 Reasonably possible change in variable % (ii)
UK gas (p/therm)	**50**	**+/–6**	66	+/–6
UK power (£/MWh)	**47**	**+/–5**	55	+/–4
UK coal (US$/tonne)	**67**	**+/–6**	88	+/–7
UK emissions (€/tonne)	**8**	**+/–1**	5	+/–1
UK oil (US$/bbl)	**69**	**+/–14**	102	+/–8
North American gas (US cents/therm)	**21**	**+/–4**	41	+/–3
North American power (US$/MWh)	**41**	**+/–6**	50	+/–4

Incremental profit/(loss)	2014 Impact on profit (ii) £m	2013 Impact on profit (ii) £m
UK energy prices (combined) – increase/(decrease)	**114/(94)**	90/(97)
North American energy prices (combined) – increase/(decrease)	**109/(111)**	71/(71)

(i) The base price represents the average forward market price over the duration of the active market curve used in the sensitivity analysis provided.
(ii) The reasonably possible change in variable and the impact on profit are calculated using both the active and inactive market curves for all UK energy prices.

The impact on equity of such price changes is immaterial.

Credit risk management
Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Group continues to be vigilant in managing counterparty risks in accordance with its financial risk management policies. In 2014 there have been fewer credit rating downgrades of financial institutions and European energy majors, than in 2013. The Group continually reviews its rating thresholds for counterparty credit limits, and updates these as necessary based on a consistent set of principles. It continues to operate within its limits. In the US and Europe, ongoing regulatory changes are increasing trading over exchanges or via zero threshold margined contracts. This helps to reduce counterparty credit risk, but carries increased liquidity requirements. The fall in oil prices towards the end of 2014, if sustained, may add financial pressure to certain counterparties which may in turn have a detrimental impact on their financial strength and resulting credit risk profile. These pressures will be taken into account in counterparty credit reviews.

The Group is exposed to credit risk in its treasury, trading, energy procurement and downstream activities. Credit risk from financial assets is measured by counterparty credit rating as follows:

	2014 Derivative financial instruments with positive fair values £m	2014 Receivables from treasury, trading and energy procurement counterparties £m	2014 Cash and cash equivalents £m	2013 Derivative financial instruments with positive fair values £m	2013 Receivables from treasury, trading and energy procurement counterparties £m	2013 Cash and cash equivalents £m
AAA to AA	**9**	**27**	**282**	1	33	358
AA– to A–	**530**	**643**	**296**	533	576	349
BBB+ to BBB–	**282**	**314**	**24**	251	405	2
BB+ to BB–	**37**	**87**	**4**	5	140	1
B or lower	**4**	**114**	**–**	3	16	–
Unrated (i)	**68**	**226**	**15**	7	140	9
	930	**1,411**	**621**	800	1,310	719

(i) The unrated counterparty receivables primarily comprise amounts due from subsidiaries of rated entities, exchanges or clearing houses.

Details of how credit risk is managed across the asset categories are provided below.

(a) Treasury, trading and energy procurement activities
Wholesale counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. The Group uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist (see S6 'Financial assets and liabilities subject to offsetting, master netting arrangements and similar arrangements' for details of amounts offset). In addition, the Group employs a variety of other methods to mitigate credit risk: margining, various forms of bank and parent company guarantees and letters of credit. See note 24(c) for details of cash posted or received under margin or collateral agreements.

NOTES TO THE FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION

S3. Financial risk management
100% of the Group's credit risk associated with its treasury, trading and energy procurement activities is with counterparties in related energy industries or with financial institutions.

IFRS 7 requires disclosure of information about the exposure to credit risk arising from financial instruments only. Only certain of the Group's energy procurement contracts constitute financial instruments under IAS 39. As a result, whilst the Group manages the credit risk associated with both financial and non-financial energy procurement contracts, it is the carrying value of financial assets within the scope of IAS 39 (note S6) that represents the maximum exposure to credit risk in accordance with IFRS 7.

(b) Downstream activities
In the case of business customers, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing trade and during the business relationship. For residential customers, creditworthiness is ascertained normally before commencing trade to determine the payment mechanism required to reduce credit risk to an acceptable level. Certain customers will only be accepted on a prepayment basis or with a security deposit. In some cases, an ageing of receivables is monitored and used to manage the exposure to credit risk associated with both business and residential customers. In other cases, credit risk is monitored and managed by grouping customers according to method of payment or profile.

Liquidity risk management and going concern
Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. The Group experiences significant movements in its liquidity position due primarily to the seasonal nature of its business and margin cash arrangements associated with certain wholesale commodity contracts. To mitigate this risk the Group maintains significant committed facilities and holds cash on deposit. See note 24(b) for further information.

Maturity profiles
Maturities of derivative financial instruments, provisions, borrowings, finance leases and trade and other payables are provided in the following tables (all amounts are remaining contractual undiscounted cash flows):

Due for payment 2014	**<1 year £m**	**1 to 2 years £m**	**2 to 3 years £m**	**3 to 4 years £m**	**4 to 5 years £m**	**>5 years £m**
Energy and interest derivatives in a loss position that will be settled on a net basis	**(674)**	**(181)**	**(45)**	**(13)**	**(3)**	**(9)**
Gross energy procurement contracts and related derivatives carried at fair value (i)	**(9,092)**	**(4,480)**	**(1,498)**	**(1,274)**	**(1,384)**	**(8,321)**
Foreign exchange derivatives that will be settled on a gross basis:						
Outflow	**(5,242)**	**(756)**	**(73)**	**(12)**	**(89)**	**(354)**
Inflow	**5,163**	**738**	**71**	**9**	**82**	**236**
Financial liabilities within provisions	**(261)**	**(27)**	**(56)**	**(23)**	**(4)**	**(28)**
Borrowings (bank loans, bonds, commercial paper and interest)	**(1,656)**	**(555)**	**(367)**	**(735)**	**(288)**	**(6,680)**
Finance lease: (ii)						
Minimum lease payments	**(48)**	**(48)**	**(39)**	**(39)**	**(39)**	**(70)**
Capital elements of leases	**(35)**	**(38)**	**(30)**	**(32)**	**(35)**	**(67)**

Due for payment 2013	<1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m
Energy and interest derivatives in a loss position that will be settled on a net basis	(183)	(101)	(35)	(3)	(2)	–
Gross energy procurement contracts and related derivatives carried at fair value (i) (iii)	(8,223)	(5,431)	(3,396)	(1,487)	(1,419)	(10,783)
Foreign exchange derivatives that will be settled on a gross basis:						
Outflow	(4,991)	(1,193)	(7)	(7)	(7)	(440)
Inflow	4,994	1,179	4	4	4	335
Financial liabilities within provisions	(200)	(177)	(60)	(23)	(19)	(31)
Borrowings (bank loans, bonds, commercial paper and interest)	(986)	(295)	(553)	(237)	(727)	(6,881)
Finance lease: (ii)						
Minimum lease payments	(47)	(48)	(48)	(39)	(39)	(109)
Capital elements of leases	(32)	(35)	(38)	(30)	(32)	(102)

(i) Proprietary energy trades are excluded from this maturity analysis as we do not take physical delivery of volumes traded under these contracts. The associated cash flows are expected to be equal to the contract fair value at the balance sheet date. See note 19 for further details.
(ii) The difference between the total minimum lease payments and the total capital elements of leases is due to future finance charges.
(iii) Restated to net off amounts receivable under commodity sales contracts where there is a right of set-off with the counterparty.

NOTES TO THE FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION

S4. Other equity

This section summarises the Group's other equity reserve movements.

	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Actuarial gains and losses reserve £m	Available-for-sale reserve (AFS) £m	Revaluation reserve £m	Treasury and own shares reserve £m	Share-based payments reserve £m	Merger and capital redemption reserve £m	Total £m
1 January 2013	(43)	32	(109)	11	27	(19)	109	483	491
Revaluation of available-for-sale securities	–	–	–	3	–	–	–	–	3
Actuarial loss	–	–	(179)	–	–	–	–	–	(179)
Employee share schemes:									
Increase in own shares	–	–	–	–	–	(12)	–	–	(12)
Exercise of awards	–	–	–	–	–	75	(36)	–	39
Value of services provided	–	–	–	–	–	–	43	–	43
Purchase of treasury shares	–	–	–	–	–	(500)	–	–	(500)
Cash flow hedges:									
Net losses	(25)	–	–	–	–	–	–	–	(25)
Transferred to income and expense	34	–	–	–	–	–	–	–	34
Share of other comprehensive income/(loss) of joint ventures and associates, net of taxation	18	–	(15)	–	–	–	–	–	3
Reversal of revaluation reserve (asset impairment)	–	–	–	–	(20)	–	–	–	(20)
Taxation on above items	(1)	–	31	–	5	–	(16)	–	19
Exchange adjustments	–	(209)	–	–	(2)	–	–	–	(211)
31 December 2013	(17)	(177)	(272)	14	10	(456)	100	483	(315)
Revaluation of available-for-sale securities	–	–	–	5	–	–	–	–	5
Actuarial loss	–	–	(83)	–	–	–	–	–	(83)
Employee share schemes:									
Increase in own shares	–	–	–	–	–	(7)	–	–	(7)
Exercise of awards	–	–	–	–	–	78	(39)	–	39
Value of services provided	–	–	–	–	–	–	39	–	39
Purchase of treasury shares	–	–	–	–	–	(420)	–	–	(420)
Cancellation of shares held in treasury	–	–	–	–	–	549	–	10	559
Cash flow hedges:									
Net losses	(44)	–	–	–	–	–	–	–	(44)
Transferred to income and expense	46	–	–	–	–	–	–	–	46
Transfer to assets and liabilities	6	–	–	–	–	–	–	–	6
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	(15)	–	21	–	–	–	–	–	6
Reversal of revaluation reserve (asset impairment)	–	–	–	–	(13)	–	–	–	(13)
Taxation on above items	(1)	–	18	(1)	3	–	(5)	–	14
Exchange adjustments	–	(164)	–	–	–	–	–	–	(164)
31 December 2014	**(25)**	**(341)**	**(316)**	**18**	**–**	**(256)**	**95**	**493**	**(332)**

Merger reserve
During February 1997, BG plc (formerly British Gas plc) demerged certain businesses (grouped together under GB Gas Holdings Limited (GBGH)) to form Centrica 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 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.

Capital redemption reserve
In accordance with the Companies Act 1985, the Company has transferred to the capital redemption reserve an amount equal to the nominal value of shares repurchased and subsequently cancelled. Up to 31 December 2013 the cumulative nominal value of shares repurchased and subsequently cancelled was £16 million. Additional shares previously held in treasury with a nominal value of £10 million have been cancelled during the current year, bringing the cumulative total on the capital redemption reserve to £26 million at 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION

S4. Other equity
Revaluation reserve
During 2005, the revaluation to fair value of the Group's existing interest in the Humber power station was recorded as a revaluation reserve adjustment following the acquisition by the Group of the remaining 40% in its owner, Centrica SHB Limited. During the year an impairment charge was made against the Humber power station (see note 7), of which £13 million was recognised in the Group Statement of Comprehensive Income through the revaluation reserve (together with an offsetting £3 million deferred tax movement).

Own shares reserve
The own shares reserve reflects the cost of shares in the Company held in the Centrica employee share ownership trusts to meet the future requirements of the Group's share-based payment plans.

Treasury shares reserve
Treasury shares are acquired equity instruments of the Company. During 2014, the Group purchased £420 million of its own shares on the market under the share repurchase programme (2013: £500 million). The Group subsequently cancelled 154.3 million treasury shares with a nominal value of £10 million (see 'Capital redemption reserve') during the year (2013: no shares cancelled). The repurchase cost of £549 million has been transferred to retained earnings.

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.

Foreign currency translation reserve
The foreign currency translation reserve comprises exchange adjustments on the translation of the Group's foreign operations. Historically the Group has hedged its net investments in these foreign operations and the opening balance of the foreign currency translation reserve includes exchange translation adjustments on borrowings and derivatives classified as net investment hedges under the requirements of IAS 39. Note S5 provides further detail on historical net investment hedges.

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. Amounts are transferred from the cash flow hedging reserve to the Group Income Statement or Group Balance Sheet as and when the hedged item affects the Group Income Statement or Group Balance Sheet which is, for the most part, on receipt or payment of amounts denominated in foreign currencies and settlement of interest on debt instruments. Note S5 provides further detail on cash flow hedging.

S5. Hedge accounting

For the purposes of hedge accounting, hedges are classified either as fair value hedges, cash flow hedges or, in previous periods, hedges of net investments in foreign operations.

The fair values of derivatives and primary financial instruments in hedge accounting relationships at 31 December were as follows:

31 December	2014 Assets £m	2014 Liabilities £m	2013 Assets £m	2013 Liabilities £m
Fair value hedges	**155**	**(1)**	95	(16)
Cash flow hedges	**13**	**(88)**	7	(48)

The Group's accounting policies in relation to derivatives qualifying for hedge accounting under IAS 39 are described below.

Fair value hedges
A derivative is designated as a hedging instrument and its relationship to a recognised asset or liability is classified as a fair value hedge when it hedges the exposure to changes in the fair value of that recognised asset or liability. The Group's fair value hedges consist of interest rate swaps used to protect against changes in the fair value of fixed-rate, long-term debt due to movements in market interest rates. Any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the Group Income Statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Group Income Statement within net finance cost. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer qualifies for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the Group Income Statement. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Gains or losses arising on fair value hedges net of gains or losses arising on hedged items attributable to the hedged risk for the years ended 31 December 2014 and 31 December 2013 were immaterial.

Cash flow hedges
A derivative is classified as a cash flow hedge when it hedges exposure to variability in cash flows that is attributable to a particular risk either associated with a recognised asset, liability or a highly probable forecast transaction. The Group's cash flow hedges consist primarily of:

- forward foreign exchange contracts used to protect against the variability of functional currency denominated cash flows associated with non-functional currency denominated highly probable forecast transactions;

NOTES TO THE FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION

S5. Hedge accounting

- interest rate swaps used to protect against the variability in cash flows associated with floating-rate borrowings due to movements in market interest rates; and
- cross-currency interest rate swaps and forward foreign exchange contracts used to protect against the variability in cash flows associated with borrowings denominated in non-functional currencies.

The portion of the gain or loss on the hedging instrument which is effective is recognised directly in equity while any ineffectiveness is recognised in the Group Income Statement. The gains or losses that are initially recognised in the cash flow hedging reserve in the Group Statement of Comprehensive Income are transferred to the Group Income Statement in the same period in which the highly probable forecast transaction affects income. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability on its recognition. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, no longer qualifies for hedge accounting or the Group revokes the designation. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the highly probable forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the Group Income Statement.

Note S4 details movements in the cash flow hedging reserve. The ineffective portion of gains and losses on cash flow hedging is immaterial and is recognised immediately in the Group Income Statement.

Net investment hedges

Historically the Group engaged in net investment hedging (NIH) whereby it would obtain foreign currency debt issued in the same currency as its net investment in a foreign operation. Such hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity; any gain or loss on the ineffective portion of the hedge is recognised in the Group Income Statement. In 2009 the Group ceased to NIH, however the opening balance of the foreign currency translation reserve includes cumulative exchange translation adjustments on borrowings and derivatives classified as a NIH under the requirements of IAS 39. These balances will be recycled to the Group Income Statement on disposal of the relevant foreign operation.

S6. Fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group has documented internal policies for determining fair value, including methodologies used to establish valuation adjustments required for credit risk.

(a) Fair value hierarchy

Financial assets and financial liabilities measured and held at fair value are classified into one of three categories, known as hierarchy levels, which are defined according to the inputs used to measure fair value as follows:

- Level 1: Fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities;
- Level 2: Fair value is determined using significant inputs that may be directly observable inputs or unobservable inputs that are corroborated by market data; and
- Level 3: Fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value.

