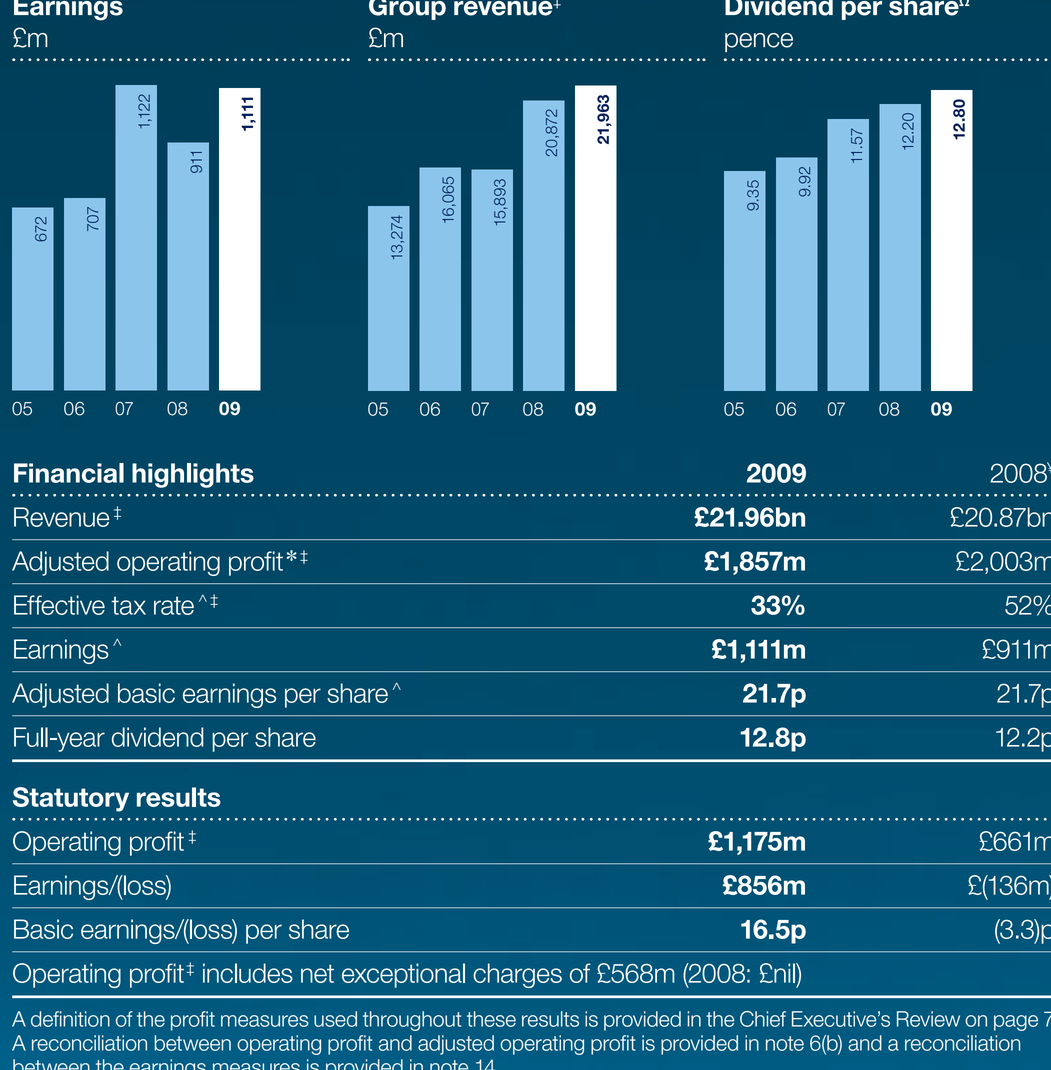
centrica

we**source**it
we**generate**it
we**process**it
we**store**it
we**trade**it
we**supply**it
we**service**it
we**save**it

Our Performance

Centrica's main operations are in the UK and North America. We have two types of business – downstream and upstream.



Financial highlights	2009	2008¥
Revenue ‡	**£21.96bn**	£20.87bn
Adjusted operating profit*‡	**£1,857m**	£2,003m
Effective tax rate ^‡	**33%**	52%
Earnings ^	**£1,111m**	£911m
Adjusted basic earnings per share ^	**21.7p**	21.7p
Full-year dividend per share	**12.8p**	12.2p

Statutory results		
Operating profit ‡	**£1,175m**	£661m
Earnings/(loss)	**£856m**	£(136m)
Basic earnings/(loss) per share	**16.5p**	(3.3)p

Operating profit‡ includes net exceptional charges of £568m (2008: £nil)

A definition of the profit measures used throughout these results is provided in the Chief Executive's Review on page 7. A reconciliation between operating profit and adjusted operating profit is provided in note 6(b) and a reconciliation between the earnings measures is provided in note 14.

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

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

‡ from continuing operations

¥ restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) and change in British Gas Services Limited's revenue recognition policy, as explained in note 2 and to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 38

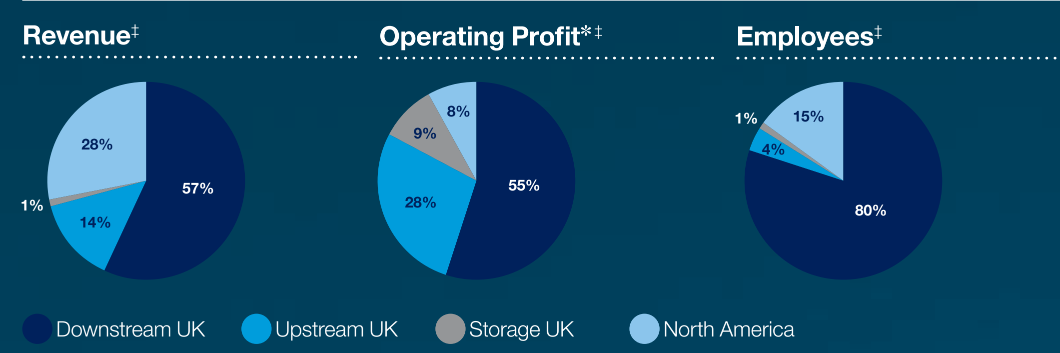
Ω restated to reflect the bonus element of the Rights Issue in 2008

The new shape of Centrica:

We're restructuring the business to meet the modern demands for energy

UK: British Gas, Centrica Energy and Centrica Storage

North America: Direct Energy



		Revenue‡ £m	Operating profit*‡ £m
Downstream UK	British Gas		
Residential energy supply	We are the biggest energy supplier in Britain's domestic market.	7,843	595
Residential services	We are Britain's largest operator in the installation and maintenance of domestic central heating and gas appliances.	1,406	233
Business energy supply and services	We are Britain's leading supplier of energy and related services to businesses.	3,316	183
Upstream UK	centrica energy		
Upstream gas and oil	With assets primarily in the UK and Norwegian continental shelf, our activities include gas and oil production, development and exploration.	551	444
Power generation	We own and operate eight gas-fired power stations, have a leading position in offshore wind and a 20% stake in British Energy's nuclear fleet.	1,150	147
Industrial and commercial	We have a growing LNG business and also manage a number of legacy gas supply contracts.	1,352	(93)
Proprietary energy trading	We procure gas and power for British Gas and other Centrica businesses.	41	27
Storage UK	centrica storage		
	We are the owner and operator of Rough, the UK's largest gas storage facility.	196	168
North America	Direct Energy		
Residential energy supply	We supply gas and power to residential and small business customers in chosen deregulated states and provinces in North America.	2,644	94
Business energy supply	We supply gas and power to commercial and industrial customers in chosen deregulated markets across North America.	2,491	34
Residential and business services	We provide energy related services across North America.	406	18
Upstream and wholesale energy	We own and operate gas-fired power stations in Texas and gas and oil assets in Alberta. We also have a wholesale energy trading business.	567	7

Our Vision: To be the leading integrated energy company in our chosen markets

Positive Energy

For now, and for future generations

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For more… **www.centrica.com/report2009**

Centrica performed well in 2009

It has been a transformational year for Centrica, delivering a stronger business both upstream and downstream.

Roger Carr, Chairman

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

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

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

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

Dividend

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

Board changes

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

As part of combining the divisions of British Gas into a single organisation, Phil Bentley took on responsibility for the whole

Covering all bases:

Significant additions to our upstream portfolio in 2009 enable us to supply even more energy to our customers from our own resources.

downstream UK business in March 2009. Phil remains a Director of Centrica plc.

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

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

Our employees

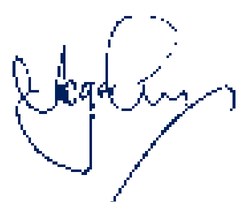
Our employees remain central to the success of Centrica. We experienced one of our busiest ever periods for call-outs during the recent cold weather and I am immensely proud of the dedication and determination our people have demonstrated as they strive to deliver our ultimate product – warm, well lit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

The future

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

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

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



Roger Carr
Chairman
25 February 2010

Earnings and operating profit numbers are stated, throughout the Annual Report, before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements where applicable – see note 2 for definitions. The Directors believe this measure assists with better understanding the underlying performance of the Group. The adjusted operating profit numbers are reconciled at Group level in the Chief Executive's Review. Exceptional items and certain re-measurements are described in note 8. Adjusted earnings and adjusted basic earnings per share are reconciled to their statutory equivalents in note 14.

All current financial results listed are for the year ended 31 December 2009. All references to 'the prior period', 'the prior year', '2008' and 'last year' mean the year ended 31 December 2008 unless otherwise specified. Throughout this Report references to British Gas include Scottish Gas.

Our business principles

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

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

Our ongoing campaign to communicate these principles will help our employees, business partners and external audiences understand the standards we expect.

Chief Executive's Review

A year of transformation

Centrica's underlying operating performance in 2009 demonstrated resilience in a year of sustained economic downturn and weak commodity prices.

Sam Laidlaw, Chief Executive

2009 was a year of significant achievement for Centrica with British Gas now transformed and the completion of the Venture and British Energy transactions.

Our existing strategic priorities have now been achieved, and in February 2010 we announced new priorities to build on the robust, vertically integrated business model that we have in place. Centrica is well positioned to pursue growth opportunities and lead the drive to a low carbon world, whilst maintaining the financial discipline to secure strong returns on our investments.

Energy industry overview

Our strong performance over the last year has come against a very challenging backdrop of severe recession and continuing volatility in wholesale energy prices.

Eighteen months ago, high oil, gas and power prices provided a strong signal to producers to continue investment in energy infrastructure. It was a time of high energy usage by retail consumers and gas-fired power generation due to global economic growth.

The impact of the recession led to a fall in demand for gas and electricity in both Europe and North America, an excess supply of gas and a resultant weakening of spot prices, leading to a reduction in upstream investment.

The liberalised UK energy market has proved central to the delivery of secure energy supplies over the past 20 years, while ensuring the UK benefits from the lowest domestic gas prices in Western Europe. The strength of this model was demonstrated when the market coped well with days of record demand through the winter of 2009-10.

However, there is no room for complacency. Since 2004, the UK has been a net importer of gas, and imports accounted for approximately 50% of this past winter's demand. That figure is likely to reach 75% by 2015 and securing sustainable sources of energy supply for our UK customers is one of our key priorities.

Many in the industry predict an energy gap in the middle of the decade when coal-fired and oil-fired power stations close because of European pollution laws and as ageing nuclear power stations are phased out. We must bridge that gap by moving quickly to build new gas and nuclear power stations and gas storage facilities.

Ofgem, the energy regulator, has acknowledged the £200 billion investment challenge the UK faces, if we are to maintain energy security and start to decarbonise our economy to meet global 2050 carbon targets. That will inevitably have an impact on the cost of energy for consumers, though higher bills can be eased by continuing to invest in improving the energy efficiency of our homes and businesses.

The energy industry is ready to play its part in delivering the investment needed, as long as the Government and regulator can establish the right market frameworks. Centrica, for example, has invested more than £4 billion in the last year alone in new sources of energy for our customers and we expect to spend a further £15 billion by 2020 on new sources of gas, power generation and gas storage facilities that will help underpin the UK's energy future.

Centrica's performance

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

Downstream, we have continued to make improvements to the service and propositions we offer to our customers. We are focusing on delivering a range of new propositions and energy efficient solutions to help customers manage their energy bills. We will lead the transformation to a low carbon world through the installation of

To see more online, go to www.centrica.com/ceo2009

2009: The key events

Quarter 1

British Gas first to announce gas price cuts for over 7.5 million homes

Centrica acquires 70% stake in a project to develop the UK's second largest gas storage field

Quarter 2

British Gas acquires 19% stake in Econergy, a leader in biomass heating

British Gas cuts electricity prices by 10%

Direct Energy secures Massachusetts State energy supply contract

Quarter 3

Centrica acquires Venture

Centrica signs agreement on Trinidadian exploration gas block

Centrica ranked top UK utility and one of the top utilities worldwide for carbon disclosure

Quarter 4

Centrica acquires 20% stake in British Energy, adding nuclear to the portfolio

Centrica's 885MW gas-fired power station at Langage begins operations

smart meters and new technological solutions and energy efficiency advice. Our network of highly trained service engineers are well positioned to deliver this growing range of services.

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

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

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

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

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

Strategic progress

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

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

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

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

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

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

Our vision remains unchanged – 'To be the leading integrated energy company in our chosen markets'. We have however introduced new

Chief Executive's Review continued

Our new strategic priorities:

1. Grow British Gas

…leading the transition to low carbon homes and businesses by:

- optimising the business to leverage scale for further efficiency and to deliver best-in-class service;
- taking the lead in new energy/service propositions, online capability and servicing multi-premise sites; and
- capturing new markets by leading on smart meters, driving microgeneration adoption and focusing on community segments.

2. Deliver value from our growing upstream business

…securing sustainable energy for our customers by:

- being a leading consolidator of mature and orphaned assets in the UK continental shelf;
- optimisation of the power generation fleet; and
- our unique pipeline of low carbon investment choices including wind, new nuclear, gas development and gas storage.

strategic priorities, which will enable the business to move forward and deliver growth.

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

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

Our business model is highly cash generative, enabling us to support a capital investment programme of around £1.5 billion per annum from internally generated resources. Centrica is therefore well positioned to pursue targeted growth opportunities, with options for potential investment across each business. Strict financial discipline will be maintained to secure strong returns on our investments.

Business outlook

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

We expect to see continued benefits from bringing our UK residential, services and business divisions together. We will seek to increase further the number of households that hold both an energy and related services product, through the selling of bundled propositions, whilst also expanding our product range as the energy industry moves towards a low carbon future. We announced our intention to build a major smart metering business in July 2009 and in February 2010 we announced the creation of 1,100 new 'green collar' roles, through the building of an insulation business. Combined with the new energy technologies we have built up over the past two years and a growing capability of working with local authorities on joint energy saving initiatives, these give us a strong platform for growth. We have also put in place initiatives to deliver cost reductions in excess of our previously announced target of £100 million, allowing us to re-invest in the business as we build on the strength of the British Gas brand. And our price reduction in February 2010 made us the cheapest major domestic supplier of both gas and electricity to UK customers.

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

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

During 2009 we successfully implemented innovative and efficient financing structures for a number of our wind farm developments. In October we agreed the sale of a 50% equity stake in the Lynn, Inner Dowsing and Glens of Foudland wind farms, together with the provision of non-recourse financing facilities for these assets. In December we announced a transaction to sell 50% of the 270 megawatt (MW) Lincs offshore wind farm to Siemens Project Ventures and Dong Energy and secured enhanced turbines for this development project. Going forward it will continue to be important to ensure that we put in place efficient financing structures for all our

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3. Build an integrated North American business

…with leading positions in deregulated markets by:

- improving returns from existing business;
- developing leading positions in deregulated markets by capturing large profit pools and leveraging services capability;
- investing for incremental growth and value; and
- further developing the integrated energy model to reduce commodity price exposure and deliver value through lower cost procurement and asset optimisation.

4. Drive superior financial returns

…through operating performance and our investment choices by:

- achieving returns significantly above our cost of capital;
- maintaining a strong balance sheet and leveraging flexibility in our investment portfolio, supported by;
- a health and safety focused culture, best-in-class service levels, focus on costs, leading technology and strong organisational capability.

investments. We have submitted planning consent applications for our further projects at Docking Shoal and Race Bank in the Greater Wash area which combined would add a total of 1.1GW to our wind portfolio. In January 2010 we also secured a Round 3 wind farm development zone, in the Irish Sea, with a potential capacity of 4.2GW.

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

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

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

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

In difficult trading conditions, set against a backdrop of the most serious recession for decades, the commitment and skills of our employees have helped establish a strong foundation on which to build and grow our business. The Executive team and I have asked a great deal from our employees in 2009 and they have responded magnificently – my thanks to them for the part they have played in delivering such a strong performance.

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

Sam Laidlaw
Chief Executive
25 February 2010

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

Term	2009 £m	2008 £m	Explanation
Adjusted operating profit*:			
Downstream UK	**1,011**	712	The supply of gas, electricity and services for UK residential and business customers
Upstream UK	**525**	881	The production, generation, optimisation and trading of energy in the UK
Storage UK	**168**	195	Gas storage in the UK
North America	**153**	215	Downstream and upstream activities in North America
Total adjusted operating profit*	**1,857**	2,003	The principal operating profit measure used by management and used throughout the Operating Review
Impact of fair value uplifts	**(27)**	–	Depreciation of fair value uplifts to property, plant and equipment of Strategic Investments
Interest and taxation on joint ventures and associates and other costs	**(16)**	(11)	
Group operating profit†	**1,814**	1,992	Operating profit from continuing operations before exceptional items and certain re-measurements
Group profit†	**1,104**	964	Profit from continuing operations before exceptional items and certain re-measurements
Statutory profit/(loss)	**856**	(136)	Profit/(loss) including discontinued operations, exceptional items and certain re-measurements

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

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

Key Performance Indicators

Measuring our performance

We recognise the importance of both financial and non-financial metrics in demonstrating the health of our business.

Sam Laidlaw, Chief Executive

We monitor our progress against strategy with six high level key performance indicators (KPIs). These reflect Centrica's primary purpose in delivering returns to shareholders and the importance of satisfying our customers, engaging our employees and growing our business in a sustainable way.

Financial KPIs

Adjusted basic earnings per share^ (EPS)

EPS is an industry standard determining corporate profitability for shareholders. In 2009 EPS remained unchanged at 21.7 pence despite a 22% increase in the average number of shares in issue. 2007 was an exceptional year as a result of favourable commodity prices experienced in the first half of 2007 which drove profitability in the residential supply business.

Target/commitment – To deliver growth in adjusted EPS over a three-year period. This measure is used as one of the performance conditions in the Long Term Incentive Scheme, outlined on pages 50 and 51.

Adjusted basic earnings per share^Ω (pence)

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

Source: The measure of adjusted basic EPS is reported in note 14 of the audited Financial Statements.

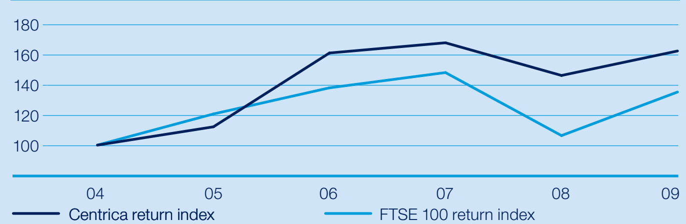
Total shareholder return (TSR)

The Board continues to believe that to realise the Company's long-term strategic goals, TSR is a valuable key performance indicator to assess the Company's performance in the delivery of shareholder value.

Centrica has outperformed the FTSE 100 Index by 20% over a five-year period.

Target/commitment – TSR is utilised as a measure of performance over a three-year period in the Long Term Incentive Scheme, outlined on pages 50 and 51.

Total shareholder return indices – Centrica and FTSE 100 Index for the five years ended 31 December 2009



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 at the start of each performance period.

Source: Alithos Limited

Dividends per share

Dividends per share indicate the level of earnings distributed to Centrica shareholders.

The 2009 dividend shows an increase of 4.9% on the 2008 dividend.

Target/commitment – To deliver real growth per annum.

Ordinary dividendΩ (pence)

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

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

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

Ω earnings per share and dividends per share figures for 2007 have been restated to reflect the bonus element of the Rights Issue in 2008

For more details on our KPIs, go to www.centrica.com/kpis2009

Non-financial KPIs

Customer satisfaction

Customer satisfaction is key to retaining and growing the customer base and is therefore central to our business strategy.

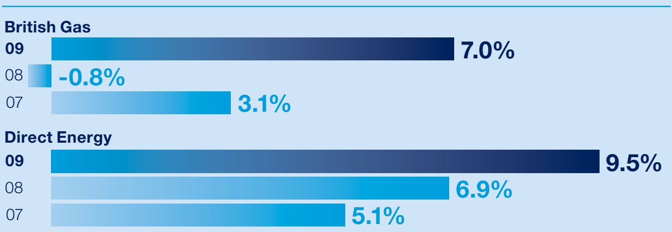
The net promoter scores (NPS) for British Gas, in both the residential and services business, increased significantly, as did those for Direct Energy. The increases are a result of significant improvements to our processes, systems and employee training which reflect the shift towards a more customer-focused organisation.

The scores reported for 2009 have been calculated with the same methodology used in previous years. However in 2010, we will be reporting using improved methodology for British Gas, following a comprehensive review of NPS at the end of 2009. The new Brand NPS measure gives us a representative view across the business, as well as competitor comparisons and clearer insights into the drivers of NPS. At the end of the year, the new British Gas Brand NPS was –2 and we were equal first in the supplier league table with three other suppliers.

Direct Energy is also conducting a review of customer satisfaction measures across all customer-facing business segments. The review is providing valuable insight into how Direct Energy's processes and activities influence NPS and the key actions we can take to support continuous improvement.

Target – The change in British Gas methodology means that our 2010 target is +3. Direct Energy aims to improve on 2009 scores under the current methodology and roll out an improved NPS system in 2010.

Net promoter score 2009



The NPS measures customers' responses to the question 'How likely would you be to recommend us as an energy supplier to a friend or relative (0-10)?' The score is calculated by the percentage of customers defined as promoters (scoring 9-10) minus the percentage defined as detractors (0-6).

Source: Internal calculations combining figures for residential, business and services divisions. Net promoter scores are collected through customer feedback forms and telephone interviews conducted by a third-party supplier.

Carbon intensity

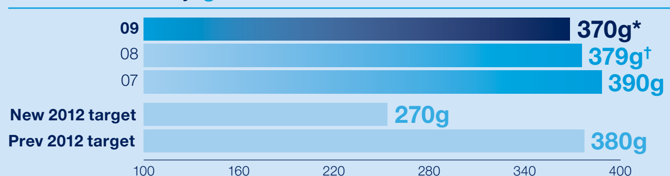
Decarbonising power generation is a critical enabler for other sectors of the economy to meet the UK's CO_2 targets and our strategy is to invest in lower carbon generation, such as high-efficiency gas-fired power stations and offshore wind farms. Centrica is one of the leading offshore wind farm operators.

We continued to reduce the carbon intensity of our power generation fleet in 2009, achieving 370g CO_2/kWh. During the year, we purchased a 20% stake in British Energy and concluded an agreement to acquire 20% of the electricity produced. This offtake will start in April 2010 and will significantly reduce our carbon intensity. As a result, we have reassessed our targets to ensure that they remain challenging.

Target – To reduce our UK power generation carbon intensity to 270g CO_2/kWh by 2012.

Identifying an appropriate target for 2020 is currently very difficult as it is contingent on Government support for new nuclear and renewables. There are also considerable uncertainties over closure dates for existing generation facilities. However, we are currently aiming to reduce our UK power generation carbon intensity to 260g CO_2/kWh by 2020.

Carbon intensity g CO_2/kWh



* 2009 data subject to final verification
† verified 2008 figure restated

Carbon intensity measures the amount of carbon dioxide (CO_2) emitted per unit of electricity generated. Our figures are based on average annual emissions from all wholly-owned UK power generation assets and all other power generation assets from which Centrica is entitled to output under site-specific contracts in the UK.

Source: Based on verified emissions data under the requirements of the EU Emissions Trading Scheme.

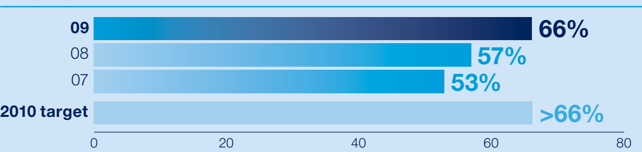
Employee engagement

Engaged employees are essential to deliver our business objectives, particularly against the backdrop of global economic downturn. Measuring engagement and the factors that drive it are a key focus of our people strategy, as this enables us to benchmark results more robustly.

In 2009 we had an exceptionally high response rate of 90%. The scores for engagement Group-wide increased by nine percentage points to 66% from 2008. Independent external benchmarks indicate that organisations with engagement scores above 60% consistently deliver better business results. Our current overall score of 66% places Centrica in the high performance range.

Target – The next full global survey will be conducted in June 2010. Each part of the business will aim to improve their individual scores to achieve a Group score of more than 66%, ensuring we remain in the high performance category.

Engagement score %



The Centrica employee survey measures how people, from every team at all levels across the Group, feel about working for us. Questions include: Would you tell others this is a great place to work? Do you ever think about leaving? Does the Company inspire you to do your best every day?

Source: The survey is managed by an external supplier, enabling us to benchmark our performance against other companies.

British Gas

Restructuring the business model to lead in the low carbon world

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

Downstream UK

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

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

Overall the number of customer accounts in our residential energy business grew by 141,000 and we closed the year with 15.7 million

Downstream UK†

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

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

† includes British Gas New Energy

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

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

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

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

Our already strong operational performance continued to improve across British Gas. Calls received were down 12% on 2008. This was due in part to more accurate energy billing, with 90% of customers having been billed on the basis of an actual meter read during the year. We expect this to increase further as more customers opt for 'EnergySmart', a new proposition launched in November, which allows customers to track their energy usage having submitted monthly meter reads online or by text message. Early indications are that this has increased the number of meter reads submitted online by around 50% to 75,000 per week. Our online platform is also experiencing greater usage for other transactions as well. An average of 35,000 payment transactions per week are now being processed while around 450,000 ASVs were booked online during 2009, more than double the 2008 level.

The amount of time taken to answer customer telephone calls continued to fall as did the percentage of customers abandoning calls before contact with a call centre. This improved customer service resulted in a reduction in the number of times our customers contacted the energy Ombudsman, with our share of complaints, at 19%, remaining well below the industry average. We launched our call-ahead service, where our engineers phone the customer to inform them when they are due to arrive and also increased the

Residential energy supply†

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

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

† includes British Gas New Energy

British Gas continued

proportion of boilers we fix on the first call out. These initiatives have resulted in improved customer satisfaction in each part of the business. The net promoter score (NPS) in services increased to a new high of 54%, whilst the residential energy and business energy divisions also saw substantial improvements in NPS.

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

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

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

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

Revenue in the period was up 3% to £12,565 million (2008: £12,189 million). Revenue in residential energy supply was broadly flat, as average consumption reductions in domestic gas were offset by a slightly higher average retail tariff year-on-year, as the average dual fuel customer paid only £23 more. For residential services revenue was 4% higher due to the continued growth in secondary products. Business energy supply and services revenue grew 8% due to an increase in the average number of supply points and a higher average contract price as contracts sold in the higher commodity

Business energy supply and services

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

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

price environment in 2008 rolled into 2009, which offset lower gas consumption.

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

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

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

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

Residential services

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

Installations numbers include domestic and local authority installations. Revenue associated with non-contract central heating service work is included in other. 2008 revenue restated to reflect the change in revenue recognition policy.

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

¥ restated to reflect change in British Gas Services Limited revenue recognition policy, as explained in note 2

Centrica Energy

2009 was a transformational year for our upstream UK business

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

Upstream UK

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

Upstream gas and oil

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

Our upstream gas and oil headquarters are now located in Aberdeen and the business is structured around five core regions in order to maximise our focus on asset and infrastructure performance, regional geology and business development opportunities. We are pleased to have retained the majority of the highly skilled Venture team who will help deliver the new strategic direction of the business. Following the acquisition a full audit of Venture's gas and oil reserves has been completed and found to be in line with our expectations. Having used a prudent reserves recognition methodology, which conforms with internationally accepted Petroleum Resources Management System (PRMS) guidelines, both Centrica's existing reserves base and Venture's have been redefined. In total our gas and oil reserves base is now 400 million barrels of oil equivalent (mmboe).

The significant fall in UK gas prices experienced during 2009 resulted in our gas and oil business reporting a lower overall contribution, with an operating profit* of £444 million (2008: £1,164 million). Gas production volumes, including four months of production from Venture, were down 29% to 1,708 million therms (mmth) (2008: 2,418mmth). We took value maximising decisions to shut in production at South Morecambe during periods of low gas prices, resulting in a 51% reduction in Morecambe volumes. Contractual positions were instead met through short-term market purchases. Oil and condensate production volumes increased to 8.8mmboe (2008: 6.5mmboe) reflecting additional volumes produced from the Venture

portfolio. The average achieved gas sales price was 48.9 pence per therm (p/therm) (2008: 59.1p/therm). This was approximately 40% higher than the average month ahead price in 2009 and was achieved by selling forward a proportion of gas production volumes when the gas price was materially higher. While our hedging programme is ongoing, the majority of hedges made in 2008 have now unwound.

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

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

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

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

Power generation

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

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

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

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

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

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

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

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

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

Centrica Energy continued

Industrial and commercial

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

Also included in this segment is a legacy gas procurement contract, which has become significantly loss making due to the reduction in commodity prices. Notice to terminate has been given which will take effect from October 2011 resulting in an exceptional charge of £199 million being recognised, of which £160 million was included in provisions at the end of 2009.

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

Proprietary energy trading

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

Upstream UK

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

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

nm denotes not material

Gas storage plays an increasingly important role in maintaining supply

The Rough storage facility once again demonstrated exceptional operational performance during 2009 with overall reliability in excess of 98%.

Storage UK

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

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

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

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

Storage UK

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

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

Direct Energy

We will look to grow leadership positions in deregulated markets

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

North America

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

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

Residential energy supply

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

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

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

Business energy supply

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

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

Residential and business services

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

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

Following the appointment of new management, we have reviewed the structure of the services business. We now have a sales process in place to exit our Canadian home appliance repair business, as the

North America

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

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

Direct Energy continued

diverse nature of this market has made it difficult to generate adequate returns. We will refocus to grow our presence in the energy related services market, particularly in those areas where we have a strong energy base, and will look to capitalise on opportunities around energy efficiency.

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

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

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

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

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

For the year ended 31 December	FY 2009	FY 2008^	Δ%	H2 2009	H2 2008^	Δ%
Revenue						
Residential energy supply	**2,644**	3,006	(12)	1,190	1,372	(13)
Business energy supply	**2,491**	2,283	9	1,180	1,392	(15)
Residential and business services	**406**	423	(4.0)	205	222	(8)
Upstream and wholesale energy	**567**	889	(36)	182	630	(71)
North America revenue	**6,108**	6,601	(7)	2,757	3,617	(24)
Operating profit*						
Residential energy supply	**94**	157	(40)	48	75	(36)
Business energy supply	**34**	14	143	14	2	600
Residential and business services	**18**	18	0.0	15	14	7
Upstream and wholesale energy	**7**	57	(88)	10	35	(71)
North America operating profit*	**153**	246	(38)	87	126	(31)

^ restated at 2009 weighted average exchange rate

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

Corporate Responsibility Review

Managing our business impact

Our society is resolved to reduce levels of carbon in the atmosphere and to secure energy supplies for the future. Centrica can help achieve these goals and is keenly aware of its responsibilities.

Mary Francis CBE, Senior Independent Director and Chair of the Corporate Responsibility Committee

At Centrica, we believe that a business must be alert to the impact it has on the society and the physical environment in which it works and that it should do what it can to contribute to the health and sustainability of both. That is what we mean by corporate responsibility.

We believe that being a responsible business is fundamental to our long-term success and contributes to a healthy business environment. It is essential to maintaining our reputation with customers, investors, regulators and other external stakeholders – because it reflects the principles which they value. For the same reason, it enables us to recruit and retain the most talented and capable people. Consequently, we set ourselves high standards in all areas of responsible behaviour, including business integrity, environmental stewardship, fairness to customers, employment and community support.

Even in a year in which all businesses were preoccupied with short-term financial and economic concerns, we held true to these principles. In particular we continued to develop and expand our workforce to install the low carbon technologies of the future, including solar panels and microCHP units, and to advise our customers on using energy more efficiently. Leadership in these services will position Centrica both to contribute to and benefit from, the progressive transition to a low carbon economy which our society has set as its goal.

We also took further steps to reduce the carbon intensity of our energy generation and to improve the security of the UK's energy supplies. We expanded Centrica's investment in wind power and consolidated our upstream base through our acquisitions of Venture and a 20% stake in British Energy.

Below is a summary of Centrica's corporate responsibility (CR) performance in 2009. Further details can be found at www.centrica.com/responsibility.

Strategy and governance

In 2009 we reviewed carefully where we should focus our corporate responsibility efforts, aided by feedback from external stakeholders in the UK and North America. We gave highest priority to the seven areas where Centrica is expected to have the greatest long-term impact and where our stakeholders have the highest expectations of us. These were:

- to contribute to the transition to a low carbon society;
- to invest in secure energy supplies for our customers;
- to be trusted by our customers and support the most vulnerable;
- to keep our employees safe and healthy at work;
- to develop our employees;
- to support local communities; and
- to ensure responsible procurement.

The Board of Directors continued to exercise oversight over the CR programme through the Corporate Responsibility Committee. The Committee approves our overall CR strategy, sets stretching targets and challenges the Group's performance and alertness to external

Corporate Responsibility Review continued

developments. The Executive Committee, chaired by the Chief Executive, has overall responsibility for implementing the CR strategy.

Our business principles (listed on page 3) are the foundation of our responsible approach. We reviewed our business principles in 2009 to ensure that they continue to embody the highest standards of ethical behaviour. We are following this up with a programme to raise awareness and compliance with the principles across the Group in 2010.

Business Unit Managing Directors have provided strong operational leadership for our CR work in 2009, supported by specialist functions at Group level such as risk management and internal audit. Further details on how our CR-related risks are managed can be found on pages 29 to 34.

During the year, the CR Committee agreed a set of high level key performance indicators (KPIs) to monitor our progress and help us continually improve performance. The KPIs and performance against them are included in this report.

We keep our targets and KPIs under review and in some areas we have changed the way 2010 performance will be measured to better reflect our business aspirations or to challenge ourselves against more relevant metrics. Further work is still required to develop a set of KPIs that fully reflects our commitment to setting clear targets and objectives across the Group. Making progress in this area will remain a priority for the Committee in 2010.

CR priority: to contribute to the transition to a low carbon society

We share the widespread disappointment with the inconclusive outcome of the Copenhagen climate change conference in December 2009. We firmly believe that man-made climate change is a problem which requires urgent and sustained global action if we are to avoid severe social, economic and environmental consequences. We want to see a robust climate change agreement that provides a clear and sustainable framework for EU and US energy policy.

Centrica already has an important role to play in assisting the transition to a low carbon society. We are committed to be the leading supplier of advice and services on low carbon solutions for our customers – from microgeneration to efficient, low carbon heating installations. We are also committed to targets for reducing the carbon intensity of the energy that we source and generate through our upstream operations.

KPI	Our 2009 performance	Our 2008 performance
LIFETIME CARBON SAVINGS FROM ENERGY EFFICIENCY PRODUCTS PROVIDED TO UK HOUSEHOLDS (tonnes) **Our 2009 commitments:** Provide energy efficiency products in 2009 with total lifetime carbon savings of 13.2m tonnes of CO_2 to meet our CERT obligation[1] **What's next:** Provide energy efficiency products in 2010 with total lifetime carbon savings of 14.6m tonnes of CO_2 to meet our CERT obligation[1]	17.53m	17.87m

[1] – See page 26 for footnote

Advising on energy efficiency

Using energy more efficiently is the cheapest and easiest way for our customers to reduce their energy bills and carbon emissions. The UK Government is encouraging both domestic and commercial energy efficiency as a key part of meeting its carbon targets. Under the Carbon Emissions Reduction Target scheme (CERT), energy suppliers like British Gas are required to provide energy saving services such as loft and cavity wall insulation. The products we supplied through the scheme in 2009 will save 17.53 million tonnes of carbon dioxide over their lifetimes. We are well on target to achieve our current CERT carbon savings goal.

British Gas is well positioned to deliver energy efficiency services over and above its regulatory obligations. We have an existing network of over 9,000 engineers and are the UK's leading supplier of A-rated high-efficiency boilers. We are increasing our partnerships with local authorities to provide advice and services to help their tenants save energy and reduce their bills, and are working closely with banks on a range of options to provide affordable financing. One example is a 'pay as you save' scheme being trialled with the Energy Saving Trust whereby customers pay for energy efficiency services and microgeneration through long-term payment plans.

Investing in microgeneration

We continued to invest in promising microgeneration technologies in 2009 with British Gas acquiring a stake in Econergy, a leader in biomass heating – another step in developing a broad range of renewable, energy efficient and low carbon microgeneration technologies for British Gas customers.

In the US, Direct Energy introduced the Climate Master geothermal heating and cooling systems for residential customers. Climate Master geothermal is a highly efficient system using natural underground heat to cut energy use and carbon emissions.

Smart meters

During 2009 British Gas installed more than 50,000 smart meters in businesses and homes across the UK. Smart meters provide energy usage information directly to both the energy supplier and the customer. We plan to help our customers use this information so that they can consume less energy, thereby cutting carbon emissions and saving money.

In December 2009 the UK Government announced that energy suppliers will be responsible for installing and maintaining smart gas and electricity meters in 26 million properties over the next 10 years – a total of 47 million by 2020.

British Gas is setting up a new business called British Gas Smart Metering to deliver this task. In 2009, we committed to create around 4,100 skilled green jobs by 2011 – 2,600 within British Gas Smart Metering and 1,500 new jobs for wind farm designers, energy efficiency surveyors and engineers. We opened two new training academies in 2009 – in Hamilton near Glasgow and in Leicester. In 2009, we employed 250 new apprentices and invested £24.5 million in training.

Similar approaches are being evaluated in North America. With e-Radio USA, Direct Energy is promoting a system to help consumers cut electricity usage. It sends alerts and commands to appliances and smart devices instructing them to switch off or reduce consumption at set times during peak periods. Through another partnership, Direct Energy is developing a blueprint for an energy efficient home in which appliances can communicate with each other and can be turned on and off remotely. We are piloting the project through our energy customer network.

KPI	Our 2009 performance	Our 2008 performance
CARBON INTENSITY OF OUR UK POWER GENERATION (g CO_2/kWh) **Our 2009 commitments:** Reduce our carbon intensity to 380g CO_2/kWh by 2012 and 350g CO_2/kWh by 2020 **What's next:** Following 2009 acquisitions, reduce our carbon intensity to 270g CO_2/kWh by 2012 and 260g CO_2/kWh by 2020	370[2]	379

[2] – 2009 data subject to final verification

Investing in low carbon generation

The UK has adopted binding targets to reduce greenhouse gas emissions by 34% by 2020 and 80% by 2050. Centrica has an important contribution to make to the achievement of these targets through the way it manages emissions from its upstream activities,

such as electricity generation. In 2009 we made significant progress through our investments in wind and nuclear generation.

During the year, the 194MW Lynn and Inner Dowsing wind farms became fully operational and we announced plans to construct a new 270MW wind farm off the coast of Lincolnshire. This major investment decision followed the UK Government's decision in April 2009 to temporarily enhance the level of support provided for new offshore wind projects.

We were also awarded exclusive rights to develop the Irish Sea zone as part of The Crown Estate's Round 3 offshore wind tendering process. The zone gives us the potential to deliver up to an additional 4.2GW of offshore wind farm capacity, enough power for over three million British Gas homes.

In 2009, Centrica acquired a 20% stake in the nuclear generator British Energy from EDF, further details of which are on page 15. Nuclear energy has minimal carbon emissions and provides reliable baseload power (which wind cannot do). It is thus an important part of Centrica's, and the UK's, energy portfolio.

We measure the impact of our generation activities on the atmosphere by tracking 'carbon intensity'. Carbon intensity measures the efficiency of power generation and is defined as the amount of carbon dioxide emitted per unit of electricity generated from our power generation assets and site-specific contracts. In 2009, the carbon intensity of our UK power generation was 370g CO_2/kWh*, a reduction of 2% compared to 2008 that mainly reflected the additional wind farm capacity within our generation portfolio. The purchase of the stake in British Energy and more planned investment in renewable energy will mean that we can reduce carbon intensity further. We have therefore set new targets for the carbon intensity of our power generation to 270g CO_2/kWh by 2012 and 260g CO_2/kWh by 2020, reflecting improved carbon intensity performance of more than 30% in the next 10 years. For more information on our carbon intensity performance see page 9.

We are steadily increasing the proportion of Centrica's power which is generated by low carbon technology, including wind and nuclear. At the end of 2010, it is forecast to account for around a quarter of our output from our own power generation assets and under site-specific contracts.

KPI	Our 2009 performance	Our 2008 performance
YEAR-ON-YEAR PERCENTAGE REDUCTION IN ENERGY (electricity and gas) CONSUMPTION SAVINGS ACROSS OUR UK PROPERTY PORTFOLIO[3] **Our 2009 commitments:** Achieve a 5% year-on-year reduction in UK office energy use **What's next:** Achieve a 20% reduction in our Group internal carbon footprint, including office energy use, vehicle emissions and business travel of our existing business by 2012 (baseline year: 2007)[3]	8.36%	7.23%

[3] – See page 26 for footnotes

Cutting Centrica's internal carbon footprint

We are practising what we preach in energy saving and intend our offices to be a demonstration of what is achievable for our customers. Since 2003, our UK business has achieved a reduction of about 40% in the energy it uses, helping to drive down our internal carbon footprint by around 20%. In 2009, we achieved an 8.36% reduction in energy use across our UK properties, exceeding our 5% target.

While pleased with this progress, we are challenging ourselves to do more and have set a new longer term Group internal carbon footprint target – a 20% reduction in the internal carbon footprint of our existing businesses by 2015 (baseline 2007). This will tackle the three main sources of carbon emissions from our operations (non-generation), which are office energy, business travel and our commercial and company vehicle fleet.

CR priority: to invest in secure energy supplies for our customers

In the UK, the liberalised energy market has proved central to securing energy supplies whilst providing customers with the lowest domestic gas prices in Europe. But further investment is needed if we are to maintain our security of supply in a way which will also meet our targets for reducing carbon emissions. According to the energy regulator Ofgem, some £200 billion needs to be invested by 2025 in the UK alone.

Centrica has already made significant investments to maintain supplies for our customers. During 2009, in the UK we invested more than £4 billion in sources of gas, power generation and gas storage assets and have plans to spend an additional £15 billion in the UK by 2020. We believe that if the UK Government and regulator establish the right market frameworks, then industry can deliver this investment.

In 2009, Centrica acquired significant new UK gas production assets through our takeover of Venture. The Venture operations will form part of our Centrica Energy business, and we will integrate them into our CR programme and 2010 reporting.

Also in 2009, we completed the acquisition of a 20% stake in British Energy, owned by EDF. British Energy operates eight of the 10 UK nuclear power stations and will have a significant role in the development of the next generation of nuclear power.

As a result of the Venture and British Energy transactions, we are now able to supply about 60% of our customers' gas and power demand from our own assets – a significant increase from 2009. We are likely to continue investing to acquire and develop gas production assets in the UK and Norwegian continental shelf and further afield in future years to provide the necessary energy security for our customers.

In recognition of the importance of gas storage in meeting the UK's future energy requirements we are evaluating three additional gas storage projects, which would increase total UK storage capacity by around 50%.

A significant contribution to future UK gas supplies will come from liquefied natural gas (LNG). By 2017 we expect that LNG will grow to more than 25% of UK total gas supply. The UK currently has two main LNG import centres with terminals at Milford Haven, South Wales and the Isle of Grain in Kent.

Major investment has taken place to enable huge LNG tankers to unload at the UK terminals. Centrica has underpinned that investment by negotiating contracts with National Grid, owner of the Isle of Grain terminal. We are also in discussion with major LNG resource holders to receive deliveries via Milford Haven in South Wales, the largest LNG terminal in Europe. In 2009, Centrica imported 1.6bcm of LNG into the UK through the Isle of Grain terminal, with LNG contracted from six countries and seven LNG suppliers.

More detailed information on our 2009 investment activities can be found within the Operating Review from page 14 onwards.

CR priority: to be trusted by our customers and support the most vulnerable

We are committed to treating our customers fairly at all times. We believe that gaining and maintaining customer trust is a fundamental business objective and that a number of issues impact the level of trust consumers have in us. Our research indicates that the most significant factors are customer service, price and support for vulnerable customers.

* 2009 data subject to final verification

Corporate Responsibility Review continued

Green Streets

The UK carbon reduction target is 80% on 1990 levels by 2050. To find out what could be achieved at a local level we ran a year-long project called 'Green Streets', a competition between eight communities that promoted awareness of low carbon solutions for householders and showed how different energy efficiency solutions, allied to changes in behaviour, can deliver benefits to customers.

The results published in March 2009 demonstrate how much can be achieved using current commercially available technologies.

Building on these findings, we launched the 'Green Streets 2010' community initiative in January 2010, in which 14 communities will compete to reduce their energy use and carbon emissions.

25%
The project showed demonstrable benefits for consumers through lower energy bills and, most importantly, an average reduction in carbon footprint of almost 25%.

35mt CO_2
If the Green Streets savings were replicated across UK households, we estimate that 35 million tonnes of CO_2 would be cut from the national carbon footprint.

£6 billion
At 2009 prices this would save £6 billion per annum.

Improving customer service

We have worked hard to improve our customer service and are pleased with the significant improvements shown in our customer surveys in 2009. We are in no way complacent and will continue to challenge ourselves to improve the experience we give our customers.

KPI	Our 2009 performance	Our 2008 performance
CUSTOMER ACCOUNTS ON ESSENTIALS TARIFF **Our 2009 commitments:** To manage up to 750,000 Essentials accounts **What's next:** Continued focus on targeting the most appropriate support and resources to individual vulnerable customers	487,995	526,500
CUSTOMERS SUPPORTED BY BRITISH GAS VULNERABLE CUSTOMER INITIATIVES **What's next:** Continue to work with charity partners to deliver maximum impact to vulnerable customers	2.2m	1.4m
CUSTOMER SATISFACTION: BRITISH GAS NET PROMOTER SCORE[4] **What's next:** British Gas has changed its methodology for 2010 and will target a score of +3 under the new system	7.0%	-0.8%
CUSTOMER SATISFACTION: DIRECT ENERGY NET PROMOTER SCORE[4] **What's next:** Direct Energy aims to improve on 2009 scores under the current methodology and roll out an improved NPS system in 2010	9.5%	6.9%

[4] – See page 9 for full details

British Gas has made significant changes to improve systems and train and motivate employees. Engineers' appointments were a particular area of concern and British Gas responded vigorously to the problem introducing a 'call-ahead' service. The time taken to answer customer telephone calls continued to fall and the launch of the 'We're Listening' campaign has provided further channels for feedback and suggestions on customer service.

As a result, British Gas has reduced its share of complaints to the energy Ombudsman to 19%: 34% less than in 2008 and lower than our market share of around 33%. British Gas has adopted the FSA's 'Treating Customers Fairly' principles (in respect of all of our insurance based products and services), and we are starting to introduce the principles across all other British Gas operations.

There is no centralised Ombudsman in North America so Direct Energy has developed a complaints management system, which includes monitoring complaints logged with local regulators, media, Better Business Bureaux and other channels. In 2009, the level of complaints dropped 63%.

A key performance indicator of customer trust is a net promoter score (NPS) survey, which measures how willing customers are to recommend our services and benchmarks this performance against our competitors. In 2009 both British Gas and Direct Energy achieved improved NPS: more detailed information is highlighted on page 9. Further NPS improvement in 2010 remains a priority in both the UK and North America.

Fair and transparent pricing

The price that consumers pay for energy in general, and gas in particular, is an emotive issue in the UK and we understand the reasons for this. British Gas is committed to providing its customers with the lowest price possible and was able to lower gas prices in February 2010.

Wholesale energy costs comprise around 50% of an average bill, the remainder is made up of costs such as delivery of the energy to customers' homes, operating costs, tax and government environmental contributions. Delivery and environmental costs are both rising significantly faster than inflation.

British Gas buys the majority of its customers' energy needs in advance, to protect customers from the daily volatility in energy prices and to ensure that we have enough energy to satisfy our customers' needs. So, while the wholesale prices fell sharply during the second half of 2009, some of the energy our customers were using during this period was purchased up to two years ago when the wholesale price was significantly higher.

Supporting vulnerable customers

We have a particular responsibility to vulnerable customers who are unable to afford energy necessary to safeguard their welfare for reasons of age, health, disability or severe financial insecurity. No other industry commits such large amounts to helping its poorest customers.

This issue has particular focus in the UK where fuel poverty is high on the political agenda. In 2009 we introduced a targeted approach to make our support more effective. Working with organisations such as Help the Aged and National Debtline, we tailored our support to individual needs. For example, we focused on providing priority service in cold weather for our older customers, whereas indebted customers are better supported with debt management plans.

Our 'Essentials' social programme provides a range of assistance for specific categories of customers eligible for state benefits, including help with energy efficiency and discounted bills for those most in need. This includes a total of £70 million in savings for nearly 488,000 customer accounts in 2009. The programme, the largest in Britain, saved our most vulnerable customers with a dual fuel account an average of £264 each, compared with standard payers.

In total, British Gas provided more than £80 million of support through a range of initiatives for around 2.2 million vulnerable households in 2009. This was more than the total support provided by all other major UK energy suppliers. We reached 750,000 more households than in 2008, an increase largely due to the number of people needing debt assistance.

We are sharing our expertise from the UK to improve support for vulnerable customers in North America. Direct Energy helped over 175,000 customers access approximately US$22 million in bill payment assistance over the year. Direct Energy also established a Vulnerable Customer Working Group focused on identifying the most effective means to provide support through financial assistance, products and services and advocacy with regulators.

CR priority: to keep our employees safe and healthy at work

We do not compromise on the safety of our employees. Health and safety is one of our highest priorities, and from 2010 annual bonus targets for the Group's Chief Executive and each Executive Director will each include a health and safety performance target (see page 49 for further details).

In 2009, we took steps to embed a more proactive approach to managing health and safety across the Group, with a particular focus on individual leadership. Historically the performance of our upstream businesses has been strong, despite the inherent risks of their operations. Our priority in 2009 was to address the injury record in the service and repair part of British Gas, where our engineers are exposed to a wide range of different hazards when visiting domestic properties.

We ran a hard-hitting 'What if' safety campaign that made a personal emotional connection with our engineers. This was backed by high profile consistent attention of management to safety. The results have been encouraging with a reduction in lost time injury (LTI) rate in this part of the business from 2.07 in 2008 to 0.74 in 2009. We believe this is still too high and are targeting continued reductions through a new Group safety, health and wellbeing policy and strategy.

KPI	Our 2009 performance	Our 2008 performance
GROUP LOST TIME INJURIES (LTI)/100,000 hours worked **Our 2009 commitments:** 20% LTI reduction on 2008 performance to 0.8 **What's next:** 12.5% LTI reduction on 2009 performance to 0.43	0.49	1.00
Fatalities	0	1

Overall the Group's LTI rate per 100,000 hours worked improved from 1.00 in 2008 to 0.49 in 2009.

Our entry into the UK's nuclear industry brings specific challenges as the radioactivity associated with nuclear power generation introduces different safety risks relative to conventional sources of power generation. Radiation emissions and radioactive waste must be contained and handled safely.

As a minority shareowner in EDF's nuclear operations in the UK, we are not the operator of any nuclear facilities. EDF is the world's largest nuclear operator and its UK nuclear subsidiary, British Energy, has an excellent safety record, vast experience and a record for being open and transparent. We are represented on the organisation's board and have established a nuclear team to manage our role within the UK's nuclear industry.

CR priority: to develop our employees

Centrica is a major employer of a diverse and talented workforce and, during 2009, we employed an average of 34,125 people.

Our future success depends on attracting and retaining the best people. To create an environment in which all employees can flourish we are committed to supporting skills development, promoting equal opportunities and diversity and providing regular opportunities for open employee engagement.

Centrica is committed to regular communication and consultation with employees through briefings, meetings, emails, information screens, annual roadshows with senior management, a Group-wide intranet and internal magazines and newspapers. Company financial performance is communicated to all employees using online media, printed materials and face-to-face briefings with members of the Executive Committee.

Great performance is key to our success. To deliver this each individual's objectives are aligned to the business strategy and measure both what they do as well as how they do it. Progress is tracked throughout the year as part of our performance cycle, which also focuses on development and career planning.

We are building our leadership skills for the future through a variety of different methods. Examples include our General Management Programme aimed at growing our next generation of general managers and 'The Leaders Journey', a series of focused experiences designed to address key leadership traits we want to strengthen in our business. We are expanding our training programme focused on smart meter installation and provision of low carbon services from our seven UK regional training centres.

We also run highly regarded UK summer placement and global graduate recruitment programmes, which form an important part of our skills and recruitment strategy. In 2009, 70 graduates joined our UK and North American schemes whilst the 2009 summer placement programme accepted 50 applicants and won an award for Best Work Experience programme.

Employee engagement

We need to create an environment in which our employees are fully engaged with our business objectives. We track employee engagement through a range of questions in our annual employee survey, a confidential process administered by an independent third party.

KPI	Our 2009 performance	Our 2008 performance
PERCENTAGE OF EMPLOYEES ENGAGED AT CENTRICA (measured through the Employee Engagement Survey[4]) **Our 2009 commitments:** Employee engagement score of 60% by 2009 and 62% by 2010 **What's next:** The next full global survey will be conducted in June 2010. Each part of the business will aim to improve their individual scores to achieve a Group score of more than 66%, ensuring we remain in the high performance category.	66%	57%
Employee gender (female/male %)	30/70	30/70
Employees from ethnic minority groups	15.5%	15.3%

[4] – See page 9 for full details

In 2009, we had an exceptionally high response rate of 90% and the scores for engagement Group-wide increased by nine points to 66% from 2008. Independent external benchmarks indicate that organisations with engagement scores above 60% consistently deliver better business results. Our current overall score of 66% places us in the high performance range.

Employee retention rates were high at 92% in 2009, compared with 84% in 2008. High employee engagement scores, improved external recruitment processes and significant improvements in call centre retention rates have all contributed to more employees wanting to remain with our company.

Corporate Responsibility Review continued

Business reorganisation

We undertook extensive reorganisation across our business in 2009. We managed the change sensitively and in consultation with all those involved. The reorganisation has meant some redundancies but also opportunities such as increased training and recruitment for customer service advisers and service engineers.

The outsourcing of some of our back office operations has been managed successfully with the involvement of trade unions and employee representatives in the UK. As we shift business activities to new regions, we ensure that our expatriate and local managers understand the challenges of working in developing countries that have different cultures, labour standards and security and health and safety procedures. Our offshore partners are audited on a regular basis, and any issues raised from employee engagement surveys are pursued.

Diversity and equality

We aim to provide a workplace that is inclusive for all our employees and believe diversity is good for our business. We are committed to offering equal opportunities to all people with disabilities, ensuring that we do not discriminate in recruitment, promotion, training, working conditions or dismissal, subject to health and safety considerations. If employees become disabled while in our employment we offer, wherever possible, appropriate support, retraining, equipment and facilities to enable their employment to continue.

We promote workplace practices to encourage greater representation of women and ethnic minorities. We have conducted an Equal Pay Review for several years and are aligned to the best practice among FTSE 100 companies. The 2009 review found that Centrica's performance management and reward practices were not subject to gender bias.

We also worked with the Institute for Employment Studies to explore further the reasons why there are relatively few women in senior management positions. We are now reviewing the findings and recommendations and have established a steering group to drive and improve progress.

Our Group age policies and practices received two Employers Forum on Age (EFA) awards in 2009 for innovation in flexible working and innovation in attracting baby boomers. In addition we won, for the second year running, the AARP (American Association of Retired Persons) Award for our HR policies and practices in the recruitment, retention and promotion of older workers.

CR priority: to support local communities

As a major employer and provider of essential energy services, Centrica's wellbeing is bound up with that of the communities in which we work, at both national and local level. We believe it is important to provide our employees with opportunities for community involvement.

We work with our charity partners such as Save the Children to create volunteering programmes that best use our skills to support the most vulnerable in society. The range of volunteering opportunities available to employees through our UK 'Get Involved' programme, North American 'direct in the community' scheme and other community initiatives are designed to allow employees to support organisations to which they have a personal connection and which match their skills and needs. We also help our employees to contribute financially to local and national charities through payroll giving, matched funding and the employee lottery.

Centrica's total community contributions in 2009 were £76.9 million (£24 million up from 2008). Details of the causes we support are provided in our online CR report. A significant proportion of the overall total relates to the support provided through the British Gas Essentials social programme.

KPI	Our 2009 performance	Our 2008 performance
TOTAL COMMUNITY CONTRIBUTIONS[5] (£m)	76.9	52.9

CR priority: to ensure responsible procurement

Monitoring and managing social and environmental performance in the supply chain is an imperative for multinational and consumer-facing brands.

We have developed a 'Responsible Procurement' policy for suppliers that outline the standards that Centrica expects of its business partners. It translates the values of the business principles and the Responsible Procurement and Supplier Management Policy into a document that can be included in supplier contracts.

Our focus in 2009 has been on implementing the policy. We have started to introduce CR clauses into supplier contracts; are developing a risk analysis methodology and are exploring where and how the responsible procurement processes can be integrated into our wider procurement systems.

Procurement and supplier management teams have been proactively engaging with all suppliers whose contracts have been up for renewal in 2009. We prioritise the contracts which we consider to present material risks to the business, based on size, brand association, intrinsic commodity or service risk, sub-contracting levels and country risk. To date 101 of our strategic suppliers have signed contracts that included the CR clauses which came into effect during 2009. For 2010 we are aiming to sign 150 more.

KPI	Our 2009 performance	Our 2008 performance
SUPPLIER CONTRACTS WITH RESPONSIBLE PROCUREMENT CLAUSES **What's next:** Sign contracts with 150 additional suppliers that include CR clauses	101	n/a

In May 2009, we also ran a successful supplier forum on responsible procurement, attended by 30 key partners, which provided an opportunity to identify and confront the challenges of implementing responsible procurement.

Mary Francis

Mary Francis CBE
Senior Independent Director and Chair of the Corporate Responsibility Committee
25 February 2010

[1] This figure is an externally agreed target with Ofgem and subject to change, depending on our market share
[2] 2009 data subject to final verification
[3] Group environmental targets for energy management are set in order to challenge and improve performance in both building management and control and occupier behaviour. The targets do not relate to the gross environmental footprint of Centrica's property portfolio and as such the data is normalised to smooth out the impact of adding or removing sites from our portfolio to avoid obscuring the performance of the property management teams and building occupiers. Data relating to the gross footprint is however recorded and disclosed separately in the corporate responsibility report
[4] For details on the net promoter score (NPS) and the Employee Engagement Survey see page 9
[5] Combination of figures calculated from London Benchmarking Group methodology and cost of voluntary programmes to support vulnerable customers in the UK. Group cash donations during the year amounted to £4.8 million (2008: £5.9 million). In line with Group policy, no donations were made for political purposes. The Group, in the normal course of its business, has paid for its management to attend events at which politicians and other opinion formers have been present, but does not consider these payments to be political donations

Group Financial Review

Providing value to shareholders

2009 was a year of sound earnings in the face of volatile markets driven by profitability across most of our businesses, with continued progress in our growth businesses.

Nick Luff, Group Finance Director

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

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

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

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

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

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

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

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

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

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

Exceptional items

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

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

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

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

Group Financial Review continued

Certain re-measurements

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

The statutory results include net charges to operating profit relating to these re-measurements of £71 million (2008: £1,331 million) from continuing operations, primarily from marking-to-market some contracts relating to our energy procurement activities. As gas and power were delivered under these contracts, net out-of-the-money mark-to-market positions from year end 2008 were unwound generating a net credit to the Income Statement in the period of £928 million (2008: £10 million). As forward prices decreased in the second half of the year the portfolio of contracts fair valued under IAS 39 reported a net charge on revaluation of £1,097 million (2008: £1,337 million). The termination of an out-of-the-money energy sales contract, described above, resulted in a credit within certain re-measurements of £135 million. The remaining charge of £28 million (2008: £4 million) reflects positions relating to cross-border capacity and storage contracts. There were also net losses arising on re-measurement of associates' energy contracts (net of taxation) of £9 million (2008: nil).

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

Business combinations and capital expenditure

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

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

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

During the year, a number of other smaller acquisitions were completed for total cash consideration of £32 million, as explained in note 37.

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

Principal risks and uncertainties

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

Capital management

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

Related party transactions

Related party transactions are described in note 40.

Events after the balance sheet date

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

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

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

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

Accounting policies

UK listed companies are required to comply with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS). The Group's significant accounting policies, including changes of accounting presentation, are explained in note 2. Note 3 to the Financial Statements explains the critical accounting judgements and key sources of estimation uncertainty arising in the preparation of the Financial Statements.

Nick Luff
Group Finance Director
25 February 2010

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

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

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

Principal Risks and Uncertainties

Managing our risks

Centrica, like all businesses, faces a number of risks and uncertainties that could affect the delivery of the Group's strategic objectives.

Nick Luff, Group Finance Director

We place considerable importance on internal controls and have a robust risk management process (as detailed in the Corporate Governance Report on pages 38 to 43), which is designed to identify, manage and mitigate business risk in order to support the creation of long-term, sustainable returns for shareholders.

Described below are the principal risks and uncertainties the Group can foresee. It is not an exhaustive list; some future risks may be as yet unknown and other risks, currently regarded as immaterial, could turn out to be material.

External market factors

Global economic conditions

Description: Over the past 12 months we have experienced an economic downturn that has been longer and deeper than previous recessions. Recently the global economy appears to be expanding again, pulled up by the strong Asian economies and stabilisation and recovery elsewhere. While the US and the UK have emerged from recession, there is still the potential for a double-dip recession. The pace of the global recovery is slow, uncertain and activity remains weak.

Impact: Unlike previous recessions where utilities were less affected than other sectors, this time the industry has recorded a significant reduction in demand across all sectors.

In the UK, North America and Europe we have experienced increased levels of bad debts amongst business and residential customers.

As a result of the recession and financial crisis, the Group has faced increased financial risks; ensuring liquidity is paramount to the ongoing viability of the business.

A double-dip recession or slow recovery could lead to a further reduction of income for the Group.

Mitigation: Although bad debt charges rose year-on-year, reflecting the weak economic conditions, improved credit management and cash collection processes have helped to mitigate much of this increase.

Our risk management process has helped identify and manage the increased financial risks and we have ensured that sufficient liquidity is available to allow the Group to realise its growth ambitions.

Globally, utilities have been able to continue to access both debt and equity markets but given global uncertainty and volatility in financial markets this needs to be carefully monitored. Although the Group is currently appropriately funded, the future capital requirements for the industry are large.

UK demand reduction

Description: UK energy consumption fell during the period 2005–2009, driven by improved energy efficiency and changing customer behaviour as a result of greater environmental awareness, fallout from past price increases and the general economic downturn.

In the UK, gas demand is forecast to continue to decline over the next decade with electricity demand reducing by a smaller amount.

The actual outcome for long-term gas demand will ultimately be driven by industry decisions around generation mix and the impact of Government climate change initiatives.

Impact: Reduced sales of gas and electricity to residential and business customers could have a significant impact on the Group's revenues and profits over the next decade.

Mitigation: The Group is monitoring closely its forecasts for gas and electricity demand.

The growth in demand for energy efficiency is in turn creating demand for such products as microgeneration, insulation and smart metering. We are well placed to grow in these markets and in 2010 we are taking a number of steps to capitalise on these new opportunities.

Principal Risks and Uncertainties continued

Regulatory environment

Description: Government targets to reduce UK greenhouse gas emissions are increasingly shaping energy policy, including plans to expand renewable generation sixfold. The UK's energy infrastructure will require significant amounts of new investment in order to meet these targets while maintaining security of supply, with estimates of around £200 billion required by 2025. This has prompted calls by many, including the regulator, for more fundamental market reform.