31 December	Level 1 £m	Level 2 £m	Level 3 £m	**2014 Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	2013 Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	4	688	12	**704**	27	450	115	592
Interest rate derivatives	–	158	–	**158**	–	95	–	95
Foreign exchange derivatives	–	68	–	**68**	–	113	–	113
Treasury gilts designated at fair value through profit or loss	129	–	–	**129**	126	–	–	126
Debt instruments	59	–	3	**62**	52	–	3	55
Equity instruments (i)	24	59	–	**83**	23	–	7	30
Total financial assets at fair value	**216**	**973**	**15**	**1,204**	228	658	125	1,011
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	(320)	(1,268)	(321)	**(1,909)**	(24)	(648)	(81)	(753)
Interest rate derivatives	–	(32)	–	**(32)**	–	(48)	–	(48)
Foreign exchange derivatives	–	(212)	–	**(212)**	–	(136)	–	(136)
Total financial liabilities at fair value	**(320)**	**(1,512)**	**(321)**	**(2,153)**	(24)	(832)	(81)	(937)

(i) Level 2 equity instruments relate to shares acquired in Enercare Inc., as detailed per note 12(c).

£31 million of net assets were transferred out of Level 1 into Level 2 during the year (2013: nil) as a result of the reassessment of derivatives held within the Hess Energy Marketing business acquired in 2013. There were no other significant transfers between Level 1 and Level 2 during the year (2013: nil).

NOTES TO THE FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION

S6. Fair value of financial instruments
The reconciliation of the Level 3 fair value measurements during the year is as follows:

	2014 Financial assets £m	2014 Financial liabilities £m	2013 Financial assets £m	2013 Financial liabilities £m
Level 3 financial instruments				
1 January	**125**	**(81)**	147	(157)
Total realised and unrealised (losses)/gains:				
Recognised in Group Income Statement	**(69)**	**18**	–	(60)
Purchases, sales, issuances and settlements (net)	**(2)**	**(260)**	44	(53)
Transfers between Level 2 and Level 3 (i)	**(45)**	**3**	(63)	188
Foreign exchange movements	**6**	**(1)**	(3)	1
31 December	**15**	**(321)**	125	(81)
Total (losses)/gains for the year for Level 3 financial instruments held at the end of the reporting year (ii)	**(61)**	**(233)**	3	(50)

(i) Transfers in 2013 primarily arose due to the extension of the active period of the UK gas and power markets. Transfers between levels are deemed to occur at the beginning of the reporting period.

(ii) £61 million losses (2013: £3 million gains) for the year for Level 3 financial assets held at the end of the reporting year were recognised within certain re-measurements and no gains or losses (2013: nil) were recognised in other comprehensive income. £233 million losses (2013: £50 million losses) for the year for Level 3 financial liabilities held at the end of the reporting year were recognised within certain re-measurements and no gains or losses (2013: nil) were recognised in other comprehensive income.

(b) Valuation techniques used to derive Level 2 and Level 3 fair values and Group valuation process
Level 2 interest rate derivatives and foreign exchange derivatives comprise interest rate swaps and forward foreign exchange contracts. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Forward foreign exchange contracts are fair valued using forward exchange rates that are quoted in an active market.

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during 2014 was 1% (Europe) and 3% (North America) per annum (2013: combined average of 1%).

For Level 3 energy derivatives, the main input used by the Group pertains to deriving expected future commodity prices in markets that are not active as far into the future as some of our contractual terms. This applies to certain contracts within the UK and US. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices using an average discount rate of 1% (UK) and 7% (US) per annum for 2014 (2013: combined average of 2%).

Active period of markets	Gas	Power	Coal	Emissions	Oil
UK (years)	**3**	**3**	**3**	**3**	**3**
North America (years)	**5**	**Up to 5**	**n/a**	**Up to 5**	**3**

Because the Level 3 energy derivative valuations involve the prediction of future commodity market prices, sometimes a long way into the future, reasonably possible alternative assumptions for gas, power, coal, emissions or oil prices may result in a higher or lower fair value for Level 3 financial instruments. Given the relative size of these fair values, it is unlikely that the impact of these reasonably possible changes would be significant when judged in relation to the Group's profit and loss or total asset value.

It should be noted that the fair values disclosed in the tables above only concern those contracts entered into which are within the scope of IAS 39. The Group has numerous other commodity contracts which are outside of the scope of IAS 39 and are not fair valued. The Group's actual exposure to market rates is constantly changing as the Group's portfolio of energy contracts changes.

The Group's valuation process includes specific teams of individuals that perform valuations of the Group's derivatives for financial reporting purposes, including Level 3 valuations. The Group has an independent team that derives future commodity price curves based on available external data and these prices feed in to the energy derivative valuations. The price curves are subject to review and approval by the Group's Investment Sub-Committee and valuations of all derivatives, together with other contracts that are not within the scope of IAS 39, are also reviewed regularly as part of the overall risk management process.

Where the fair value at initial recognition for contracts which extend beyond the active period differs from the transaction price, a day-one gain or loss will arise. Such gains and losses are deferred and amortised to the Group Income Statement based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available (see note S2 for further detail). The amount that has yet to be recognised in the Group Income Statement relating to the differences between the transaction prices and the amounts that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is immaterial.

NOTES TO THE FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

S6. Fair value of financial instruments

(c) Fair value of financial assets and liabilities held at amortised cost

The carrying value of the Group's financial assets and liabilities measured at amortised cost are approximately equal to their fair value except as listed below:

31 December		Notes	2014 Carrying value £m	2014 Fair value £m	2014 Fair value hierarchy	2013 Carrying value £m	2013 Fair value £m	2013 Fair value hierarchy
Bank overdrafts and loans [(i)]		24(d)	(739)	(792)	Level 2	(321)	(357)	Level 2
Bonds	Level 1	24(d)	(5,094)	(5,676)	Level 1	(4,943)	(5,316)	Level 1
	Level 2	24(d)	(78)	(111)	Level 2	(70)	(83)	Level 2
Obligations under finance leases		24(d)	(237)	(268)	Level 2	(269)	(298)	Level 2

(i) Includes £427 million (2013: £16 million) of liabilities where the carrying value is considered to approximate the fair value of the instrument.

Bank overdrafts, loans and other borrowings

The fair values of bonds classified as Level 1 within the fair value hierarchy are based on quoted market prices. The fair values of Level 2 bonds and bank loans have been determined by discounting cash flows with reference to relevant market rates of interest. The fair values of overdrafts, short-term loans and commercial paper are assumed to equal their book values due to the short-term nature of these amounts. The fair values of obligations under finance leases have been determined by discounting contractual cash flows with reference to the Group's cost of borrowing.

Other financial instruments

Due to their nature and/or short-term maturity, the fair values of trade and other receivables, cash and cash equivalents, trade and other payables and provisions are estimated to approximate their carrying values.

(d) Financial assets and liabilities subject to offsetting, master netting arrangements and similar arrangements

31 December 2014	Gross amounts of recognised financial instruments £m	Gross amounts of recognised financial instruments offset in the Group Balance Sheet £m	Net amounts presented in the Group Balance Sheet £m	Related amounts not offset in the Group Balance Sheet (i): Financial instruments £m	Related amounts not offset in the Group Balance Sheet (i): Collateral £m	Net amount £m
Derivative financial assets	6,152	(5,222)	930	(320)	(185)	425
Derivative financial liabilities	(7,375)	5,222	(2,153)	320	990	(843)
			(1,223)			(418)
Balances arising from commodity contracts						
Accrued energy income	8,148	(5,837)	2,311	(466)	–	1,845
Accruals for commodity costs	(7,275)	5,837	(1,438)	466	–	(972)
Cash and financing arrangements						
Cash and cash equivalents	788	(167)	621	–	–	621
Bank loans and overdrafts	(906)	167	(739)	127	–	(612)
Securities	274	–	274	(97)	(29)	148
Other receivables (current)	365	–	365	(30)	–	335

31 December 2013	Gross amounts of recognised financial instruments £m	Gross amounts of recognised financial instruments offset in the Group Balance Sheet £m	Net amounts presented in the Group Balance Sheet £m	Related amounts not offset in the Group Balance Sheet (i): Financial instruments £m	Related amounts not offset in the Group Balance Sheet (i): Collateral £m	Net amount £m
Derivative financial assets	3,721	(2,921)	800	(201)	(53)	546
Derivative financial liabilities	(3,858)	2,921	(937)	201	188	(548)
			(137)			(2)
Balances arising from commodity contracts						
Accrued energy income	5,700	(3,445)	2,255	(255)	–	2,000
Accruals for commodity costs	(4,740)	3,445	(1,295)	255	–	(1,040)
Cash and pooling arrangements						
Cash and cash equivalents	866	(147)	719	–	–	719
Bank loans and overdrafts	(468)	147	(321)	–	–	(321)
Securities	211	–	211	–	(28)	183

(i) The Group has arrangements in place with various counterparties in respect of commodity trades which provide for a single net settlement of all financial instruments covered by the arrangement in the event of default or termination, or other circumstances arising whereby either party is unable to meet its obligations. The above table shows the potential impact of these arrangements being enforced by offsetting the relevant amounts within each Group Balance Sheet class of asset or liability, but does not show the impact of offsetting across Group Balance Sheet classes.

NOTES TO THE FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION

S7. Fixed-fee service and insurance contracts

This section includes fixed-fee service (FFS) and insurance contract disclosures for services related to British Gas – Residential services and Direct Energy – Residential and business services.

FFS contracts in North America are entered into with home and business services customers.

FFS contracts in the UK are entered into with home services customers by British Gas Services Limited (BGSL). Insurance contracts in the UK are entered into with home services customers by British Gas Insurance Limited (BGIL), authorised by the PRA and regulated by the FCA and the PRA.

Product offerings include central heating, boiler and controls, plumbing and drains and electrical appliance insurance cover.

FFS contracts continue until cancelled by either party; insurance contracts normally provide cover for 12 months with the option of renewal.

The contracts protect policyholders against the risk of breakdowns, resulting in the transfer of an element of risk to the contract provider. Benefits provided to customers vary in accordance with terms and conditions of the contracts entered into; however, they generally include maintenance, repair and/or replacement of the items affected.

The levels of risk exposure and service provision to customers under contract terms are dependent on the occurrence of uncertain future events, in particular the nature and frequency of faults and the cost of repair or replacement of the items affected. Accordingly, the timing and amount of future cash outflows associated with the contracts is uncertain. The key terms and conditions that affect future cash flows are as follows:

- provision of labour and parts for repairs, dependent on the agreement and associated level of service;
- one safety and maintenance inspection either annually or in every continuous two-year period, as set out in the agreement;
- no limit to the number of call-outs to carry out repair work; and
- limits on certain maintenance and repair costs.

Revenue is recognised over the life of contracts having regard to the incidence of risk, in particular the seasonal propensity of claims which span the life of the contract as a result of emergency maintenance being available throughout the contract term. Costs incurred to settle claims represent principally the engineer workforce employed by Centrica within home services and the cost of parts utilised in repair or maintenance. These costs are accounted for over a 12-month period with adjustments made to reflect the seasonality of workload over a given year.

Weather conditions and the seasonality of repairs both affect the profile of the workload and associated costs incurred across the year. The risk exposure of these uncertain events is actively managed by undertaking the following risk mitigation activities:

- an initial service visit is provided to customers taking up most central heating contracts and in some instances pre-existing faults may lead to the contract being cancelled and no further cover being provided;
- an annual maintenance inspection is performed as part of most central heating contracts to help identify and prevent issues developing into significant maintenance or breakdown claims; and
- contract limits are applied to certain types of maintenance and repair work considered to be higher risk in terms of frequency and cost.

The costs of FFS claims and insurance claims incurred during the year were £79 million (2013: £97 million) and £344 million (2013: £356 million) respectively and are included in the table below in 'Expenses relating to FFS and insurance contracts'. All claims are settled immediately and in full. Due to the short average lead time between claims occurrence and settlement, no material provisions were outstanding at the balance sheet date (2013: nil).

	2014 £m	2013 £m
Total revenue	**1,224**	1,266
Expenses relating to FFS and insurance contracts	**(1,004)**	(980)
Deferred income	**(78)**	(76)
Accrued income	**24**	25

The Group considers whether estimated future cash flows under the contracts will be sufficient to meet expected future costs. Any deficiency is charged immediately to the Group Income Statement. Claims frequency is sensitive to the reliability of appliances as well as the impact of weather conditions. The contracts are not exposed to any interest rate risk or significant credit risk and do not contain any embedded derivatives.

NOTES TO THE FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

S8. Related party transactions

The Group's principal related parties include its investments in wind farms and the existing EDF UK nuclear fleet.

During the year, the Group entered into the following arm's length transactions with related parties who are not members of the Group, and had the following associated balances:

	2014 Sale of goods and services £m	2014 Purchase of goods and services £m	2014 Amounts owed from £m	2014 Amounts owed to £m	2013 Sale of goods and services £m	2013 Purchase of goods and services £m	2013 Amounts owed from £m	2013 Amounts owed to £m
Joint ventures:								
Wind farms (as defined in note 6)	**16**	**(126)**	**414**	**(104)**	23	(110)	475	(69)
Associates:								
Nuclear (as defined in note 6)	**–**	**(616)**	**–**	**(58)**	27	(639)	–	(62)
Other	**5**	**(42)**	**24**	**(2)**	2	(7)	21	–
	21	**(784)**	**438**	**(164)**	52	(756)	496	(131)

Investment and funding transactions for joint ventures and associates are disclosed in note 14. Shareholder loan interest income for wind farm joint ventures in the period was £34 million (2013: £32 million). The terms of the outstanding balances related to trade receivables from related parties are typically 30 to 120 days. The balances are unsecured and will be settled in cash. No provision against amounts receivable from related parties was recognised during the year through the Group Income Statement (2013: £21 million). The balance of the provision at 31 December 2014 was £21 million (2013: £21 million).

Key management personnel comprise members of the Board and Executive Committee, a total of 15 individuals at 31 December 2014 (2013: 16).

Remuneration of key management personnel Year ended 31 December	2014 £m	2013 £m
Short-term benefits	**7.9**	8
Post employment benefits	**2.0**	2
Share-based payments	**0.4**	6
	10.3	16

Remuneration of the Directors of Centrica plc Year ended 31 December	2014 £m	2013 £m
Total emoluments (i)	**4.7**	7
Gains made by Directors on the exercise of share options	**3.6**	0.3
Amounts receivable under long-term incentive schemes	**2.6**	–
Contributions into pension schemes	**1.0**	1

(i) These emoluments were paid for services performed on behalf of the Group. No emoluments related specifically to services performed for the Company.

S9. Auditors' remuneration

Year ended 31 December	2014 £m	2013 £m
Fees payable to the Company's auditors for the audit of the Company's individual and consolidated Financial Statements	**5.6**	4.5
Audit of the Company's subsidiaries	**1.3**	1.1
Total fees related to the audit of the parent and subsidiary entities	**6.9**	5.6
Fees payable to the Company's auditors and its associates for other services:		
Audit-related assurance services	**2.1**	1.0
Tax advisory services	**0.2**	0.2
Corporate finance services	**0.4**	1.4
All other services	**0.2**	0.5
	9.8	8.7
Fees in respect of pension scheme audits	**0.1**	0.1

It is the Group's policy to seek competitive tenders for all major consultancy and advisory projects. Appointments are made taking into account factors including expertise, experience and cost. In addition, the Audit Committee has approved a detailed policy defining the types of work for which the Company's auditors can tender and the approvals required. In the past, the Company's auditors have been engaged on assignments in addition to their statutory audit duties where their expertise and experience with the Group are particularly important, including due diligence reporting and corporate finance support for acquisitions and disposals.