Significant reforms to the planning regime have been introduced, nevertheless planning is still likely to have an impact on the deliverability of investment.

Renewables continue to require a supportive policy and regulatory climate in order to deliver the investment needed. The Government is in the process of addressing regulatory and other barriers to new nuclear power. There remain other policy issues, such as the currently low carbon price following the recent Copenhagen climate conference, which resulted in an outcome that did not give business the clear framework it wanted.

Parliament is considering proposals to introduce mandatory social price support for vulnerable customers to replace the successful voluntary approach in place to date and the future framework for delivering and financing energy efficiency remains uncertain.

It is possible that following a general election there may be a Competition Commission inquiry or equivalent review into the energy sector. This would follow the recent investigation by the regulator and would create significant uncertainty in the investment climate.

In Europe, the Commission is considering stricter regulation of over-the-counter (OTC) derivatives, which is also being considered in the US by the Obama Administration.

North American energy markets still have some way to go before there is widespread liberalisation and clear, consistent climate change mitigation policies. Limited action at a federal level means that the progress has mostly taken place at the state and provincial level.

Canadian federal efforts now largely depend on progress in the US. The federal government has dropped its original national target in favour of developing something resembling US federal legislation as and when it emerges. In Ontario, in particular, the regulatory environment remains uncertain.

Impact: A number of factors could cause uncertainties surrounding the Group's future investment decisions and limit the Group's ability to meet its long-term growth aspirations. These include: the potential for a Competition Commission inquiry; the delivery of reforms to the planning regime; market conditions that support new nuclear power; and the impact of future OTC derivatives regulation in Europe and the US.

Mandated social price support for vulnerable customers will impact on the development of the Group's own social initiatives and the outcome of debates about future energy efficiency could impact the long-term growth of our residential business, and our ambition to provide home energy solutions to our customers.

The outcome from Copenhagen means the case for a unilateral UK mechanism to underpin the carbon price may strengthen in order to meet the UK's own more stretching targets. The likelihood and shape of any US cap and trade legislation remains primarily dependent on domestic factors.

Mitigation: Our activity to manage political and regulatory policy developments is ongoing and we are taking a number of steps to address these risks.

Internally, we have established a Policy Group to agree Group-wide positions on each key issue.

Externally, we have been closely engaging with civil servants, politicians and opinion-formers to ensure that the Group's perspectives are reflected in policy debates.

Media relations and external-facing CR programmes are designed to reinforce our views on policy and to build knowledge and trust in the business among wider stakeholder audiences.

In the US and Canada, we continue to engage with regulators, Government ministers and senior officials through targeted contact programmes.

Competitive retail energy environment

Description: We operate in highly competitive energy supply markets in the UK and North America where customers switch suppliers based on price and service levels, as well as competitor activity. We also operate in the home services market. These competitive markets have consistently delivered lower prices to consumers than their regulated counterparts.

In the UK, competitive pressures are increasing as many of the key participants, namely energy and other service providers such as insurance companies, have entered the services market and are seeking to strengthen their positions. In North America the economic environment is making trading more difficult, particularly in the new home construction business. In addition, new entrants in the waterheater rental business in Ontario are creating additional competitive pricing and service pressures.

Impact: As a result of competitor activities the Group may lose market share which could affect profitability and the ability of the Group to meet its growth aspirations.

Uncompetitive pricing may lead to customer losses and have an adverse impact on profitability.

Mitigation: To retain our competitive position, we aim to be competitive on price and combine attractive products and propositions with high quality customer service and, for energy supply, buy energy competitively.

We actively monitor customer satisfaction and competitor activity, and respond to changing circumstances by developing new customer offerings, whilst maintaining tight operational cost control.

Exposure to movements in commodity prices

Description: A significant proportion of the Group's profitability depends on our ability to manage our exposure to wholesale commodity prices for gas, oil, coal, carbon and power. The price of gas in the UK is particularly important, as we produce substantially less gas from our own resources than we need to meet retail demand and demand from our fleet of gas-fired power stations.

The Group must assess the risk of procuring commodities at fixed prices to meet uncertain levels of demand that are subject to seasonal fluctuations.

In addition, upstream acquisitions made in higher commodity price environments may be subject to balance sheet impairments during lower commodity price environments.

Impact: With volatile prices, there is a risk that surplus commodity positions cannot be sold to the wholesale markets profitably and that any commodity shortages cannot be covered at a cost that can be passed on to customers. In particular, we offer a number of fixed-price products, which are fully hedged at the start of the contract. These products are competitive when prices increase but when prices fall we experience customer losses, and therefore can be exposed to surplus commodity positions.

Significant longer-term price increases or decreases may require us to change the price at which we sell to our customers on variable tariffs. Where we do pass increased commodity prices through to our customers or fail to pass on decreased commodity prices, those customers may switch to our competitors, which could have an adverse effect on our business.

The volatility of commodity prices impacts the effectiveness of hedging decisions for the downstream customer portfolio and investment decisions in the upstream businesses, potentially leading to lower profits and lower than expected returns.

Mitigation: We manage these risks by hedging a proportion of the exposure for a number of years ahead, linked to the underlying profiles of our customers' energy requirements. This is done through purchasing and developing upstream assets such as gas fields, power stations and wind farms, bilateral agreements for gas and power, purchases of commodities on recognised exchanges and the use of financial instruments such as oil and gas swaps.

We regularly review our forecasts of commodity prices and customer demand and during 2009 we specifically focused on improving our internal forecasting processes.

Upstream transactions are carefully evaluated prior to acquisition and are expected to meet accepted financial criteria over the life of the project and are approved by the Board. The purchase of the stake in British Energy and the acquisition of Venture are examples of how we may secure a proportion of our customers' expected energy requirements.

New technologies

Description: The emergence of new technologies in the form of smart meters, smart grids and other new services create threats to the Group as well as new opportunities.

The Government has announced that every home will have a smart meter by 2020 and that the smart meter roll-out should be supplier-led.

The benefits include energy savings for the customer, time-of-use pricing for electricity, and better industry processes. The installation project is complex however and the full costs are uncertain and not yet fully quantified.

Impact: Until the data management framework for smart meters is decided during 2010 there is a risk that individual customer consumption data could be accessible to companies other than energy suppliers. This would constitute a risk to our ambitions in providing energy efficiency advice and other services.

With regard to the introduction of smart meters, we are not yet certain of immediately recovering the upfront cost of replacing existing meters.

Mitigation: We continue actively engaging in the industry discussion on the data model, together with the Energy Retail Association. We are also developing potential collaboration models with third parties.

Although these new technologies could represent a threat to the current business model, they could also represent a substantial opportunity from servicing, appliance and home automation sales and customised tariff pricing. In particular, the introduction of smart meters potentially represents a significant opportunity for British Gas.

We are well positioned to capitalise on these opportunities and are actively building capabilities and businesses to do so.

In North America, as we build the integrated business we will look to capitalise on opportunities around new technologies and energy efficiency.

Principal Risks and Uncertainties continued

Business specific factors

Health, safety and environment

Description: There are significant health, safety and environment (HS&E) hazards associated with our operations, and our vision is to put safety, health and wellbeing at the heart of all that we do to minimise the associated risks. We are also committed to understanding, managing and reducing the environmental and ecological impacts of our activities through innovation, technology and cultural change.

There are four principal health, safety and environment risks:

- a major incident in the operation of our onshore and offshore gas production, exploration, gas storage and power generation assets (including our share of British Energy);
- an incident that results in a fatality or major injury to a member of the public;
- an intolerable number of employee injuries or an employee fatality; and
- a major incident that results in significant environmental damage.

Impact: An incident related to any of the principal risks could result in widespread distress and harm, damage to the environment, significant disruption to operations and damage to our reputation.

Actual incidents, precautionary closures of plant or a suspension of activities on HS&E grounds may lead to loss of production or service and impact our profits.

In turn resultant legal action could have a material financial impact on the Group.

Mitigation: The operations of activities involving such risks are heavily regulated and strict control regimes are in place throughout the Group. Managing HS&E risks is deeply embedded in our operational practices and undertaken by appropriately qualified trained professionals.

The Board is responsible for ensuring that the Group has the appropriate culture and arrangements for meeting its HS&E responsibilities, and the Chief Executive is accountable to the Board for delivery. Our risk management and governance processes meet internationally recognised standards and quarterly HS&E performance reports are submitted to the Board, specifically including process safety.

Regarding British Energy, as a joint venture partner we have access to all information produced by EDF in support of board governance and oversight for both the existing operations and new nuclear projects. The Group actively reviews this information, much of which pertains to HS&E issues, to ensure we play an active role through our representation at board level. Additionally, we have established communication links, which allow us to highlight issues and concerns directly with those responsible. However, ultimate responsibility for the safe operation of the businesses remains with EDF.

While we have continued to target HS&E risk reduction in all our operations through local plans, many of which have been externally recognised, during 2009 we launched our new Group HS&E strategy, which includes a comprehensive governance framework, a reinforced HS&E policy and management system and a programme to strengthen our HS&E leadership behaviours. These will be reviewed by independent third-party consultants.

The Group has an established, senior, cross-business HS&E Committee to help steer this improvement strategy.

Managing our reputation with key stakeholders

Description: As a diverse Group of businesses we have a number of different stakeholders including customers, investors, employees, the media, Government and regulatory bodies.

Maintaining a positive reputation for the Company is of vital importance to ensure the smooth operation of the existing business and protect profitability.

Customers expect high service levels and a positive consumer experience from Britain's leading brands. As one of these leaders, we are expected to – and want to – exceed the norm in our CR activities; similarly we have a high media profile and are major contributors to policy debates in Government.

It is equally important to actively manage the Group's reputation with our other stakeholders including opinion-formers in the Government, the media and trade union bodies.

Impact: Consistently delivering high service levels is vital to building trust and therefore retaining and increasing the customer base. Failure to do so would damage our brand, lead to customer losses and impact the Group's revenues.

Failure to maintain our reputation with key stakeholders could lead to more direct intervention by Government or the regulator in the Group's business or industrial action by our workforce.

Mitigation: We have a clearly defined set of business principles, which apply to all employees and business partners. These business principles (listed on page 3) set out our commitment to operate professionally, fairly and with integrity wherever we work in the world. A combination of awareness training and targeted controls (including fraud and data protection) is in place to encourage and monitor adherence to our business principles.

In addition, we carefully monitor customer service throughout our retail operations, and continued focus in this area has resulted in service improvements and fewer customer complaints.

We are constantly developing products and services to meet the needs of our customers, as demonstrated by the launch of 'EnergySmart' and our 'We're Listening' campaign.

We actively monitor reputation management on a quarterly basis in the Executive Committee meetings. We also regularly meet with opinion-formers across the political spectrum and in the media and with the representatives of our major trade union bodies.

Group pensions deficit

Description: The Group maintains a variety of pension schemes including defined benefit schemes. The pension fund liabilities are partially matched with a portfolio of assets leaving potential risk around changes in inflation and interest rates, mortality rates and returns on assets.

Impact: The schemes contain a high proportion of equity assets as part of a strategy to provide a better return in the long term than alternative investments such as bonds. However, in the short term, the difference between the IAS 19 value of liabilities and the fair value of the assets may vary significantly (eg due to a change in the discount rate used), potentially resulting in a larger deficit.

In addition, the triennial actuarial valuations of the schemes may result in higher deficits than have been recognised on the Group's Balance Sheet (because more prudent assumptions may be used than in IAS 19) which may require the Group to make increased contributions to the pension fund.

In the current business environment with volatile bond and equity markets there is an increased risk that large deficits may arise on our pension schemes.

Actions by the pension regulators or the trustees and/or material revisions to existing pension legislation could require increased contributions by the Group to the pension fund.

Mitigation: The risks associated with the pension schemes are regularly reviewed and, in combination with expert external advice, action is taken where necessary.

The formal triennial valuations for the main schemes at 31 March 2009 were recently completed. Additional contributions have been agreed with the trustees including £200 million which was paid in 2009. A similar amount will be paid in 2010 and around £100 million will be paid in 2011.

Build an integrated North American business

Description: The North American business had a difficult year and was impacted by pervading low wholesale commodity prices and one-off factors, however it remains well placed for future growth as we look to build a more integrated business model.

We continue to see significant growth potential for our North American business, and will consider opportunities upstream and downstream to build on our integrated energy model.

Further developing the integrated energy model reduces our exposure to commodity prices and earnings volatility, and we aim to achieve a leading position in our chosen markets over time.

Impact: If we do not achieve our strategy to integrate and grow the North American business further this could negatively impact the Group's growth plans.

Mitigation: Direct Energy, now under new management with Board representation, has completed a comprehensive review of the business.

The new management team will focus on improving our returns from the existing business and delivering the strategy to increase integration.

Our objective is for Direct Energy to deliver an increasingly material contribution to Group earnings over the medium term, diversifying our geographic earnings profile.

Deliver value from our growing upstream investments

Description: The acquisition of Venture is fundamental to our ongoing strategy, establishing us as the leading consolidator and operator of mature and orphaned gas and oil assets in the UK continental shelf. The integration of Venture with our existing business now provides us with a sustainable and flexible portfolio of assets with valuable development opportunities going forward.

Our UK upstream gas and oil headquarters are now located in Aberdeen and the business is structured around five core regions in order to maximise our focus on asset and infrastructure performance, regional geology and business development opportunities. We are pleased to have retained the majority of the highly skilled Venture team who will help deliver the new strategic direction of the business.

We now need to ensure the successful working of the newly integrated business and deliver incremental value from the combined business.

Impact: If we fail to deliver the successful working of the newly integrated business, this could lead to us not achieving the strategic objectives and benefits of the combined business and also lead to a failure to deliver an appropriate rate of return on our investment.

Mitigation: The initial phase of the integration of Venture has been completed.

A new leadership structure has been implemented and the ongoing performance of the combined business will be regularly reviewed by senior management.

Principal Risks and Uncertainties continued

IS security and business continuity

Description: Effective and secure information systems are essential for the efficient management and accurate billing of our customers, effective power generation and successful energy trading and hedging activities.

The confidentiality, integrity and availability of our information systems could be affected by factors that include human error, ineffective design or operation of key controls or through malfunction or deliberate attack.

Impact: Any compromise of the confidentiality of customer information could impact our reputation with current and potential customers and could result in legal action against the Group.

Outages and interruptions could affect our ability to conduct day-to-day operations and cause us to suffer a financial loss.

Mitigation: There are a number of controls in place to manage this risk including network segregation, monitoring, access restrictions on storage systems, regular third-party security reviews and vulnerability assessments of infrastructure and applications. In addition, there is a dedicated Group IS risk team tasked with monitoring and reviewing the adherence across the Group to the IS risk policy.

Business continuity plans are in place to help recover from significant outages or interruptions. To improve efficiency, we continue to invest in our systems supported by strong project management to minimise the associated implementation risk.

Outsourcing and offshoring

Description: We have outsourced several activities, including business-critical information technology services and back office and processing functions, which support our businesses in the UK and North America. Some of the Group's outsourcing contracts are in offshore locations in India and South Africa.

In addition, a number of our North Sea assets are reliant on third-party infrastructure (ie pipelines and platforms).

There is a risk that the Group's outsourcing initiatives do not deliver the projected benefits as a result of:

- loss of service or inadequate service from the offshore service provider;
- insufficient skilled resources at the outsourcer to effectively manage the relationship;
- inadequate levels of retained knowledge to drive process improvements; or
- risk to the Group's employees as a result of terrorist, and/or social or political events in offshore locations.

Impact: The failure of our outsourcing partners to deliver the appropriate level of service to the Group could have a detrimental impact on our costs, our reputation, our levels of customer service and consequently negatively impact the Group's revenues and profits.

Mitigation: New outsourcing and offshoring initiatives are challenged and reviewed by senior management in business performance reviews. We have robust project governance policies for all new and existing outsourcing and offshoring initiatives.

We have business contingency plans in place in the event of terrorist or social/political events in offshore locations. In addition, in light of the global economic downturn we have performed a review of the financial health of our key outsourcing partners.

In our upstream business, we are undertaking a number of initiatives to mitigate the issues we have experienced with third-party infrastructure providers.

As with any contractual relationship, there are inherent risks to be mitigated, and these are actively managed on a day-to-day basis by business unit management.

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Board of Directors and Executive Team

1. Roger Carr

Chairman (63) N,R

Roger Carr joined the Board as a Non-Executive Director in 2001. He was appointed Chairman of the Board in May 2004 and is Chairman of the Nominations Committee. He is chairman of Cadbury plc and is due to stand down from this position at a date to be determined. He is a non-executive director of the Bank of England and until June 2008 was chairman of Mitchells & Butlers plc.

2. Sam Laidlaw

Chief Executive (54) C,D,E,N

Sam Laidlaw joined Centrica as Chief Executive in July 2006. He is Chairman of the Executive Committee and the Disclosure Committee. He was previously executive vice president of the Chevron Corporation, chief executive officer at Enterprise Oil and president and chief operating officer at Amerada Hess. In January 2008, he was appointed a non-executive director of HSBC Holdings plc. Until August 2007, he was a non-executive director of Hanson plc. He is a trustee of the medical charity RAFT.

3. Helen Alexander CBE

Non-Executive Director (53) A,N,R

Helen Alexander joined the Board in January 2003 and is Chairman of the Remuneration Committee. She is president of the CBI, chairman of Incisive Media and the Port of London Authority, a senior adviser of Bain Capital and a non-executive director of Rolls-Royce plc. She is senior trustee of the Tate Gallery and an honorary fellow of Hertford College, Oxford. Until July 2008, she was chief executive of the Economist Group.

4. Phil Bentley

Managing Director, British Gas (51) C,E

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

5. Mary Francis CBE

Senior Independent Director (61) A,C,N,R

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

6. Mark Hanafin

Managing Director, Centrica Energy (50) E

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

Key to membership of committees

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

7. Nick Luff

Group Finance Director (42) D,E

Nick Luff joined Centrica as Group Finance Director in March 2007 and was appointed as a non-executive director of Lake Acquisitions Limited (the parent company of British Energy) in November 2009. He was previously chief financial officer of The Peninsular & Oriental Steam Navigation Company (P&O) and has held a number of other senior financial roles at P&O, having qualified as a chartered accountant at KPMG. He is a non-executive director of QinetiQ Group plc.

8. Andrew Mackenzie

Non-Executive Director (53) A,C,N,R

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

9. Paul Rayner

Non-Executive Director (55) A,N,R

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

10. Chris Weston

Managing Director, North America (46) C,E

Chris Weston was appointed to the Board in July 2009. He was Managing Director, British Gas Services from June 2005. Prior to this, he was Managing Director, British Gas Business from January 2002, having joined Centrica in November 2001 following the acquisition of One Tel where he was the managing director of Europe. Previously, he spent seven years in the army with the Royal Artillery.

Executive Team

11. Grant Dawson

General Counsel & Company Secretary (50) D,E

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

12. Catherine May

Group Director, Corporate Affairs (45) C,E

Catherine May joined Centrica as Group Director, Corporate Affairs in September 2006, having previously been group director of corporate relations for Reed Elsevier.

13. Anne Minto OBE

Group Director, Human Resources (56) E

Anne Minto was appointed Group Director, Human Resources in October 2002. Prior to that she was director, human resources for Smiths Group plc, a position which she held since early 1998. She is also Chairman of the Centrica Pension Schemes.

Corporate Governance Report

The Board believes that good corporate governance contributes to improved Company performance by ensuring that there is a clearly defined framework of roles, responsibilities and delegated duties. These support the Board's aim to deliver stability and growth for the benefit of customers, employees and shareholders.

This report explains how the Board applied the principles of the Combined Code on Corporate Governance during 2009.

Board of Directors

The Directors consider that the Board leads and controls the Group effectively. 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. The Directors also have responsibilities and duties under other legislation and in particular the Companies Act 2006. To accommodate the final changes in respect of the Companies Act 2006, the Company is proposing further changes to the Articles at the 2010 Annual General Meeting (AGM), which are further explained in the Notice of the AGM.

All listed companies are subject to the revised version of the Combined Code on Corporate Governance (the Code), which came into effect for accounting periods beginning on or after 29 June 2008. No changes were required in the Board's governance structure or operations in order to comply with the revised Code. The Company complied fully with the provisions of the Code except for a period from July 2009, as explained on page 42.

The Board has a schedule of matters specifically reserved for its approval, which is also available for inspection on the Company's website. In particular, the Board is responsible for:

- changes in the capital structure of the Company;
- development of strategy and major policies;
- the appointment and removal of Directors and the Company Secretary;
- reviewing management performance;
- interim dividend payments and recommendation of final dividends;
- approval of the annual operating plan, the financial statements and major acquisitions and disposals;
- the Group's corporate responsibility arrangements including health, safety and environmental matters;
- the Group's corporate governance and system of internal control; and
- matters not in the ordinary course of business.

The Chairman and each Non-Executive Director has provided assurance to the Board that they remain fully committed to their respective roles and can dedicate the necessary amount of time to attend to the Company's affairs.

2009 Board and committee meetings attendance

	Board	Audit Committee	Remuneration Committee	Nominations Committee	Corporate Responsibility Committee
Number of meetings	**14**	**4**	**6**	**3**	**4**
Roger Carr	14		6	3	
Sam Laidlaw	14			3	4
Phil Bentley	14				4
Mark Hanafin	14				
Nick Luff	14				
Chris Weston(i)	5				2
Helen Alexander	13	4	6	3	
Mary Francis	13	3	4	2	4
Andrew Mackenzie	14	4	6	3	4
Paul Rayner	13	4	6	3	
Paul Walsh(ii)	5	1	1	1	

(i) Chris Weston was appointed to the Board in July 2009.
(ii) Paul Walsh retired from the Board in May 2009.

Board meetings

The Board recognises the importance of holding regular scheduled meetings throughout the year as a key part of the governance framework. Unscheduled supplementary meetings also took place during the year when necessary. During the year, the Board had eight scheduled meetings and six unscheduled supplementary meetings. A committee of the Board was set up to consider the technical aspects of the acquisition of Venture Production plc and the 20% investment in British Energy, which met on a total of five occasions during the year. There was also one committee meeting of the Board during the year which considered technical formalities in respect of the issuance of debt instruments and another committee meeting which considered the formal documentation in respect of pension scheme funding.

The Board continuously assesses and reviews key priorities and business issues for the Company over the short, medium and longer term. As part of this process, the Board monitors the development of the Group's strategy and each year one Board meeting is devoted specifically to strategy. Comprehensive papers are presented to the Board which facilitates meaningful debate as to the performance and future direction of the Company.

All Directors are expected to attend all Board and relevant committee meetings. Details of attendance by Directors at Board and committee meetings during 2009 are set out in the table above. Where a Director was not in attendance in 2009, this was due to other prior work commitments. Directors who were unable to attend specific Board or committee meetings reviewed the relevant briefing papers and provided their comments to the Chairman of the Board or committee, as appropriate.

Board constitution and appointments

The Board is made up of an appropriate balance of Executive and independent Non-Executive Directors. The roles of Chairman and Chief Executive are separate. This established division of responsibility is formalised in writing and has been approved by the Board.

The Non-Executive Directors play a key governance role and bring an external view to the Board's deliberations through their range of knowledge, experience and insight from other

sectors. 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 specified in the Code and determined that each remained independent. During the year the Non-Executive Directors, including the Chairman, met independently of management on a regular basis.

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 41. On 26 February 2009, the Chairman announced a number of changes to the composition of the Board. Chris Weston was appointed to the Board on 1 July 2009 as an Executive Director with responsibility for the Company's North American business. Chris Weston will therefore seek reappointment to the Board at the forthcoming AGM. Paul Walsh, who had served as a Non-Executive Director since March 2003, retired from the Board at the conclusion of the 2009 AGM. A search for a suitable replacement for Paul Walsh is ongoing.

In accordance with the Companies Act 2006, the Board considered and authorised each Director's reported actual and potential conflicts of interest during the year. Each Director abstained from approval of their own reported conflicts. The Board will continue to monitor and review actual and potential conflicts of interest on a regular basis.

In accordance with the Code and the Articles, all Directors are subject to reappointment by shareholders at the first AGM following their appointment to the Board and thereafter are subject to reappointment every third year. Non-Executive Directors are initially appointed for a three-year term and, subject to review and reappointment by shareholders, can serve up to a maximum of three terms. Upon the recommendation of the Nominations Committee, Phil Bentley, Roger Carr, Nick Luff and Chris Weston will be proposed for reappointment at the AGM. The Code states that any length of service beyond six years for a Non-Executive Director should be subject to particularly rigorous review and should take into account the need for progressive refreshing of the Board. In view of this, and following the recommendation of the Nominations Committee, Helen Alexander, who joined the Board in January 2003, will again seek reappointment at the AGM and annually thereafter.

Full details of Directors' service contracts, emoluments and share interests are set out in the Remuneration Report on pages 45 to 59. Directors' biographies including their Board committee membership are set out on pages 36 and 37.

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 the General Counsel & Company Secretary. The Company also maintains directors' and officers' liability insurance for its Directors and Officers.

Board evaluation

The Board is aware of the importance of continually assessing its own performance in support of the leadership of the Group and conducts a formal evaluation of its own performance and that of its committees and individual Directors annually. The evaluation was prepared and carried out by the Chairman and the General Counsel & Company Secretary in respect of the year ended 31 December 2009.

The evaluation process followed up on the 2008 effectiveness review and the Board considered the progress made on the previously identified issues.

The evaluation focused on the following key themes: board composition; board expertise and knowledge; strategic oversight and delegation of powers; efficiency and effectiveness; board support; risk management and internal control governance; succession planning and improving board performance.

The evaluation process was carried out using a comprehensive questionnaire, which was considered and completed by each of the Directors and the General Counsel & Company Secretary. In addition to this, the Senior Independent Director chaired a meeting of the independent Non-Executive Directors in the absence of the Chairman to appraise the Chairman's individual performance.

A consolidated report of the output from the evaluation exercise was prepared for review and consideration by the Board.

The evaluation report concluded that the Board and its committees continue to operate effectively. A small number of actions and improvements were identified. In particular, the Board identified the following enhancements, which will be incorporated into the future Board programme to ensure that the operation of the Board and its committees continue to improve:

- greater focus on the competitive environment both in the UK and in North America;
- greater awareness of potential political and regulatory developments;
- greater visibility of corporate responsibility issues; and
- further post investment reviews.

The Chief Executive's performance is reviewed regularly by the Chairman and the Chief Executive reviews the performance of the other Executive Directors. In addition, the Remuneration Committee assesses the performance of the Executive Directors in connection with its determination of senior management remuneration levels as explained in the Remuneration Report on pages 45 to 59.

The Board and its committees will continue to review critically their procedures, effectiveness and development throughout the coming year.

Board development

All new Directors appointed to the Board receive a comprehensive induction briefing tailored to meet their individual needs. Ongoing development and training is provided to Directors at Board meetings and, where appropriate, 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 2009:

- overview of the competitive landscape;
- market rates for oil and gas prices;
- health, safety and environmental developments and issues;
- customer perceptions;
- tax strategy and governance;
- corporate governance developments; and
- smart metering and associated developments.

Corporate Governance Report continued

The Directors have full access to the advice and services of the General Counsel & Company Secretary. They also have the option to seek independent professional advice at the Company's expense in respect of their duties.

Board committees

The Board has delegated authority to its committees to carry out certain tasks as defined in each committee's respective terms of reference. The Board reviews each committee's terms of reference against best practice and approves revised terms on a regular basis. The written terms of reference for the Audit, Remuneration, Nominations, Corporate Responsibility, Executive and Disclosure Committees are available on the Company's website and hard copies are available upon request.

All of the independent Non-Executive Directors are members of the Audit, Remuneration and Nominations Committees. The Board considers that this membership structure provides a consistency of membership within each of these principal committees and avoids undue reliance on particular members. Minutes of committee meetings are made available to all Directors on a timely basis and the chairmen of each of the Audit, Remuneration, Nominations and Corporate Responsibility Committees provide updates to the Board at the next Board meeting.

A chart setting out the Company's Board and Executive Committee structure is set out below.

Details of each committee, including membership, are set out in the following committee reports.

Audit Committee

The members of the Audit Committee are Paul Rayner (Chairman), Helen Alexander, Mary Francis and Andrew Mackenzie. Paul Walsh was also a member up until his retirement from the Board in May 2009. In accordance with the Code, Paul Rayner is identified as having recent and relevant financial experience. The Board has determined that each member of the Committee is independent and that the membership meets the requirements of the Code.

The key function of the Audit Committee is to review the effectiveness of the Company's financial reporting and internal control policies together with the procedures for the identification, assessment and reporting of risks. In accordance with its terms of reference, the Committee is authorised by the Board to:

- monitor the integrity and audit of the Company's financial statements and any formal announcements relating to the Company's financial performance, including a review of the significant financial reporting judgements contained within them;
- review the Company's internal financial controls, internal control and risk management systems;
- monitor and review the effectiveness of the Company's internal audit function;
- establish and oversee the Company's relationship with the external auditors, including monitoring their independent status; and
- establish and oversee appropriate whistleblowing and fraud prevention arrangements within the Company.

During the year the Committee met on four occasions. At each of these meetings, the Committee met privately with the external auditors, and separately with the Head of Audit and Risk (who is responsible for internal audit).

The Committee received regular comprehensive reports from the Head of Audit and Risk, senior management and the external auditors, PricewaterhouseCoopers LLP. The Committee also requested clear objectives, timescale and achievement milestones against which performance could be clearly measured in respect of all ongoing issues.

Governance structure

The Committee considered a number of key issues during the year and in particular reviewed:

- considerations in respect of reporting during the difficult economic conditions throughout the year;
- governance structures, in particular the links between the Group's Audit Committee and Business Unit level governance bodies;
- information technology general controls;
- succession planning and senior appointments within the Audit and Risk functions;
- review of remediation plans and lessons learned from internal control issues identified in the businesses in the Netherlands and Texas; and
- ongoing compliance with the Undertakings in respect of Centrica Storage Limited and compliance reporting in general.

The Committee members also participated in a training session during the year facilitated by Deloitte regarding current internal and external audit matters.

PricewaterhouseCoopers LLP have been the external auditor of the Group since the demerger of Centrica in 1997. Under its terms of reference, the Audit Committee makes recommendations through the Board to the shareholders to consider at the AGM, or at any time during the year, on the appointment, reappointment and removal of the external auditor. There are no contractual obligations restricting the Group's choice of external auditor. Accordingly, following consideration, the Audit Committee has recommended to the Board that a resolution to reappoint PricewaterhouseCoopers LLP be proposed at the AGM and the Board has accepted and endorsed this recommendation.

The Board has approved policies that restrict the types of non-audit work that can be undertaken by the external auditors and restrict the employment by the Group of former employees of the external auditors. The award of non-audit work, within categories that the external auditors are permitted to carry out under the Board-approved policies, is subject to pre-clearance by the Audit Committee if the fee exceeds specified thresholds. The Group's policy to seek competitive tenders for all major consultancies and advisory projects is set out in note 13 to the Financial Statements on page 97. In addition, the Committee was provided with reports of all non-audit assignments awarded to the external auditors and, on a regular basis, a full breakdown of non-audit fees incurred during the year.

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, the external auditors have confirmed their independence as auditors of the Company, in a letter addressed to the Directors.

Remuneration Committee

A report detailing the composition, responsibilities and work carried out by the Remuneration Committee during the year, including an explanation of how it applies the principles of the Code in setting Executive Directors' remuneration, is included within the Remuneration Report on pages 45 to 59.

Nominations Committee

The members of the Nominations Committee are Roger Carr (Chairman), Helen Alexander, Mary Francis, Sam Laidlaw, Andrew Mackenzie and Paul Rayner. Paul Walsh was also a member up until the time he retired from the Board in May 2009.

The Committee's membership is comprised of a majority of independent Non-Executive Directors. The primary responsibilities of the Committee are to:

- make appropriate recommendations to the Board for the appointment of replacement or additional Directors;
- devise and consider succession planning arrangements for Directors and other senior executives; and
- regularly review the structure, size and composition of the Board and make recommendations to the Board with regard to any proposed changes.

In making its appointment recommendations to the Board, the Committee reviews the overall balance of skills, knowledge and experience on the Board against current and future requirements of the Company and, as appropriate, draws up a list of required candidate attributes.

The Committee met on three occasions during the year and considered the proposed appointment of Chris Weston, Managing Director, North America, who joined the Board in July 2009. In addition to this appointment, the Committee considered:

- the reappointment of Directors retiring by rotation at the 2009 AGM;
- Board and senior management succession planning and in particular the ongoing search for a replacement in respect of Paul Walsh; and
- changes in Phil Bentley's responsibilities, as announced in February 2009.

Corporate Responsibility Committee

The members of the Corporate Responsibility Committee are Mary Francis (Chairman), Phil Bentley, Sam Laidlaw, Andrew Mackenzie, Catherine May and Chris Weston.

A report detailing the work carried out by the Corporate Responsibility Committee during the year is included within the Corporate Responsibility Review on pages 21 to 26.

Executive Committee

The members of the Executive Committee are the Executive Directors and those key senior managers whose biographical details are set out on pages 36 and 37. Sam Laidlaw is Chairman of the Committee.

The 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, which was reviewed and approved by the Board during the year. The Committee also has a schedule of matters specifically reserved for its approval.

The Committee has delegated certain tasks to the sub-committees below and receives regular updates from each one:

- Group Risk Management Committee;
- Group Financial Risk Management Committee;
- Health, Safety and Environment Committee; and
- Investment Sub-Committee.

Corporate Governance Report continued

Disclosure Committee

The members of the Disclosure Committee are Sam Laidlaw (Chairman), Nick Luff and Grant Dawson.

The Committee met on a number of occasions during the year and is responsible for implementing and monitoring systems and controls in respect of the management and disclosure of inside information. The Committee is also responsible for ensuring that regulatory announcements, shareholder circulars, prospectuses and other documents issued by the Company comply with any applicable legal or regulatory requirements.

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.

The Chief Executive and Group Finance Director held regular meetings with the Company's major shareholders during the year.

The Chairman and the Senior Independent Director attended the meetings at which the annual and interim results were presented to major investors and analysts. The Chairman also met a number of major institutional shareholders during the year to gain a first-hand understanding of their concerns and key issues.

The Company's AGM provides all shareholders with the opportunity to develop further their understanding of the Company and to ask questions of the full Board on the matters put to the meeting, including the Annual Report. All Directors are invited to attend each 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 also 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 the Company's website.

Mary Francis, the Senior Independent Director, is available to shareholders if they have concerns that contact through the normal channels has either failed to resolve or is deemed inappropriate.

Formal reports of investor feedback are presented to the Board at regular intervals.

Centrica's website contains up-to-date information for shareholders and other interested parties including share price information, news releases, speeches from the AGM, presentations to the investment community and a section on shareholder services. The Company's Annual Report and Annual Review and other shareholder circulars are also published on the website.

Compliance statement

As the Company is listed on the London Stock Exchange, it is subject to the Code, which is available from the Financial Reporting Council (www.frc.org.uk).

Throughout the year ended 31 December 2009, the Company complied fully with the provisions set out in Section 1 of the Code with the exception of provision A.3.2 which states that at least half of the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. As previously reported, Paul Walsh retired as a Non-Executive Director of Centrica in May 2009 and a search for a replacement is ongoing. In July 2009, Chris Weston was appointed to the Board as Managing Director, North America to further strengthen the structure and leadership required to maximise the opportunities for the North American business. As a result of these changes, the membership of the Board did not meet provision A.3.2 of the Code for the latter half of 2009. Whilst the Board recognises the membership of the Board is not in line with the Code, it believes that it still has a robust governance structure and that no individual or small group of individuals dominate the Board's decision making. A search for a replacement for Paul Walsh is ongoing and following that appointment, the composition of the Board is expected to be fully compliant with the Code.

Risk management and internal control

The Board regards the identification and assessment of risks, together with the mitigating internal controls, to be fundamental to achieving the Group's strategic objectives. It either directly or through its committees, sets objectives, performance targets and policies for management of key risks facing the Group. The Board has overall responsibility for the Group's system of internal control and risk management which is 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.

Across the Group, each business has a Risk Management Committee that seeks to identify, assess and advise on the management of risks. These assessments are reported to the Group Risk Management Committee to develop the Company's overall risk profile including those risks that might affect the Company at Group level. Where significant risks have been identified, a control infrastructure has been established to ensure day-to-day monitoring and management of risks. The Centrica Executive Committee reviews the risks identified by the Group Risk Management Committee at its monthly meetings to assure itself that the significant risks facing the Group are being managed appropriately. Centrica Storage Limited, which is subject to Undertakings given to the Secretary of State for Business Innovation & Skills, operates separately but to the same standards of internal control and risk management as the rest of the Group. The processes of newly-acquired companies are integrated with those of the Group.

At each of its four meetings in 2009, the Audit Committee received a Group Risk Report providing an assessment of the key risks facing the Company including the adequacy of the associated controls. Details of the principal risks and uncertainties are set out on pages 29 to 34 of this report. In addition, the Audit Committee is provided with the results of reviews conducted by the internal audit function according to a plan approved by the Committee. These reports, supplemented by management presentations, enable the Audit Committee to track a number of issues, monitor performance against objectives and ensure that necessary actions are taken to remedy any significant failings or weaknesses identified from those reports. The Chairman of the Audit Committee reported the issues discussed and conclusions reached at the following Board meeting.

The Centrica Controls Board, whose members are the Group Finance Director, Director of Financial Control, Head of Audit and Risk and Business Unit Finance Directors, is responsible for ensuring appropriate internal controls are in place over financial reporting processes and the related IT systems. Its responsibilities are discharged through the Centrica Controls Steering Group (CCSG) which met five times during 2009.

The CCSG monitors the risks and associated controls over financial reporting processes, including the consolidation process. The financial reporting controls are monitored and maintained through the use of internal control frameworks which address key financial reporting risks, including risks arising from changes in the business or accounting standards. Effectiveness is assessed through quarterly self-certification and independent testing of the controls.

The integrity of the Company's public financial reporting is further supported by a number of processes and steps to provide assurance over the completeness and accuracy of the content, including:

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

The Board's review of the system of internal control

A process of hierarchical self-certification has been established throughout the Group whereby the effectiveness of internal controls and compliance with Group business principles and policies, are assessed. In 2009 the self-certification process was completed at half year and full year ends. 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.

The Board, with the advice of the Audit Committee, has reviewed the effectiveness of the system of internal control, for the period from 1 January 2009 to the date of this report, and is satisfied that the Group complies with the Turnbull Guidance. The Board will continue routinely to challenge management in order to ensure that the system of internal control is constantly improving.

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 4 of the Financial Statements on page 86.

Directors' responsibility statement

The Directors, who are named on pages 36 and 37, are responsible for preparing, in respect of each financial year, the Annual Report and Group Financial Statements. They are also responsible for ensuring that the Financial Statements give a true and fair view and that they have been properly prepared in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Group Financial Statements have been prepared in accordance with the Companies Act 2006 and IFRS pursuant to Article 4 of the IAS Regulations. The parent company Financial Statements have been prepared in accordance with the Companies Act 2006 and United Kingdom Generally Accepted Accounting Practice. The Directors' Report and the Remuneration Report have been prepared in accordance with the Companies Act 2006 and the UK Listing Authority Listing Rules.

In preparing the Financial Statements, the Directors are required to:

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

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements. The Directors also confirm that the Directors' Report contained within the Annual Report 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.

The Directors are responsible for keeping proper accounting records that 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 Companies Act 2006. 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.

Disclosure of information to auditors

Each of the Directors who held office at the date of approval of this Directors' Report confirm that: so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and 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 the Company's auditors are aware of that information.

The Company has not entered into an auditor liability limitation agreement with its auditors during the year.

Other Statutory Information

Management Report

The Directors' Report for the year can be found on pages 4 to 44. The management report for the year, as required by the Disclosure and Transparency Rules, is incorporated by reference within the Directors' Report.

Major acquisitions and disposals

Full details of acquisitions and disposals are disclosed in the Business Review on pages 4 to 34 and notes 37 and 38 to the Financial Statements on pages 139 to 145.

Events after the balance sheet date

Events after the balance sheet date are disclosed in note 42 to the Financial Statements on page 149.

Related party transactions

Related party transactions are set out in note 40 to the Financial Statements on page 147.

Creditor payment policy

It is the Group's policy to:

- agree the terms of payment in advance with the supplier;
- ensure that suppliers are aware of the terms of payment; and
- pay in accordance with contractual and other legal obligations.

The number of days' purchases outstanding as at 31 December 2009 was 33 (2008: 37) for the Group (excluding Accord Energy Limited) and 20 (2008: 39) for the Company.

Essential contractual arrangements

The Group has contractual and other arrangements with various third parties. Whilst the loss of or disruption to certain of these arrangements could temporarily affect the operations of the Group, this Annual Report does not contain information about these third parties as none of the arrangements with them are considered to be essential to the Group's business.

Significant agreements – change of control

The following are significant agreements to which the Company is party which take effect, alter or terminate upon the 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 Centrica) assigned ownership of the British Gas trade marks and related logos to Centrica for use in Great Britain. BG Group plc has the right to call for a re-assignment 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 British Energy, an owner and operator of nuclear power stations in the UK. The transactions include rights for EDF Group and Centrica to offtake power from existing and new build British Energy nuclear power stations and to invest in new build nuclear power stations. As part of these arrangements, on a change of control of Centrica, Centrica loses its rights to participate on the Boards of the companies in which it has invested and on Technical Committees for new nuclear development. Furthermore, on a change of control of Centrica, where the acquirer is not located in a specified country, EDF Group is able to require Centrica to sell out its investments.

Charitable and political donations

During the year, the Group made cash charitable donations to support the community of £4.8 million (2008: £5.9 million). Total community contributions and related activities on community support are described in the Corporate Responsibility Review on page 26. In line with Group policy, no donations were made for political purposes during the year (2008: nil).

Share capital

At the 2009 AGM, shareholders approved an increase in the Company's authorised share capital. The Company was also authorised at the 2009 AGM to allot shares, within certain limits and as permitted by the Companies Act. A renewal of this authority will be proposed at the 2010 AGM. The Company's authorised and issued share capital as at 31 December 2009, together with details of shares issued during the year, is set out in note 30 to the Financial Statements on pages 123 to 124.

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 of Association (the Articles) and in the explanatory notes which accompany notices of general meetings, all of which are available on the Company's website at www.centrica.com.

Authority to purchase shares

The Company was authorised at the 2009 AGM to purchase its own shares, within certain limits and as permitted by the Articles. A renewal of this authority will be proposed at the 2010 AGM. Shares repurchased may be cancelled or retained as treasury shares to accommodate requirements for shares under the Group's share incentive schemes. No shares were purchased under this authority during 2009.

Material shareholdings

At 24 February 2010, Centrica had received notification of the following material shareholdings pursuant to the Disclosure and Transparency Rules:

	Ordinary shares	% of share capital	Nature of holding
Legal & General Group	228,227,811	4.44	Direct
Petronas	199,375,000	3.88	Direct

Auditors

PricewaterhouseCoopers LLP have expressed their willingness to be reappointed as auditors of the Company. Upon the recommendation of the Audit Committee, separate resolutions to reappoint them as the Company's auditors and to authorise the Directors to determine their remuneration will be proposed at the forthcoming AGM.

This Directors' Report comprising pages 4 to 44 has been approved by the Board and signed on its behalf by:

Grant Dawson
General Counsel & Company Secretary
25 February 2010

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire SL4 5GD

Company registered in England and Wales No. 3033654

Remuneration Report

In 2009, the Remuneration Committee (the Committee) reviewed the remuneration arrangements for Executive Directors. The proposed changes for 2010 are summarised in the letter to shareholders shown on this page.

Letter to shareholders

On behalf of the Board, I am pleased to present the Committee's Report on Remuneration for 2009 for which we will be seeking approval from shareholders at our Annual General Meeting in May 2010.

Remuneration principles

In considering remuneration for our senior executives the Remuneration Committee has developed the following framework of principles. This has also formed the basis for the review of remuneration which began in 2009 and will continue in 2010.

- Incentives will reinforce key business objectives, promote an ownership culture, and align executive and shareholder interests.
- Senior executive remuneration levels will be benchmarked and structured to ensure Centrica's total remuneration levels (i.e. including all fixed and variable pay components) are competitive.
- The Committee will take into account market practice, best practice and best fit for Centrica when determining the appropriate structure of pay.
- A significant proportion of senior executive remuneration will be delivered through long-term share-based pay.
- Incentive structures will be simple, transparent and robust, and structured to avoid encouraging excessive risk-taking.
- Annual and long-term incentives will be based on Group, Business Unit and individual performance. Measures will include leading indicators of sustainable performance with health, safety and environmental objectives.
- Incentive targets may be adjusted at the discretion of the Committee to take account of 'non-performance items' outside management control that would otherwise distort the measurement of management performance.

Background and principles for proposed changes

The Committee commenced a review of senior executive remuneration arrangements during 2009, to ensure that our remuneration principles continue to support the business. The review will continue in 2010 and any significant changes will be discussed with shareholders.

The main changes proposed to date are described below:

Rebalancing short-term incentives

Recognising the continued importance of meeting our Health, Safety and Environmental (HS&E) objectives, in 2010 each Executive Director will have an element of their Annual Incentive Scheme determined by the achievement of HS&E objectives.

As a result of the introduction of HS&E objectives, the bonus opportunity for on target performance will remain unchanged at 90% of base salary for the Chief Executive and 75% for the other Executive Directors.

Performance measurement

The measurement of Total Shareholder Return (TSR) under the Long Term Incentive Scheme will be amended going forward so that the Group's TSR will be measured as a percentage of out-performance of the FTSE 100 index. To provide greater simplicity and transparency in the measurement process, companies which have been de-listed from the London Stock Exchange will be removed from the comparator group in future.

Giving greater flexibility for tax planning

In order to provide employees with greater flexibility, from 2010 awards made under the Long Term Incentive Scheme, and matching awards made under the Deferred and Matching Share Scheme, will be structured as nil-cost options. This change in structure will not affect any other conditions or the total value of awards made.

Managing the balance of amount and risk

The economic crisis emphasised the need to ensure that the potential amount of remuneration and the stretch of performance targets do not encourage excessive risk-taking. We are satisfied that our proposed structure does not do this.

Aligning pay with the relevant market benchmark

We will continue to benchmark the remuneration of our senior executives against a UK cross-industry comparator group. We will also take into account international comparators within our industry.

Board membership

Chris Weston was promoted to the Board as an Executive Director midway through 2009 and this Report describes his remuneration arrangements in detail for the first time. Paul Walsh was a member of the Committee until he retired from the Board at the Annual General Meeting on 11 May 2009. We thank Paul for his valuable contribution to the Committee's work during recent years.

The Committee believes that the proposed changes represent a step forward in supporting the future direction of the business, are aligned to our values and are in the best interests of shareholders.

Helen Alexander
Chairman of the Remuneration Committee
25 February 2010

Remuneration Report continued

Introduction to the Report

This Report details the Company's executive remuneration policy and includes information on the remuneration of the Directors for the financial year ended 31 December 2009.

The Report will be presented to the forthcoming Annual General Meeting (AGM) for approval. It explains how the Company has applied the principles of the Combined Code on Corporate Governance (the Code) that relate to Directors' remuneration during the year. No Director is involved in the determination of, or votes on, any matter relating to his or her own remuneration.

The Remuneration Committee

The role of the Committee

The Committee is a committee of the Board and its terms of reference are available from the General Counsel & Company Secretary and are also published on the Company's website www.centrica.com.

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

Members of the Committee during 2009

Throughout 2009 Helen Alexander was Chairman of the Committee and Roger Carr, Mary Francis, Andrew Mackenzie and Paul Rayner were members of the Committee. Paul Walsh was a member of the Committee until he retired from the Board at the AGM on 11 May 2009. The Board has determined that each of the Non-Executive Directors who are members of the Committee is independent.

Advice provided to the Committee

During 2009, the Committee had access to the advice and views of:

- the Group Director, Human Resources;
- the Group Director, Reward;
- the Chief Executive;
- the Head of Audit and Risk;
- the General Counsel & Company Secretary;
- Kepler Associates (Kepler) who acted as independent external adviser to the Committee; and
- Towers Watson who were consulted but not formally appointed as advisers to the Committee.

Neither Kepler nor Towers Watson provided any other advice to the Company.

The Committee's activities during 2009

The Committee under its terms of reference usually meets at least four times a year. In 2009 the Committee met six times and some of the key items which were considered are described in the table opposite.

Key matters considered by the Committee during 2009

Meeting	Agenda itepm
February	Review of the level of base salaries for 2009
	Consideration and approval of the outcome of the Annual Incentive Scheme (AIS) for 2008
	Approval of change in methodology for measuring performance conditions in respect of share awards under Deferred and Matching Share Scheme (DMSS)
	Setting award levels and performance targets for the AIS for 2009
	Approval of the 2008 Remuneration Report
	Review of the performance test of outstanding Executive Share Options (ESOS) that were due to vest
	Approval of Chris Weston's terms of appointment as an Executive Director
	Approval of Phil Bentley's revised terms of appointment as Managing Director of the restructured British Gas business
April	Review of performance tests of subsisting Long Term Incentive Scheme (LTIS) awards
	Allocation of LTIS awards for 2009
September	Initial work on the review of remuneration for 2010 and future years
	A review of the proposed approach to the 2009 Remuneration Report
	Review of performance tests of subsisting LTIS awards
	Approval of a further allocation of LTIS awards for 2009
	Consideration of the Walker review
November	Initial consideration of proposed changes to remuneration policies arising from the remuneration review
December (two meetings)	Comment upon, and noting of, the Executive Directors' draft AIS objectives for 2010
	Consideration of, and comment upon, strategies for ensuring executive retention

Executive Directors' remuneration policy and framework

How reward is aligned to our strategy

The Committee believes alignment between Centrica's business strategy and the remuneration of its Executive Directors and senior executives to be essential.

- The fixed elements of our remuneration packages are competitive, but not excessive, against the markets in which we compete for talent. This avoids building unnecessary current and future costs into the business.
- A significant proportion of the total remuneration opportunity depends upon delivering business performance. Total remuneration will increase with strong performance and go down if the business performs poorly.
- Short-term incentives are focused on the delivery of strategically aligned performance measures, determined on a role-by-role basis. These include demanding financial and business-related objectives.
- Longer-term incentives reward the creation of shareholder value over a three-year period. Performance is measured using a combination of earnings per share (EPS) growth, relative Total Shareholder Return (TSR) performance and Group Economic Profit (EP).

Remuneration policy

The remuneration policy aims to deliver a remuneration package:

- that will attract and retain Executive Directors and other senior executives in a challenging business environment that is competitive in both commercial and human resource terms;
- that delivers an appropriate balance between fixed and variable compensation for each executive;
- in which a significant proportion depends on the attainment of demanding performance objectives, both short and long term;
- that provides a strong alignment with the achievement of strategic objectives and the delivery of value to shareholders; and
- that seeks to avoid creating excessive risks in the achievement of performance targets.

Remuneration framework

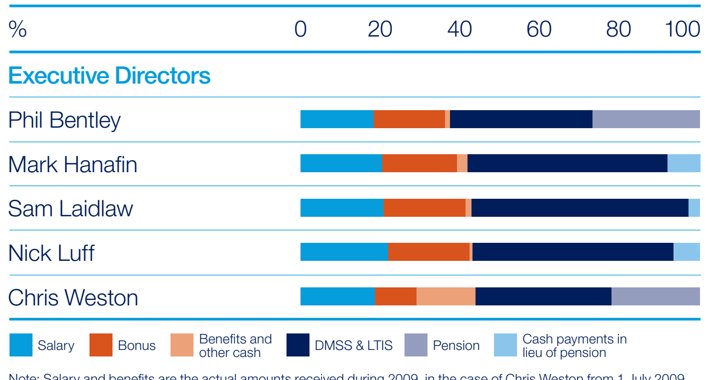
The remuneration framework reflects current best practice, including the provisions on the design of performance related remuneration as set out in Schedule A to the Code, while meeting the Group's particular business needs:

- the Committee reviews the packages and varies individual elements when appropriate from year to year;
- in agreeing the level of base salaries and the performance-related elements of the remuneration package, the Committee considers the potential maximum remuneration that executives could receive;
- the AIS is designed to incentivise and reward the achievement of demanding financial and business-related objectives; and
- long-term share-based incentives are designed to align the interests of Executive Directors and other senior executives with the longer-term interests of Centrica's shareholders by rewarding them for delivering sustained, increased shareholder value.

Remuneration mix

In 2009, the total remuneration package of the Executive Directors comprised elements in the following proportions:

Relative proportions of the components of each Executive Director's remuneration (%) in 2009



Note: Salary and benefits are the actual amounts received during 2009, in the case of Chris Weston from 1 July 2009, the date of his appointment to the Board.

Shareholding guidelines

A minimum shareholding policy requires the retention of a value of shares as follows:

- Chief Executive – 2 times his base salary;
- other Executive Directors – 1.25 times their base salary; and
- executives immediately below Board level – 1 times their base salary.

The level of achievement measured against this requirement for Executive Directors is set out in the table on page 56.

Pension and other benefits

Executive Directors, with the exception of Phil Bentley and Chris Weston, are entitled under the terms of their contracts of employment to receive a salary supplement in lieu of pension provision. The salary supplements are paid in cash, with the exception of part of the supplement for Sam Laidlaw which is paid directly into his personal pension plan. The cash amounts paid in the year are disclosed within the Directors' emoluments table and related footnotes on page 53.

Phil Bentley and Chris Weston participate in the Centrica Pension Plan (CPP) (a contributory final salary arrangement) and in the Centrica Unapproved Pension Scheme (CUPS). Full disclosure of the pension arrangements for the Executive Directors is given on pages 51, 58 and 59.

Emoluments of senior executives below Board level

The total emoluments of the five senior executives immediately below Board level during 2009, calculated on the same basis as the emoluments of the Executive Directors detailed on page 53, fell into the following bands:

Bands £000	Number of senior executives
600 – 699	2
500 – 599	1
400 – 499	2

The Committee takes into consideration the remuneration arrangements for the wider employee population in making its decisions on remuneration for senior executives.

Remuneration Report continued

The total remuneration package

Summary of remuneration elements for Executive Directors for 2009

Element	Objective	Performance period	Performance measure
Base salary (see below)	Reflects the role and the sustained value of the individual in terms of skills, experience and contribution	Not applicable	Delivery against key personal objectives
Annual Incentive Scheme (AIS) (see pages 48 and 49)	The AIS provides a focus on the delivery of the financial targets set out in the operating plan. It rewards the achievement of strategic priorities for the year that position the Group well for strong future performance and also the delivery of personal objectives	One year Part of the amount earned under AIS is deferred for three years and satisfied in shares under DMSS at the end of the three-year period	In 2009 awards were subject to the achievement of annual targets for: • Group Economic Profit (EP) • Group/Business Unit performance • stretching personal objectives If overall performance against the Health, Safety and Environment (HS&E) scorecard had not been satisfactory, the Business Unit metric for the year would be reduced
Deferred and Matching Share Scheme (DMSS) (see pages 49 and 50)	Assists with employee retention and incentivises the creation of long-term value for shareholders and delivery of sustained high performance	Three years	Three-year growth in EP, measured by comparing the EP before the start of the performance period with that at the end of the performance period, described as 'point-to-point' EP growth
Long Term Incentive Scheme (LTIS) (see pages 50 and 51)	Rewards long-term value creation via longer-term earnings, share price and dividend growth Rewards the delivery of total returns to shareholders	Three years	One half on earnings per share (EPS) growth compared with RPI growth One half on relative Total Shareholder Return (TSR) compared with FTSE 100
Retirement benefits (see pages 51, 58 and 59)	Positioned to ensure broad competitiveness with market practice	Not applicable	Not applicable

Base salary
Reflects the role and the sustained value of the individual in terms of skills, experience and contribution.

The Committee establishes a base salary for each Executive Director and other senior executives. Base salaries are determined by individual performance and having regard to market salary levels for similar positions in comparable companies. Base salaries are reviewed annually.

Changes in 2009

There were no base salary increases for Executive Directors in 2009 other than when a significant change in role took place.

Phil Bentley received a base salary increase when his role increased significantly when he took on responsibility for the UK downstream business. Chris Weston received a base salary increase when he was promoted to the Board on 1 July 2009.

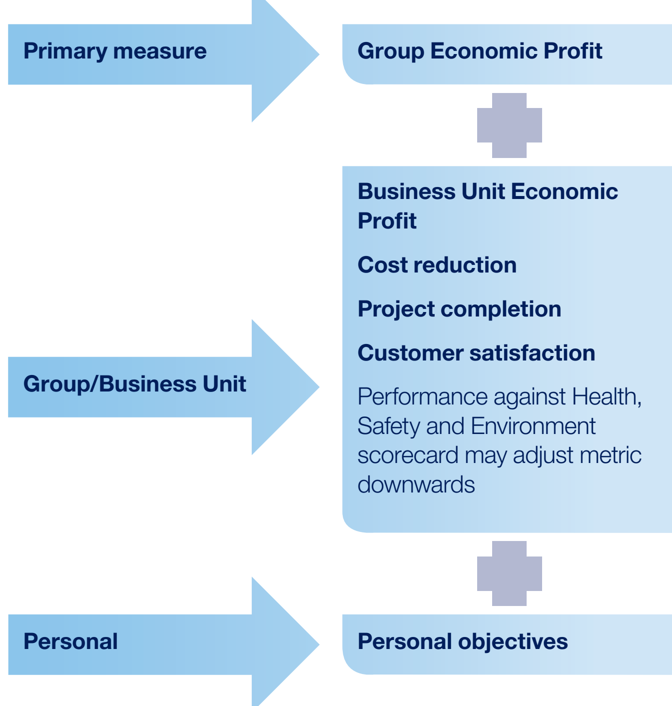
Changes in 2010

It has been decided that base salary increases averaging 5% will be awarded to the Executive Directors in 2010, two of whom have assumed additional responsibilities. This maintains salaries at around median of the market and follows a year of significant delivery including the consolidation of British Gas into one business, the acquisition of Venture Production plc and the completion of the investment in British Energy.

Annual Incentive Scheme (AIS)
The AIS provides a focus on the delivery of the financial targets set out in the operating plan. It rewards the achievement of strategic priorities for the year that position the Group well for strong future performance and also the delivery of personal objectives.

Annual performance measures in 2009

The annual performance metrics used in the AIS in 2009 were designed to reward the delivery of our key strategic priorities for the year. Some examples of performance metrics used in 2009 include: EP; meeting cost reduction targets; project completion and customer satisfaction measured by third party, industry recognised surveys.



In 2009, the primary financial measure was EP. In addition, each Business Unit had a number of business metrics focusing on their key strategic priorities for the year: Business Unit Economic Profit, cost reduction targets, project completion and customer satisfaction levels.

Performance is also assessed against a corporate responsibility scorecard that includes Health, Safety and Environment (HS&E) performance indicators. If overall performance against the corporate responsibility scorecard was not satisfactory, the overall Business Unit metric results for the year would have been reduced.

A bonus will be forfeited if overall performance is deemed to be unsatisfactory.

Annual incentive opportunities in 2009

At the beginning of each year, the Committee reviews the AIS to ensure that the incentive opportunity remains competitive in the marketplace. For 2009, the target and maximum bonus opportunity, together with the relative proportions of the components that made up the target bonus opportunity, were as follows:

Percentage bonus opportunities at target and maximum

	% of base salary: Financial performance targets	Group/business-related targets	Stretching personal objectives	Target	Max
Chief Executive	50	30	10	90%	180%
Executive Directors	42	25	8	75%	150%
Executives immediately below Board level	30	22	8	60%	120%

Financial performance targets · Group/business-related targets · Stretching personal objectives

Performance for 2009

The annual bonus outcomes of the 2009 AIS were determined by performance against each of the metrics used. Annual bonus levels ranged from 106% to 185% of target for the Executive Directors. Annual bonus awards for Executive Directors were between 79% and 165% of base salary.

Changes for 2010

In 2010, performance against an HS&E metric will replace part of the Business Unit metrics as a core element of the AIS. The bonus opportunity for on target performance will remain unchanged at 90% of base salary for the Chief Executive, and 75% of base salary for the other Executive Directors.

Deferral of annual incentives

Part of an Executive Director's AIS award is compulsorily deferred and invested in DMSS (see below). 40% of any AIS award for the Chief Executive and 30% for Executive Directors and executives immediately below Board level will be deferred.

Deferred and Matching Share Scheme (DMSS)
Assists with employee retention and incentivises the creation of long-term value for shareholders and delivery of sustained high performance.

Compulsory deferral

Part of the bonus earned under AIS for the previous year is compulsorily deferred into Centrica shares (deferred shares). If these shares are held for three years the deferred shares will be matched to the extent that a long-term performance condition is met.

Voluntary deferral

Executives may make an additional voluntary deferral of AIS into Centrica shares (investment shares). The maximum total deferral that may be made, including the compulsory deferral, is up to 50% of the maximum annual incentive opportunity which may be earned for a year.

Compulsory Deferral
Part of AIS earned is automatically deferred into Centrica shares

Deferred shares

Voluntary Deferral
Additional AIS may be deferred (up to 50% of the maximum AIS opportunity, including the compulsory deferral)

Investment shares

Performance measured
After the end of three years the growth in EP performance is measured

Shares matched
If the performance target is met shares may be matched up to 2 for 1

Remuneration Report continued

Performance measures attaching to the DMSS awards

The performance conditions attaching to DMSS awards made for 2007 to 2009 are shown in the table below.

Vesting criteria 2009	Performance condition over three-year period
Level at which shares matched depends on point-to-point EP performance targets	• 2 for 1 match for point-to-point EP growth of 25% or more • Zero match for no point-to-point EP growth • Vesting of matching shares will increase on a straight-line basis between these points
Vesting criteria 2007 and 2008	
Level at which shares matched depends on cumulative EP performance targets	• 2 for 1 match for cumulative EP growth of 25% or more • Zero match for no cumulative EP growth • Vesting of matching shares will increase on a straight-line basis between these points

Share matching

Share matching increases on a straight-line basis from zero matching for no EP growth to a maximum of 2 for 1 matching for three-year EP growth of 25% or more.

For the purposes of matching, the investment shares are grossed up for income tax and employees' National Insurance contributions. To provide a closer alignment with the interests of Centrica's shareholders, the number of matching shares that are released will be increased to reflect the dividends that would have been paid during the three-year performance period on the matching shares that vest.

In the event of a change of control the number of matching shares that vest will be subject to time-apportionment in line with best practice.

For awards made from 2010 onwards it is intended that the matched shares will be awarded in the form of nil-cost options.

DMSS awards delayed in 2009

In 2009 the Executive Directors, and a number of senior executives, were subject to dealing restrictions under the Company's Share Dealing Code. 40% of AIS payable in 2009 to the Chief Executive, and 30% for Executive Directors and executives immediately below Board level, was deferred and automatically invested in deferred shares, in accordance with the normal timetable. Participants were given the opportunity to indicate if they wished to invest in investment shares and the investment took place in May 2009, once the Company had ceased to be in a prohibited period.

In order to restore participants to the position they would have been in had the Company been able to operate the scheme under the normal timetable in 2009, the Committee determined that the three-year performance period will be deemed to have commenced in April 2009. Deferred and investment shares will be matched with shares only to the extent that the performance condition is met (see table above). The performance condition is based on performance over three financial years and is unaffected by the delayed operation of the DMSS.

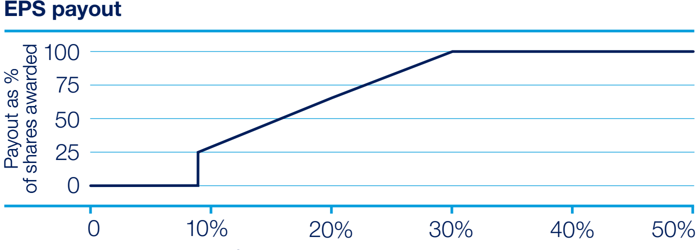
Long Term Incentive Scheme (LTIS)

Rewards long-term value creation via longer term earnings, share price and dividend growth and the delivery of total returns to shareholders.