NOTES TO THE FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION

S10. Principal undertakings

The Group has a large number of subsidiaries principally in the UK, US, Norway, Canada, the Netherlands and the Republic of Ireland. The main subsidiaries are listed below.

Investments in all principal undertakings (including joint ventures and associates) listed below are held indirectly by Centrica plc. The principal undertakings shown here is a list of those companies which, in the Directors' opinion, principally affect the figures shown in the Group Financial Statements. A full list of related undertakings is included in Centrica plc's Annual Return submitted to the Registrar of Companies.

Subsidiary undertakings (i)

31 December 2014	Country of incorporation/formation	Principal activity
Bord Gáis Energy Limited (ii)	Republic of Ireland	Energy supply and power generation
British Gas Trading Limited, British Gas Energy Procurement Limited	England	Energy supply
British Gas New Heating Limited	England	Electrical and gas installations
British Gas Services Limited	England	Home services
British Gas Insurance Limited	England	Insurance provision
Centrica Resources Limited, Hydrocarbon Resources Limited	England	Gas and/or oil exploration and production
Centrica Production Nederland B.V.	Netherlands	Gas and/or oil exploration and production
Centrica Norway Limited (iii)	England	Gas and/or oil exploration and production
Centrica North Sea Gas Limited, Centrica North Sea Oil Limited	Scotland	Gas and/or oil exploration and production
Centrica LNG Company Limited	England	LNG trading
Centrica Energy Limited, Centrica Energy (Trading) Limited, Centrica Energy Marketing Limited	England	Wholesale energy trading
Centrica Storage Limited	England	Gas storage
GB Gas Holdings Limited	England	Holding company
Direct Energy Partnership	Canada	Energy supply
CPL Retail Energy LP, Direct Energy Business LLC, Direct Energy LP, Direct Energy Source LLC, Energetix DE LLC, Energy America LLC, FCP Enterprises LLC, Gateway Energy Services Corporation, NYSEG Solutions LLC, WTU Retail Energy LP	US	Energy supply
Direct Energy Marketing Limited	Canada	Energy supply and home services
Direct Energy Services LLC	US	Energy supply and home services
Airtron Inc., Clockwork Inc., Direct Energy US Home Services Inc.	US	Home and/or commercial services
Home Warranty Holding Corporation	US	Insurance provision
Direct Energy Resources Partnership	Canada	Gas production
Direct Energy Marketing Inc.	US	Wholesale energy trading
Direct Energy Marketing LLC, Direct Energy New York Corporation (iv)	US	Energy supply
CQ Energy Canada Partnership, CQ Energy Canada Resources Partnership	Canada	Gas and/or oil exploration and production
Direct Energy Business Services Limited	Canada	Commercial services

(i) Centrica plc holds 100% of the ordinary shares and net assets or 100% of the interest in all subsidiary undertakings in this list, except for CQ Energy Canada Partnership (60%) and CQ Energy Canada Resources Partnership (60%).
(ii) Acquired in 2014.
(iii) Centrica Norway Limited is operating in Norway as Centrica Energi NUF.
(iv) Direct Energy Marketing LLC and Direct Energy New York Corporation were renamed during the year (previously Hess Energy marketing LLC and Hess Energy New York Corporation respectively).

Scottish partnerships

The Group has an interest in four Scottish limited partnerships: Finance Scotland CEPS Limited Partnership, Finance Scotland CPP Limited Partnership, Finance Scotland CPS Limited Partnership and Centrica Finance Limited Partnership. These partnerships are fully consolidated into the Group accounts and the Group has taken advantage of the exemption (as confirmed by regulation 7 of the Partnerships (Accounts) Regulations 2008) to not prepare or file separate accounts for these entities.

NOTES TO THE FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

S10. Principal undertakings

Joint arrangements and associates

31 December 2014	Country of incorporation/formation (ii)	Percentage holding in ordinary shares and net assets	Principal activity
Joint ventures (i)			
Lincs Wind Farm Limited	Scotland	50	Power generation
GLID Wind Farms TopCo Limited	England	50	Power generation
Associate (i)			
Lake Acquisitions Limited (Nuclear)	England	20	Holding company

(i) Further information on the principal joint ventures and associate investments held by the Group is disclosed in notes 6 and 14.
(ii) The principal country in which Lincs Wind Farm Limited conducts business is England. For all other joint ventures and associates the principal place of business is the country of incorporation.

The companies incorporated in England and Scotland principally operate in the UK. The companies incorporated in the US, Canada, Norway, the Netherlands and the Republic of Ireland principally operate within their country of incorporation.

The Directors have determined that the investments in Lake Acquisitions Limited and Lincs Wind Farm Limited are sufficiently material to warrant further disclosure on an individual basis. Accordingly, the Group presents summarised financial information, along with reconciliations to the amounts included in the consolidated Financial Statements, for these investees.

Further information regarding other joint ventures and associates is disclosed on an aggregated basis in notes 6 and 14.

Lake Acquisitions Limited

Summarised Statement of Total Comprehensive Income

				2014				2013
Year ended 31 December	**Associate information reported to Group £m**	**Unadjusted 20% share £m**	**Fair value and other adjustments (i) £m**	**Group share £m**	Associate information reported to Group £m	Unadjusted 20% share £m	Fair value and other adjustments (i) £m	Group share £m
Revenue	**3,102**	**620**	**–**	**620**	3,225	645	–	645
Operating profit before interest and tax	**1,209**	**242**	**(13)**	**229**	1,409	282	(61)	221
Profit for the year	**902**	**180**	**–**	**180**	1,050	210	(20)	190
Other comprehensive income/(loss)	**107**	**21**	**–**	**21**	(79)	(16)	4	(12)
Total comprehensive income	**1,009**	**201**	**–**	**201**	971	194	(16)	178

(i) Includes £58 million (2013: £61 million) relating to depreciation of fair value uplifts to PP&E on investment in Nuclear. The associated tax impact is £11 million credit (2013: £43 million credit).

Summarised Balance Sheet

				2014				2013
31 December	**Associate information reported to Group £m**	**Unadjusted 20% share £m**	**Fair value and other adjustments (i) £m**	**Group share £m**	Associate information reported to Group £m	Unadjusted 20% share £m	Fair value and other adjustments (i) £m	Group share £m
Non-current assets	**12,517**	**2,504**	**987**	**3,491**	12,323	2,464	1,065	3,529
Current assets	**3,102**	**620**	**19**	**639**	3,094	619	(1)	618
Current liabilities	**(945)**	**(189)**	**–**	**(189)**	(1,020)	(204)	(1)	(205)
Non-current liabilities	**(7,770)**	**(1,554)**	**(201)**	**(1,755)**	(7,857)	(1,571)	(257)	(1,828)
Net assets (ii)	**6,904**	**1,381**	**805**	**2,186**	6,540	1,308	806	2,114

(i) These are principally fair value adjustments relating to PP&E.
(ii) Before impairment of £214 million (2013: nil) of the Group's associate investment. See note 7.

During the year dividends of £130 million (2013: £187 million) were paid by the associate to the Group.

NOTES TO THE FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION

S10. Principal undertakings
Lincs Wind Farm Limited

Summarised Statement of Total Comprehensive Income

Year ended 31 December	2014 Joint venture information reported to Group £m	2014 Unadjusted 50% share £m	2014 Fair value and other adjustments £m	2014 Group share £m	2013 Joint venture information reported to Group £m	2013 Unadjusted 50% share £m	2013 Fair value and other adjustments £m	2013 Group share £m
Revenue	112	56	–	56	62	31	–	31
Depreciation and amortisation	(48)	(24)	–	(24)	(24)	(12)	–	(12)
Impairment	–	–	–	–	(22)	(11)	6	(5)
Loss on disposal	(7)	(4)	–	(4)	–	–	–	–
Other costs of sales and operating costs	(35)	(17)	–	(17)	(20)	(10)	–	(10)
Profit/(loss) before interest and tax	22	11	–	11	(4)	(2)	6	4
Net finance cost	(66)	(33)	–	(33)	(40)	(20)	–	(20)
Loss for the year	(44)	(22)	–	(22)	(44)	(22)	6	(16)
Other comprehensive (loss)/income	(28)	(14)	–	(14)	27	14	–	14
Total comprehensive loss	(72)	(36)	–	(36)	(17)	(8)	6	(2)

Summarised Balance Sheet

31 December	2014 Joint venture information reported to Group (i) £m	2014 Unadjusted 50% share £m	2014 Fair value and other adjustments £m	2014 Group share £m	2013 Joint venture information reported to Group (i) £m	2013 Unadjusted 50% share £m	2013 Fair value and other adjustments £m	2013 Group share £m
Non-current assets	903	452	2	454	1,247	624	3	627
Current assets (i)	84	42	–	42	93	47	–	47
Current liabilities (i)	(194)	(97)	–	(97)	(415)	(208)	–	(208)
Non-current liabilities (i)	(644)	(322)	–	(322)	(717)	(359)	–	(359)
Net assets	149	75	2	77	208	104	3	107

(i) Current assets includes £46 million (2013: £21 million) of cash and cash equivalents. Non-current liabilities and current liabilities include £624 million (2013: £686 million) and £64 million (2013: £303 million) of borrowings respectively.

Other material joint arrangements owned by the Group that are classified as joint operations and accounted for in accordance with IFRS 11 (see note S2) are detailed below. This list excludes interests in fields where there is no party with overall control since the arrangement does not fulfil the IFRS 11 definition of joint control.

Joint operations – fields/assets

31 December 2014	Location	Percentage holding in ordinary shares and net assets
Cygnus	UK North Sea	49
Grove	Netherlands North Sea	93

NOTES TO THE FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

S10. Principal undertakings

Non-controlling interests

The Group has two subsidiary undertakings with a non-controlling interest, CQ Energy Canada Partnership and its 100% subsidiary, CQ Energy Canada Resources Partnership.

	2014					2013				
31 December	**Non-controlling interests %**	**Profit for the year £m**	**Total comprehensive income £m**	**Total equity £m**	**Dividends paid to non-controlling interests £m**	Non-controlling interests %	Profit for the year £m	Total comprehensive income £m	Total equity £m	Dividends paid to non-controlling interests £m
CQ Energy Canada Partnership	**40**	**7**	**6**	**336**	**(18)**	40	–	(8)	65	(8)

Summarised financial information

The summarised financial information disclosed is shown on a 100% basis. It represents the consolidated position of CQ Energy Canada Partnership and its subsidiary that would be shown in its consolidated financial statements prepared in accordance with IFRS under Group accounting policies before intercompany eliminations.

Summarised Statement of Total Comprehensive Income

Year ended 31 December	**2014 £m**	2013 £m
Revenue	**261**	54
Profit/(loss) for the year	**17**	(1)
Other comprehensive loss	**(2)**	(20)
Total comprehensive income/(loss)	**15**	(21)

Summarised Balance Sheet

31 December	**2014 £m**	2013 £m
Non-current assets	**1,454**	872
Current assets	**88**	77
Current liabilities	**(105)**	(444)
Non-current liabilities	**(543)**	(342)
Net assets	**894**	163

Summarised Cash Flow

Year ended 31 December	**2014 £m**	2013 £m
Net (decrease)/increase in cash and cash equivalents	**(15)**	60

Transactions with non-controlling interests

On 1 October 2014, Direct Energy Resources Partnership, the wholly owned immediate parent undertaking of CQ Energy Canada Partnership, contributed the Group's wholly owned gas and liquids assets in Canada to CQ Energy Canada Partnership in return for a capital stake in the partnership of C$538 million (£297 million). At the same time, the non-controlling interest subscribed for a further C$215 million (£119 million) of capital in the partnership for cash. The cash was used to repay, in part, the Group's partnership loan to CQ Energy Canada Partnership. Group and non-controlling interests partnership loans of C$144 million and C$239 million (£80 million and £132 million respectively) were then converted to capital, leaving Group and non-controlling interests partnership loans of C$30 million and C$20 million (£17 million and £11 million respectively) outstanding.

From a Group perspective, the gas and liquid assets have not been disposed of, since they remain controlled by a subsidiary of the Group. Instead, this is a transaction with the non-controlling interest who has paid C$215 million (£119 million) for a share of additional Group assets. This payment, together with the conversion of C$239 million (£132 million) partnership loans, and a reduction in the Group's deferred tax liability of C$59 million (£32 million) since the non-controlling interest is now responsible for 40% of the tax consequences of the contributed assets, has resulted in an increase in the non-controlling interest of C$513 million (£283 million). In the underlying financial information of the partnership, predecessor accounting has been followed.

COMPANY BALANCE SHEET

31 December	Notes	2014 £m	2013 £m
Fixed assets			
Tangible assets	III	**30**	23
Investments	IV	**2,451**	2,487
		2,481	2,510
Current assets			
Debtors [(i)]	V	**11,700**	12,060
Current asset investments	VII	**204**	193
Cash at bank and in hand		**132**	210
		12,036	12,463
Creditors (amounts falling due within one year)			
Borrowings	VIII	**(1,608)**	(851)
Other creditors	IX	**(4,816)**	(5,948)
		(6,424)	(6,799)
Net current assets		**5,612**	5,664
Total assets less current liabilities		**8,093**	8,174
Creditors (amounts falling due after more than one year)			
Borrowings	VIII	**(5,149)**	(4,935)
Other creditors	IX	**(118)**	(82)
Provisions for liabilities	X	**(4)**	(10)
		(5,271)	(5,027)
Net assets excluding pension assets/(liabilities)		**2,822**	3,147
Defined benefit pension assets	XI	**22**	14
Defined benefit pension liabilities	XI	**(43)**	(34)
Net assets		**2,801**	3,127
Capital and reserves – equity interests			
Share capital	XII	**311**	321
Share premium	XII	**931**	931
Capital redemption reserve	XII	**26**	16
Profit and loss account	XII	**1,533**	1,859
Shareholders' funds	XII	**2,801**	3,127

(i) Includes £155 million (2013: £95 million) due after more than one year.

The Financial Statements on pages 166 to 173 were approved and authorised for issue by the Board of Directors on 19 February 2015 and were signed on its behalf by:

Iain Conn
Chief Executive

The notes on pages 167 to 173 form part of these Financial Statements, along with note 25 to the Group Financial Statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

I. Principal accounting policies of the Company

Basis of preparation

The Company Financial Statements have been prepared under the historical cost convention as modified for the treatment of financial instruments in accordance with applicable UK Accounting Standards consistently applied and under the Companies Act 2006. The accounts have been prepared on a going concern basis. No profit and loss account is presented for the Company as permitted by the Companies Act 2006 (section 408). The Company profit after tax for the year was £887 million (2013: £1,127 million).

Employee share schemes

The Group has a number of employee share schemes under which it makes equity-settled share-based payments as detailed in the Remuneration Report on pages 63 to 81 and in note S2 to the Group Financial Statements. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest and adjusted for the effect of non-market-based vesting conditions. The issue of share incentives by the Company to employees of its subsidiaries represents additional capital contributions. At the point in time these costs are recharged to the subsidiary undertaking the investment balance is reduced accordingly.

Fair value is measured using methods detailed in note S2 to the Group Financial Statements.

Foreign currencies

The Company's functional and presentational currency is pounds sterling. Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at closing rates of exchange. Exchange differences on monetary assets and liabilities and transactions are taken to the Profit and Loss Account, unless hedge accounting is applied whereby the differences are taken to reserves until the hedged item is realised.

Tangible fixed assets

Tangible fixed assets comprise plant and equipment and are held at cost, less accumulated depreciation and any provisions for impairment. Cost includes the original purchase price of the asset and the cost attributable to bringing it to its working condition for its intended use. Tangible fixed assets are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives of up to 10 years. Depreciation of assets under construction commences when the asset is operational.