Under the LTIS conditional allocations of shares up to a maximum of 200% of base salary may be made to Executive Directors and other senior executives. In 2009, LTIS allocations equal to 200% of base salary were awarded to Executive Directors and, at lower levels, to other senior executives. The performance measures attaching to the LTIS awards made for 2008 and 2009 are shown in the table below.

Vesting criteria	Performance condition over three-year period
One half on EPS growth against RPI growth	• If EPS growth does not exceed RPI growth by 9%, zero vesting • If EPS growth exceeds RPI growth by 9%, then 25% will vest • If EPS growth exceeds RPI growth by between 9% and 30%, then vesting will increase on a straight-line basis between 25% and 100% • Full vesting for EPS growth exceeding RPI growth by 30% EPS is the Group's diluted adjusted earnings per share
One half on TSR measured against a comparator group of the FTSE 100 as constituted at the beginning of the performance period	• Full vesting for upper quintile ranking • Zero vesting for sub-median ranking • Vesting will increase on a straight-line basis between 25% and 100% for ranking between median and upper quintile

EPS payout

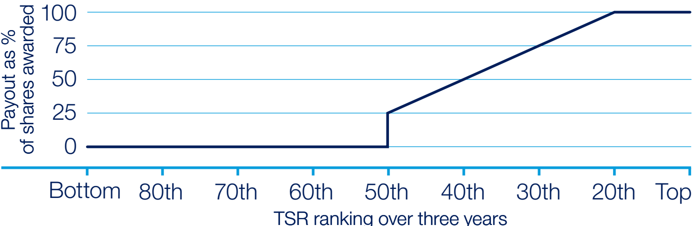


The maximum number of shares that could be transferred to each Executive Director upon satisfaction of the performance conditions appears on page 54.

In assessing the extent to which the performance conditions have been met, the Committee uses data provided by Alithos Limited (an independent third party) for comparative TSR performance and audited results for EPS performance. The TSR graphs for the LTIS awards that vested in April and September 2009 are shown on page 56.

The Committee also reviews whether the extent to which the performance conditions have been achieved is a genuine reflection of the Company's underlying financial performance.

TSR payout



To the extent that the performance condition is met, the number of shares that are released will be increased to reflect the dividends that would have been paid on those shares during the three-year performance period.

For LTIS awards made in 2007 the vesting criteria were largely as above. The TSR element was unchanged. For the 50% of the award for which the performance criteria was EPS growth, the performance criteria was as above for 37.5% of the award. For the remaining 12.5%, if EPS growth does not exceed RPI growth by 20%, there is zero vesting. If EPS growth exceeds RPI growth by 20%, then 25% will vest. If EPS growth exceeds RPI growth by between 20% and 40%, then vesting will increase on a straight-line basis between 25% and 100%. There is full vesting for EPS growth exceeding RPI growth by 40%.

LTIS awards made in 2006 were subject to the same vesting criteria and performance conditions as set out in the table on page 50.

Each year, before making LTIS awards, the Committee considers the performance conditions attaching to them, to ensure that they are aligned with the challenging growth and cost reduction targets inherent in the strategic plan.

Changes for 2010

In respect of LTIS awards in 2010 and in subsequent years, it is intended that these will be structured as nil-cost options.

The measurement of TSR will also be amended going forward such that the Group's TSR will be measured as a percentage out-performance of the FTSE 100 Index. Vesting will increase on a straight-line basis between 25% and 100% for out-performance of between 0.1% and 7% p.a. To provide greater simplicity and transparency in the measurement process, companies which have been de-listed from the London Stock Exchange will be removed from the comparator group in future.

Executive Share Option Scheme (ESOS)

No grants of options under the ESOS were made during 2009. Details of options granted prior to 2009 and still held by Executive Directors are shown on page 57.

If, and to the extent that, performance conditions are satisfied, options normally become exercisable three years after the date of grant and remain so until the tenth anniversary of grant.

Funding of share schemes

It is the Company's current intention to satisfy the requirements of its share schemes in a method best suited to the interests of the Company, either by acquiring shares in the market or, subject to institutional guidelines, issuing new shares or using shares held in treasury. To satisfy the release of shares under the LTIS and in order to meet the requirements of the ESOS in 2009, newly issued shares were used. Shares were bought in the market and are held in trust to satisfy allocations made under the Special Long Term Incentive Scheme (SLTIS) and Special Executive Share Option Scheme (SESOS) during 2008.

Retirement benefits

Executive Directors, with the exception of Phil Bentley and Chris Weston, are entitled under the terms of their contracts of employment to receive a salary supplement in lieu of pension provision. Mark Hanafin and Sam Laidlaw are each entitled to 40% of base salary, while Nick Luff is entitled to 30% of base salary, increasing to 40% with effect from April 2010.

The salary supplements are paid in cash, with the exception of part of the supplement for Sam Laidlaw which is paid directly into his personal pension plan. The cash amounts paid in the year directly to individuals are disclosed within the Directors' emoluments table on page 53.

Phil Bentley and Chris Weston continue to participate in the Centrica Pension Plan (CPP) (a contributory final salary arrangement), as they were employed in the Group before the plan was closed to new employees on 30 June 2003. They also participate in the Centrica Unapproved Pension Scheme (CUPS). Disclosure of the pension arrangements for the Executive Directors is given on pages 58 and 59.

Other employment benefits

In common with other senior management, Executive Directors are entitled to a range of benefits, including a company car, life assurance premiums, private medical insurance and a financial counselling scheme. During the year, Mark Hanafin and Sam Laidlaw were also provided with a driver for limited personal mileage. Nick Luff is provided with a cash allowance in lieu of a company car. Such benefits are subject to financial limits as set out in appropriate policies.

They are also eligible to participate in the Company's HMRC-approved Sharesave Scheme and Share Incentive Plan, which are open to all eligible employees on the same basis, providing a long-term savings and investment opportunity.

All taxable benefits arising from employment by the Company have been included in the 'Benefits and other cash' column of the table shown on page 53.

Remuneration Report continued

Service contracts

It is the Company's policy that the notice period in Executive Directors' service contracts does not exceed one year. The Executive Directors' service contracts have no fixed term but provide that either the Director or the Company may terminate the employment by giving one year's written notice and that the Company may pay compensation in lieu of notice.

On a change of control, conditional awards under DMSS and LTIS will vest to the extent that the performance conditions have been met at the vesting date and pro-rated for the time elapsed since the start of each performance period, until the vesting date, subject to the overriding discretion of the Committee.

In the case of new external appointments to the Board, the Committee retains a level of flexibility, as permitted by the Code, in order to attract and retain suitable candidates. It therefore 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. The Committee exercised this discretion in respect of the appointment of Sam Laidlaw on 1 July 2006, Nick Luff on 1 March 2007 and Mark Hanafin on 14 July 2008. Each has a service contract that contains a notice period of two years, which reduces to one year on the second anniversary of their respective date of appointment. The contractual notice periods for Sam Laidlaw and Nick Luff reduced to one year in 2008 and 2009 respectively.

External appointments of Executive Directors

The Board believes that experience of other companies' practices and challenges is valuable both for the personal development of its Executive Directors and for the Company.

It is therefore the Company's policy to allow each Executive Director 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 Director.

In 2009, Phil Bentley received £68,300 as a non-executive director of Kingfisher plc, Sam Laidlaw received £85,000 as a non-executive director of HSBC Holdings plc and Nick Luff received £47,000 as a non-executive director of QinetiQ Group plc.

Non-Executive Directors

Remuneration policy for Non-Executive Directors

Centrica's policy on Non-Executive Directors' fees takes into account the need to attract individuals of the right calibre and experience, their responsibilities and time commitment and the level of fees paid by other companies.

Fees

The annual fees currently payable to the Non-Executive Directors are:

Base fees	
Chairman	£450,000
Non-Executive Directors	£60,000
Additional fees	
Chairman of Audit Committee	£18,000
Chairman of Remuneration Committee	£12,000
Chairman of Corporate Responsibility Committee	£12,000
Senior Independent Director	£20,000

The fees are usually reviewed every two years and were reviewed in June 2009. In line with our decision to award no base salary increases to Executive Directors in 2009 (except where individuals have had a significant change to their responsibilities), no increases in fees were awarded to Non-Executive Directors. The fee levels will next be reviewed in 2010.

The Non-Executive Directors, including the Chairman, do not participate in any of the Company's share schemes, incentive plans or pension schemes.

Terms of appointment

Non-Executive Directors, including the Chairman, do not have service contracts. Their appointment is subject to the Articles of Association and the dates they joined the Board are shown in the table on page 53. Roger Carr's letter of appointment contains a six-month notice period. The Chairman's fees are approved by the Remuneration Committee. The fees of the Non-Executive Directors are approved by the Executive Committee, whose current members are: the Executive Directors (Sam Laidlaw, Phil Bentley, Mark Hanafin, Nick Luff and Chris Weston) and three other senior executives (Grant Dawson, Catherine May and Anne Minto) all of whose biographies are included on pages 36 and 37.

Other matters in 2009

Promotion to the Board

Chris Weston was appointed to the Board on 1 July 2009. His base salary on appointment was £500,000 per annum. His AIS is subject to 30% deferral and investment as deferred shares under DMSS. His opportunity to participate in LTIS increased on his appointment, in line with our policy. He received an LTIS award of 150% of base salary in April 2009 and a further LTIS award of 50% of salary in September 2009.

Enlargement of roles

Phil Bentley's role as Managing Director, British Gas, broadened significantly in 2009 as the residential energy, services and business energy activities were combined into a single customer-focused retail operation. In recognition of this change he received an increase in his base salary. In addition, a commitment was made that if he remains with the Group at least until January 2012, the accrued value of his pension under CPP will be increased progressively over time.

Mark Hanafin and Nick Luff assumed responsibilities for the Company's nuclear investments in 2009.

Other matters in 2008

Rights Issue adjustments

Under the Rights Issue effective 15 December 2008, for every eight existing Centrica plc shares held on 14 November 2008, shareholders received the right to buy three new Centrica plc shares at 160 pence per share. Existing conditional share awards, including DMSS matching shares and LTIS allocations, were adjusted to reflect the dilutive effect of the Rights Issue and were multiplied by a factor of 1.1233.

The performance conditions under the LTIS, ESOS and the DMSS were also reviewed by the Committee and appropriate adjustments were made to reflect the dilutive effect of the Rights Issue. Previously reported EPS was restated in accordance with IAS 33 and dividends per share for the six months ended 30 June 2008, and the preceding five years, were restated to take account of the bonus element of the Rights Issue. TSR was adjusted by a rate of 0.8902, being the agreed Rights Issue adjustment formula determined by dividing the theoretical ex-rights price (238.36 pence) by the closing share price on the last date the shares traded cum-rights (267.75 pence).

Recruitment to the Board

Mark Hanafin was appointed to the Board on 14 July 2008.

A one-off allocation was made to him under the SLTIS to replace awards from his previous employer, in accordance with the terms of his engagement. The SLTIS rules were based on the existing LTIS rules. An allocation of shares was made to vest in two equal tranches on 28 February 2009 and 2010. The first tranche vested in 2009. In accordance with the rules of the SLTIS, there are no performance conditions attaching to the remaining unvested shares other than continued employment with the Company. In the event of a change of control, the number of shares that vest will not be subject to time-apportionment.

A grant of unapproved options was also made under the SESOS to him in 2008 to replace awards from his previous employer, in accordance with the terms of his engagement. The SESOS rules were based on the existing ESOS rules. However, in accordance with the rules of the SESOS, the grant is not subject to any performance conditions, is exercisable immediately and will remain so until the tenth anniversary of grant.

Statutory disclosures

Audit requirements

The Remuneration Report from page 45 to page 53 up to this statement has not been audited. From this point until the end of the Report on page 59, the disclosures, with the exception of the graphs on page 56, have been audited by the Company's auditors, PricewaterhouseCoopers LLP.

Directors' emoluments

		Base salary/fees £000	Annual Incentive Scheme (AIS) £000 (i)	Cash payments in lieu of pension £000	Benefits and other cash £000 (ii) (iii)	**Total emoluments 2009 £000 (iv)**	Total emoluments 2008 £000 (iv)
Executive Directors	Date of appointment						
Phil Bentley	13 September 2000	608	596	–	45	**1,249**	1,089
Mark Hanafin (v)	14 July 2008	530	487	212	65	**1,294**	788
Sam Laidlaw	1 July 2006	915	908	124	64	**2,011**	1,730
Nick Luff	1 March 2007	560	520	168	19	**1,267**	1,196
Chris Weston (vi)	1 July 2009	250	139	–	200	**589**	–
Past Director	Date of leaving the Board						
Jake Ulrich	12 May 2008	–	–	–	–	**–**	352
		2,863	2,650	504	393	**6,410**	5,155
Chairman	Date of appointment						
Roger Carr	1 January 2001	450	–	–	–	**450**	450
Non-Executive Directors	Date of appointment						
Helen Alexander	1 January 2003	72	–	–	–	**72**	72
Mary Francis	22 June 2004	92	–	–	–	**92**	92
Andrew Mackenzie	1 September 2005	60	–	–	–	**60**	60
Paul Rayner	23 September 2004	78	–	–	–	**78**	78
Past Director	Date of leaving the Board						
Paul Walsh	11 May 2009	22	–	–	–	**22**	60
		774	–	–	–	**774**	812
Total emoluments		**3,637**	**2,650**	**504**	**393**	**7,184**	**5,967**

Notes on information shown in the table

(i) Of the AIS bonus agreed by the Committee in respect of Sam Laidlaw and the other Executive Directors, 60% and 70% respectively is paid in cash and is included above. 40% of the agreed bonus for Sam Laidlaw (£605,364) and 30% of the agreed bonus for each Executive Director (range between £59,445 and £255,496) is deferred automatically will be invested as deferred shares in DMSS – see pages 49 and 50. Chris Weston was appointed to the Board on 1 July 2009 and his AIS above is in respect of the period from his date of appointment, subject to the 30% deferral for investment as deferred shares, as outlined above.

(ii) Benefits and other cash include a payment to Mark Hanafin and benefits and expenses for Chris Weston made in respect of relocation.

(iii) Executive Directors (with the exception of Phil Bentley) received a taxable interest payment in August 2009 at the rate of 1.75% in respect of the notional interest accrued on the delayed voluntary investment element of the DMSS. The purchase of deferred shares and the conditional award of matching shares was made on 3 April 2009. The purchase of investment shares and the conditional award of matching shares was made on 26 May 2009.

(iv) The following are excluded from the table above
- £242,500 was paid directly by the Company in 2009 into a personal pension plan for Sam Laidlaw and is disclosed on page 51.
- Pensions – see pages 58 and 59.
- Share options – see page 57. The aggregate gains made by Executive Directors on the exercise of Sharesave options during 2009 was £2,004. The price of a Centrica share at the date of exercise was 257.30 pence. No Executive Director exercised executive or Sharesave share options during 2008.
- LTIS and SLTIS – see pages 54 and 56. The aggregate value of shares vested to Executive Directors under LTIS and SLTIS was £2,000,486 (2008: £587,332).

(v) The 2008 total emoluments figure in respect of Mark Hanafin is for the period from 14 July 2008 (being his date of appointment to the Board) to 31 December 2008.

(vi) The 2009 total emoluments figure in respect of Chris Weston is for the period from 1 July 2009 (being his date of appointment to the Board) to 31 December 2009.

Remuneration Report
continued

Directors' interests in shares (number of shares)

The following table and the tables on pages 55, 56 and 57 show the interests of the Directors who held office at the end of the year in the ordinary shares of the Company and, for the Executive Directors who served during the year, their interests in the Company's share schemes:

Directors as at 31 December 2009	**Shareholdings as at 31 December 2009**	Shareholdings as at 1 January 2009 or on later appointment (i)	**DMSS total matching shares as at 31 December 2009**	DMSS total matching shares as at 1 January 2009 or on later appointment (i)	**LTIS and SLTIS total allocations of shares as at 31 December 2009**	LTIS and SLTIS total allocations of shares as at 1 January 2009 or on later appointment (i)
Executive Directors						
Phil Bentley (ii)	**1,279,084**	1,004,410	**482,190**	309,992	**1,310,632**	1,081,655
Mark Hanafin (ii)	**150,909**	–	**332,245**	–	**933,780**	560,642
Sam Laidlaw (ii)	**1,210,438**	647,817	**1,459,334**	757,695	**2,002,611**	1,680,993
Nick Luff (ii)	**509,604**	368,298	**774,139**	417,352	**1,220,397**	726,679
Chris Weston (ii)	**421,680**	416,902	**470,692**	470,692	**828,338**	730,338
Chairman						
Roger Carr	**26,441**	26,441	**–**	–	**–**	–
Non-Executive Directors						
Helen Alexander	**3,465**	3,465	**–**	–	**–**	–
Mary Francis	**3,500**	3,500	**–**	–	**–**	–
Andrew Mackenzie	**28,875**	28,875	**–**	–	**–**	–
Paul Rayner	**26,875**	6,875	**–**	–	**–**	–

Notes on information shown in the table

(i) Chris Weston was appointed to the Board on 1 July 2009.

(ii) Executive Directors' shareholdings shown above include those held in the Share Incentive Plan and the deferred and investment shares held in the DMSS. Matching shares held in the DMSS, and shares held in the LTIS and SLTIS, are provided separately in the table above and in more detail in their respective tables on pages 55 and 56.

From 1 January 2009 to 24 February 2010, none of the Directors had any interests in the securities of the Company's subsidiary or associated undertakings.

Changes since 1 January 2010

During the period from 1 January 2010 to 24 February 2010, there were no changes to the Directors' interests in shares apart from the shareholdings of Phil Bentley, Sam Laidlaw, Nick Luff and Chris Weston which had each increased by 134 shares and by 133 shares for Mark Hanafin in respect of shares acquired through the Share Incentive Plan.

DMSS allocations for Executive Directors who served during the year (number of shares)

	Deferred and investment shares held as at 1 January 2009 or on later appointment (i)	Deferred and investment shares acquired during the year	**Deferred and investment shares held as at 31 December 2009**	Conditional matching shares held as at 1 January 2009 or on later appointment (i) (ii)	Conditional matching shares awarded during the year (ii)	**Conditional matching shares held as at 31 December 2009 (ii)**
Phil Bentley						
2007	71,334	–	**71,334**	204,133	–	**204,133**
2008	51,312	–	**51,312**	105,859	–	**105,859**
2009	–	86,099	**86,099**	–	172,198	**172,198**
	122,646	86,099	**208,745**	309,992	172,198	**482,190**
Mark Hanafin						
2009	–	113,519	**113,519**	–	332,245	**332,245**
Sam Laidlaw						
2007	115,980	–	**115,980**	306,021	–	**306,021**
2008	182,209	–	**182,209**	451,674	–	**451,674**
2009	–	282,574	**282,574**	–	701,639	**701,639**
	298,189	282,574	**580,763**	757,695	701,639	**1,459,334**
Nick Luff						
2007	68,904	–	**68,904**	190,816	–	**190,816**
2008	91,926	–	**91,926**	226,536	–	**226,536**
2009	–	140,352	**140,352**	–	356,787	**356,787**
	160,830	140,352	**301,182**	417,352	356,787	**774,139**
Chris Weston						
2007	34,192	–	**34,192**	70,541	–	**70,541**
2008	49,927	–	**49,927**	120,111	–	**120,111**
2009	109,241	–	**109,241**	280,040	–	**280,040**
	193,360	–	**193,360**	470,692	–	**470,692**

Dates of allocation, prices and performance periods for outstanding DMSS awards

	Date of allocation of deferred shares	Market price at date of allocation of deferred shares (pence)	Date of allocation of investment shares	Market price at date of allocation of investment shares (pence)	End of performance period
2007	4 Apr 07	348.53	4 Apr 07	348.53	Apr 2010
2008 (iii)	13 Oct 08	255.50	13 Oct 08	255.50	Apr 2011
2009 (iv)	3 Apr 09	221.75	26 May 09	248.25	Apr 2012

Notes on information shown in the DMSS tables

(i) Allocations for 2007 and 2008 were adjusted in 2008 to take account of the dilutive effect of the Rights Issue.

(ii) At allocation the calculation of the conditional matching shares is made on a gross basis. For the calculation of the matching shares, investment shares are grossed up (to reflect the impact of income tax and employees' National Insurance contributions) so that the deferred and investment shares are matched on the same basis. The number of matching shares that will be released following the satisfaction of the performance condition will be increased to reflect the dividends that would have been paid during the three-year performance period, as if they had been paid on the normal dividend payment dates. Dividends are paid on the deferred and investment shares to the participants on the normal dividend payment date.

(iii) In 2008 the operation of DMSS was delayed due to the Executive Directors and other senior executives being subject to prolonged dealing restrictions under the Company's Share Dealing Code. 20% of the AIS paid in April 2008 was deferred automatically. The investment in deferred and investment shares and the conditional award of matching shares were made on 13 October 2008, once the Company had ceased to be in a prohibited period.

(iv) In 2009 40% of the AIS paid to Sam Laidlaw, and 30% for the other Executive Directors, was deferred automatically. The investment in deferred shares and the conditional award of matching shares were made on 3 April 2009. The voluntary element of the DMSS was delayed due to the Executive Directors and other senior executives being subject to dealing restrictions under the Company's Share Dealing Code. The purchase of investment shares and the conditional award of matching shares were made on 26 May 2009, once the Company had ceased to be in a prohibited period.

Remuneration Report continued

LTIS and SLTIS allocations for Executive Directors who served during the year (number of shares)

	Vested during 2009			In performance period					
	3 April 2006 (i) (iii)	4 September 2006 (ii) (iii)	26 September 2008 (iv)	4 April 2007 (v)	3 April 2008 (v)	1 September 2008 (v)	26 September 2008 (iv)	3 April 2009 (v)	9 September 2009 (v)
Phil Bentley	317,542	–	–	332,329	436,095	–	–	542,208	–
Mark Hanafin	–	–	94,130	–	–	372,382	94,130	467,268	–
Sam Laidlaw	–	402,051	–	516,137	679,774	–	–	806,700	–
Nick Luff	–	–	–	310,643	416,036	–	–	493,718	–
Chris Weston	–	–	–	130,044	269,680	–	–	330,614	98,000
Market price at allocation date (pence)	252.83	269.30	290.88	348.53	271.08	292.00	290.88	221.75	257.40
End of performance period	2 Apr 09	3 Sep 09	28 Feb 09	3 Apr 10	2 Apr 11	31 Aug 11	28 Feb 10	2 Apr 12	8 Sep 12
Market price at vesting date (pence)	227.50	251.90	270.50						

Notes on information shown in the table

(i) LTIS awards made in April 2006 were subject to EPS and TSR performance conditions. As at 31 December 2008, the Company's EPS growth had exceeded RPI by 25.1% and as a result 82.14% of the EPS shares allocated vested. At the end of the performance period to 2 April 2009, the Company ranked 19th against the FTSE 100 comparator group as constituted at the start of the performance period and as a result 100% of the TSR shares vested. Consequently, overall 91.07% of the original allocations were released to participants on 7 April 2009.

(ii) LTIS awards made in September 2006 were subject to EPS and TSR performance conditions. As at 31 December 2008, the Company's EPS growth had exceeded RPI by 25.1% and as a result 82.14% of the EPS shares allocated vested. At the end of the performance period to 3 September 2009, the Company ranked 34th against the FTSE 100 comparator group as constituted at the start of the performance period and as a result 65% of the TSR shares vested. Consequently, overall 73.57% of the original allocations were released to participants on 9 September 2009.

(iii) Additional shares were released to reflect the value of the dividends that would have been paid over the respective three-year period. The total shares released were subject to income tax at the individual's marginal rate and employees' National Insurance contributions (NICs) at the rate of 1%, based on the market value of the shares at the date of vesting. The income tax and NICs liability was satisfied by the sale of sufficient shares and, accordingly, the Executive Directors only received the net number of shares following the sale, which, to the extent retained, is reflected in the shareholdings as at 31 December 2009 on page 54.

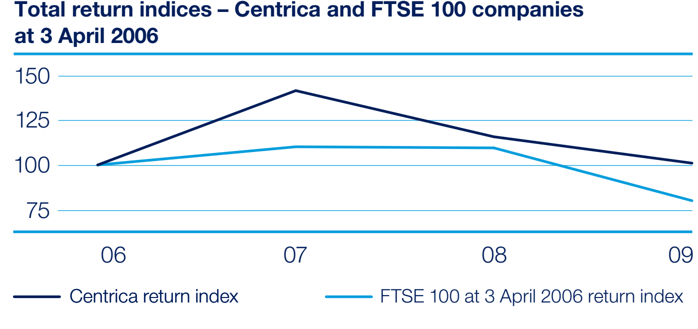
(iv) 188,260 shares (made in two equal tranches) were awarded to Mark Hanafin under SLTIS as part of the terms of his appointment in 2008. In accordance with the rules of the SLTIS there are no performance conditions attaching to the award other than continued employment with the Company. In the event of a change of control the number of shares that vest will not be subject to time-apportionment. The first tranche of 94,130 shares were released on 2 March 2009 and were subject to the same income tax and NICs treatment as set out in note (iii) above, with the sale of sufficient shares to satisfy the liabilities. The remaining 94,130 shares will vest on 28 February 2010.

(v) At the end of each performance period the Company's EPS and TSR performance will be assessed. If, and to the extent that the performance conditions are met, the relevant number of shares will be released to the Executive Directors, at the Trustee's discretion, as soon as practicable thereafter.

Performance graphs – TSR performance compared with comparator group used for each LTIS award

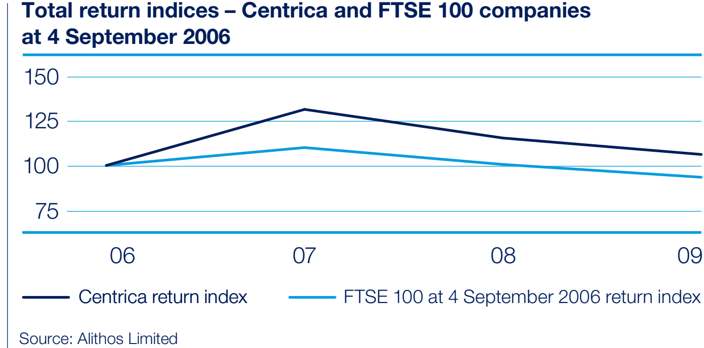
The following graphs, provided by Alithos Limited (an independent third party), shows the TSR performance of the Company and that of the relevant LTIS comparator group and relate to the 2006 LTIS allocations which vested in 2009. They have not been audited by the Company's auditors, PricewaterhouseCoopers LLP.

Total return indices – Centrica and FTSE 100 companies at 3 April 2006



Source: Alithos Limited
3 April 2006 = 100

Total return indices – Centrica and FTSE 100 companies at 4 September 2006



Source: Alithos Limited
4 September 2006 = 100

Directors' minimum shareholding policy

As stated on page 47, the Executive Directors are required to hold shares with a value based on a multiple of their base salary. Executive Directors have a period of five years in which to achieve their minimum shareholding requirement. The table below sets out the individual requirement and level of shareholding achieved for each Executive Director as at 31 December 2009.

	Base salary £000 (i)	Value of shareholdings £000 (ii)	Minimum shareholding requirement as % of base salary	Actual shareholding as % of base salary	Target to be achieved by or achieved
Phil Bentley	**615**	**3,596**	**125**	**585**	Achieved
Mark Hanafin	**530**	**424**	**125**	**80**	13 July 2013
Sam Laidlaw	**915**	**3,403**	**200**	**372**	Achieved
Nick Luff	**560**	**1,432**	**125**	**256**	Achieved
Chris Weston	**500**	**1,185**	**125**	**237**	Achieved

Notes on information shown in the table

(i) The base salary used to determine whether the shareholding requirement has been achieved is an Executive Director's annual salary as at 31 December 2009.

(ii) The value of shareholdings is based on the closing price of a Centrica ordinary share of 281.10 pence on the last trading day of 2009, which was 31 December 2009.

Directors' interests in share options

Full details of the options over ordinary shares in the Company held by Executive Directors who served during the year, and any movements in those options in the year, are shown below.

	Options held as at 1 January 2009 or on later appointment (i)	Options granted during the year	Options exercised during the year	Options lapsed during the year	**Options held as at 31 December 2009**	Exercise price (adjusted where appropriate) (pence)	Date from which exercisable	Expiry date
Phil Bentley								
ESOS	346,277	–	–	–	**346,277**	213.70	Jun 2004	May 2011
ESOS	409,744	–	–	–	**409,744**	200.12	Apr 2005	Apr 2012
ESOS	628,312	–	–	–	**628,312**	130.50	Mar 2006	Mar 2013
ESOS	451,426	–	–	–	**451,426**	199.36	Mar 2007	Mar 2014
ESOS	496,187	–	–	–	**496,187**	203.55	Apr 2008	Mar 2015
ESOS	417,642	–	–	–	**417,642**	253.80	Apr 2009	Apr 2016
Sharesave	3,643	–	–	–	**3,643**	259.32	Jun 2010	Nov 2010
	2,753,231	–	–	–	**2,753,231**			
Mark Hanafin								
SESOS	336,012	–	–	–	**336,012**	255.94	Sep 2008	Sep 2018
Sharesave	–	4,727	–	–	**4,727**	193.54	Jun 2012	Nov 2012
	336,012	4,727	–	–	**340,739**			
Sam Laidlaw								
Sharesave	3,643	–	–	–	**3,643**	259.32	Jun 2010	Nov 2010
Nick Luff								
Sharesave	7,392	–	–	–	**7,392**	227.24	Jun 2013	Nov 2013
Chris Weston								
ESOS	112,330	–	–	–	**112,330**	130.50	Mar 2006	Mar 2013
ESOS	120,379	–	–	–	**120,379**	199.36	Mar 2007	Mar 2014
ESOS	130,187	–	–	–	**130,187**	203.55	Apr 2008	Mar 2015
ESOS	267,920	–	–	–	**267,920**	253.80	Apr 2009	Apr 2016
Sharesave	4,412	–	4,412	–	**–**	211.87	Jun 2009	Nov 2009
Sharesave	4,727	–	–	–	**4,727**	193.54	Jun 2012	Nov 2012
	639,955	–	4,412	–	**635,543**			

Notes on information shown in the table of Directors' interests in share options

(i) Executive Directors' ESOS, SESOS and Sharesave grants and their respective option prices at the start of the year are shown as at 1 January 2009 or, in the case of Chris Weston, at 1 July 2009, his date of appointment to the Board.

Executive Share Option Scheme (ESOS)

- Options were granted to the Executive Directors under the terms of the ESOS on 31 May 2001, 2 April 2002, 24 March 2003, 18 March 2004, 1 April 2005 and 3 April 2006.
- No options were granted in 2007, 2008 or 2009.
- During 2009 the Committee considered whether the performance test had been met in respect of the grants made in 2006. Over the three-year performance period EPS growth was 25.1% in excess of RPI and the options granted in 2006 vested in full. The performance criteria have now been met in respect of all of the outstanding grants under ESOS, and the Executive Directors have a 10 year period from each date of grant during which they can exercise their options.

Special Executive Share Option Scheme (SESOS)

- Options were granted to Mark Hanafin under the terms of the SESOS on 26 September 2008. In accordance with the rules of the SESOS, the grant is not subject to any performance conditions and is exercisable and will normally remain so until the tenth anniversary of the grant date.

The closing price of a Centrica ordinary share on the last trading day of 2009, which was 31 December 2009, was 281.10 pence. The range during the year was 214.75 pence (low) and 285.75 pence (high).

Remuneration Report continued

Share Plan arrangements for Venture employees

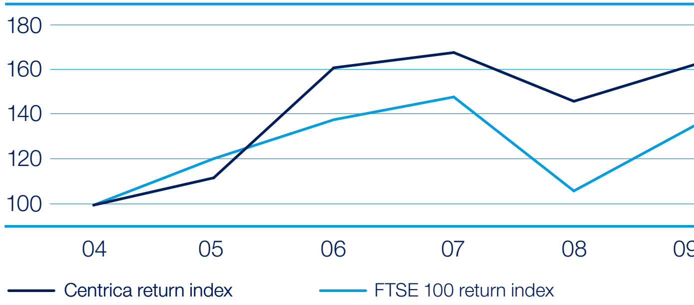
Following the acquisition of Venture Production plc (Venture) in 2009, employees previously employed by Venture were awarded shares under the Centrica Share Award Scheme 2007 on 1 October 2009. Such awards will vest on 1 August 2010 and in accordance with the scheme rules there are no performance conditions other than continued employment within the Group. In addition, a new Centrica Deferred Bonus Plan was introduced for the same population of Venture employees under which they are given the opportunity to defer up to 100% of their actual bonus paid for the four month period ended on 31 December 2009, and receive an award of conditional shares. Such awards would vest after two years at which time they are eligible for matching shares on a 1.5 for 1 basis, subject to continued employment within the Group. No Executive Directors participated in these arrangements.

Past Directors

The Committee exercised its discretion, in accordance with the rules of the ESOS, to permit Jake Ulrich to exercise his options up to six months from the third anniversary of the date on which an option was last granted to him i.e. at any time before 3 October 2009. All of his options were exercised before this date. Under the Sharesave rules, his outstanding options were exercisable until 31 January 2009, and were exercised before this date.

Performance graph – TSR performance compared with FTSE 100 Index

Total shareholder return indices – Centrica and FTSE 100 Index
for the five years ended 31 December 2009



Source: Alithos Limited
31 December 2004 = 100

The graph above compares the Company's TSR performance with that of the FTSE 100 Index for the five years ended 31 December 2009 as required by Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. A rolling definition of the FTSE 100 has been used. This is not the same as the definition used for the purposes of the LTIS.

Directors' pensions

Of the five Executive Directors who served during 2009, Phil Bentley and Chris Weston are members of the Centrica Pension Plan (CPP) which was formerly known as the Centrica Management Pension Scheme (CMPS). Mark Hanafin, Sam Laidlaw and Nick Luff, who all joined the Company in recent years, are not members of any of Centrica's pension schemes.

Centrica Pension Plan (CPP)

The CPP is a funded, HMRC-registered, final salary, contributory occupational pension scheme. Its rules have the following main features:

- normal retirement at age 62;
- right to an immediate, unreduced pension on leaving service after age 60 at own request with employer consent, or on leaving service at the Company's request after age 55;
- life assurance cover of four times pensionable earnings for death in service;
- spouse's pension on death in service payable at the rate of 50% of the member's prospective pension and, on death after retirement, half of the accrued pension. Children's pensions on death are also payable at 25% of the member's prospective pension at normal retirement age;
- members' contributions payable at the rate of 6% of pensionable earnings. Contributions made by the Executive Directors who are also members of the Centrica Unapproved Pension Scheme (CUPS) are payable at the rate of 6% of their total pensionable earnings above the scheme earnings cap;
- pension payable in the event of retirement due to ill health;
- pensions in payment and in deferment guaranteed to increase in line with the increase in the RPI (a maximum of 6% applies to pension accrued after 6 April 2004); and
- no discretionary practices are taken into account in calculating transfer values.

Centrica Unfunded Pension Scheme (CUPS)

All registered scheme benefits are subject to HMRC guidelines. As a result of the changes introduced by Centrica following the 2004 Finance Act, benefits at 6 April 2006 from the registered scheme, the CPP, could not exceed the Lifetime Allowance (£1.75 million for the 2009/10 tax year) after taking account of retained benefits from all other sources notified to Centrica at this time. The CUPS provides any additional benefits in excess of the maximum amount that could be provided through the CPP on the members' uncapped pensionable earnings. The benefits that arise under CUPS are treated as being subject to the same rules as apply in respect of the registered portion of members' benefits. No individuals will receive benefits from Centrica which, when added to their retained benefits elsewhere at 6 April 2006, exceed two-thirds of their final pensionable earnings. 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.

Pension benefits earned by Directors in the CPP and CUPS

	Accrued pension as at 31 December 2009 £	Accrued pension as at 31 December 2008 £	Increase in accrued pension less inflation £	**Transfer value as at 31 December 2009 £**	Transfer value as at 31 December 2008 £	**Contributions paid in 2009 £**	Difference in transfer value less contributions £	Transfer value of increase in accrued pension excluding inflation £
Phil Bentley	**168,800**	146,000	22,800	**2,246,800**	1,309,300	**36,480**	901,020	256,000

	Accrued pension as at 31 December 2009 £	Accrued pension as at 30 June 2009 £	Increase in accrued pension less inflation £	**Transfer value as at 31 December 2009 £**	Transfer value as at 30 June 2009 £	**Contributions paid since 1 July 2009 £**	Difference in transfer value less contributions £	Transfer value of increase in accrued pension excluding inflation £
Chris Weston	**87,300**	77,000	10,300	**876,600**	562,200	**15,000**	299,400	59,600

Notes on information shown in the table

- The accrued pension is that which would be paid annually on retirement at age 62, based on eligible service to, and pensionable earnings at, 31 December 2009. The pension accrual rates for 2009 for Phil Bentley and Chris Weston were 2.65% and 2.22% of final pensionable earnings respectively. For Chris Weston the increase in the accrued pension covers the period since his appointment to the Board on 1 July 2009.
- As at 31 December 2008 the accrued pension for Chris Weston as an employee of the Group was £68,700.
- The figures shown for the increase in the accrued pension excludes inflation as the annual rate to 30 September 2009 was below the minimum of 0.0%. This is consistent with the rate used for pension increases for the CPP and CUPS.

This Report on remuneration has been approved by the Board of Directors and signed on its behalf by:

Grant Dawson
General Counsel & Company Secretary
25 February 2010

Independent Auditors' Report to the members of Centrica plc

We have audited the Group Financial Statements of Centrica plc for the year ended 31 December 2009 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement, as set out on page 43, the Directors are responsible for the preparation of the Group Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group Financial Statements in accordance with applicable law and International Standards on Auditing (UK and 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.

Scope of the audit of the Financial Statements

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 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.

Opinion on Financial Statements

In our opinion the Group Financial Statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group Financial Statements are prepared is consistent with the Group Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 43, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the parent Company Financial Statements of Centrica plc for the year ended 31 December 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 February 2010

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Group Income Statement

Year ended 31 December	Notes	2009 Business performance £m	2009 Exceptional items and certain re-measurements £m	2009 Results for the year £m	2008 (restated) (i), (ii) Business performance £m	2008 (restated) (i), (ii) Exceptional items and certain re-measurements £m	2008 (restated) (i), (ii) Results for the year £m
Continuing operations							
Group revenue	6	**21,963**	**–**	**21,963**	20,872	–	20,872
Cost of sales before exceptional items and certain re-measurements	7	**(17,663)**	**–**	**(17,663)**	(16,664)	–	(16,664)
Exceptional items	8	**–**	**(393)**	**(393)**	–	–	–
Re-measurement of energy contracts	8	**–**	**(62)**	**(62)**	–	(1,331)	(1,331)
Cost of sales	7	**(17,663)**	**(455)**	**(18,118)**	(16,664)	(1,331)	(17,995)
Gross profit		**4,300**	**(455)**	**3,845**	4,208	(1,331)	2,877
Operating costs before exceptional items	7	**(2,496)**	**–**	**(2,496)**	(2,225)	–	(2,225)
Exceptional items	8	**–**	**(175)**	**(175)**	–	–	–
Operating costs		**(2,496)**	**(175)**	**(2,671)**	(2,225)	–	(2,225)
Share of profits in joint ventures and associates, net of interest and taxation	8, 19	**10**	**(9)**	**1**	9	–	9
Group operating profit	6	**1,814**	**(639)**	**1,175**	1,992	(1,331)	661
Interest income	10	**307**	**–**	**307**	658	–	658
Interest expense	10	**(486)**	**–**	**(486)**	(660)	–	(660)
Net interest expense	10	**(179)**	**–**	**(179)**	(2)	–	(2)
Profit/(loss) from continuing operations before taxation		**1,635**	**(639)**	**996**	1,990	(1,331)	659
Taxation on profit from continuing operations	11	**(531)**	**185**	**(346)**	(1,026)	413	(613)
Profit/(loss) from continuing operations after taxation		**1,104**	**(454)**	**650**	964	(918)	46
Profit/(loss) from discontinued operations	8, 38	**40**	**(131)**	**(91)**	(52)	(130)	(182)
Gain on disposal of discontinued operations	8, 38	**–**	**297**	**297**	–	–	–
Discontinued operations	38	**40**	**166**	**206**	(52)	(130)	(182)
Profit/(loss) for the year		**1,144**	**(288)**	**856**	912	(1,048)	(136)
Attributable to:							
Equity holders of the parent		**1,094**	**(250)**	**844**	911	(1,048)	(137)
Minority interests	33	**50**	**(38)**	**12**	1	–	1
		1,144	**(288)**	**856**	912	(1,048)	(136)

Earnings/(loss) per ordinary share (i), (ii)	Notes	2009 Pence	2008 Pence
From continuing and discontinued operations:			
Basic	14	**16.5**	(3.3)
Diluted	14	**16.4**	(3.3)
From continuing operations:			
Basic	14	**12.7**	1.1
Diluted	14	**12.6**	1.1
Interim dividend paid per ordinary share	12	**3.66**	3.47
Final dividend proposed per ordinary share	12	**9.14**	8.73

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) and to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 2.
(ii) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 38.

The notes on pages 68 to 150 form part of these Financial Statements.

Group Statement of Comprehensive Income

Year ended 31 December	Notes	2009 £m	2008 £m
Profit/(loss) for the period		**856**	(136)
Other comprehensive income:			
Gains/(losses) on revaluation of available-for-sale securities	31	**11**	(19)
Taxation on revaluation of available-for-sale securities	31	**(2)**	1
		9	(18)
Unrealised losses on cash flow hedges	31	**(253)**	(318)
Transferred to income and expense on cash flow hedges	31	**234**	(30)
Transferred to assets and liabilities on cash flow hedges	31	**(4)**	1
Recycling of foreign exchange gains on cash flow hedges on disposal of business	31	**10**	–
Exchange differences on cash flow hedges	31	**–**	(19)
Taxation on cash flow hedges	31	**(12)**	96
		(25)	(270)
Exchange differences on translation of foreign operations	31	**83**	(10)
Recycling of foreign exchange loss on disposal of business	31	**(10)**	–
Taxation on related exchange differences	31	**(41)**	–
		32	(10)
Actuarial losses on defined benefit pension schemes	31	**(805)**	(399)
Actuarial gain on defined benefit schemes of discontinued operations		**2**	–
Taxation on actuarial losses on defined benefit pension schemes	31	**241**	111
		(562)	(288)
Other comprehensive income, net of taxation		**(546)**	(586)
Total comprehensive income for the period		**310**	(722)
Attributable to:			
Equity holders of the parent		**297**	(723)
Minority interests	33	**13**	1
		310	(722)

The notes on pages 68 to 150 form part of these Financial Statements.

Directors' Report – Business Review

Directors' Report – Governance

Financial Statements

Shareholder Information

Group Balance Sheet

31 December	Notes	2009 £m	2008 (restated) (i), (ii), (iii) £m	2007 (restated) (ii), (iii) £m
Non-current assets				
Goodwill	15	**2,088**	1,510	1,074
Other intangible assets	16	**734**	671	465
Property, plant and equipment (i)	18	**6,059**	4,689	3,910
Interests in joint ventures and associates	19	**2,422**	330	285
Deferred tax assets	27	**534**	311	27
Trade and other receivables	21	**143**	34	33
Derivative financial instruments (ii)	22	**316**	869	496
Securities	29	**176**	35	39
Retirement benefit assets	36	**–**	73	152
		12,472	8,522	6,481
Current assets				
Inventories	20	**382**	412	241
Current tax assets	27	**69**	39	40
Trade and other receivables	21	**4,181**	5,335	3,423
Derivative financial instruments (ii)	22	**492**	1,156	592
Securities	29	**74**	63	50
Cash and cash equivalents	24	**1,294**	2,939	1,130
		6,492	9,944	5,476
Assets of disposal groups classified as held for sale	38	**478**	–	–
Total assets		**19,442**	18,466	11,957
Current liabilities				
Trade and other payables (iii)	25	**(3,955)**	(4,395)	(3,400)
Current tax liabilities		**(184)**	(357)	(274)
Bank overdrafts, loans and other borrowings	26	**(86)**	(330)	(221)
Derivative financial instruments (ii)	22	**(1,744)**	(2,670)	(694)
Provisions for other liabilities and charges	28	**(193)**	(29)	(140)
		(6,162)	(7,781)	(4,729)
Net current assets		**330**	2,163	747
Non-current liabilities				
Trade and other payables	25	**(82)**	(67)	(20)
Bank overdrafts, loans and other borrowings	26	**(4,594)**	(3,218)	(1,793)
Derivative financial instruments (ii)	22	**(1,006)**	(1,529)	(823)
Deferred tax liabilities	27	**(1,179)**	(448)	(596)
Retirement benefit obligations	36	**(565)**	(186)	(55)
Provisions for other liabilities and charges	28	**(1,249)**	(865)	(581)
		(8,675)	(6,313)	(3,868)
Liabilities of disposal groups classified as held for sale	38	**(350)**	–	–
Net assets		**4,255**	4,372	3,360

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment), as explained in note 2.
(ii) Restated to classify the non-current portions of derivative financial instruments from current assets and liabilities to non-current assets and liabilities, as explained in note 2.
(iii) Restated to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 2.

31 December	Notes	2009 £m	2008 (restated) (i),(ii) £m	2007 (restated) (ii) £m
Equity				
Called up share capital	30	**317**	315	227
Share premium account		**778**	729	685
Retained earnings (i),(ii)		**3,103**	2,759	1,301
Accumulated other comprehensive (loss)/income	31	**(587)**	(40)	546
Other equity	32	**581**	549	542
Total shareholders' equity		**4,192**	4,312	3,301
Minority interests in equity	33	**63**	60	59
Total minority interests and shareholders' equity		**4,255**	4,372	3,360

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment), as explained in note 2.
(ii) Restated to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 2.

The Financial Statements on pages 62 to 150 were approved and authorised for issue by the Board of Directors on 25 February 2010 and were signed below on its behalf by:

Sam Laidlaw
Chief Executive

Nick Luff
Group Finance Director

The notes on pages 68 to 150 form part of these Financial Statements.

Group Statement of Changes in Equity

Year ended 31 December 2009	Share capital (note 30) £m	Share premium £m	Retained earnings £m	Accumulated other comprehensive income (note 31) £m	Other equity (note 32) £m	Total £m	Minority interests (note 33) £m	Total equity £m
	Attributable to equity holders of the parent							
1 January 2009	315	729	2,759	(40)	549	**4,312**	60	**4,372**
Profit for the year	–	–	844	–	–	**844**	12	**856**
Other comprehensive income	–	–	–	(547)	–	**(547)**	1	**(546)**
	315	729	3,603	(587)	549	**4,609**	73	**4,682**
Employee share schemes	2	49	9	–	3	**63**	–	**63**
Amounts arising on consolidation (i)	–	–	–	–	144	**144**	802	**946**
Repurchase of minority interests	–	–	–	–	–	**–**	(201)	**(201)**
Disposal of Segebel S.A. (ii)	–	–	126	–	(126)	**–**	(589)	**(589)**
Dividends paid by subsidiaries	–	–	–	–	–	**–**	(11)	**(11)**
Dividends	–	–	(635)	–	–	**(635)**	–	**(635)**
Taxation	–	–	–	–	12	**12**	–	**12**
Exchange adjustments	–	–	–	–	(1)	**(1)**	(11)	**(12)**
31 December 2009	**317**	**778**	**3,103**	**(587)**	**581**	**4,192**	**63**	**4,255**

Year ended 31 December 2008	Share capital (note 30) £m	Share premium £m	Retained earnings £m	Accumulated other comprehensive income (note 31) £m	Other equity (note 32) £m	Total £m	Minority interests (note 33) £m	Total equity £m
	Attributable to equity holders of the parent							
1 January 2008	227	685	1,323	546	542	3,323	59	3,382
Prior year restatement (iii)	–	–	(22)	–	–	(22)	–	(22)
1 January 2008 (restated)	227	685	1,301	546	542	3,301	59	3,360
Profit for the year (iii), (iv)	–	–	(137)	–	–	(137)	1	(136)
Other comprehensive income	–	–	–	(586)	–	(586)	–	(586)
	227	685	1,164	(40)	542	2,578	60	2,638
Employee share schemes	2	44	17	–	7	70	–	70
Rights Issue	86	–	–	–	2,078	2,164	–	2,164
Transfer	–	–	2,078	–	(2,078)	–	–	–
Dividends	–	–	(500)	–	–	(500)	–	(500)
31 December 2008	315	729	2,759	(40)	549	4,312	60	4,372

(i) Gains on revaluation of previously held investments, as revalued on full consolidation, and recognition of minority interests.
(ii) Transfer of revaluation gain on Segebel S.A. to retained earnings and de-recognition of minority interests.
(iii) Restated to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 2.
(iv) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment), as explained in note 2.

The notes on pages 68 to 150 form part of these Financial Statements.

Group Cash Flow Statement

Year ended 31 December	Notes	2009 £m	2008 (restated) (i) £m
Cash generated from continuing operations		**3,082**	1,395
Income taxes paid		**(329)**	(374)
Net petroleum revenue tax paid		**(174)**	(533)
Interest received		**13**	23
Interest paid		**(3)**	(47)
Payments relating to exceptional charges		**(203)**	(74)
Net cash flow from continuing operating activities	34	**2,386**	390
Net cash flow from discontinued operating activities	34	**261**	(93)
Net cash flow from operating activities		**2,647**	297
Purchase of Venture Production plc net of cash and cash equivalents acquired	37	**(1,115)**	–
Purchase of other businesses net of cash and cash equivalents acquired	37	**(438)**	(395)
Sale of businesses net of cash and cash equivalents disposed of		**870**	–
Purchase of intangible assets	6	**(604)**	(169)
Disposal and surrender of intangible assets		**43**	12
Purchase of property, plant and equipment	6	**(594)**	(617)
Disposal of property, plant and equipment		**–**	11
Investments in British Energy associates		**(2,272)**	–
Investments in other joint ventures and associates		**(19)**	–
Repayments of loans to, and disposal of investments in, joint ventures and associates	19	**18**	19
Interest received		**31**	63
Net purchase of securities		**(128)**	(22)
Net cash flow from continuing investing activities		**(4,208)**	(1,098)
Net cash flow from discontinued investing activities		**(312)**	(24)
Net cash flow from investing activities		**(4,520)**	(1,122)
Issue of ordinary share capital (ii)	30	**30**	2,202
Purchase of treasury shares		**(5)**	(3)
Financing interest paid		**(238)**	(104)
Cash inflow from additional debt		**1,887**	1,513
Cash outflow from payment of capital element of finance leases		**(22)**	(20)
Cash outflow from repayment of other debt		**(872)**	(175)
Net cash flow from increase in debt	34	**993**	1,318
Realised net foreign exchange gain/(loss) on cash settlement of net investment hedges		**18**	(117)
Realised net foreign exchange loss on cash settlement of other derivative contracts		**(20)**	(193)
Equity dividends paid	12	**(635)**	(500)
Net cash flow from continuing financing activities		**143**	2,603
Net cash flow from discontinued financing activities		**161**	–
Net cash flow from financing activities		**304**	2,603
Net (decrease)/increase in cash and cash equivalents		**(1,569)**	1,778
Cash and cash equivalents at 1 January		**2,904**	1,100
Effect of foreign exchange rate changes		**(50)**	26
Cash and cash equivalents at 31 December		**1,285**	2,904
Included in the following lines of the Balance Sheet:			
Cash and cash equivalents	24	**1,294**	2,939
Bank overdrafts, loans and other borrowings		**(28)**	(35)
Assets of disposal groups classified as held for sale	38	**19**	–
		1,285	2,904

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 38.
(ii) On 15 December 2008 the Group raised £2,164 million of proceeds, net of £65 million of issue costs, through a Rights Issue.

The notes on pages 68 to 150 form part of these Financial Statements.

Notes to the Financial Statements

1. General information

Centrica plc is a Company domiciled and incorporated in the UK under the Companies Act 1985. The address of the registered office is given on page 44. The nature of the Group's operations and principal activities are set out in note 6 and in the Directors' Report – Business Review on pages 4 to 34.

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 2.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation.

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 as at fair value through profit or loss on initial recognition, and the assets and liabilities of the Group pension schemes that have been measured at fair value. 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 principal accounting policies adopted are set out below.

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, complexity or areas where assumptions and estimates are significant to the consolidated Financial Statements are described in note 3.

(a) Standards, amendments and interpretations effective in 2009

At the date of authorisation of these consolidated Financial Statements, the following standards and amendments to existing standards were effective for the current period:

- IAS 23 (Amendment), Borrowing Costs, effective from 1 January 2009. The Amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing such borrowing costs was removed. The Group adopted IAS 23 (Amendment) retrospectively and applied a commencement date of 1 January 2008 for qualifying projects. The adoption of IAS 23 (Amendment) has resulted in an increase to the closing net book value of property, plant and equipment and an increase to deferred tax liabilities at 31 December 2009 amounting to £43 million (2008: £9 million) and £10 million respectively, and a reduction to interest expense and increase to the tax charge for the period amounting to £34 million (2008: £9 million) and £10 million respectively. The impact on deferred tax liabilities and the related taxation charge in 2008 was not material. The resulting impact on both basic and diluted earnings per share for 2009 was an increase of 0.5p (2008: 0.2p).
- IFRS 8, Operating Segments, effective from 1 January 2009. This standard replaces IAS 14, Segment Reporting and requires segmental information reported to be based on that which the Group's Executive Committee uses internally for the purposes of evaluating the performance of the Group's operating segments and making decisions about resource allocation between operating segments. The Group adopted IFRS 8 with effect from 1 January 2009. The adoption of IFRS 8 has resulted in certain changes to the Group's reportable segments and the information disclosed (see note 6). The measure of operating profit used by management to evaluate segment performance and to allocate resources is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements and before depreciation resulting from fair valuing property, plant and equipment to their acquisition-date fair values on the acquisition of strategic investments as described in section (d) below. Additionally, adjusted operating profit includes the Group's share of the results from joint ventures and associates before interest and taxation.
- 'Improvements to IFRSs' contains amendments to various existing standards, most being effective from 1 January 2009. One of these improvements envisions that not all derivative financial instruments be classified as current. The Group has classified those derivatives held for the purpose of Energy Procurement and Treasury Management as current or non-current based on expected settlement dates. Where the derivative is held for proprietary energy trading, it remains classified as current. The Group adopted this improvement with effect from 1 January 2009, prior to which all derivatives held for trading under IAS 39 were classified as current irrespective of settlement date. This change in presentation has resulted in recognition of non-current derivative financial assets of £316 million, current derivative financial assets of £492 million, non-current derivative financial liabilities of £1,006 million and current derivative financial liabilities of £1,744 million at 31 December 2009. The impact on comparatives has been to report an increase in non-current derivative financial assets of £674 million (2007: £424 million), a decrease in current derivative financial assets of £564 million (2007: £322 million), an increase in non-current derivative financial liabilities of £1,372 million (2007: £812 million) and a decrease in current derivative financial liabilities of £1,262 million (2007: £710 million).
- IAS 1 (Revised), Presentation of Financial Statements, effective from 1 January 2009. The revised standard prohibits the presentation of items of income and expense in the Statement of Changes in Equity, requiring non-shareholder changes in equity to be presented separately from shareholder changes in equity. All non-shareholder changes in equity are required to be presented in a performance statement. IAS 1 (Revised) permits a choice as to whether to present a single performance statement (being a Statement of Comprehensive Income) or two statements (being an Income Statement and a Statement of Comprehensive Income). The Group has elected to present two statements: an Income Statement and a Statement of Comprehensive Income. Other changes require the Statement of Changes in Equity to be shown as a Primary Statement. These consolidated Financial Statements have been prepared under the revised disclosure requirements.

2. Summary of significant accounting policies continued

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

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

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

(b) Standards, amendments and interpretations that are not yet effective and that have not been early adopted by the Group

At the date of authorisation of these Financial Statements, the following standards, amendments to existing standards and interpretations, which have not been applied in these consolidated Financial Statements, were in issue but not yet effective:

- IFRS 3 (Revised), Business Combinations, effective for annual periods beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. All acquisition related costs should be expensed. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at either fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The Group will adopt IFRS 3 (Revised) to all business combinations from 1 January 2010. There is no requirement to restate previous acquisitions, therefore any impact will only affect new business combinations;
- IAS 27 (Revised), Consolidated and Separate Financial Statements, effective for annual periods beginning on or after 1 July 2009. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The revised standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will adopt IAS 27 (Revised) prospectively from 1 January 2010;
- Improvements to IFRSs (2009), effective for annual periods beginning on or after 1 July 2009 (or later), subject to EU endorsement. The Improvements to IFRSs (2009) contains amendments to various existing standards, most being effective for accounting periods beginning on or after 1 July 2009; and
- IFRS 9, Financial Instruments, effective for annual periods beginning on or after 1 January 2013, subject to EU endorsement. The standard is part of a wider project to replace IAS 39, Financial Instruments: Recognition and Measurement. The standard establishes two primary measurement categories for financial assets; amortised cost and fair value, for which classification is based on an entity's business model and the contractual cash flow characteristics of the financial asset.

The impact of adopting these standards and amendments to existing standards is under assessment.

The Directors anticipate that the adoption of the following standards, interpretations and amendments to existing standards and interpretations in future periods, which were also in issue at the date of authorisation of these Financial Statements, will have no material impact on the Financial Statements of the Group:

- IFRIC 17, Distributions of Non-cash Assets to Owners, effective for annual periods beginning on or after 1 July 2009;
- IAS 39 (Amendment), Financial Instruments: Recognition and Measurement – Eligible Hedged Items, effective for annual periods beginning on or after 1 July 2009;
- IFRS 1 (Revised), First-time Adoption of IFRS, effective for annual periods beginning on or after 1 July 2009;
- IFRS 2 (Amendment), Share-based Payment – Group Cash-settled Share-based Payment Transactions, effective for annual periods commencing on or after 1 January 2010, subject to EU endorsement;
- IFRS 1 (Amendment), Additional Exemptions for First-time Adopters, effective for annual periods commencing on or after 1 January 2010, subject to EU endorsement;
- IAS 32 (Amendment), Classification of Rights Issues, effective for annual periods commencing on or after 1 February 2010;
- IFRIC 14 (Amendment), Prepayments of a Minimum Funding Requirement, effective for annual periods beginning on or after 1 January 2011, subject to EU endorsement;
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments, effective for annual periods beginning on or after 1 July 2010, subject to EU endorsement;
- IAS 24 (Revised), Related Party Disclosures, effective for annual periods beginning on or after 1 January 2011, subject to EU endorsement; and
- IFRS 1 (Amendment), Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, effective for annual periods beginning on or after 1 July 2010, subject to EU endorsement.

(c) Income Statement presentation

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

2. Summary of significant accounting policies continued

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Summary of significant accounting policies continued

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

(i) Venture

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

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

(ii) British Energy

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

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

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

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

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

(e) British Gas Services Limited – revenue recognition

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

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

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

2. Summary of significant accounting policies continued

Basis of consolidation
The Group Financial Statements consolidate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries) up to 31 December each year, and incorporate the results of its share of jointly controlled entities and associates using the equity method of accounting.

Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries, associates and jointly-controlled entities to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated upon consolidation.

Interests in joint ventures
A jointly controlled entity is a joint venture which involves the establishment of an entity to engage in economic activity, which the Group controls jointly with its fellow venturers. Under the equity method, investments in jointly controlled entities are carried at cost plus post-acquisition changes in the Group's share of net assets of the jointly controlled entity, less any impairment in value in individual investments. The Income Statement reflects the Group's share of the results of operations after tax of the jointly controlled entity.

Certain exploration and production activity is conducted through joint ventures, where the venturers have a direct interest in and jointly control the assets of the venture. The results, assets, liabilities and cash flows of these jointly controlled assets are included in the consolidated Financial Statements in proportion to the Group's interest.

Interests in associates
An associate is an entity in which the Group has an equity interest and over which it has the ability to exercise significant influence. Under the equity method, investments in associates are carried at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in value in individual investments. The Income Statement reflects the Group's share of the results of the associate, which is net of interest and taxation and presents this as a single line item in arriving at Group operating profit on the face of the Income Statement.

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 period. 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.

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.

Home services and fixed-fee service contracts: Revenue from fixed-fee service contracts is recognised in the 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 greater than recognised revenue are treated as deferred income, with any paid in arrears recognised as accrued income. For one-off services, such as installations, revenue is recognised at the date of service provision.

Gas 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). Gas purchases and gas sales entered into to optimise the performance of gas 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 period 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.

Home services' and fixed-fee service contracts cost of sales includes direct labour and related overheads on installation work, repairs and service contracts in the period.

2. Summary of significant accounting policies continued

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.

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. Borrowing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

Carbon Emissions Reduction Target programme (CERT)

UK-licensed energy suppliers are set a carbon emission reduction target by the Government which is proportional to the size of their customer base. The current CERT programme runs from April 2008 to March 2011. The target is subject to an annual adjustment throughout the programme period to take account of changes to a UK-licensed energy supplier's customer base. Energy suppliers can meet the target through expenditure on qualifying projects which give rise to carbon savings. The carbon savings can be transferred between energy suppliers. The Group charges the costs of the programme to cost of sales and capitalises costs incurred in deriving carbon savings in excess of the annual target as inventory which is valued at the lower of cost or net realisable value and which may be used to meet the carbon emissions reduction target in subsequent periods or be transferred to third parties. The inventory is carried on a first-in, first-out basis. The carbon emission reduction target for the programme period is allocated to reporting periods on a straight-line basis as adjusted by the annual determination process.

Employee share schemes

The Group operates a number of employee share schemes, detailed in the Remuneration Report on pages 45 to 59 and in note 35, 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.

Fair value is measured using methods appropriate to each of the different schemes as follows:

LTIS: awards up to 2005	A Black-Scholes valuation augmented by a Monte Carlo simulation to predict the total shareholder return performance
LTIS: EPS awards after 2005	Market value on the date of grant
LTIS: TSR awards after 2005	A Monte Carlo simulation to predict the total shareholder return performance
Sharesave	Black-Scholes
ESOS	Black-Scholes using an adjusted option life assumption to reflect the possibility of early exercise
SAS, SIP, DMSS, RSS, ESPP and DBP	Market value on the date of grant

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 at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the balance sheet date. All differences are included in the Income Statement for the year with the exception of exchange differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal or partial disposal of the net investment, at which time they are recognised in the Income Statement. Non-monetary items that are measured in terms of historical cost in a currency other than the functional currency of the entity concerned are translated using the exchange rates as at the dates of the initial transactions.

For the purpose of presenting consolidated Financial Statements, the assets and liabilities of the Group's foreign subsidiary undertakings, jointly controlled entities and associates are translated into pounds sterling at exchange rates prevailing on the balance sheet date. The results of foreign subsidiary undertakings, jointly controlled entities and associates are translated into pounds sterling at average rates of exchange for the relevant period. Exchange differences arising from the retranslation of the opening net assets and the results 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 Income Statement on disposal.

Exchange differences on foreign currency borrowings, foreign currency swaps and forward exchange contracts used to hedge foreign currency net investments in foreign subsidiary undertakings, jointly controlled entities and associates are taken directly to reserves and are reported in the Statement of Comprehensive Income. All other exchange movements are recognised in the Income Statement for the year.

2. Summary of significant accounting policies continued

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the purchase method. 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 given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, Business Combinations, are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on a business combination represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, jointly controlled entity or associate 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. 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 Income Statement.

The interest of minority shareholders in the acquiree is measured initially at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill, which is recognised as an asset, is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Any impairment is recognised immediately in the Income Statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units that expect to benefit from the business combination in which the goodwill arose. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit or groups of cash-generating units is less than the carrying amount of the unit, the impairment loss is recognised immediately in the Income Statement and allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment is not subsequently reversed.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include 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 may 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 may be impaired, either individually or at the cash-generating unit 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 period for the principal categories of intangible assets are as follows:

Application software	up to 10 years
Licences	up to 20 years
Consents	up to 25 years
Contractual customer relationships	up to 20 years
Identifiable acquired brands	Indefinite

2. Summary of significant accounting policies continued

EU Emissions Trading Scheme and renewable obligations certificates

Granted CO_2 emissions allowances received in a period are recognised initially at nominal value (nil value). Purchased CO_2 emissions allowances are recognised initially at cost (purchase price) within intangible assets. A liability is recognised when the level of emissions exceeds the level of allowances granted. 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 CO_2 emissions allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the Income Statement. The intangible asset is surrendered at the end of the compliance period and written off to reflect the consumption of economic benefits at that point in time.