Leases

Rentals under operating leases are charged to the Profit and Loss Account on a straight-line basis over the lease term.

Investments

Fixed asset investments in subsidiaries' shares are held at cost, less any provision for impairment as necessary. Fixed asset investments in the form of loans are held at amortised cost using the effective interest rate method, less any provision for impairment as necessary. Current asset investments are stated at the lower of cost and net realisable value.

Pensions and other post employment benefits

The Company's employees participate in a number of the Group's defined benefit pension schemes. The total Group cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post employment benefits, on which further detail is provided in note 22 to the Group Financial Statements.

The Company's share of the total Group surplus or deficit at the end of the reporting period for each scheme is calculated in proportion to the Company's share of ordinary employer contributions in to that scheme during the year; ordinary employer contributions are determined by the pensionable pay of the Company's employees within the scheme and the cash contribution rates set by the scheme trustees. Current service cost is calculated with reference to the pensionable pay of the Company's employees. The Company's share of the total Group interest on scheme liabilities, expected return on scheme assets and actuarial gains or losses is calculated in proportion to ordinary employer contributions in the prior accounting period. Changes in the surplus or deficit arising as a result of the changes in the Company's share of total ordinary employer contributions are also treated as actuarial gains or losses.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the Financial Statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the Financial Statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

I. Principal accounting policies of the Company

Financial instruments and borrowings

The Company has applied FRS 26: 'Financial instruments: recognition and measurement' throughout the periods presented and its accounting policies for financial instruments are consistent with those of the Group as disclosed in note S2 to the Group Financial Statements. The Company's financial risk management policies are consistent with those of the Group and are described in the Strategic Report – Principal risks and uncertainties on pages 40 to 45 and in note S3 to the Group Financial Statements. The Company is exempted by FRS 29: 'Financial instruments: disclosures' from providing detailed disclosures in respect of its financial instruments because the Company is included within the Group's consolidated Financial Statements and its financial instruments are incorporated into the disclosures in the notes to the Group Financial Statements prepared in compliance with IFRS 7: 'Financial instruments: Disclosures'.

Presentation of derivative financial instruments

In line with the Group's accounting policy for derivative financial instruments, the Company has classified those derivatives held for the purpose of treasury management as current or non-current, based on expected settlement dates.

Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation.

II. Directors and employees

Details of Directors' remuneration, share-based payments and pension entitlements in the Remuneration Report on pages 63 to 81 form part of these Financial Statements. Information on the main employee share-based payments is given in note S2 to the Group Financial Statements. Details of the remuneration of key management personnel are given in note S8 to the Group Financial Statements.

III. Tangible assets

	2014 Plant and equipment £m	2013 Plant and equipment £m
Cost		
1 January	**109**	195
Additions	**7**	30
Disposals	**–**	(116)
31 December	**116**	109
Accumulated depreciation		
1 January	**86**	99
Charge for the year	**–**	5
Disposals	**–**	(18)
31 December	**86**	86
NBV at 31 December	**30**	23

IV. Investments

	2014			2013		
	Loans (i) £m	Investments in subsidiaries' shares (ii) £m	**Total £m**	Loans (i) £m	Investments in subsidiaries' shares (ii) £m	Total £m
Cost						
1 January	262	2,225	**2,487**	247	2,187	2,434
Advances/additions	–	37	**37**	15	38	53
Repayments	(73)	–	**(73)**	–	–	–
31 December	**189**	**2,262**	**2,451**	262	2,225	2,487

(i) Loan to Lincs Wind Farm Limited, a joint venture of the Group.
(ii) Additions include the net change in shares to be issued under employee share schemes to employees of Group undertakings. Direct investments are held in Centrica Holdings Limited, Centrica Trading Limited and Centrica Beta Holdings Limited, all of which are incorporated in England. Principal undertakings are listed in note S10 to the Group Financial Statements.

The Directors believe that the carrying value of the investments is supported by their realisable value.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

V. Debtors

31 December	Due within one year £m	Due after more than one year £m	2014 Total £m	Due within one year £m	Due after more than one year £m	2013 Total £m
Amounts owed by Group undertakings (i)	11,475	8	**11,483**	11,923	8	11,931
Derivative financial instruments (ii)	32	140	**172**	35	82	117
Other debtors	32	–	**32**	1	–	1
Deferred tax (note VI)	2	–	**2**	–	–	–
Prepayments	4	7	**11**	6	5	11
	11,545	**155**	**11,700**	11,965	95	12,060

(i) The amounts receivable by the Company include £3,758 million (2013: £5,047 million) that bears interest at a quarterly rate determined by Group treasury and linked to the Group cost of funds. The quarterly rates ranged between 1.2% and 3.1% per annum during 2014 (2013: 2.1% and 4.6%). The other amounts receivable from Group undertakings are interest-free. All amounts receivable from Group undertakings are unsecured and repayable on demand.

(ii) Derivative financial instruments comprise foreign currency derivatives held for trading of £4 million (2013: £15 million), interest rate derivatives in hedge accounting relationships of £158 million (2013: £95 million) and foreign currency derivatives in hedge accounting relationships of £10 million (2013: £7 million).

VI. Deferred tax

	1 January 2014 £m	Transfer from provisions £m	Profit and loss (charge)/credit £m	Reserves (charge)/credit £m	31 December 2014 £m
Deferred tax assets/(liabilities) arising on:					
Pension schemes (note XI)	4	–	(3)	5	**6**
Other (note V)	–	(4)	7	(1)	**2**
	4	**(4)**	**4**	**4**	**8**

Other deferred corporation tax liabilities of £4 million at 1 January 2014 were recognised as a provision (note X).

Other deferred corporation tax assets primarily relate to other timing differences. Unrecognised deferred corporation tax assets amount to nil at the balance sheet date (2013: £5 million).

VII. Current asset investments

31 December	2014 £m	2013 £m
Short-term investments	**204**	193

£75 million (2013: £67 million) of investments were held in trust, on behalf of the Company, as security in respect of the Centrica Unfunded Pension Scheme (refer to note XI).

VIII. Borrowings

31 December	2014 Due within one year £m	2014 Due after one year £m	2013 Due within one year £m	2013 Due after one year £m
Bank loans and overdrafts	**437**	**312**	40	305
Commercial paper	**735**	**–**	325	–
Bonds	**335**	**4,837**	383	4,630
Interest accruals	**101**	**–**	103	–
	1,608	**5,149**	851	4,935

The Company's financial instruments and related disclosures are included within the consolidated Group Financial Statements. As permitted by FRS 29, further detailed disclosure in respect of the Company's financial instruments is not included. Disclosures in respect of the Group's borrowings are provided in note 24 to the Group Financial Statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

IX. Other creditors

31 December	2014 Due within one year £m	2014 Due after more than one year £m	2013 Due within one year £m	2013 Due after more than one year £m
Trade creditors	–	–	23	5
Amounts owed to Group undertakings (i)	4,733	20	5,889	–
Derivative financial instruments (ii)	31	95	5	77
Taxation and social security	1	–	1	–
Accruals and other creditors	51	3	30	–
	4,816	118	5,948	82

(i) The amounts payable by the Company include £3,993 million (2013: £3,518 million) that bears interest at a quarterly rate determined by Group treasury and linked to the Group cost of funds. The quarterly rates ranged between 1.2% and 3.1% per annum during 2014 (2013: 2.1% and 4.6%).

(ii) Derivative financial instruments comprise foreign currency derivatives held for trading of £16 million (2013: £6 million), interest rate derivatives held for trading of £30 million (2013: £26 million), interest rate derivatives in hedge accounting relationships of £2 million (2013: £22 million) and foreign currency derivatives in hedge accounting relationships of £78 million (2013: £28 million).

X. Provisions for liabilities

	1 January 2014 £m	Transfer to assets £m	Utilised in the year £m	31 December 2014 £m
Other provisions	6	–	(2)	4
Deferred tax (note VI)	4	(4)	–	–
	10	(4)	(2)	4

Other provisions principally represent estimated liabilities for contractual settlements, business restructuring and National Insurance in respect of employee share scheme liabilities. The National Insurance provision was based on a share price of 279.00 pence at 31 December 2014 (2013: 347.70 pence). The majority of the amounts are expected to be utilised by 2017.

XI. Pensions

(a) Summary of main schemes

The Company's employees participate in the following Group defined benefit pension schemes: Centrica Pension Plan (CPP), Centrica Pension Scheme (CPS), and Centrica Unfunded Pension Scheme. Its employees also participate in the defined contribution section of the Centrica Pension Scheme. Information on these schemes is provided in note 22 to the Group Financial Statements.

Together with the Centrica Engineers Pensions Scheme (CEPS), CPP and CPS form the significant majority of the Group's and Company's defined benefit obligation and are referred to below and in the Group Financial Statements as the 'Registered Pension Schemes'.

(b) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes are provided in note 22 to the Group Financial Statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

XI. Pensions

(c) Movements in the year

	2014 Pension liabilities £m	2014 Pension assets £m	2013 Pension liabilities £m	2013 Pension assets £m
1 January	**(293)**	**269**	(262)	234
Items included in the Profit and Loss Account:				
Current service cost	**(6)**	**–**	(3)	–
Past service credit	**1**	**–**	–	–
Interest on scheme liabilities	**(14)**	**–**	(13)	–
Expected return on scheme assets	**–**	**15**	–	14
Other movements:				
Actuarial (loss)/gain	**(61)**	**57**	104	(133)
Employer contributions	**–**	**6**	–	27
Benefits paid from schemes	**8**	**(8)**	7	(7)
Transfers from other Group companies	**(1)**	**–**	(126)	134
31 December	**(366)**	**339**	(293)	269

31 December	2014 £m	2013 £m
Net pension deficit	**(27)**	(24)
Related deferred tax asset	**6**	4
Net pension liability after deferred tax	**(21)**	(20)

Presented in the Balance Sheet as:

31 December	2014 £m	2013 £m
Defined benefit pension assets	**22**	14
Defined benefit pension liabilities	**(43)**	(34)
	(21)	(20)

Of the pension schemes liabilities, £49 million (2013: £42 million) relate to the Centrica Unfunded Pension Scheme.

(d) Analysis of the actuarial gains/(losses) recognised in reserves (note XII)

Year ended 31 December	2014 £m	2013 £m
Actuarial gain/(loss) (actual return less expected return on pension scheme assets)	**57**	(133)
Experience gain arising on the scheme liabilities	**1**	2
Changes in assumptions underlying the present value of the schemes' liabilities	**(62)**	102
Actuarial loss recognised in reserves before adjustment for taxation	**(4)**	(29)
Cumulative actuarial losses recognised in reserves at 1 January, before adjustment for taxation	**(43)**	(14)
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	**(47)**	(43)

(e) Pension scheme contributions

Note 22 to the Group Financial Statements provides details of the triennial review carried out at 31 March 2012 in respect of the UK Registered Pension Schemes and the asset-backed contribution arrangements set up in 2012 and 2013. Under FRS 17: 'Retirement benefits', the Company's contribution and trustee interest in the Scottish limited partnerships are recognised as scheme assets.

The Company estimates that it will pay £3 million of employer contributions during 2015 at an average rate of 25% of pensionable pay.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

XI. Pensions
(f) Pension scheme assets

31 December	2014 £m	2013 £m
Equities	2,142	1,766
Diversified asset funds	155	403
Corporate bonds	1,794	1,571
High-yield debt	457	362
Liability matching assets	1,467	1,241
Property	324	264
Cash pending investment	61	8
Asset-backed contribution assets	312	379
Group pension scheme assets (i)	**6,712**	5,994

	2014	2013
Company share of the above (£m)	339	269
Expected long-term rate of return on assets per annum	4.5%	5.5%

(i) Total pension scheme assets for the UK pension schemes.

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 are based on the expected median return over a 10-year period (for equities, high-yield debt and property) and appropriate market indices (for corporate bonds and liability matching assets). These returns are calculated by the independent company actuary and adjusted for factors specific to the investment portfolio of the Centrica Combined Common Investment Fund.

(g) Histories

31 December	2014 £m	2013 £m	2012 £m	2011 £m
Plan assets	339	269	234	270
Defined benefit obligations	(366)	(293)	(262)	(283)
History of the pension deficit	**(27)**	(24)	(28)	(13)
Difference between the expected and actual return on scheme assets	**57**	(133)	(56)	5
Experience gains on scheme liabilities	**1**	2	3	2

XII. Shareholders' funds and reserves

	Profit and Loss Account									
	Cash flow hedging reserve £m	Treasury and own shares £m	Share-based payments reserve £m	Retained earnings £m	**Profit and loss account £m**	Share capital £m	Share premium £m	Capital redemption reserve £m	**2014 Total £m**	2013 Total £m
1 January	(10)	(456)	95	2,230	**1,859**	321	931	16	**3,127**	3,326
Profit for the year (i)	–	–	–	887	**887**	–	–	–	**887**	1,127
(Loss)/gain on revaluation of cash flow hedges (net of taxation)	(29)	–	–	–	**(29)**	–	–	–	**(29)**	6
Transferred to profit and loss (net of taxation)	29	–	–	–	**29**	–	–	–	**29**	–
Dividends	–	–	–	(867)	**(867)**	–	–	–	**(867)**	(864)
Employee share schemes:										
Increase in own shares	–	(7)	–	–	**(7)**	–	–	–	**(7)**	(12)
Value of services provided	–	–	39	–	**39**	–	–	–	**39**	43
Exercise of awards	–	78	(39)	–	**39**	–	–	–	**39**	24
Purchase of treasury shares	–	(420)	–	(2)	**(422)**	–	–	–	**(422)**	(500)
Cancellation of shares in treasury	–	549	–	(549)	**–**	(10)	–	10	**–**	–
Gains on revaluation of short term investments (net of taxation)	–	–	–	4	**4**	–	–	–	**4**	3
Actuarial gains/(losses) net of taxation	–	–	–	1	**1**	–	–	–	**1**	(28)
Share issue	–	–	–	–	**–**	–	–	–	**–**	2
Net movement for the financial year	**–**	**200**	**–**	**(526)**	**(326)**	**(10)**	**–**	**10**	**(326)**	(199)
31 December	**(10)**	**(256)**	**95**	**1,704**	**1,533**	**311**	**931**	**26**	**2,801**	3,127

(i) As permitted by section 408(3) of the Companies Act 2006, no Profit and Loss Account is presented.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

XII. Shareholders' funds and reserves

The Directors propose a final dividend of 8.4 pence per share (totalling £417 million) for the year ended 31 December 2014. Details of the dividends are given in note 11 to the Group Financial Statements.

Details of the Company's share capital are provided in the Group Statement of Changes in Equity and note 25 to the Group Financial Statements.

XIII. Commitments

At 31 December 2014, the Company had commitments of £99 million (2013: £125 million) relating to contracts for outsourced services.

At 31 December 2014, annual lease payments in respect of land and buildings included non-cancellable operating lease commitments expiring in less than one year of £1 million (2013: nil), within one to five years of nil (2013: £2 million) and guaranteed operating commitments of a subsidiary undertaking of £6 million (2013: £6 million).

The Company's commitment in respect of its agreement with Cheniere is detailed in note 23 to the Group Financial Statements.

XIV. Related parties

The Company has taken advantage of the exemption in FRS 8: 'Related party disclosures' not to disclose transactions with its wholly owned subsidiaries. During the year the Company received interest and fees on its loan to Lincs Wind Farm Limited of £14 million (2013: £13 million) and received repayments of £73 million (2013: nil). The loan balance outstanding is analysed in note IV.

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 2P 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.

As part of the internal control process related to reserves estimation, an assessment of the reserves, including the application of the reserves definitions is undertaken by an independent technical auditor. An annual reserves assessment has been carried out by DeGoyler and MacNaughton for the Group's global reserves. Reserves are estimated in accordance with a formal policy and procedure standard.

The Group has estimated 2P gas and liquids reserves in Europe, Canada and Trinidad and Tobago.

The principal fields in Europe are Kvitebjorn, Statfjord, Cygnus, South Morecambe, Maria, Chiswick, Valemon, Butch, Rhyl, Grove and York. The principal field in Trinidad and Tobago is NCMA-1. The principal field in Centrica Storage is the Rough field. The European and Trinidad and Tobago reserves estimates are consistent with the guidelines and definitions of the Society of Petroleum Engineers, the Society of Petroleum Evaluation Engineers and the World Petroleum Council's Petroleum Resources Management System using accepted principles.

The principal fields in Canada are Panther, Wildcat Hills, Alderson, Stolberg, Hanlan and Ferrier. The Canadian field 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 Council.

Estimated net 2P reserves of gas (billion cubic feet)	Europe	Canada	Trinidad and Tobago (iv)	Centrica Energy	Centrica Storage	**Total**
1 January 2014	2,011	1,130	128	**3,269**	182	**3,451**
Revisions of previous estimates (i)	(161)	(63)	–	**(224)**	–	**(224)**
(Disposals)/purchases of reserves in place (ii)	(9)	(152)	–	**(161)**	–	**(161)**
Extensions, discoveries and other additions (iii)	13	85	–	**98**	–	**98**
Production (v)	(223)	(91)	(19)	**(333)**	–	**(333)**
31 December 2014	**1,631**	**909**	**109**	**2,649**	**182**	**2,831**

Estimated net 2P reserves of liquids (million barrels)	Europe	Canada	Trinidad and Tobago (iv)	Centrica Energy	Centrica Storage	**Total**
1 January 2014	145	22	–	**167**	–	**167**
Revisions of previous estimates	–	(1)	–	**(1)**	–	**(1)**
(Disposals)/purchases of reserves in place	(4)	(4)	–	**(8)**	–	**(8)**
Extensions, discoveries and other additions (iii)	–	2	–	**2**	–	**2**
Production (v)	(15)	(2)	–	**(17)**	–	**(17)**
31 December 2014	**126**	**17**	**–**	**143**	**–**	**143**

Estimated net 2P reserves (million barrels of oil equivalent)	Europe	Canada	Trinidad and Tobago (iv)	Centrica Energy	Centrica Storage	**Total**
31 December 2014 (vi)	398	169	18	**585**	30	**615**

(i) Revision of previous estimates including those associated with Seven Seas, Ensign, Olympus, Grove and York.
(ii) Reflects our share of the acquisition of producing natural gas assets in the Foothills region of Alberta, Canada and the disposals of Greater Kittiwake area and Amethyst/Ravenspurn. Also includes the transfer of our wholly owned interests to the CQ Energy Canada Partnership, in which the Group has a 60% interest which results in a 40% decrease in the reported reserves associated with these interests.
(iii) Recognition of reserves including the Statfjord fields and a number of additional planned wells in Canada within Centrica Energy.
(iv) The Trinidad and Tobago reserves are subject to a production sharing contract and accordingly have been stated on an entitlement basis (including tax barrels).
(v) Represents total sales volumes of gas and oil produced from the Group's reserves.
(vi) Includes the total of estimated gas and liquid reserves at 31 December 2014 in million barrels of oil equivalent.

Liquids reserves include oil, condensate and natural gas liquids.

FIVE YEAR SUMMARY (UNAUDITED)

Year ended 31 December	2010 £m	2011 £m	2012 £m	2013 £m	**2014 £m**
Group revenue from continuing operations	22,423	22,824	23,942	26,571	**29,408**
Operating profit from continuing operations before exceptional items and certain re-measurements:					
British Gas	1,216	1,005	1,093	1,030	**823**
Direct Energy	227	287	310	276	**150**
Bord Gáis Energy	–	–	–	–	**7**
Centrica Energy	778	1,048	1,251	1,326	**737**
Centrica Storage	169	75	89	63	**29**
Adjusted operating profit – operating profit before exceptional items, certain re-measurements and impact of fair value uplifts from the Strategic Investments acquired in 2009	2,390	2,415	2,743	2,695	**1,746**
Share of joint ventures' and associates' interest and taxation	(78)	(102)	(85)	(111)	**(100)**
Depreciation of fair value uplifts to property, plant and equipment (i)	(118)	(105)	(96)	(66)	**(78)**
	2,194	2,208	2,562	2,518	**1,568**
Operating (loss)/profit from discontinued operations:					
European operations	(2)	13	–	–	**–**
Exceptional items and certain re-measurements after taxation	726	(844)	(77)	(383)	**(1,932)**
Profit/(loss) attributable to owners of the parent	1,894	385	1,245	950	**(1,012)**
	Pence	Pence	Pence	Pence	**Pence**
Earnings per ordinary share	36.8	7.5	24.0	18.4	**(20.2)**
Adjusted earnings per ordinary share (ii)	24.4	25.1	26.6	26.6	**19.2**
Dividend per share declared in respect of the year	14.3	15.4	16.4	17.0	**13.5**

Assets and liabilities

31 December	2010 (restated) (iii) £m	2011 (restated) (iii) £m	2012 (restated) (iii) £m	2013 (restated) (iii) £m	**2014 £m**
Goodwill and other intangible assets	3,454	3,739	4,122	4,724	**4,600**
Other non-current assets	9,815	10,234	11,690	10,993	**9,974**
Net current assets/(liabilities)	217	(739)	(446)	(470)	**(1,492)**
Non-current liabilities	(7,754)	(7,634)	(9,439)	(10,192)	**(10,011)**
Net assets of disposal groups held for sale	87	–	–	202	**–**
Net assets	5,819	5,600	5,927	5,257	**3,071**
Debt, net of cash, cash equivalents and securities:					
Net debt (iii)	(3,022)	(3,073)	(3,945)	(4,942)	**(5,196)**

Cash flows

Year ended 31 December	2010 £m	2011 £m	2012 £m	2013 £m	**2014 £m**
Cash flow from operating activities before exceptional payments	2,651	2,531	3,086	3,164	**1,342**
Payments relating to exceptional charges	(223)	(194)	(266)	(224)	**(125)**
Net cash flow from investing activities	(1,584)	(1,400)	(2,558)	(2,351)	**(651)**
Cash flow before cash flow from financing activities	844	937	262	589	**566**

(i) The depreciation of nuclear fair value uplifts is shown net of taxation.
(ii) Adjusted earnings per ordinary share excludes depreciation of fair value uplifts to PP&E from the Strategic Investments acquired in 2009 after taxation and certain re-measurements and exceptional items.
(iii) The 2010–2013 comparatives have been restated to include cash posted as collateral.

OFGEM CONSOLIDATED SEGMENTAL STATEMENT

Independent Auditors' Report to the Directors of Centrica plc and its Licensees

We have audited the accompanying statement (the 'Consolidated Segmental Statement' or 'CSS') of Centrica plc and its Licensees (as listed in footnote[i]) as at 31 December 2014 in accordance with the terms of our agreement dated 12 January 2015. The CSS has been prepared by the Directors of Centrica plc and its Licensees based on the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences (together, the 'Licences') and the basis of preparation on pages 181 to 184.

Directors' responsibility

The Directors are responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 181 to 184 and for maintaining the underlying accounting records and such internal control as the Directors determine is necessary to enable the preparation of the CSS that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the CSS based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the CSS is free from material misstatement. The materiality level that we used in planning and performing our audit is set at £30 million for each of the segments.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the CSS. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the CSS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the CSS in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the CSS.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the attached CSS of Centrica plc and its Licensees for the year ended 31 December 2014 is prepared, in all material respects, in accordance with:

(i) the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by the Regulator Ofgem; and

(ii) the basis of preparation on pages 181 to 184.

Basis of accounting and restriction on distribution

Without modifying our opinion, we draw attention to pages 181 to 184 of the CSS, which describes the basis of preparation. The CSS is prepared in order for Centrica plc and its Licensees to meet the Licence requirements of the Regulator Ofgem rather than in accordance with a generally accepted accounting framework. The CSS should therefore be read in conjunction with both the Licences and the basis of preparation on pages 181 to 184. This basis of preparation is not the same as segmental reporting under IFRS and/or statutory reporting. As a result, the schedule may not be suitable for another purpose.

This report, including our conclusions, has been prepared solely for the Directors of Centrica plc and its Licensees in accordance with the agreement between us, to assist the Directors in reporting on the CSS to the Regulator Ofgem. We permit this report to be disclosed in the Financial Statements section of the Annual Report and Accounts of Centrica plc for the year ended 31 December 2014 and the website[ii] www.centrica.com/prelims14, to enable the Directors to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and Centrica plc and its Licensees for our work or this report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP
London

19 February 2015

(i) British Gas Trading Limited, Centrica Langage Limited, Centrica SHB Limited, Centrica Brigg Limited, Centrica Barry Limited, Centrica KPS Limited, Centrica RPS Limited, Centrica PB Limited and Centrica KL Limited.

(ii) The maintenance and integrity of the Centrica plc website is the responsibility of the Directors of Centrica plc; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the CSS since it was initially presented on the website.

OFGEM CONSOLIDATED SEGMENTAL STATEMENT

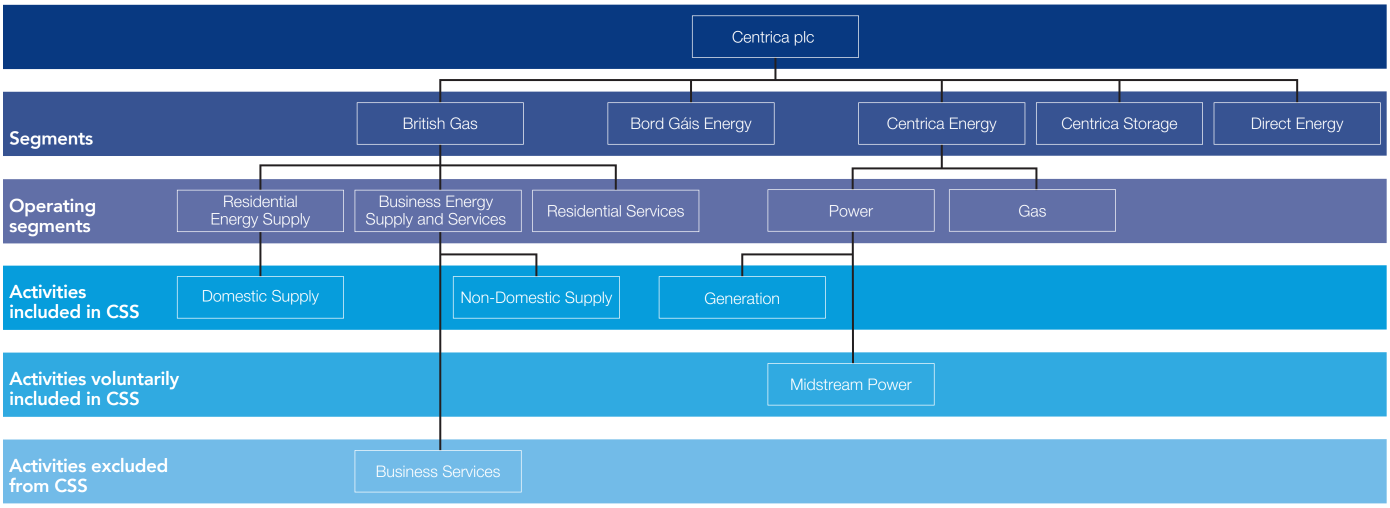
Introduction

The Ofgem Consolidated Segmental Statement (CSS) and required regulatory information on pages 177 to 186 are provided in order to comply with Standard Condition 16B of Electricity Generation Licences and Standard Condition 19A of the Electricity and Gas Supply Licences.

The CSS and supporting information are prepared by the Directors in accordance with the Segmental Statements Guidelines issued by Ofgem. The CSS has been derived from and reconciled to the Centrica plc Annual Report and Accounts for the year ended 31 December 2014 which have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation and the Companies Act 2006.

Centrica plc operational reporting structure

Below is a summary of the Centrica plc Group's (Group) operational reporting structure. The CSS financial data has been extracted from the Centrica plc Annual Report and Accounts 2014 operating segments rather than with reference to specific legal entities. Certain activities included in the Group's operating segments have been excluded from the Generation and Supply segments of the CSS on the basis they are non-licensed activities (eg Midstream Power and Business Services) as illustrated below. However, to aid transparency, the Midstream Power result has been voluntarily included in the CSS. The Centrica plc Annual Report and Accounts 2014 provides operating segment results for 'British Gas – Residential energy supply', 'British Gas – Business energy supply and services' and 'Centrica Energy – Power' in note 4. A full reconciliation between these results and those disclosed for 'Domestic Supply', 'Non-Domestic Supply' and 'Generation' in this CSS is provided at the end of the report.



Centrica plc is the ultimate parent company of all 100% owned licensees. The individual supply and generation licences are held in legal entities whose licensed activities are reported as part of the Centrica plc Annual Report and Accounts 2014 within the operating segments shown above. The individual supply and generation licences held in subsidiaries, joint ventures or associates of Centrica plc during 2014 are detailed below:

Licensee	Licence	Ownership
British Gas Trading Limited	Supply	100%
Centrica Langage Limited	Generation	100%
Centrica SHB Limited	Generation	100%
Centrica Brigg Limited	Generation	100%
Centrica Barry Limited	Generation	100%
Centrica KPS Limited	Generation	100%
Centrica RPS Limited	Generation	100%
Centrica PB Limited	Generation	100%
Centrica KL Limited	Generation	100%
Lincs Wind Farm Limited	Generation	50% Joint venture
Barrow Offshore Wind Limited (iv)	Exemption (i)	50% Joint venture
Glens of Foudland Wind Farm Limited	Not required (ii)	50% Joint venture
Lynn Wind Farm Limited	Exemption (i)	50% Joint venture
Inner Dowsing Wind Farm Limited	Exemption (i)	50% Joint venture
Rhiannon Wind Farm Limited (v)	Generation	50% Joint venture
EDF Energy Nuclear Generation Limited	Generation (iii)	20% Associate

(i) Certain wind farms have received an exemption from the requirement to have a generation licence.
(ii) The capacity of Glens of Foudland is 26MW and therefore does not require a generation licence or an exemption from having a generation licence.
(iii) The Centrica plc Group holds a 20% investment in Lake Acquisitions Limited which indirectly owns 100% of EDF Energy Nuclear Generation Limited.
(iv) Barrow Offshore Wind Limited was disposed of on 19 December 2014.
(v) The Rhiannon wind farm (known as Celtic Array) licence was relinquished on 31 July 2014 because planned development was deemed uneconomic.