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. The intangible asset is surrendered at the end of the compliance period and written off to reflect the consumption of economic benefits at that point in time.

Property, plant and equipment

Property, plant and equipment is included in the 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 property, plant and equipment 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 property, plant and equipment, with the exception of upstream production 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. The depreciation periods for the principal categories of assets are as follows:

Freehold and leasehold buildings	up to 50 years
Plant	5 to 20 years
Power stations and wind farms	up to 30 years
Equipment and vehicles	3 to 10 years
Gas storage assets	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.

The carrying values of property, plant and equipment 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.

Exploration, evaluation and production assets

Centrica 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 property, plant and equipment and depreciated on a unit of production basis. 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 property, plant and equipment. Such costs relate to the acquisition and installation of production facilities and include development drilling costs, project-related engineering and other technical services costs. Property, plant and equipment, 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 proven and probable 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 and production assets are reviewed annually for indicators of impairment.

Overlift and underlift

Offtake arrangements for oil and gas produced from jointly owned 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 and measured at market value, with movements in the period recognised within cost of sales.

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning gas production facilities at the end of the producing lives of fields, and storage facilities and power stations at the end of the useful life of the facilities, based on price levels and technology at the balance sheet date.

2. Summary of significant accounting policies continued

When this provision gives access to future economic benefits, a decommissioning asset is recognised and included within property, plant and equipment. 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 property, plant and equipment. For gas production facilities and offshore storage facilities the decommissioning asset is amortised using the unit of production method, based on proven and probable reserves. For power stations the decommissioning asset is amortised on a straight-line basis over the useful life of the facility. The unwinding of the discount on the provision is included in the Income Statement within interest expense.

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 the arrangement conveys a right to use the asset. 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 property, plant and equipment 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 Income Statement on a straight-line basis over the term of the relevant lease.

Impairment of property, plant and equipment and intangible assets (excluding goodwill)
At each balance sheet date, the Group reviews the carrying amounts of its intangible assets and property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Discount rates are derived from the Group's weighted average cost of capital. Risks specific to cash-generating units are reflected within cash flow forecasts.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense.

An impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately. After such a reversal the depreciation or amortisation charge, where relevant, is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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 and the asset (or disposal group) is available for immediate sale in its present condition. Management must be 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 or geographical region that has been sold or is classified as held for sale are presented separately from continuing operations as discontinued operations within the Income Statement and Cash Flow Statement.

Inventories
Inventories are valued on a weighted-average cost basis at the lower of cost and estimated net realisable value after allowance for redundant and slow-moving items, where applicable.

Take-or-pay contracts
Where payments are made to external suppliers under take-or-pay obligations for gas not taken, they are treated as prepayments and included within other receivables, as they generate future economic benefits.

Pensions and other post-retirement benefits
The Group operates a number of defined benefit 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 full in the period in which they occur. They are recognised in the Statement of Comprehensive Income.

2. Summary of significant accounting policies continued

The cost of providing retirement pensions and other benefits is charged to the Income Statement over the periods benefiting from employees' service. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. The difference between the expected return on scheme assets and the change in present value of scheme obligations resulting from the passage of time is recognised in the Income Statement within interest income or interest expense.

The retirement benefit obligation or asset recognised in the Balance Sheet represents the present value of the defined benefit obligation of the schemes as adjusted for unrecognised past service cost, and the fair value of the schemes' assets. The present value of the defined benefit obligation or asset 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 charged as an operating expense 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 Directors' 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 Income Statement within interest expense. Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceed the economic 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 amortisation 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, jointly controlled entities 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 de-recognised 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 de-recognised when the obligation under the liability is discharged, cancelled or expires.

(a) Trade receivables

Trade receivables are recognised and carried at original invoice amount 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.

(b) 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 shares) are deducted from equity. No gain or loss is recognised in the Income Statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(c) 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.

(d) Interest-bearing loans and other borrowings

All interest-bearing loans and other borrowings are initially recognised at fair value net of directly attributable transaction costs.

2. Summary of significant accounting policies continued

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 Income Statement. Amortised cost is calculated by taking into account any issue costs, discount or premium.

(e) 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 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 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 Income Statement for the year. Accrued interest or dividends arising on available-for-sale financial assets are recognised in the 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 profit and loss. 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 profit or loss.

Impairment losses recognised in the Income Statement for equity investments classified as available-for-sale are not subsequently reversed through the Income Statement. Impairment losses recognised in the 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.

(f) 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 in order to reduce significantly a measurement inconsistency that would otherwise arise. 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 Income Statement within interest income or interest expense.

(g) 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, and are not within the scope of IAS 39.

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 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 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 approved by the Board of Directors. Further detail on the Group's risk management policies is included within the Directors' Report – Governance on pages 42 to 43 and in note 4 to the Financial Statements.

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 and amortised to the 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 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 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.

2. Summary of significant accounting policies continued

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 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 Income Statement.

(h) Hedge accounting

For the purposes of hedge accounting, hedges are classified either as fair value hedges, cash flow hedges or hedges of net investments in foreign operations.

Fair value hedges: A derivative is classified as a fair value hedge when it hedges the exposure to changes in the fair value of a recognised asset or liability. Any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the 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 Income Statement. 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 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.

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 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 Income Statement. The gains or losses that are recognised directly in equity are transferred to the Income Statement in the same period in which the highly probable forecast transaction affects income, for example when the future sale of physical gas or physical power actually occurs. 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 Income Statement.

Net investment hedges: 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 Income Statement. On disposal of the foreign operation, the cumulative value of any gains or losses recognised directly in equity is transferred to the Income Statement.

Nuclear activity

The Group's investments in Lake Acquisitions Limited and NNB Holding Company Limited are accounted for as associates. The following accounting policies are specific to the accounting for the nuclear activity of these associates.

(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 Income Statement in proportion to the amount of fuel burnt.

(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 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 income statement in proportion to the amount of fuel burnt.

(c) Nuclear property, plant and equipment and depreciation

The depreciation period for the principal categories of nuclear assets, which are depreciated on a straight-line basis, are as follows:

AGR power stations	4 to 13 years
PWR power station	25 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 two to 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, British Energy's 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, British Energy 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 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.

2. Summary of significant accounting policies continued

(f) Nuclear liabilities
Nuclear liabilities represent provision for British Energy's 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.

3. Critical accounting judgements and key sources of estimation uncertainty

(a) Critical judgements in applying the Group's accounting policies
The Group's accounting policies as set out in note 2 and Notes to the Financial Statements include descriptions of key judgements management has made in applying the Group's accounting policies. Areas of judgement that have the most significant effect on the amounts recognised in the Financial Statements (apart from those involving estimations which are dealt with below) include the following:

- the presentation of certain items as exceptional – notes 2 and 8;
- the use of adjusted profit and adjusted earnings per share measures – notes 2 and 14; and
- the classification of energy procurement contracts as derivative financial instruments and presentation as certain re-measurements – notes 2, 4, 8 and 22.

In addition to those described above, 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 partial disposal – GLID Wind Farm TopCo Limited
The Group disposed of 50% of the equity voting share capital of GLID Wind Farms TopCo Limited ('GLID'), the owner of Glens of Foudland and Lynn and Inner Dowsing wind farms on 11 December 2009 (see note 38).

As part of this disposal, the Group contracted to purchase 100% of the power output and 50% of the renewable obligation certificates produced by these wind farms under a 15-year offtake agreement. The pricing of this arrangement was on an arm's length basis. The Group also contracted to provide management and transitional support services to GLID as directed by their board (and shareholders). A shareholders' agreement was also put in place which included a number of reserved matters and provides for joint management of the major decisions of the company.

The Directors have judged that the disposal of equity voting share capital is a loss of control over the financial and operating policies of GLID. The offtake agreement pricing together with the other arrangements in place mean that the majority of the benefits and residual risks of owning the wind farms reside with GLID and not Centrica. Accordingly, the remaining investment in GLID is equity accounted as an investment in a joint venture (see note 19). The Directors have judged also that the 15-year offtake agreement is not a leasing arrangement. This is because the Group is not purchasing substantially all of the economic output of the wind farm. The contract is instead assessed as falling within the scope of IAS 39 and is being marked to market.

Finance lease – third-party power station tolling arrangement
The Group has a long-term tolling arrangement with the Spalding power station. The contract provides Centrica with the right to nominate 100% of the plant output until 2021 in return for a mix of capacity payments and operating payments based on plant availability. 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 judged that the arrangement should be accounted for as a finance lease as the lease term is judged to be a major part of the economic life of the power station and the present value of the minimum lease payments at inception date of the arrangement amounted to a large part of the fair value of the power station at that time. Details of the finance lease asset, finance lease creditor and interest charges are included in notes 18, 26 and 10 respectively.

Provision for onerous gas contract
On 1 October 2009 an onerous contract provision was established for a gas purchase contract for which a two-year notice had been served to terminate (see notes 8 and 28). This contract provided the Group with the option to purchase gas for which a significant capacity charge was incurred regardless of the offtake. The capacity charges are unavoidable costs of the contract. The economic benefits expected to be received under the contract have been estimated using the Group's standard contract valuation methodology. Management has judged that, following serving notice to terminate, this contract no longer forms part of the Group's gas supply and that any gas delivered under the contract is delivered to minimise the overall cost of the contract during the notice period rather than to satisfy the Group's overall demand for gas. Therefore the expected economic benefits have been estimated based on market prices rather than being valued on a portfolio basis as explained in note 2.

Business combinations and acquisitions – purchase price allocations
For business combinations and acquisitions of associates and joint ventures, IFRS requires that a fair value exercise is undertaken allocating the purchase price (cost) of acquiring controlling interests and interests in associates to the fair value of the acquired identifiable assets, liabilities and contingent liabilities. Any difference between the cost of acquiring the interest and the fair value of the acquired net assets, which includes identified contingent liabilities, is recognised as acquired goodwill. The fair value exercise is performed at the date of acquisition. As a result of the nature of fair value assessments in the energy industry the purchase price allocation exercise and acquisition-date fair value determinations require 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. Business combinations are set out in note 37.

EU Emissions Trading Scheme
The Group has been subject to the EU Emissions Trading Scheme (EU ETS) since 1 January 2005. IFRIC 3, Emission Rights was withdrawn by the IASB in June 2005, and has not yet been replaced by definitive guidance. The Group has adopted an accounting policy which recognises CO_2 emissions liabilities when the level of emissions exceeds the level of allowances granted by the Government in the period. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at market price of allowances ruling at the balance sheet date. Movements in the liability are reflected within operating profit. Forward contracts for sales and purchases of allowances are measured at fair value.

3. Critical accounting judgements and key sources of estimation uncertainty continued

Petroleum revenue tax (PRT)

The definitions of an income tax in IAS 12, Income Taxes, have led management to judge that PRT should be treated consistently with other income taxes. The charge for the year is presented within taxation on profit from continuing operations in the Income Statement. Deferred amounts are included within deferred tax assets and liabilities in the Balance Sheet.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

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. 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. 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 deemed supply. The Group then 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.

Determination of fair values – energy derivatives

Derivative contracts are carried in the Balance Sheet at fair value, with changes in fair value recorded in either the Income Statement or the Statement of Comprehensive Income. 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. More detail on the assumptions used in determining fair valuations is provided in note 29.

Gas and liquids reserves

The volume of proven and probable gas and liquids reserves is an estimate that affects the unit of production depreciation of producing gas and liquids property, plant and equipment as well as being a significant estimate affecting decommissioning estimates and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition are described on page 159.

The impact of a change in estimated proven and probable reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If proven and probable 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.

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on proven and probable 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 between 2010 and 2050, with the substantial majority of the costs expected to be paid between 2015 and 2030.

Provisions are determined for the estimated costs of decommissioning British Energy's nuclear power stations and the costs of waste management and spent fuel. Various arrangements and indemnities are in place with the Secretary of State with respect to these costs, as explained in note 2.

Impairment of goodwill and indefinite-lived intangible assets

The Group determines whether goodwill and indefinite-lived intangible assets are impaired at least on an annual basis in accordance with the Group's accounting policy, as described in note 2. This requires the determination of the recoverable amount of the cash-generating units to which goodwill and indefinite-lived intangibles are allocated. The recoverable amounts are determined by either estimating the value in use of those cash-generating units or, in the case of the Upstream UK – Gas production and development cash-generating unit, determining the fair value less costs to sell of the cash-generating unit. Value in use calculations require the Group to make an estimate of the expected future cash flows to be derived from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows. The fair value less costs to sell methodology is deemed more appropriate for the Upstream UK – Gas production and development cash-generating unit as it is based on post-tax cash flows arising from each field within the cash-generating unit, which is consistent with the approach taken by management in determining the economic value of the underlying assets. Fair value less costs to sell is determined by discounting the post-tax cash flows expected to be generated by the gas production and development assets within the Upstream UK – Gas production and development cash-generating unit, net of associated selling costs, and takes into account assumptions market participants would use in estimating fair value. Further detail on impairments arising and the assumptions used in determining the value in use and fair value less costs to sell calculations is provided in note 17.

3. Critical accounting judgements and key sources of estimation uncertainty continued

Impairment of power generation and upstream gas assets
Power generation and upstream gas assets are assessed for indicators of impairment at each reporting date in accordance with the Group's accounting policies as described in note 2. If an indicator of impairment exists, an assessment of the recoverable amount of the asset is required to be made. Indicators of impairment for these assets may include, but are not limited to, the following:

- reductions in reserve estimates or profiles of production;
- declines in long-term commodity prices;
- increases in capital expenditure or acceleration of known capital expenditure;
- significant unplanned outages or problems with operational performance; and
- changes in regulatory or tax environments.

The recoverable amount of power generation and upstream gas assets is assessed with reference to either each individual asset's value in use or fair value less costs to sell. The value in use is based on the pre-tax cash flows expected to be generated by the asset and is dependent on views of forecast generation/ production, forecast commodity prices (using market prices where available and internal estimates for the remainder of the period) and the timing and extent of capital expenditure. The fair value less costs to sell is determined by using evidence from recent acquisitions for similar assets in the local oil and gas market, or by discounting the post-tax cash flows expected to be generated, net of associated selling costs, taking into account assumptions market participants would use in estimating fair value.

For gas fired power stations, which have a high degree of production flexibility, the value in use calculation also includes a scenario-based statistical assessment of the additional value which can be generated from optimising production to take advantage of volatile forward prices. Pre-tax cash flows for the first three years are based on the Group's internal Board-approved three-year business plans and thereafter are estimated on a consistent basis to reflect cash flows up to the date of cessation of operation of the asset. Pre-tax cash flows are discounted using an appropriate pre-tax discount rate which is derived from the Group's weighted average cost of capital. Discount rates are based on current market assessments of the time value of money and are derived from the Group's weighted average cost of capital. Risks specific to cash-generating units are reflected within cash flow forecasts. Further details of impairments arising and the carrying values of the Group's power generation and upstream gas assets are included within note 18.

Trade and other receivables – provisions for credit losses
The methodology for determining provisions for credit losses on trade and other receivables and the level of such provisions are set out in note 21. The estimates and assumptions used to determine the level of provisions are reviewed periodically. Although the provisions recognised are considered appropriate, the use of different assumptions or changes in economic conditions could lead to changes in the provisions and therefore impact profit or loss for the year.

Pensions and other post-retirement benefits
The Group operates a number of defined benefit pension schemes. The cost of providing benefits under the defined benefit schemes is determined separately for each scheme 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 36.

4. 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, volumetric risk, currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall risk management process is designed to identify, manage and mitigate business risk, which includes, among others, financial risk. Further detail on the Group's overall risk management process is included within the Directors' Report – Governance on pages 42 to 43.

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

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

Market risk management
Market risk is the risk of loss that results from changes in market prices (commodity prices, foreign exchange rates, interest rates and equity prices). 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 energy procurement, downstream and proprietary energy trading activities.

(i) Energy procurement and downstream activities
The Group's energy procurement and downstream activities consist of downstream positions, 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, Europe and North America 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 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

4. Financial risk management continued

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 and economic climate.

The Group uses specific volumetric limits to manage the exposure to market prices associated with the Group's energy procurement and downstream activities to an acceptable level. Volumetric limits are supported by Profit at Risk (PaR) and Value at Risk (VaR) methodologies in the UK and a VaR methodology in North America and Europe to measure the Group's exposure to commodity price risk. Limits are also set on PaR and VaR measurements as a further control over exposure to market prices. 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 portfolio. 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 tests are regularly performed to evaluate the impact of substantial movements in commodity prices.

The Group measures and manages the commodity price risk associated with the Group's entire energy procurement and downstream portfolio. Only certain of the Group's energy procurement and downstream contracts constitute financial instruments under IAS 39 (note 2). As a result, while the Group manages the commodity price risk associated with both financial and non-financial energy procurement 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 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.

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

The carrying value of energy contracts used in energy procurement and downstream activities at 31 December 2009 is disclosed in note 22. A sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in the fair value or future cash flows of financial instruments associated with the Group's energy procurement and downstream activities as a result of changes in commodity prices, is provided below in section (e).

(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 over the counter 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. The VaR used measures the estimated potential loss for a 95% confidence level over a one-day holding period. The holding period used is based on market liquidity and the number of days the Group would expect it to take to close out a trading position.

As with any modelled risk measure, there are certain limitations that arise from the assumptions used in the VaR analysis. VaR assumes that the future will behave like the past 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.

The VaR, before taxation, associated with the Group's proprietary energy trading activities at 31 December 2009 was £2 million (2008: £1 million). The carrying value of energy contracts used in proprietary energy trading activities at 31 December 2009 is disclosed in note 22.

(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).

(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 Europe. 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 activities in the UK and in Canada, where a proportion of transactions are denominated in euros or US dollars and on certain capital commitments 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, New Zealand dollars, euros or Japanese yen.

4. Financial risk management continued

It is the Group's policy to hedge all material transactional exposures using forward contracts to fix the functional currency value of non-functional currency cash flows. At 31 December 2009, there were no material unhedged non-functional currency monetary assets or liabilities, firm commitments or probable forecast transactions (2008: £nil), other than 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, subject to certain targets monitored by the GFRMC, by holding foreign currency debt, entering into foreign currency derivatives, or a mixture of both.

During the year, the Group reviewed the existing translational currency risk management procedures. This review took 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. This resulted in a reduction in the overall proportion of net investments which are hedged for translational currency risk. The effect of this change is an increased risk of changes to the sterling value of net investments in foreign operations, which is reported through reserves, but a reduced risk of cash flow volatility from rolling forward hedge transactions.

The Group measures and manages the currency risk associated with all transactional and translational exposures. In contrast, IFRS 7 requires disclosure of currency risk arising on financial instruments denominated in a currency other than the functional currency of the commercial operation transacting only. 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. A sensitivity analysis that is intended to illustrate 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 as a result of changes in foreign exchange rates is provided below in section (e).

(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. A sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in interest rates is provided below in section (e).

(d) Equity price risk management
The Group is exposed to equity price risk because certain available-for-sale financial assets, held by the Law Debenture Trust on behalf of the Company as security in respect of the Centrica Unapproved Pension Scheme, are linked to equity indices (note 36). Investments in equity indices are inherently exposed to less risk than individual equity investments because they represent a naturally diverse portfolio. Note 36 details the Group's other retirement benefit assets and liabilities.

(e) Sensitivity analysis
A financial instrument is defined in IAS 32 as any contract that gives rise to a financial asset of one entity (effectively the contractual right to receive cash or another financial asset from another entity) and a financial liability (effectively the contractual obligation to deliver cash or another financial asset to another entity) or equity instrument (effectively a residual interest in the assets of an entity) of another. 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 2009 assuming that a reasonably possible change in the relevant risk variable had occurred at 31 December 2009 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 2009 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 2009 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 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 below excludes the impact of proprietary energy trading assets and liabilities because the VaR associated with the Group's proprietary energy trading activities has already been provided above in section (a).

4. Financial risk management continued

The impacts of reasonably possible changes in commodity prices on profit and equity, both after taxation, based on the assumptions provided above are as follows:

Energy prices	2009 Base price (i)	2009 Reasonably possible change in variable	2008 Base price (i)	2008 Reasonably possible change in variable
UK gas (p/therm)	**41**	**+/-10**	56	+/-14
UK power (£/MWh)	**41**	**+/-5**	53	+/-9
UK coal (US$/tonne)	**99**	**+/-20**	93	+/-24
UK emissions (€/tonne)	**13**	**+/-3**	16	+/-4
UK oil (US$/bbl)	**86**	**+/-19**	58	+/-15
North American gas (USc/therm)	**65**	**+/-11**	70	+/-16
North American power (US$/MWh)	**61**	**+/-5**	60	+/-9
European power (€/MWh)	**53**	**+/-5**	64	+/-9

(i) The base price represents the average forward market price over the duration of the active market curve used in the sensitivity analysis provided.

Incremental profit/(loss)	2009 Impact on profit £m	2009 Impact on equity £m	2008 Impact on profit £m	2008 Impact on equity £m
UK energy prices (combined) – increase/(decrease)	**38/(38)**	**30/(30)**	326/(322)	90/(90)
North American energy prices (combined) – increase/(decrease)	**46/(46)**	**21/(21)**	25/(25)	27/(27)
European energy prices (combined) – increase/(decrease)	**14/(14)**	**–/–**	44/(44)	–/–

The impacts of reasonably possible changes in interest rates on profit and equity, both after taxation, based on the assumptions provided above are as follows:

Interest rates and incremental profit/(loss)	2009 Reasonably possible change in variable %	2009 Impact on profit £m	2009 Impact on equity £m	2008 Reasonably possible change in variable %	2008 Impact on profit £m	2008 Impact on equity £m
UK interest rates	**+/-1.0**	**5/(9)**	**16/(19)**	+/-1.0	16/(16)	19/(23)
US interest rates	**+/-1.0**	**6/(7)**	**(7)/9**	+/-1.0	(2)/2	(12)/14
Canadian interest rates	**+/-1.0**	**4/(4)**	**–/–**	+/-1.0	–/–	–/–
Euro interest rates	**+/-1.0**	**(12)/12**	**–/–**	+/-1.0	3/(3)	–/–
Japanese interest rates	**+/-1.0**	**–/–**	**(13)/17**	+/-1.0	–/–	(17)/23
New Zealand interest rates	**+/-1.0**	**(2)/2**	**–/–**	+/-1.0	(2)/2	–/–

The impacts of reasonably possible changes in foreign currency rates relative to pounds sterling on profit and equity, both after taxation, based on the assumptions provided above are as follows:

Foreign exchange rates and incremental profit/(loss)	2009 Reasonably possible change in variable %	2009 Impact on profit £m	2009 Impact on equity £m	2008 Reasonably possible change in variable %	2008 Impact on profit £m	2008 Impact on equity £m
US dollar	**+/-10**	**(43)/51**	**4/(2)**	+/-10	(46)/45	(12)/12
Canadian dollar	**+/-10**	**–/3**	**10/(10)**	+/-10	(3)/1	(31)/28
Danish krone	**+/-10**	**–/–**	**27/(33)**	+/-10	–/–	–/–
Euro	**+/-10**	**(3)/(8)**	**14/(9)**	+/-10	3/(2)	(20)/17
Japanese yen	**+/-10**	**–/–**	**1/–**	+/-10	–/–	3/(2)
New Zealand dollar	**+/-10**	**–/–**	**–/–**	+/-10	(10)/10	–/–
Norwegian krone	**+/-10**	**(1)/1**	**5/(6)**	+/-10	–/–	(4)/3
Swiss franc	**+/-10**	**–/–**	**3/(3)**	+/-10	–/–	–/–

4. Financial risk management continued

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

Note 22 provides further detail of the Group's exposure to credit risk on derivative financial instruments, note 21 provides detail of the Group's exposure to credit risk on trade and other receivables, note 24 provides detail of the Group's exposure to credit risk on cash and cash equivalents and note 29 provides the carrying value of all financial assets representing the Group's maximum exposure to credit risk.

(a) Treasury, trading and energy procurement activities
Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. The majority of significant exposures are with counterparties rated A-/A3 or better. The Group uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist. 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.

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. The Group measures and manages the credit risk associated with the Group's entire treasury, trading and energy procurement portfolio. In contrast, IFRS 7 defines credit risk as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation and 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 (note 2). 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 29) that represents the maximum exposure to credit risk in accordance with IFRS 7 because credit losses associated with contracts that are not recognised on the Balance Sheet will not be recognised as such in the Income Statement.

(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 by reviewing an appropriate mix of internal and external information 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 does experience 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 holds cash on deposit and maintains significant committed facilities. The Group's liquidity position has remained strong throughout 2009 despite movements in commodity prices.

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

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

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

The relatively high level of available cash resources and undrawn committed bank borrowing facilities has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern. The statement of going concern is included in the Directors' Report – Governance, on page 43.

Maturities of derivative financial liabilities, trade and other payables, bank borrowings and provisions are provided in notes 22, 25, 26 and 28, respectively. Details of commitments and contingencies are provided in note 39.

5. Capital management

The Group's objective when managing capital is to maintain a balance of debt and equity which maintains an optimal level of financial risk. It achieves this by maintaining a capital structure and credit rating which are appropriate for the underlying risk within the business operations. An additional factor to consider is that, in a number of areas in which the Group operates, the Group's strong capital structure and good credit standing are important elements of the Group's competitive position.

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

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

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

6. Segmental analysis

Centrica's operating segments are those used internally by management to run the business and make decisions. Centrica's operating segments are based on products and services provided in each geographical area. The operating segments are also the Group's reportable segments. The types of products and services from which each reportable segment derives its revenues are:

Segment	Description
Downstream UK:	
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
Upstream UK:	
Upstream gas and oil	Production and processing of gas and oil and the development of new fields to grow reserves
Power generation	Generation and optimisation of power from gas, nuclear and wind sources
Industrial and commercial	Management, optimisation and scheduling of wholesale and industrial gas sales and gas procurement contracts
Proprietary energy trading	Trading in physical and financial energy contracts
Storage UK	Gas storage in the UK
North America:	
Residential energy supply	The supply of gas and electricity to residential customers in North America
Business energy supply	The supply of gas, electricity and energy solutions to business customers in North America
Residential and business services	Installation and maintenance of Heating, Ventilation and Air Conditioning (HVAC) equipment, water heaters and the provision of breakdown services in North America
Upstream and wholesale energy	Gas production, power generation and procurement and trading activities in the North American wholesale energy markets

6. Segmental analysis continued

The measure of profit used by the Centrica Executive Committee is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements (refer to note 8), before additional depreciation resulting from any fair value uplifts on Strategic Investments (refer to notes 2 and 14) and including the results from joint ventures and associates which are included before interest and tax. All transactions between segments are on an arm's length basis.

Year ended 31 December			2009			2008 (restated) (i),(ii)
(a) Revenue	Gross segment revenue £m	Less inter-segment revenue (iii),(iv) £m	Group revenue £m	Gross segment revenue £m	Less inter-segment revenue (iii),(iv) £m	Group revenue £m
Continuing operations:						
Residential energy supply (i)	7,843	–	7,843	7,779	–	7,779
Residential services (ii)	1,406	–	1,406	1,347	–	1,347
Business energy supply and services	3,316	–	3,316	3,063	–	3,063
Downstream UK	12,565	–	12,565	12,189	–	12,189
Upstream gas and oil (iii)	1,240	(689)	551	1,784	(1,318)	466
Power generation (iii)	1,317	(167)	1,150	1,264	(595)	669
Industrial and commercial (i), (iii)	1,907	(555)	1,352	1,940	(486)	1,454
Proprietary energy trading (iii), (iv)	52	(11)	41	61	(12)	49
Upstream UK	4,516	(1,422)	3,094	5,049	(2,411)	2,638
Storage UK (iii)	266	(70)	196	280	(59)	221
Residential energy supply	2,644	–	2,644	2,652	–	2,652
Business energy supply	2,491	–	2,491	2,015	–	2,015
Residential and business services	406	–	406	375	–	375
Upstream and wholesale energy (iii)	656	(89)	567	873	(91)	782
North America (i)	6,197	(89)	6,108	5,915	(91)	5,824
	23,544	(1,581)	21,963	23,433	(2,561)	20,872
Discontinued operations:						
European Energy (note 38) (i)	2,357	–	2,357	472	(1)	471

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 38. The revenues of the Group's operations in Germany are reported within the Upstream UK – Industrial and commercial operations segment. Also restated to present the revenues of British Gas New Energy within Downstream UK – Residential energy supply and to split North America into four segments.
(ii) Restated to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 2.
(iii) Inter-segment revenue reflects the level of revenue generated on sales to other Group segments on an arm's length basis.
(iv) The external revenue presented for Proprietary energy trading comprises both realised (settled) and unrealised (fair value changes) from trading in physical and financial energy contracts. Inter-segment revenue arising in Proprietary energy trading represents the recharge of brokerage fees to other Group segments.

6. Segmental analysis continued

Year ended 31 December

(b) Operating profit	2009 £m	2008 (restated) (i), (ii) £m
Continuing operations:		
Residential energy supply (i)	**595**	376
Residential services (ii)	**233**	193
Business energy supply and services	**183**	143
Downstream UK	**1,011**	712
Upstream gas and oil (iii)	**444**	1,164
Power generation (iii)	**147**	11
Industrial and commercial (i)	**(93)**	(331)
Proprietary energy trading	**27**	37
Upstream UK	**525**	881
Storage UK	**168**	195
Residential energy supply	**94**	137
Business energy supply	**34**	11
Residential and business services	**18**	16
Upstream and wholesale energy	**7**	51
North America (i)	**153**	215
Adjusted operating profit – segment operating profit before exceptional items, certain re-measurements and impact of fair value uplifts from Strategic Investments (iv)	**1,857**	2,003
Share of joint ventures/associates' interest and taxation	**(11)**	(3)
Other (v)	**(5)**	(8)
Depreciation of fair value uplifts to property, plant and equipment – Venture (iii)	**(20)**	–
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) – associates – British Energy (iii)	**(7)**	–
	1,814	1,992
Exceptional items (note 8) (vii)	**(568)**	–
Certain re-measurements included within gross profit (note 8)	**(62)**	(1,331)
Certain re-measurements of associates' energy contracts (net of taxation) (note 8)	**(9)**	–
Operating profit after exceptional items and certain re-measurements	**1,175**	661
Discontinued operations:		
European Energy (note 38) (i), (vi), (vii)	**(8)**	(52)

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 38. The operating profit of the Group's operations in Germany is reported within the Upstream UK – Industrial and commercial operations segment. Also restated to present the operating profit of British Gas New Energy within Downstream UK – Residential energy supply, to split North America into four segments and to include the operating profit of joint ventures and associates pre-interest and tax.
(ii) Restated to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 2.
(iii) See note 2 and note 14 for explanation of the depreciation on fair value uplifts to property, plant and equipment on acquiring Strategic Investments.
(iv) Includes results of equity-accounted interests before interest, taxation, certain re-measurements and depreciation on fair value uplifts to property, plant and equipment on Strategic Investments.
(v) Other comprises a £1 million loss (2008: £8 million loss) relating to Corporate Centre costs not recharged to segments and a £4 million loss (2008: £nil) relating to an inter-segment transaction between a Proprietary trading operation and a non-proprietary energy trading operation.
(vi) Represents loss after taxation and before exceptional items and certain re-measurements attributable to equity holders of the parent. This is the measure of results of discontinued operations that is reported regularly to the Group's Executive Committee.
(vii) Exceptional impairment charges of £149 million (2008: £nil) for continuing operations and £24 million (2008: £67 million) for discontinued operations were recognised in 2009. The charges for continuing operations relate to Upstream UK – Upstream gas and oil (£44 million), Upstream UK – Power generation (£35 million), North America – Upstream and wholesale energy (£44 million), North America – Residential energy supply (£19 million) and North America – Residential and business services (£7 million). The charges for discontinued operations relate to Oxxio in The Netherlands.