OFGEM CONSOLIDATED SEGMENTAL STATEMENT

Ofgem consolidated segmental statement

Year ended 31 December 2014

		Electricity Generation				Electricity Supply		Gas Supply			
	Unit	Nuclear (i)	Thermal (i)	Renewables	**Aggregate Generation Business**	Domestic	Non-Domestic	Domestic	Non-Domestic	**Aggregate Supply Business**	**Midstream Power (ii)**
Total revenue	**£m**	**575.1**	**599.2**	**144.9**	**1,319.2**	**3,296.3**	**1,963.6**	**5,031.2**	**765.9**	**11,057.0**	**105.6**
Sales of electricity & gas	£m	570.4	587.7	53.0	**1,211.1**	3,260.7	1,955.3	4,986.1	765.9	**10,968.0**	59.9
Other revenue	£m	4.7	11.5	91.9	**108.1**	35.6	8.3	45.1	–	**89.0**	45.7
Total operating costs	**£m**	**(306.4)**	**(663.9)**	**(96.7)**	**(1,067.0)**	**(3,219.0)**	**(1,902.6)**	**(4,596.0)**	**(694.0)**	**(10,411.6)**	**(73.8)**
Direct fuel costs	£m	(76.1)	(456.6)	–	**(532.7)**	(1,390.5)	(954.6)	(2,443.8)	(441.4)	**(5,230.3)**	–
Direct costs	£m	(212.1)	(150.3)	(31.7)	**(394.1)**	(1,371.5)	(747.4)	(1,452.6)	(152.5)	**(3,724.0)**	(58.1)
Network costs	£m	*(34.7)*	*(39.3)*	*(4.9)*	**(78.9)**	*(870.7)*	*(471.7)*	*(1,147.5)*	*(136.5)*	**(2,626.4)**	–
Environmental and social obligation costs	£m	–	*(52.6)*	–	**(52.6)**	*(484.6)*	*(248.3)*	*(290.9)*	–	**(1,023.8)**	–
Other direct costs	£m	*(177.4)*	*(58.4)*	*(26.8)*	**(262.6)**	*(16.2)*	*(27.4)*	*(14.2)*	*(16.0)*	**(73.8)**	*(58.1)*
Indirect costs	£m	(18.2)	(57.0)	(65.0)	**(140.2)**	(457.0)	(200.6)	(699.6)	(100.1)	**(1,457.3)**	(15.7)
WACOF/E/G	**£/MWh, P/th**	**(6.7)**	**(50.9)**	**N/A**	**N/A**	**(61.0)**	**(58.6)**	**(71.1)**	**(68.3)**	**N/A**	**N/A**
EBITDA	**£m**	**268.7**	**(64.7)**	**48.2**	**252.2**	**77.3**	**61.0**	**435.2**	**71.9**	**645.4**	**31.8**
DA	**£m**	(59.0)	(55.1)	(38.3)	**(152.4)**	(32.1)	(6.4)	(41.5)	(3.3)	**(83.3)**	(1.0)
EBIT	**£m**	**209.7**	**(119.8)**	**9.9**	**99.8**	**45.2**	**54.6**	**393.7**	**68.6**	**562.1**	**30.8**
Volume	**TWh, MThms**	**11.2**	**10.0**	**0.9**	**22.1**	**22.8**	**16.3**	**3,439.0**	**646.1**	**N/A**	
Average customer numbers/sites	**'000s**	**N/A**	**N/A**	**N/A**	**N/A**	**6,513.6**	**587.1**	**8,414.5**	**301.4**	**N/A**	

		Electricity Supply Domestic	Electricity Supply Non-Domestic	Gas Supply Domestic	Gas Supply Non-Domestic	Aggregate Supply Business
Supply EBIT	**margin**	**1.4%**	**2.8%**	**7.8%**	**9.0%**	**5.1%**
Supply PAT	**£m**	**35.4**	**44.2**	**308.2**	**55.6**	**443.4**
Supply PAT	**margin**	**1.1%**	**2.3%**	**6.1%**	**7.3%**	**4.0%**

2013 Summarised CSS

Year ended 31 December 2013

		Electricity Generation				Electricity Supply		Gas Supply			
	Unit	Nuclear (i)	Thermal (i)	Renewables	Aggregate Generation Business	Domestic (iii)	Non-Domestic	Domestic (iii)	Non-Domestic	Aggregate Supply Business	Midstream Power (ii)
Total revenue (restated) (iii)	£m	628	590	157	1,375	3,454	1,951	6,033	904	12,342	111
EBIT	£m	250	(133)	25	142	28	49	543	97	717	29

		Electricity Supply Domestic	Electricity Supply Non-Domestic	Gas Supply Domestic	Gas Supply Non-Domestic	Aggregate Supply Business
Supply EBIT	margin (iii)	0.8%	2.5%	9.0%	10.7%	5.8%
Supply PAT	£m	21	39	402	78	540
Supply PAT	margin (iii)	0.6%	2.0%	6.7%	8.6%	4.4%

(i) The Nuclear and Thermal segments represent conventional electricity generation.
(ii) Midstream Power includes results from non-licensed activities related to power trading and bilateral arrangements with third party owners of power generation assets in the UK and Europe (included in the 'Centrica Energy – Power' segment as defined in the Centrica plc Annual Report and Accounts 2014 (note 4)).
(iii) 2013 revenues for Domestic Electricity Supply and Domestic Gas Supply have been restated from £3,497 million to £3,454 million and from £6,091 million to £6,033 million respectively. These restatements are to deduct government mandated social tariffs and discounts, and other social discounts (previously shown within direct costs), and have been made to be consistent with the new Ofgem presentation requirements for 2014. Consequential restatements of margin % have also been made.

OFGEM CONSOLIDATED SEGMENTAL STATEMENT

Ofgem consolidated segmental statement

Glossary of terms

- 'WACOF/E/G' is weighted average cost of fuel (nuclear), electricity (supply) and gas (thermal and supply) calculated by dividing direct fuel costs by volumes. For the Thermal sub-segment the cost of carbon emissions is added to direct fuel costs before dividing by the generated volume.
- 'EBITDA' is earnings before interest, tax, depreciation and amortisation, and is calculated by subtracting total operating costs from revenue.
- 'DA' is depreciation and amortisation.
- 'EBIT' is earnings before interest and tax, and is calculated by subtracting total operating costs, depreciation and amortisation from total revenue.
- 'Supply EBIT margin' is a profit margin expressed as a percentage and calculated by dividing EBIT by total revenue and multiplying by 100 for the Supply segment.
- 'Supply PAT' is profit after tax but before interest and is calculated by subtracting Group adjusted tax from EBIT for the Supply segment.
- 'Supply PAT margin' is a profit margin expressed as a percentage and calculated by dividing Supply PAT by total revenue and multiplying by 100 for the Supply segment.
- 'Volume' for Supply is supplier volumes at the meter point (ie net of losses); Generation volume is the volume of power that can actually be sold in the wholesale market (ie generation volumes after losses up to the point where power is received under the Balancing and Settlement Code but before subsequent losses).
- 'Average customer numbers/sites' are calculated by adding average monthly customer numbers/sites (as defined in the Basis of preparation) and dividing by 12.

OFGEM CONSOLIDATED SEGMENTAL STATEMENT

Business functions table

Year ended 31 December 2014 – analysis of business function's performance (i)

The table below illustrates where the business functions reside.

	Generation	Supply	Another part of business
Operates and maintains generation assets	✓	–	–
Responsible for scheduling decisions	✓	–	–
Responsible for interactions with the Balancing Market	✓	✓	–
Responsible for determining hedging policy	✓ (output)	✓ (demand)	–
Responsible for implementing hedging policy/makes decision to buy and sell energy	✓ (output)	✓ (demand)	–
Interacts with wider market participants to buy/sell energy	✓ (bilateral)	✓ (market and bilateral)	✓ (market and bilateral)(ii)
Holds unhedged positions (either short or long)	✓	✓	✓(ii)
Procures fuel for generation	✓	–	–
Procures allowances for generation	✓	–	–
Holds volume risk on positions sold (either internal or external)	✓	✓	–
Matches own generation with own supply	–	✓(iii)	✓(ii)/(iii)
Forecasts total system demand	–	✓	–
Forecasts wholesale price	✓(iv)	✓(iv)	✓(iv)
Forecasts customer demand	–	✓	–
Determines retail pricing and marketing strategies	–	✓	–
Bears shape risk after initial hedge until market allows full hedge	✓	✓	–
Bears short-term risk for variance between demand and forecast	–	✓	–

(i) The table reflects the business functions that impact our UK segments.
(ii) The Group's Supply and Generation businesses are separately managed. Both businesses independently enter into commodity purchases and sales with the market via Centrica Energy Limited (CEL), our market-facing legal entity. CEL forms part of our non-licensed Midstream Power function and also conducts trading for the purpose of making profits in its own right. The Supply segment is also able to enter into market trades directly as part of its within day balancing activities (as well as external bilateral contracts).
(iii) There are a small number of bilateral off-take contracts between wind farm joint ventures and Domestic and Non-Domestic Electricity Supply segments. Other than this small number of bilateral contracts, 'Matches own generation with own supply' is undertaken in 'Another part of the business' (by CEL at market referenced prices), outside of the Generation and Supply segments.
(iv) A separate team forecasts the wholesale price for the benefit and use of the entire Group. This team does not formally reside in any particular segment but their costs are recharged across the Group.

Key:
✓ Function resides and profit/loss recorded in segment.
– Neither function nor profit/loss reside in segment.

Glossary of terms

- 'Scheduling decisions' means the decision to run individual generation units.
- 'Responsible for interactions with the Balancing Market' means interactions with the Balancing Mechanism in electricity.
- 'Interacts with wider market participants to buy/sell energy' means the business unit is responsible for interacting with wider market participants to buy/sell energy, not the entity responsible for the buy/sell decision itself, which falls under 'Responsible for implementing hedging policy/makes decisions to buy/sell energy'.
- 'Matches own generation with own supply' means where there is some internal matching of generation and supply before either generation or supply interact with the wider market.
- 'Forecasts total system demand' means forecasting total system electricity demand or total system gas demand.
- 'Forecasts customer demand' means forecasting the total demand of own supply customers.
- 'Bears shape risk after initial hedge until market allows full hedge' means the business unit which bears financial risk associated with hedges made before the market allows fully shaped hedging.
- 'Bears short-term risk for variance between demand and forecast' means the business unit which bears financial risk associated with too little or too much supply for own customer demand.

OFGEM CONSOLIDATED SEGMENTAL STATEMENT

Basis of preparation

The following notes provide a summary of the basis of preparation of the 2014 submission.

The Ofgem CSS segments our Supply and Generation activities and provides a measure of profitability, weighted average cost of fuel, and volumes, in order to increase energy market transparency for consumers and other stakeholders.

These statements have been prepared by the Directors of Centrica plc and its Licensees in accordance with Standard Condition 16B of Electricity Generation Licences and Standard Condition 19A of the Electricity and Gas Supply Licences and the basis of preparation. Throughout the basis of preparation the first paragraph number relates to the generation licence and the second to the supply licence conditions respectively.

The financial data provided has been taken from the relevant licensee's and affiliate's financial information for the year ended 31 December 2014, included in the Centrica plc Annual Report and Accounts 2014 which has been prepared under IFRS (in accordance with paragraph 3/19A.3).

For the Generation segment, we have included the financial results from all activities that relate to our generation licences. For clarity the following judgements have been made:

- Where a sub-segment (eg Nuclear, Thermal or Renewables) has undertaken trades to optimise the result of their underlying generation, the net revenue and result from these trades has been included in the CSS sub-segment as they are considered to be related to our generation licences.
- The Group has a long-term tolling contract in respect of the Spalding power station, but does not specifically hold the generation licence. This arrangement provides the Group with the right to nominate 100% of the plant capacity in return for a mix of capacity payments and operating payments. We do not own the power station and the Group does not control the physical dispatch of the asset. This contractual arrangement has been accounted for as a finance lease (under IFRS) and therefore the financial result and volume has been included in the Thermal sub-segment, within the Generation segment.
- The Group has a 20% equity interest in eight nuclear power stations (through its indirect investment in EDF Energy Nuclear Generation Limited). Although we do not specifically hold a generation licence for any of the nuclear stations, our gross share of the financial result from this business (including any contractual arrangements) has been included in the Nuclear sub-segment and hence within the Generation segment.
- The Group has equity interests in a number of wind farm joint ventures. Although we do not specifically hold a generation licence for any of the wind farms owned by these entities, our gross share of the financial result from these businesses (including any contractual arrangements) has been included in the Renewables sub-segment and hence within the Generation segment.
- As a voluntary disclosure, to aid transparency, the Midstream Power trading result (including immaterial overseas activities) has been reported in a separate column of the CSS ('Midstream Power'). The Midstream Power result includes trading in physical and financial energy contracts for the purpose of making profits in their own right and other non-licensed activities (see below). This does not form part of either the Generation or Supply segment. This means our CSS discloses all of the activities that have been included in the 'Centrica Energy – Power' segment of the Centrica plc Annual Report and Accounts 2014 (note 4).
- Where power is purchased from third parties (eg from wind farms, power stations or other bilateral arrangements) and we do not have an equity interest in, or a finance leasing arrangement (from an IFRS perspective) over the assets that generate this power, the result related to these activities is excluded from the Generation segment (but is included in our 'Midstream Power' disclosure). In all cases, the Generation segment reports direct fuel costs and generation volumes on a consistent basis (ie if the purchase cost is a direct fuel cost, then the electricity generated is reported in volume).

Domestic Supply represents the revenue and associated costs in supplying gas and electricity to residential customers in the UK. Non-Domestic Supply represents the revenue and associated costs in supplying gas and electricity to business customers in the UK.

As a voluntary disclosure, to aid comparability, a summarised 2013 CSS with margins has been included within the report.

Revenues

Revenues, costs and profits of the Licensees have been defined below and prepared in compliance with the Group's accounting policies as detailed in notes 2, 3 and S2 of the Centrica plc Annual Report and Accounts 2014, except for joint ventures and associates which are presented gross (in accordance with paragraph 4(a)/19A.4(a)).

- Revenue from sales of electricity and gas for the Supply segment is recognised on the basis of gas and electricity supplied during the period to both domestic and non-domestic customers.
- Revenue from sales of electricity and gas includes an assessment of energy supplied to customers between the date of the last meter reading and the year-end (unread). For the respective Supply segments this means electricity and gas sales. Revenue for domestic supply is after deducting dual fuel discounts where applicable, with the discount split evenly between electricity and gas. Government mandated social tariffs and discounts, such as the Warm Home Discount, and other social discounts, have also been deducted from Domestic Supply revenues directly, charged specifically to each fuel.
- Revenue from sales of electricity for the Generation segment is recognised on the basis of power supplied during the period. Power purchases and sales entered into to optimise the performance of each of the power Generation segments are presented net within revenue.
- LEC revenues associated with Renewables are included within sales of electricity and gas because the certificates must be sold with the electricity.
- Revenue from sales of electricity and gas in Midstream Power relate to the sale of power procured under non-licensed activities' power purchasing agreements (PPAs) and from overseas generation.
- No tolling agreements exist between business segments. The financial risks and rewards of owning and using the Group's power stations reside in the Generation segment.

OFGEM CONSOLIDATED SEGMENTAL STATEMENT

Basis of preparation

- Other respective segmental revenues not related to the sale of gas or power have been separately disclosed. Other revenues include:
  - £91.9 million (2013: £106 million) in Renewables principally relating to the sale of ROCs and services provided to joint ventures. Other revenues in 2013 included revenue from sub-leasing a turbine installation ship;
  - £8.3 million in Non-Domestic Electricity Supply relating to connections and metering installations (2013: £10 million);
  - £35.6 million (2013: £39 million) in Domestic Electricity Supply and £45.1 million (2013: £39 million) in Domestic Gas Supply primarily relating to New Housing Connections and a variety of new technology investments including smart meter installations; and
  - £45.7 million in Midstream Power predominantly relating to the net result of trading in physical and financial energy contracts (both realised (settled) and unrealised (fair valued)) for the purpose of making profits in their own right, net of broker costs (2013: £40 million).

Direct fuel costs

Direct fuel costs for both Generation and Supply include electricity, gas, nuclear fuel and imbalance costs.

- Energy supply to Domestic and Non-Domestic energy customers is procured at a market referenced price, through a combination of bilateral, OTC and exchange based trades/contracts (see table below). Where energy is procured from within the Group it is also at a market referenced price on an OTC basis (except for a small number of bilateral off-take contracts between wind farm joint ventures and the Supply segments)[i]. The market referenced prices used are those prevailing at the time of procurement, which may differ from the price prevailing at the time of supply.
- Domestic and Non-Domestic fixed price products are hedged based upon anticipated demand at the start of the contract period. The majority of the gas and power for Non-Domestic energy and Domestic energy tariff products is purchased in advance (see table below).
- The exact Domestic and Non-Domestic purchasing patterns vary in response to the outlook for commodity markets and commercial factors.
- The Generation segment purchases gas and sells all of its energy at market referenced prices. Gas for CCGTs is procured at market referenced prices through a combination of OTC and exchange based trades/contracts. The cost to the power stations will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply.
- For the Midstream Power segment, any procurement of gas for overseas generation is reported as part of direct costs and not within direct fuel costs.

How we procure electricity, gas and carbon:

Long form bilateral contracts ('bilateral')	Individually negotiated contracts with non-standardised terms and conditions which may relate to size, duration or flexibility. Pricing is predominantly indexed to published market referenced prices, adjusted for transfer of risks, cost of carry and administration.
Over-the-counter ('OTC')	Broker supported market of standardised products, predominantly performed via screen-based trading. These transactions are between two parties, leaving both parties exposed to the other's default with no necessary intermediation of any exchange. An internal OTC price may be provided where market liquidity prevents external trading, with prices that are reflective of market conditions at the time of execution.
Exchange	Regulated electronic platform (notably ICE, APX, and N2EX) where standardised products are traded on exchange through the intermediary of the clearing house which becomes the counterparty to the trade. Membership of a clearing house is required which entails posting of cash or collateral as margin.

WACOF/WACOE/WACOG:

- For Generation this represents the weighted average input cost of gas, carbon and nuclear fuel, shown as £/MWh, used by the Generation business. Gas for CCGTs is procured at market referenced prices through a combination of OTC and exchange-based trades/contracts. The cost to the power stations will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply.
- For Supply this covers the wholesale energy cost, the energy element of Reconciliation-by-Difference (RBD) costs and balancing and shaping costs incurred by the Supply licensees. Again, gas and electricity is procured at market referenced prices through a combination of bilateral, OTC and exchange-based trades/contracts. The cost for the Supply business will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply. Where gas is procured using (predominantly indexed) bilateral contracts, the fuel cost is then allocated between Domestic and Non-Domestic Supply using annually updated fixed-percentages based on the historical split of tariff book volumes. Gas and Electricity balancing costs are allocated between Domestic and Non-Domestic Supply based on their respective volumes multiplied by an appropriate industry referenced price (eg APX or SAP).
- For electricity Supply the weighted average cost of electricity is shown as £/MWh. For gas Supply, the weighted average cost of gas is shown as p/th.

(i) Internal power off-take contracts are long-term power and associated renewable obligation certificate sales from Generation owned assets to Domestic and Non-Domestic Electricity Supply. Pricing is indexed to published markets prices, adjusted for the transfer of risks specific to the asset.

OFGEM CONSOLIDATED SEGMENTAL STATEMENT

Basis of preparation

Direct costs

Direct costs for Supply and Generation are broken down into network costs, environmental and social obligation costs and other direct costs.

- Network costs for Supply and Generation include transportation costs, BSUOS and the transport element of RBD costs. Supply transportation costs include transportation and LNG costs, including £46.1 million incurred by Gas Domestic Supply for the first time in 2014, which enables the segment to secure supply by giving the ability to bring gas into the UK from overseas.
- Environmental and social obligation costs for Domestic Supply include ROCs, FIT and ECO. Non-Domestic Supply includes the cost of LECs, ROCs and FIT. Within the Domestic and Non-Domestic segments, the costs of LECs, FIT and ROCs are included within Electricity, and ECO is allocated between Electricity and Gas based on the relevant legislation. Environmental and social obligation costs for the Generation segment relate to EU ETS carbon emission costs and carbon tax.
- Other direct costs for Generation include employee and maintenance costs.
- Other direct costs for Supply include brokers' costs and sales commissions when the costs have given rise directly to revenue, ie producing a sale. They also include Elexon and Xoserve market participation and wider Smart metering programme costs.
- Other direct costs for Midstream Power principally relate to the costs of purchasing power under other non-licensed activities' PPAs and from procuring gas for overseas generation.

Indirect costs

Indirect costs for Supply and Generation include operating costs such as sales and marketing, bad debt costs, costs to serve, IT, HR, finance, property, staffing and billing and metering costs (including smart meter costs).

- Indirect costs for the Generation, Domestic and Non-Domestic Supply segments (including corporate and business unit recharges) are allocated based on relevant drivers which include turnover, headcount, operating profit, net book value of fixed assets and proportionate use/benefit. For Supply, indirect costs (including corporate recharges but excluding bad debt costs) are primarily allocated between Electricity and Gas on the basis of customer numbers (Domestic) and sites (Non-Domestic). Bad debt costs are allocated between Electricity and Gas on the basis of actual bad debt cost by individual contract in the billing system (Domestic), and on the basis of revenues (Non-Domestic).
- Indirect costs for Midstream Power relate to employee, IT and property costs.

Other

- For Supply, depreciation and amortisation is allocated between Electricity and Gas on the basis of customer numbers (Domestic) and sites (Non-Domestic).
- As the Langage, Humber and Killingholme power stations were reported as assets held for sale for the period 8 May 2014 to 31 December 2014, no depreciation has been charged on these stations during this period. Generation EBIT would have been reduced by £39.0 million had depreciation been charged.
- Generation segment EBIT excludes £58.0 million (2013: £61 million) of depreciation of fair value uplifts to property, plant and equipment relating to the Strategic Investment in Lake Acquisitions Limited (referred to as Nuclear in this document). For further details of this adjustment see notes 2, 4, 6 and 10 of the Centrica plc Annual Report and Accounts 2014.
- For the purposes of Supply PAT, tax is allocated between Gas and Electricity within both Domestic and Non-Domestic Supply based on their relative proportions of EBIT. Note 4(c) of the Centrica plc Annual Report and Accounts 2014 provides details of the adjusted operating profit after tax of the 'British Gas – Residential energy supply' and 'British Gas – Business energy supply and services' operating segments.
- For the Domestic Supply segment, customer numbers are stated based on the number of district meter point reference numbers (MPRNs) and meter point administration numbers (MPANs) in our billing system (for gas and electricity respectively), where it shows an active point of delivery and a meter installation. As a result, our customer numbers do not include those meter points where a meter may recently have been installed but the associated industry registration process has yet to complete, as the meter information will not be present in our billing system.
- For the Non-Domestic Supply segment, sites are based on the number of distinct MPRNs and MPANs in our billing system for gas and electricity respectively.

Transfer pricing for electricity, gas and generation licensees in accordance with paragraph 4(d)/19A.4(d)

There are no specific energy supply agreements between the Generation and Supply segments (apart from a small number of bilateral off-take[i] contracts between wind farm joint ventures and Domestic and Non-Domestic Electricity Supply segments).

In December 2014 Ofgem finalised its proposed licence amendments, which included the requirement to ensure transfer pricing methodologies are appropriate and up to date. In order to meet this requirement, the Group ensured all transfer pricing and cost allocation methodologies were internally reviewed and collated in a central repository. In addition, Internal Audit performed a limited procedures review of the documentation to give comfort over compliance with the Ofgem guidelines.

(i) Internal power off-take contracts are long-term power and associated renewable certificate sales from Generation owned assets to Domestic and Non-Domestic Electricity Supply. Pricing is indexed to published market prices, adjusted for the transfer of risks specific to the asset.

OFGEM CONSOLIDATED SEGMENTAL STATEMENT

Basis of preparation

Treatment of joint ventures and associates

The share of results of joint ventures and associates for the year ended 31 December 2014 principally arises from the Group's interests in the entities listed on page 177.

Under paragraph 5 of the Conditions, the information provided in the CSS includes our gross share of revenues, costs, profits and volumes of joint ventures and associates. In preparing the CSS, joint ventures and associates (which hold a UK generation licence or exemption) are accounted for as follows:

- our proportionate share of revenues of joint ventures and associates has been included within revenue;
- our proportionate share of the profit before tax of joint ventures and associates has been included within EBIT and EBITDA; and
- our proportionate share of the generation volumes of joint ventures and associates has been included within the generation volumes.

For each of the above items, our share of the income and expenses of the joint ventures or associates has been combined line-by-line within the relevant item of the CSS.

The Supply segment has investments in associates but because the investees' businesses do not relate to the sale of gas and electricity, the share of result (revenue of £6 million (2013: £8 million), EBIT loss of £1 million (2013: £7 million)) has been included net within indirect costs rather than gross, on a line-by-line basis.

Exceptional items and certain re-measurements

Mark-to-market adjustments, profits or losses on disposal and impairment charges that have been identified in the Centrica plc Annual Report and Accounts 2014 are excluded from the CSS. For further details of excluded exceptional items and certain re-measurements see note 7 in the Centrica plc Annual Report and Accounts 2014.

In 2014 the Renewables sub-segment result included a net £16.6 million loss: being a £40.1 million write-off of the Group's investment in Celtic Array Limited offset by a £23.5 million profit on disposal of Barrow Offshore Wind Farm Limited. For further details of the disposal see note 12(c). This result has been included in the Generation segment as it is not exceptional in size, nature or incidence, and does not materially change the Generation result. This treatment is consistent with the Group's established wind farm strategy to realise value, share risk and reduce our capital requirements as individual projects develop, which may involve bringing in partners at an appropriate stage or full disposal.

The Nuclear sub-segment result includes a £20.8 million profit from the revaluation of contingent valuation rights, related to the original acquisition of the Nuclear investment. This result has been included in the Generation segment as it is not exceptional in size, nature or incidence, and does not materially change the Generation result.

The Supply segment includes a number of impairment losses totalling £2.4 million (2013: £18 million). These losses have been included in the Supply results as they are not exceptional in size, nature or incidence, and do not materially change the result.

A reconciliation of the Segmental Statement revenue, EBIT, depreciation and Supply PAT to the 2014 audited Centrica plc Annual Report and Accounts has been included in accordance with paragraph 4(b) & (c)/19A.4 (b) & (c) and 6/19A.6.

OFGEM CONSOLIDATED SEGMENTAL STATEMENT

Reconciliation to Centrica plc Annual Report and Accounts

The reconciliation refers to the segmental analysis of the 2014 Centrica plc Annual Report and Accounts in note 4

			Supply segment			
		Generation segment	Domestic		Non-Domestic	
			Electricity	Gas	Electricity	Gas
	Notes	2014	2014	2014	2014	2014
Revenue (£m)						
Centrica plc Annual Report and Accounts Segmental Analysis [(i)]		1,347.1	8,327.5		2,981.4	
Gas and Electricity allocation	1	–	3,296.3	5.031.2	2,215.5	765.9
Include share of JVs and associates	2	716.0	–	–	–	–
Exclude intra-segment revenues	3	(638.3)	–	–	–	–
Exclude midstream revenues	4	(105.6)	–	–	–	–
Exclude non-domestic services revenues	5	–	–	–	(251.9)	–
Ofgem Consolidated Segmental Statement		1,319.2	3,296.3	5,031.2	1,963.6	765.9

	Notes	Generation segment 2014	Domestic Electricity 2014	Domestic Gas 2014	Non-Domestic Electricity 2014	Non-Domestic Gas 2014
EBIT (£m)						
Centrica plc Annual Report and Accounts Segmental Analysis [(i)]	1	130.6	438.9		113.8	
Gas and Electricity allocation		–	45.2	393.7	45.2	68.6
Exclude midstream EBIT	4	(30.8)	–	–	–	–
Exclude non-domestic services loss	5	–	–	–	9.4	–
Ofgem Consolidated Segmental Statement		99.8	45.2	393.7	54.6	68.6

	Notes	Generation segment 2014	Domestic Electricity 2014	Domestic Gas 2014	Non-Domestic Electricity 2014	Non-Domestic Gas 2014
Depreciation (£m)						
Centrica plc Annual Report and Accounts Segmental Analysis [(i)]	1	(56.6)	(73.6)		(10.2)	
Gas and Electricity allocation		–	(32.1)	(41.5)	(6.9)	(3.3)
Include share of JVs and associates depreciation	6	(96.8)	–	–	–	–
Exclude midstream depreciation	4	1.0	–	–	–	–
Exclude non-domestic services depreciation	5	–	–	–	0.5	–
Ofgem Consolidated Segmental Statement		(152.4)	(32.1)	(41.5)	(6.4)	(3.3)

	Notes	Generation segment 2014	Domestic Electricity 2014	Domestic Gas 2014	Non-Domestic Electricity 2014	Non-Domestic Gas 2014
PAT (£m)						
Centrica plc Annual Report and Accounts Segmental Analysis [(i)]	1		343.6		90.9	
Gas and Electricity allocation			35.4	308.2	35.3	55.6
Exclude non-domestic services loss	5		–	–	8.9	–
Ofgem Consolidated Segmental Statement			35.4	308.2	44.2	55.6

(i) The table above reconciles the Generation segment to 'Centrica Energy – Power', the Domestic Supply segment to 'British Gas – Residential energy supply' and the Non-Domestic Supply segment to 'British Gas – Business energy supply and services' in note 4 to the 2014 Centrica plc Annual Report and Accounts. Also included in note 4 is a reconciliation to the IFRS compliant statutory result reported by the Centrica plc Group.

OFGEM CONSOLIDATED SEGMENTAL STATEMENT

Reconciliation to Centrica plc Annual Report and Accounts

Notes:

1. The share of Domestic and Non-Domestic Revenues, Operating Profit (EBIT), Depreciation (including amortisation) and PAT (adjusted operating profit after tax) is provided in note 4 of the Centrica plc Annual Report and Accounts 2014.
2. £716.0 million of revenues relating to the Group's share of joint ventures and associates in Generation are included in the CSS – £619.8 million relating to Nuclear revenues and £96.2 million relating to Wind revenues. £253.8 million of EBIT in the Generation segment relates to profit from joint ventures (£261.6 million profit relating to Nuclear and £7.8 million loss relating to Wind). Additionally, costs relating to the Group's share of joint ventures and associates – £76.1 million direct fuel costs, £233.2 million direct costs, £56.1 million indirect costs and £96.8 million depreciation and amortisation are included. The results of joint ventures and associates are shown separately in the Centrica plc Annual Report and Accounts 2014 in notes 6 and 14.
3. £638.3 million of intra-segment revenues between the joint ventures and associates and the Generation segment (included in the £716.0 million of joint venture and associate revenues) are excluded from the CSS.
4. £105.6 million of revenues, £30.8million of operating profit and £1.0 million of depreciation relating to Centrica's Midstream Power non-licensed activities ('Midstream Power') are excluded from the Generation segment of the CSS (but have been voluntarily disclosed as 'Midstream Power').
5. £251.9 million of revenues, £9.4 million of operating loss, £0.5 million of depreciation and £8.9 million of operating loss after tax relate to Non-Domestic services and are excluded from the CSS.
6. £96.8 million of depreciation relating to the Group's share of joint venture and associates in Generation is included in depreciation cost in the CSS. £58.0 million of depreciation relating to the fair value uplifts to property, plant and equipment relating to the Strategic Investment in Nuclear is excluded from this number. The Centrica plc Annual Report and Accounts 2014 provides further information on our joint ventures and associates in notes 6 and 14.

MANAGING YOUR SHARES

Manage your shares

Centrica's share register is administered and maintained by our Registrar, Equiniti, who you can contact directly if you have any queries about your shareholding. For more general enquires, there is information available in the Shareholder Centre on our website, which includes frequently asked questions and forms that are available to download to:

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

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

Duplicate documents

If you receive more than one copy of shareholder documents, it is likely that you have multiple accounts on the share register, perhaps with a slightly different name or address. To combine your shareholdings, please contact Equiniti and provide your shareholder reference numbers. This also helps us to reduce our environmental impact and save paper.

American Depositary Receipts (ADR)

We have an ADR programme, trading under the symbol CPYYY. Centrica's ratio is one ADR being equivalent to four ordinary shares. Further information is available from our website or please contact:

ADR Depositary

BNY Mellon Shareowner Services
PO Box 30170
College Station, TX 77842-3170
Email: shrrelations@cpushareownerservices.com
Website: mybnymdr.com
Telephone: +1-888-269-2377 (toll-free in the US) or
+1-201-680-6825 (from outside the US)

Manage your shares online

We actively encourage our shareholders to receive communications via email and view documents electronically via our website.

If you sign up for electronic communications, you will receive an email to notify you that new shareholder documents are available to view online, including the Annual Report and Annual Review on the day they are published. You will also receive alerts to let you know that you can view your electronic tax voucher and cast your AGM vote online.

You can also manage your shareholding online by registering for Shareview (shareview.co.uk), a free, secure online site where you can access your information and complete a number of functions including:

- viewing information about your shareholding or dividend payments;
- updating your records, including changing your address or bank mandate instructions; and
- appointing a proxy for the AGM.

When contacting Equiniti or registering online, you should have your shareholder reference number at hand. This can be found on your share certificate, dividend tax voucher or any other correspondence you have received from Equiniti.

Centrica FlexiShare

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

- low cost share dealing rates, full details of which are available on the Shareholder Centre together with dealing charges; and
- quicker settlement periods for buying and selling shares.

Website

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

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

This Annual Report can also be viewed online by visiting centrica.com/ar14.

Contact Equiniti

Contact details for our Registrar:

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

Telephone: 0871 384 2985* and outside the UK+44 (0)121 415 7061

Textphone: 0871 384 2255* and outside the UK+44 (0)121 415 7028

Online: help.shareview.co.uk

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

help.shareview.co.uk >

Manage more online

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

centrica.com/shareholdercentre >

MANAGING YOUR SHARES CONTINUED

Dividends

Dividends on Centrica shares are usually paid in June and November. Details of the dividends for the year ended 31 December 2014 can be found in note 11 to the Financial Statements on page 115.

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

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

Scrip dividends

At the 2015 AGM, Centrica will seek shareholder approval for the introduction of a Scrip dividend programme (Scrip). If approved, the Scrip will enable shareholders to receive new, fully paid Centrica shares instead of cash dividends. The Scrip will allow those shareholders who wish to participate the opportunity to increase their shareholding without incurring dealing charges and stamp duty.

The Scrip will be made available to all shareholders entered on the Company's register at the record date. If you are resident outside the UK, you should check with Equiniti to ensure participation is permitted in your jurisdiction. If you hold your shares indirectly, you should contact your nominee at the time the Scrip is launched to confirm if you are able to participate.

The number of new shares that you receive will depend on the amount of cash dividend that you are entitled to and the Scrip reference price. Only whole shares will be issued and any residual cash that is left over, will be retained and added to the amount of cash available for the next dividend.

Once the new shares have been issued, a Scrip dividend statement will be sent to you along with a new share certificate. If shares are held in FlexiShare, you will receive an account statement and CREST members will have their accounts credited directly.

Eligible shareholders will be invited to join the Scrip when it launches and the invitation will contain all necessary details. The Scrip will be offered in June 2015 when the 2014 final dividend is paid and will replace the Dividend Reinvestment Plan.

Unclaimed dividends

We work with a specialist tracing agency, ProSearch, to identify shareholders whose details are not up to date and who have outstanding cash entitlements. During 2014 we conducted a tracing programme which reunited 3,237 shareholders who we lost contact with, with their unclaimed dividends. To ensure you continue to receive all our communications and mailings, please notify Equiniti when your address details change.

Together with Equiniti, we have introduced an electronic queries service to enable our shareholders to manage their investment 24/7. Details of this service can be found at shareview.co.uk.

Financial calendar – 2015

19 February 2015
Preliminary results

27 April 2015
Interim management statement
Annual General Meeting

30 July 2015
Interim results

19 November 2015
Interim management statement

February 2016
Preliminary results

Dividend calendar – 2015

30 April 2015
Ex-dividend date for 2014 final dividend

1 May 2015
Record date for 2014 final dividend

25 June 2015
Payment date for 2014 final dividend

September 2015
Ex-dividend date for 2015 interim dividend

September 2015
Record date for 2015 interim dividend

November 2015
Payment date for 2015 interim dividend

Scrip timetable

27 April 2015
Annual General Meeting
Approval of 2014 final dividend and Scrip dividend programme by shareholders

30 April 2015
Ex-dividend date

1 May 2015
Record date

7 May 2015
Scrip reference share price set

13 May 2015
Scrip invitation mailed to all shareholders

4 June 2015 4.30pm
Deadline for the receipt of election forms from shareholders

24 June 2015
Share certificates/FlexiShare statements posted

25 June 2015
Dividend payment date/first day of dealing in new shares

Annual General Meeting

27 April 2015
Will be held at 2pm at ExCeL London, One Western Gateway, Royal Victoria Dock, London E16 1XL

Share dealing services

If you wish to buy or sell Centrica shares and hold a share certificate, you can do this by using the services of a stockbroker or high street bank; or through telephone or online services.

In order to sell your shares in this way, you will need to present your share certificate at the time of sale. Alternatively, if you hold your shares through FlexiShare, you can buy and sell Centrica shares through the Shareview portal.

ShareGift

If you have a small number of shares and the dealing costs or the minimum fee make it uneconomical to sell them, it is possible to donate these to ShareGift, a registered charity, who provide a free service to enable you to dispose charitably of such shares. More information on this service can be found at sharegift.org or by calling +44 (0) 20 7930 3737.

Centrica share history

Centrica's shares were first traded on the London Stock Exchange on 17 February 1997 following the demerger from British Gas plc. Since then there have been three events affecting the share capital, as shown below, with full details available from Equiniti and on our website:

- 1999 share consolidation;
- 2004 share consolidation; and
- 2008 rights issue.

Capital gains tax

The information provided below is primarily for the purpose of individual shareholders resident in the UK calculating their personal tax liability. Shareholders who are in any doubt as to their tax position or who are subject to tax in a jurisdiction other than the UK should consult an appropriate professional adviser.

Capital gains tax (CGT) is a tax on the profit or gain you make when you sell, or otherwise dispose of, an asset such as shares. You will only be liable for CGT if the gain you make (the positive difference between the value of the shares on the day you sold them minus the value on the day you acquired them), together with any other CGT chargeable gains that you make in the same tax year, exceeds the annual exemption limit (£11,000 for the 2014/15 tax year and £11,100 for the 2015/16 tax year).

Shareholders who held British Gas shares at demerger would have received one Centrica share and one BG plc share for each British Gas share held. The base cost distribution of British Gas shares were allocated between Centrica and BG plc, 27.053% and 72.947% respectively.

Due to the range of individual circumstances, shareholders are advised to contact HMRC or seek independent advice when calculating their CGT liability. Further information about CGT can be found on the HMRC website at: hmrc.gov.uk/cgt/shares/index.htm or on our website.

Shareholder fraud warning

Shareholders are advised to be very wary of any suspicious or unsolicited mail or telephone calls in relation to their Centrica shares. These may offer to buy shares at a discount, sell shares at a premium or offer a free company report. These communications can imply a connection with Centrica and are often from overseas based brokers who are very persuasive and extremely persistent, with professional websites to support their activities. They often use high pressure tactics to attract investors into scams which turn out to be worthless or non-existent and can cost shareholders money or their shares.

If you do find yourself involved in a scam, you are encouraged to take the following steps:

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

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

For more detailed information on how you can protect yourself from an investment scam, or to report a scam, go to fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams/reporting-form or call 0800 111 6768.

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

Financial Conduct Authority

Contact the FCA to report a scam

Telephone: 0800 111 6768
Online: fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams/reporting-form

Telephone: 0800 111 6768 >

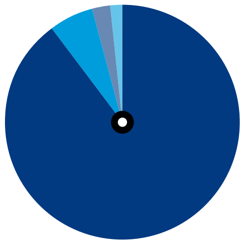
ANALYSIS OF SHAREHOLDERS

Average size of individual holdings
513

Average size of FlexiShare holdings
1,833

Total number of Centrica plc FlexiShare holders
70,765

Share distribution



- Institutions 4,527,555,241
- Individuals 311,467,418
- Centrica FlexiShare 129,707,655
- Treasury 76,860,164

Number of holders with 500 or fewer shares
454,204

Total number of shares held by FlexiShare participants
129,707,655

Range analysis of register
Breakdown of shareholdings overall

Range	Number of holdings
1 – 500	454,204
501 – 1,000	94,899
1,001 – 5,000	66,903
Over 5,001	7,993
Total*	**623,999**

*excludes Treasury holding

Range analysis of register
Breakdown of shareholdings with over 5,001 shares

Range	Number of holdings
5,001 – 10,000	4,884
10,001 – 50,000	1,963
50,001 – 100,000	227
100,001 – 1,000,000	542
1,000,001 – maximum	377
Total*	**7,993**

*excludes Treasury holding

GLOSSARY

$	Refers to US dollars unless specified otherwise
2P reserves	Proven and probable reserves
AFS	Available-for-sale
AGR	Advanced gas-cooled reactor
Associate	An entity in which the Group has an equity interest and over which it has the ability to exercise significant influence
B2B	Business to business
bbl	Barrels of oil
bcf	Billion cubic feet
Black Swan	A metaphor that describes an event that comes as a surprise and would have a major effect
BSUOS	Balancing services use of system
C&I	Commercial and industrial
CCGT	Combined cycle gas turbine
CERT	The Carbon Emissions Reduction Target (CERT) was a UK government programme that concluded in 2012. It was an obligation on energy suppliers to provide energy efficiency measures to households in order to achieve carbon savings
CESP	The Community Energy Saving Programme (CESP) was a UK government programme that concluded in 2012. It was an obligation on UK power generators and energy suppliers to install energy efficiency measures in areas of severe social deprivation
CGU	Cash generating unit
CMA	Competition and Markets Authority
CNG	Compressed natural gas
CO_2e	Universal unit of measurement of the global warming potential (GWP) of greenhouse gases (GHG) expressed in terms of the GWP of one unit of CO_2e (carbon dioxide equivalent)
CPI	Consumer Price Index
CRM	Customer relationship management
DECC	Department of Energy and Climate Change
E&P	Exploration and production
EBITDA (adjusted)	Earnings from business performance before share of results of joint ventures and associates and before interest, tax, depreciation, impairments and amortisation
ECO	The Energy Company Obligation is a UK government programme that requires energy suppliers to insulate and install energy efficiency measures to reduce heating costs across the UK. It replaced the CERT and CESP, which concluded in 2012
Employee engagement	Employee engagement is an emotional state driven by employees' perception of what it is like to work for an organisation. What they think and feel will drive how they behave and this in turn has a measurable impact on business performance
EP	Economic profit is adjusted operating profit (after share of joint venture interest) less a tax charge based on the tax rate relevant to the business segments and after deduction of a capital charge
EPS (adjusted)	Earnings per share. This measure of performance is calculated as profit or loss before other costs and depreciation of fair value uplifts to property, plant and equipment from strategic investments and exceptional items and certain re-measurements for the year, attributable to equity shareholders of the parent company, divided by the weighted average number of shares in issue during the year
EUA	European Union allowance (carbon emissions certificate)
EU ETS	European Union Emission Trading Scheme

GLOSSARY CONTINUED

FCA	Financial Conduct Authority
FoB	Free on Board, grants a supplier the global rights to deliver to wherever it can gain the best price for a cargo
FTSE 100	Financial Times Stock Exchange 100 share index, an average of share prices in the 100 most actively traded companies on the London Stock Exchange, with the highest market capitalisation
FVLCD	Fair value less costs of disposal
gCO_2/kWh	Grammes of carbon dioxide per kilowatt hour
GFRMC	Group Financial Risk Management Committee
GHG	Greenhouse gas emissions
GWh	Gigawatt hour
HILL Risk	A High Impact, Low Likelihood event that lies outside the realm of regular expectations, but which could carry an extreme impact
HVAC	Heating, ventilation and air conditioning
IAS 19	The International Accounting Standard related to Employee Benefits. These financial reporting rules include requirements related to pension accounting
IAS 39	The International Accounting Standard related to financial instruments (recognition & measurement)
IFRS	International Financial Reporting Standard
IPIECA	International Petroleum Industry Environmental Conservation Association
Jointly controlled entity	A joint venture which involves the establishment of an entity to engage in economic activity, which the Group controls jointly with its fellow venturers
kWh	Kilowatt hour
Level 1 fair value	Fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities
Level 2 fair value	Fair value is determined using significant inputs that may be either directly observable inputs or unobservable inputs that are corroborated by market data
Level 3 fair value	Fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value
LNG	Liquefied natural gas
LTIFR	Lost time injury frequency rate. A work related injury or illness that results in one or more days away from work, excluding the day that the injury or illness occurred
mmboe	Million barrels of oil equivalent
mmth	Million therms
MPAN	Meter point administration number
MPRN	Meter point reference number
$mtCO_2e$	Million tonnes of carbon dioxide equivalent
MWh	Megawatt hour
MWp	Megawatt peak
NBV	Net book value
NGO	Non-governmental organisation
nm	Not material
NPS	Net promoter score. NPS measures customer advocacy by responses to the question 'How likely would you be to recommend us (0–10 scale)?' The score is calculated by the percentage of customers defined as promoters (scoring 9–10) minus the percentage defined as detractors (0–6)

OFTO	Offshore Transmission Owner
OPEC	Organisation of the Petroleum Exporting Countries
OTC	Over the counter
PIE	Pensions increase exchange
PP&E	Property, plant and equipment
ppts	Percentage points
PRA	Prudential Regulation Authority
Process safety	Process safety is concerned with the prevention of harm to people and the environment, or asset damage from major incidents such as fires, explosions and accidental releases of hazardous substances
PRT	Petroleum Revenue Tax
QPI	Qatar Petroleum International
RBD	Reconciliation by difference
ROC	Renewable Obligation Certificate
RPI	Retail Price Index
SBU	Standard bundled unit
Scope 1 emissions	The greenhouse gas (GHG) emissions associated with combustion of fossil fuels in the power stations, gas and oil assets, offices, vehicles, equipment and machinery owned/controlled by the reporting entity, as well as the leakage or escape of GHG emissions. For more information see the Basis of Reporting at centrica.com/CRassurance
Scope 2 emissions	The greenhouse gas (GHG) emissions associated with the electricity, heat and steam we import for use in our power stations, gas and oil assets, offices, vehicles, equipment and machinery. For more information see the Basis of Reporting at centrica.com/CRassurance
Securities	Comprised of treasury gilts designated at fair value through profit or loss on initial recognition and available-for-sale financial assets. The fair values of securities are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using observable market data
SMETS	Smart Metering Equipment Technical Specification
Spark spread	The difference between the price of a unit of electricity and the cost of the gas used to generate it
tCO_2e	Tonnes of carbon dioxide equivalent
TSR	Total shareholder return measures the return to shareholders in terms of the growth of a £100 investment in the Company's shares, assuming that dividends and returns of capital are reinvested. We compare our TSR with those of the other 99 members of the FTSE 100
TWh	Terawatt hour
VAT	Value added tax
VIU	Value in use
Vulnerable customer	A customer is vulnerable if due to their personal circumstances, they may be unable to safeguard their personal welfare or that of other household members
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute

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