6. Segmental analysis continued

Year ended 31 December	Share of results of joint ventures and associates before interest and taxation		Depreciation of property, plant and equipment (i)		Amortisation, write-downs and impairments of intangibles	
(c) Included within adjusted operating profit	**2009 £m**	2008 restated (ii) £m	**2009 £m**	2008 restated (ii) £m	**2009 £m**	2008 restated (ii) £m
Continuing operations:						
Residential energy supply (ii)	**–**	–	**8**	10	**22**	27
Residential services	**–**	–	**12**	13	**10**	5
Business energy supply and services	**–**	–	**2**	3	**7**	8
Downstream UK	**–**	–	**22**	26	**39**	40
Upstream gas and oil (i), (iii)	**–**	–	**353**	280	**16**	21
Power generation (i), (iii), (iv)	**28**	12	**112**	101	**36**	31
Industrial and commercial (ii)	**–**	–	**1**	1	**6**	2
Proprietary energy trading	**–**	–	**–**	–	**–**	–
Upstream UK	**28**	12	**466**	382	**58**	54
Storage UK	**–**	–	**23**	22	**–**	–
Residential energy supply	**–**	–	**2**	2	**6**	5
Business energy supply	**–**	–	**1**	2	**3**	1
Residential and business services	**–**	–	**2**	2	**2**	3
Upstream and wholesale energy	**–**	–	**71**	65	**2**	2
North America (ii)	**–**	–	**76**	71	**13**	11
Other (v)	**–**	–	**12**	12	**15**	12
	28	12	**599**	513	**125**	117
Discontinued operations:						
European Energy (note 38) (ii)	**2**	3	**25**	2	**17**	12

(i) Depreciation of property, plant and equipment is stated before depreciation of fair value uplifts for Strategic Investments.
(ii) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation as explained in note 38. The operating profit of the Group's operations in Germany is reported within the Industrial and commercial operations segment. Also restated to present the operating profit of British Gas New Energy within Residential energy supply, to split North America into four segments and to include the operating profit of joint ventures and associates pre interest and taxation.
(iii) During 2009, impairment charges of £35 million (2008: £31 million) were incurred in the Power generation segment relating to emissions allowances and £16 million (2008: £21 million) in the Upstream gas and oil segment relating to exploration and evaluation assets, as described in note 17.
(iv) Share of results of joint ventures and associates is before interest, certain re-measurements, depreciation of fair value uplifts to property, plant and equipment on Strategic Investments and taxation.
(v) Other comprises depreciation of property, plant and equipment and amortisation and write-downs of intangibles on Corporate Centre assets which are charged out to other Group segments.

6. Segmental analysis continued

(d) Assets and liabilities

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

(i) Restated to exclude segmental analysis of derivative assets and liabilities associated with certain re-measurements and to classify the non-current portions of derivative financial instruments from current assets and liabilities to non-current assets and liabilities, as explained in note 2. Restated to present the assets and liabilities of British Gas New Energy within Downstream UK – Residential energy supply and to split North America into four segments. Also restated to present the deferred and current tax assets and liabilities attributable to each operating segment.
(ii) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) and to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 2.
(iii) Segment assets and liabilities include allocated current and deferred tax balances.
(iv) Includes tax allocated to non-operating assets/(liabilities) and inter-segment offsets of tax assets and liabilities, as permitted by IAS 12.
(v) Assets and liabilities of disposal groups are classified as held for sale, as explained in note 38. Prior period balances for discontinued operations were reported as European Energy. The assets and liabilities of the Group's operations in Germany, which were previously also included within European Energy, are reported within the Upstream UK – Industrial and commercial operations segment.

6. Segmental analysis continued

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 as part of the Group's managing for value concept. Additional value is created when the return on capital employed exceeds the cost of capital. Net segment assets of the Group can be reconciled to the Group's capital employed as follows:

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

(i) Restated to exclude segmental analysis of derivative assets and liabilities associated with certain re-measurements, as explained in note 2.
(ii) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) and to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 2.

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

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment), as explained in note 2.
(ii) Restated to exclude the European Energy segment, with the exception of the Group's operations in Germany, from continuing operations, as explained in note 38. The capital expenditure of the Group's operations in Germany are reported within the Industrial and commercial segment. Also restated to present the capital expenditure of British Gas New Energy within Downstream UK – Residential energy supply and to split North America into four segments.

6. Segmental analysis continued

The Group operates in four main geographical areas:

Year ended 31 December	Revenue (based on location of customer)		Non-current assets (based on location of assets) At 31 December (i)	
	2009 £m	2008 (restated) (ii) £m	2009 £m	2008 £m
Continuing operations:				
UK	**15,216**	14,610	**9,050**	4,770
United States of America	**3,946**	3,626	**1,126**	817
Canada	**2,162**	2,198	**686**	1,081
Rest of World	**639**	438	**441**	532
	21,963	20,872	**11,303**	7,200

(i) Non-current assets exclude financial instruments, deferred tax assets and post-employment benefit assets.
(ii) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 38, and change in British Gas Services Limited's revenue recognition policy, as explained in note 2.

7. Costs of continuing operations

Analysis of costs by nature	2009 £m	2008 (restated) (i) £m
Transportation, distribution and metering costs	**(3,503)**	(2,993)
Commodity costs	**(12,036)**	(11,796)
Depreciation, amortisation and write-downs	**(590)**	(451)
Employee costs	**(492)**	(451)
Other direct costs relating to the upstream businesses	**(289)**	(265)
Other direct costs relating to the downstream businesses	**(753)**	(708)
Total cost of sales before exceptional items and certain re-measurements	**(17,663)**	(16,664)
Exceptional items and certain re-measurements (note 8)	**(455)**	(1,331)
Total cost of sales	**(18,118)**	(17,995)
Depreciation, amortisation and write-downs	**(155)**	(180)
Employee costs	**(942)**	(913)
Exploration costs expensed	**(28)**	–
Impairment of trade receivables (note 21)	**(354)**	(235)
Foreign exchange (losses)/gains	**(2)**	1
Other costs associated with upstream businesses	**(151)**	(133)
Other costs associated with downstream businesses	**(864)**	(765)
Total operating costs before exceptional items and certain re-measurements	**(2,496)**	(2,225)
Exceptional items and certain re-measurements (note 8)	**(175)**	–
Total operating costs	**(2,671)**	(2,225)

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation as explained in note 38.

8. Exceptional items and certain re-measurements

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

(b) Certain re-measurements for the year ended 31 December	2009 £m	2008 (restated) (i) £m
Continuing operations:		
Certain re-measurements recognised in relation to energy contracts		
Net gains arising on delivery of contracts (x)	**928**	10
Net losses arising on market price movements and new contracts (xi)	**(1,097)**	(1,337)
Net losses arising on positions in relation to cross-border transportation or capacity contracts (xii)	**(28)**	(4)
Reversal of certain re-measurements in relation to the termination of energy sales contracts (iii)	**135**	–
Net re-measurements from continuing operations included within gross profit	**(62)**	(1,331)
Net losses arising on re-measurement of associates' energy contracts (net of taxation) (xiii)	**(9)**	–
Net re-measurements included within Group operating profit	**(71)**	(1,331)
Taxation on certain re-measurements	**(1)**	413
Net re-measurements from continuing operations after taxation	**(72)**	(918)
Discontinued operations:		
Net re-measurements on energy contracts of discontinued operations after taxation (note 38)	**(107)**	(63)
Total re-measurements after taxation	**(179)**	(981)

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation as explained in note 38.
(ii) On 1 October 2009 an onerous contract provision was established in the Upstream UK – Industrial and commercial segment for a gas procurement contract for which a two-year notice had been served to terminate. Exceptional charges of £199 million have been incurred of which £160 million is included in provisions for other liabilities and charges at the balance sheet date (see note 28).
(iii) During 2009, an exceptional charge of £139 million was recognised in relation to the termination of an out-of-the-money energy sales contract in the Industrial and commercial segment of Upstream UK with a negative fair value of £135 million that was reversed on termination.
(iv) During 2009, an exceptional charge of £55 million was recognised in relation to wind power purchase agreements in the North America – Upstream and wholesale energy segment to reflect the fair value of the obligation to purchase power above its net realisable value.
(v) Impairment charges have been recognised across upstream exploration, production and generation assets as a result of declining commodity prices and in North America as a result of economic conditions. See notes 6, 16 and 18.
(vi) Restructuring costs, including costs of £23 million associated with the impairment of obsolete assets, have been charged in the UK as a result of the integration of the Downstream UK business and the acquisition of Venture Production plc to the Upstream UK – Upstream gas and oil segment.
(vii) Disposal of 50% of the issued share capital of GLID Wind Farms TopCo Limited within the Upstream UK – Power generation segment, as explained in note 38.
(viii) During 2009, exceptional charges were incurred in respect of the write-off of previously capitalised customer acquisition costs which are now considered to be irrecoverable. During 2008, exceptional charges of £67 million were incurred in the European Energy segment, including a £45 million impairment of the Oxxio goodwill, and a £22 million impairment of a receivable balance in Oxxio relating to historic overpayments of regulatory energy revenue tax, reflecting the reduced likelihood of realising the balance in the future.
(ix) Disposal of 100% of the issued share capital of Segebel S.A., as explained in note 38.
(x) As energy is delivered or consumed from previously contracted positions, the related fair value recognised in the opening balance sheet (representing the discounted difference between forward energy prices at the opening balance sheet date and the contract price of energy to be delivered) is charged or credited to the Income Statement.
(xi) Represents fair value losses arising from the change in fair value of future contracted sales and purchase contracts as a result of changes in forward energy prices between reporting dates (or date of inception and the reporting date, where later).
(xii) Comprises movements in fair value arising on proprietary trades in relation to cross-border transportation or storage capacity, on which economic value has been created which is not wholly accounted for under the provisions of IAS 39.
(xiii) Includes fair value unwinds relating to the recognition of energy procurement contracts and energy sales contracts at their acquisition-date fair values.

9. Directors and employees

(a) Employee costs [i]	2009 £m	2008 (restated) [ii] £m
Wages and salaries	**1,223**	1,139
Social security costs	**103**	87
Other pension and retirement benefits costs	**77**	109
Share scheme costs	**38**	35
	1,441	1,370
Capitalised employee costs	**(7)**	(6)
Employee costs recognised in the Group Income Statement	**1,434**	1,364

(i) Details of Directors' remuneration, share-based payments and pension entitlements in the Remuneration Report on pages 45 to 59 form part of these Financial Statements. Details of employee share-based payments are given in note 35. Details of the remuneration of key management personnel are given in note 40.
(ii) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 38.

(b) Average number of employees during the year	2009 Number	2008 Number
Downstream UK	**26,216**	26,195
Upstream UK	**1,341**	1,195
Storage UK	**224**	199
North America	**5,042**	4,991
Other operations [i], [ii]	**1,302**	237
	34,125	32,817
UK	**27,674**	27,538
United States of America	**2,706**	2,533
Canada	**2,336**	2,458
Rest of World [i], [ii]	**1,409**	288
	34,125	32,817

(i) Includes 1,302 employees (2008: 237 employees) of European businesses which are classified as discontinued operations (note 38).
(ii) 2009 number includes average employee numbers of Segebel S.A. from the date of consolidation (20 January 2009) up to the date of disposal (26 November 2009).

10. Net interest

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

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment), as explained in note 2.
(ii) Primarily reflects changes in the fair value of derivatives used to hedge the foreign exchange exposure associated with inter-company loans denominated in foreign currencies.
(iii) Primarily reflects foreign exchange (losses)/gains on inter-company loans denominated in foreign currencies.
(iv) Borrowing costs on qualifying assets have been capitalised using an average rate of 5.37% (2008: 6.27%).

11. Taxation

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

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation as explained in note 38.
(ii) The Finance Act 2008 changed the rules concerning loss relief on decommissioning costs and, as a result of this change, the prior year deferred tax charge is stated net of a £55 million credit in respect of previously unrecognised deferred tax assets.
(iii) The effect of the decrease of 2% to the standard rate of UK corporation tax from 1 April 2008 on the relevant temporary differences at 31 December 2008 was a credit of £1 million.
(iv) Total tax on profit from continuing operations excludes taxation on the Group's share of profits in joint ventures and associates.

Tax on items taken directly to equity is disclosed in notes 31 and 32.

The Group earns its profits primarily in the UK, therefore the tax rate used for tax on profit from ordinary activities is the standard rate for UK corporation tax, which was 28% for 2009 (2008: 28.5%), with the exception of upstream profits, which were taxed at a UK corporation tax rate of 30% (2008: 30%) plus a supplementary charge at 20% (2008: 20%). Certain upstream assets also bear petroleum revenue tax at 50% (2008: 50%). Taxation for other jurisdictions is calculated at the rates prevailing in those respective jurisdictions.

(b) Factors affecting the tax charge for the year

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 is as follows:

	2009 Business performance £m	2009 Exceptional items and certain re-measurements £m	2009 Results for the year £m	2008 (restated) (i) Business performance £m	2008 (restated) (i) Exceptional items and certain re-measurements £m	2008 (restated) (i) Results for the year £m
Profit from continuing operations before tax	1,635	(639)	996	1,990	(1,331)	659
Less: share of profits in joint ventures and associates, net of interest and taxation	(10)	9	(1)	(9)	–	(9)
Group profit from continuing operations before tax	1,625	(630)	995	1,981	(1,331)	650
Tax on profit from continuing operations at standard UK corporation tax rate of 28% (2008: 28.5%)	455	(176)	279	564	(379)	185
Effects of:						
Net expenses not deductible for tax purposes	32	(9)	23	44	2	46
Adjustments in respect of prior years	(55)	3	(52)	(29)	–	(29)
Movement in unrecognised deferred tax assets (ii)	3	–	3	(43)	–	(43)
UK petroleum revenue tax rates	60	–	60	335	–	335
Overseas tax rates	(1)	8	7	(10)	(50)	(60)
Additional charges applicable to upstream profits	37	(11)	26	166	10	176
Changes to tax rates	–	–	–	(1)	4	3
Taxation on profit from continuing operations	531	(185)	346	1,026	(413)	613

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation as explained in note 38.
(ii) The movement in unrecognised deferred tax assets includes the recognition in 2008 of £55 million of deferred tax assets relating to certain decommissioning provisions, following changes to UK tax law, and non-recognition of losses in certain overseas subsidiaries.

11. Taxation continued

(c) Factors that may affect future tax charges
Production of gas and oil within the UK continental shelf is subject to several taxes: corporation tax at 30% (2008: 30%) on profits of gas and oil production; supplementary charge at 20% (2008: 20%) on profits of gas and oil production (adjusted for financing costs); petroleum revenue tax (PRT) at 50% (2008: 50%) on income generated from certain gas and oil production (net of certain costs).

PRT is a deductible expense for the purposes of corporation tax and the supplementary charge. The effective rate of tax suffered on profits of UK gas production therefore falls between 50% and 75%. To the extent that the Group's profits are earned from UK oil and gas production, its effective tax rate will remain above the current UK statutory rate of 28% (2008: 28%).

Income earned in North America and other territories outside the UK 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 above the UK statutory rate.

12. Dividends

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

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

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

13. Auditors' remuneration

	2009 £m	2008 £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts and Group consolidation	2.7	2.2
The auditing of other accounts within the Group pursuant to legislation (including that of countries and territories outside the UK)	3.4	1.3
Total fees related to audit of parent and subsidiary entities (i)	6.1	3.5
Fees payable to the Company's auditors and its associates for other services:		
Other services pursuant to legislation (ii)	0.7	0.9
Services related to taxation	0.1	–
Services related to information technology	0.1	0.2
Services related to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its associates	0.3	0.4
All other services	1.5	0.8
	8.8	5.8
Fees in respect of pension schemes:		
Audit	0.1	0.1

(i) Audit fees have increased in 2009 primarily as a result of work performed on Strategic Investments and the acquisition and subsequent disposal of Segebel S.A. The 2009 audit fees include a non-recurring element attributable largely to fair value assessments and audit work undertaken in support of disposals.
(ii) Includes fees in respect of review performed on the Interim Financial Statements.

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 Board has approved a detailed policy defining the types of work for which the auditors can tender and the approvals required. In the past, the 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 tax advice, due diligence reporting and reporting accountant services on acquisitions.

14. Earnings per ordinary share

Basic earnings per ordinary share has been calculated by dividing the earnings attributable to equity holders of the Company for the year of £844 million (2008: loss of £137 million) by the weighted average number of ordinary shares in issue during the year of 5,121 million (2008: 4,198 million). The Directors believe that the presentation of adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for certain re-measurements, exceptional items and the impact of Strategic Investments, assists with understanding the underlying performance of the Group, as explained in note 2. The reconciliation of basic to adjusted basic earnings per ordinary share is as follows:

Year ended 31 December		2009		2008 (restated) (i)
(a) Continuing and discontinued operations	**£m**	**Pence per ordinary share**	£m	Pence per ordinary share
Earnings/(loss) – basic	**844**	**16.5**	(137)	(3.3)
Net exceptional items after taxation (notes 2 and 8)	**109**	**2.1**	67	1.6
Certain re-measurement losses after taxation (notes 2 and 8) (ii)	**141**	**2.8**	981	23.4
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation	**17**	**0.3**	–	–
Earnings – adjusted basic	**1,111**	**21.7**	911	21.7
Earnings/(loss) – diluted	**844**	**16.4**	(137)	(3.3)
Earnings – adjusted diluted	**1,111**	**21.6**	911	21.5

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) and to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 2.
(ii) Excludes minority interests of £38 million (2008: £nil). Refer to note 33.

Venture

The Group obtained a controlling interest in the Venture Group on 27 August 2009. The fair values attributable to the acquired assets, liabilities and contingent liabilities arising on acquisition are set out in note 37. Fair value adjustments amounting to £651 million have been made to interests acquired in oil and gas fields to report these at their acquisition-date fair values amounting to £1,748 million (included within property, plant and equipment). The fair value adjustments are provisional as the Directors have not yet reached final determination on all aspects of the fair value exercise. The Directors will finalise the fair values within 12 months of the acquisition date. The acquired oil and gas field interests are depreciated over their remaining useful economic lives on a unit of production basis in accordance with the Group's accounting policies as set out in note 2. As explained in note 2, the depreciation relating to fair value uplifts relating to the acquired property, plant and equipment and related taxation is excluded in arriving at adjusted earnings for the year, which amounted to £20 million depreciation and a taxation credit of £10 million in the period.

British Energy

The Group acquired a 20% interest in British Energy on 26 November 2009 and accounts for its interest as an investment in associate as set out in note 19. As explained in note 3, the Group has undertaken a provisional notional fair value exercise at the date of acquisition to allocate the cost of the investment to the individual assets, liabilities and contingent liabilities at their acquisition-date fair values. The fair values attributed are provisional as the Directors have not yet reached final determination on all aspects of the fair value exercise. The Directors will finalise the fair values within 12 months of the acquisition date. The Group's share of provisional fair value adjustments made to the existing nuclear power stations amounts to £1,275 million resulting in an acquisition-date fair value attributable to these stations of £1,549 million. The nuclear power stations are depreciated over their useful economic lives in accordance with the Group's accounting policies as set out in note 2. As explained in note 2, 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 £7 million net of taxation.

14. Earnings per ordinary share continued

(b) Continuing operations Year ended 31 December	2009 £m	2009 Pence per ordinary share	2008 (restated) (i) £m	2008 (restated) (i) Pence per ordinary share
Earnings – basic	**648**	**12.7**	45	1.1
Net exceptional items after taxation (notes 2 and 8)	**382**	**7.5**	–	–
Certain re-measurement losses after taxation (notes 2 and 8)	**72**	**1.4**	918	21.8
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation	**17**	**0.3**	–	–
Earnings – adjusted basic	**1,119**	**21.9**	963	22.9
Earnings – diluted	**648**	**12.6**	45	1.1
Earnings – adjusted diluted	**1,119**	**21.8**	963	22.8

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) and to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 2. Also restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 38.

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

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 38.

Certain re-measurements (notes 2 and 8) included within operating profit and discontinued operations comprise re-measurements arising on energy procurement activities and re-measurements of proprietary trades in relation to cross-border transportation or capacity contracts. All other re-measurements are included within results before exceptional items and certain re-measurements.

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

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

15. Goodwill

	2009 £m	2008 £m
Cost and net book value		
1 January	**1,510**	1,074
Acquisitions (note 37)	**916**	269
Adjustments to provisional fair values of acquisitions completed in previous year	**–**	2
Impairments (note 17)	**(5)**	(45)
Disposals	**(3)**	–
Transfer to assets held for sale (i)	**(324)**	–
Exchange adjustments	**(6)**	210
31 December	**2,088**	1,510

(i) During 2009 European operations (excluding Germany) have been treated as discontinued operations, and Segebel S.A. has subsequently been sold (note 38) and hence goodwill arising on acquisition is no longer included within Group goodwill at 31 December 2009.

Analysis of goodwill at 31 December by acquisition	2009 £m	2008 £m
Direct Energy	**389**	369
Energy America	**28**	31
Enron Direct/Electricity Direct	**133**	133
Enbridge Services	**91**	87
CPL/WTU	**228**	253
ATCO	**54**	51
Dyno-Rod	**17**	17
Residential Services Group	**81**	92
Oxxio (i)	**–**	69
Newfield	**57**	57
Strategic Energy	**94**	104
Caythorpe	**33**	33
Heimdal	**165**	151
Venture	**654**	–
Other	**64**	63
	2,088	1,510

(i) During 2009 European operations (excluding Germany) have been treated as discontinued operations, and Segebel S.A. has subsequently been sold (note 38) and hence goodwill arising on acquisition is no longer included within Group goodwill at 31 December 2009.

16. Other intangible assets

	Application software (v) £m	Emissions allowances and renewable obligation certificates £m	Brands (i) £m	Customer relationships £m	Consents £m	Exploration and evaluation expenditure £m	Other £m	**Total £m**
Cost								
1 January 2009	521	193	59	108	29	97	46	**1,053**
Additions – acquired from a third party	111	278	–	5	–	46	2	**442**
Additions – internally generated	29	1	–	–	–	1	–	**31**
Acquisitions (note 37)	15	8	15	202	–	100	263	**603**
Disposal of subsidiaries	–	–	–	–	(17)	–	–	**(17)**
Transfer to assets held for sale (iv)	(43)	(5)	(15)	(218)	–	–	(260)	**(541)**
Surrenders	–	(286)	–	–	–	–	–	**(286)**
Write-downs recognised in income (ii)	–	–	–	–	–	(55)	–	**(55)**
Exchange adjustments	–	(1)	–	(17)	–	4	(14)	**(28)**
31 December 2009	**633**	**188**	**59**	**80**	**12**	**193**	**37**	**1,202**
Aggregate amortisation and impairment								
1 January 2009	278	31	–	37	2	–	34	**382**
Amortisation	70	–	–	10	–	–	10	**90**
Impairments recognised in income (iii)	21	35	–	20	–	–	–	**76**
Disposal of subsidiaries	–	–	–	–	(2)	–	–	**(2)**
Surrenders	–	(29)	–	–	–	–	–	**(29)**
Transfer to assets held for sale (iv)	(18)	–	–	(18)	–	–	(10)	**(46)**
Exchange adjustments	1	–	–	(4)	–	–	–	**(3)**
31 December 2009	**352**	**37**	**–**	**45**	**–**	**–**	**34**	**468**
Net book value at 31 December 2009	**281**	**151**	**59**	**35**	**12**	**193**	**3**	**734**

	Application software (v) £m	Emissions allowances and renewable obligation certificates £m	Brands (i) £m	Customer relationships £m	Consents £m	Exploration and evaluation expenditure £m	Other £m	Total £m
Cost								
1 January 2008	447	53	57	72	29	41	44	743
Additions – acquired from a third party	57	249	–	14	–	16	1	337
Additions – internally generated	2	–	–	–	–	–	–	2
Acquisitions (note 37)	–	–	2	20	–	54	–	76
Disposals	–	(9)	–	(18)	–	–	–	(27)
Surrenders	–	(100)	–	–	–	–	–	(100)
Write-downs recognised in income (ii)	–	–	–	–	–	(22)	–	(22)
Exchange adjustments	15	–	–	20	–	8	1	44
31 December 2008	521	193	59	108	29	97	46	1,053
Aggregate amortisation and impairment								
1 January 2008	214	–	–	32	–	–	32	278
Amortisation	58	–	–	14	2	–	2	76
Impairments recognised in income (iii)	–	31	–	–	–	–	–	31
Disposals	–	–	–	(18)	–	–	–	(18)
Exchange adjustments	6	–	–	9	–	–	–	15
31 December 2008	278	31	–	37	2	–	34	382
Net book value at 31 December 2008	243	162	59	71	27	97	12	671

(i) Brands include £57 million (2008: £57 million) associated with the Dyno-Rod brand, acquired on the acquisition of the Dyno group of companies during 2004. In accordance with IAS 38 paragraph 88, management has ascribed the brand an indefinite useful life because there is no foreseeable limit to the period over which the Dyno brand is expected to generate net cash inflows. In reaching this determination, management has reviewed potential threats from competition, the risks of technological obsolescence and the expected usage of the brand by management.
(ii) A £55 million (2008: £22 million) write-down of exploration and evaluation expenditure was recognised through operating costs, £36 million (2008: £nil) as an exceptional item due to declining commodity prices making the assets uneconomic, £19 million (2008: £22 million) relating to unsuccessful drilling activity.
(iii) A £35 million (2008: £31 million) impairment of emissions allowances was recognised within cost of sales, to reflect a reduction in fair value (less costs to sell) as a result of a decrease in market prices, that was offset by a reduction in the obligation related to emissions allowances of £35 million (2008: £31 million). A £21 million (2008: £nil) impairment of application software was recognised as an exceptional item due to restructuring activity in the Downstream UK business, as described in note 8. A £19 million (2008: £nil) impairment of customer relationship intangibles was recognised as an exceptional item due to increased customer churn in the Texas market of North America – Residential energy supply.
(iv) During 2009 European operations (excluding Germany) have been treated as discontinued operations and Segebel S.A. was subsequently sold (note 38) and hence other intangible assets associated with these operations are no longer included within Group other intangible assets at year end.
(v) Application software includes assets under construction with a cost of £40 million (2008: £nil).

17. Impairment testing of goodwill and intangibles with indefinite useful lives

(a) Carrying amount of goodwill and intangible assets with indefinite useful lives allocated to cash-generating units

Goodwill acquired through business combinations and indefinite-lived intangible assets have been allocated for impairment testing purposes to individual cash-generating units each representing the lowest level within the Group at which the goodwill or indefinite-lived intangible asset is monitored for internal management purposes as follows:

				2009			2008
Cash-generating unit	**Principal acquisitions to which goodwill and intangibles with indefinite useful lives relates**	**Carrying amount of goodwill £m**	**Carrying amount of indefinite-lived intangible asset £m**	**Total £m**	Carrying amount of goodwill £m	Carrying amount of indefinite-lived intangible asset £m	Total £m
Downstream UK – Business energy supply and services	Enron Direct/Electricity Direct	**133**	**–**	**133**	133	–	133
Downstream UK – Residential services – Dyno-Rod	Dyno-Rod	**17**	**57**	**74**	17	57	74
Upstream UK – Upstream gas and oil	Newfield/Heimdal/Venture (i)	**876**	**–**	**876**	208	–	208
North America – Residential energy supply	Direct Energy/ATCO/CPL/WTU (ii)	**602**	**–**	**602**	612	–	612
North America – Business energy supply	Direct Energy/ATCO/Strategic Energy	**191**	**–**	**191**	196	–	196
North America – Residential and business services	Enbridge Services/Residential Services Group (ii)	**192**	**–**	**192**	200	–	200
European Energy – Oxxio	Oxxio (iii)	**–**	**–**	**–**	69	–	69
Other	Various (iv)	**77**	**–**	**77**	75	–	75
		2,088	**57**	**2,145**	1,510	57	1,567

(i) Increase due primarily to goodwill arising from the acquisition of Venture Production plc during 2009 (note 37).
(ii) Carrying amount of goodwill also contains goodwill from other Direct Energy acquisitions which are not significant compared with the aggregate carrying value of goodwill reported within the cash-generating unit.
(iii) Oxxio has been classified as a discontinued operation in 2009 (note 38).
(iv) Goodwill balances allocated across multiple cash-generating units. The amount of goodwill allocated to each cash-generating unit is not significant compared with the aggregate carrying value of goodwill reported within the Group. Included in this amount is £2 million impairment of goodwill attributable to Semplice Energy Ltd. £2 million of goodwill attributable to the Group's interest in GLID Wind Farms TopCo Limited was disposed of in 2009, as described in note 38.

(b) Basis on which recoverable amount has been determined

Value in use calculations have been used to determine recoverable amounts for all of the goodwill and indefinite-lived intangible asset balances noted above, with the exception of the impairment test for the Upstream UK – Gas production and development cash-generating unit, where fair value less costs to sell has been used as the basis for determining recoverable amount.

(i) Value in use

The value in use calculations use pre-tax cash flow projections based on the Group's internal 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 29 provides additional detail on the active period of each of the commodity markets in which the Group operates.

Cash flows beyond the three-year plan period have been extrapolated using growth rates in line with historic long-term growth rates in the market where the cash-generating unit operates.

Cash flows are discounted using a discount rate specific to each cash-generating unit to determine the cash-generating unit's value in use, which is then deemed to be its recoverable amount. The recoverable amount is compared to the carrying value of each cash-generating unit's net assets to determine whether the carrying values of any of the Group's goodwill or indefinite-lived intangible asset balances are greater than their corresponding recoverable amounts.

(ii) Fair value less costs to sell

Fair value less costs to sell is used as the basis for determining the recoverable amount of goodwill allocated to Upstream UK – Upstream gas and oil. This methodology is deemed to be more appropriate as it is based on the post-tax cash flows arising from each field within Upstream UK – Upstream gas and oil. This is consistent with the approach taken by management to evaluate the economic value of the underlying assets.

Fair value less costs to sell is determined by discounting the post-tax cash flows expected to be generated by the gas production and development assets within Upstream UK – Upstream gas and oil, 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 within Upstream UK – Upstream gas and oil, taking into account forward prices for gas and liquids over the relevant period.

17. Impairment testing of goodwill and intangibles with indefinite useful lives continued

Where forward market prices are not available, prices are determined based on internal model inputs. Note 29 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 and key assumptions as determined by management. Post-tax cash flows used in the fair value less costs to sell calculation for the first three years are based on the Group's internal Board-approved three-year business plans and, thereafter, are based on long-term production and cash flow forecasts. Where necessary, the business plan and long-term forecasts are updated in the economic models to reflect the latest view of each field as at the balance sheet date. The future post-tax cash flows are discounted using a post-tax nominal discount rate of 7% to determine the fair value less costs to sell of Upstream UK – Upstream gas and oil. Fair value less costs to sell is compared to the carrying value of the Upstream UK – Upstream gas and oil cash-generating unit to determine whether goodwill is impaired. The discount rate used in the fair value less costs to sell calculation is determined in the same manner as the discount rates used in the value in use calculations described below, with the exception of the adjustment required to determine an equivalent pre-tax discount rate that is not required for the fair value less costs to sell calculation.

(c) Key rates used in value in use calculations

(i) Growth rate to perpetuity
Long-term growth rates are determined using a blend of publicly available historical data and long-term growth rate forecasts published by external analysts.

(ii) Discount rates
Discount rates reflect the current market assessments of the time value of money and are derived from the Group's weighted average cost of capital. Risks specific to cash-generating units are reflected within cash flow forecasts. Each cash-generating unit'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 used in the value in use calculations for each of the Group's cash-generating units are provided in the table below together with pre-tax discount rates.

	Downstream UK – Business energy supply and services	Downstream UK – Residential services	North America – Residential energy supply	North America – Business energy supply	North America – Residential and business services
Growth rate to perpetuity	1.7%	1.7%	1.5%	2.0%	1.9%
Pre-tax discount rate	7.6%	7.6%	7.5%	7.5%	7.5%

(iii) Inflation rates
Inflation rates used in the three-year business plan were based on a blend of a number of publicly available inflation forecasts available in the UK, Canada and the US. Inflation rates used for the value in use calculations were as follows: UK – 1.7% in 2010–2012, Canada – 1.8% in 2010–2012 and the US – 2.0% in 2010–2012.

(d) Key assumptions used and summary of results

(i) Downstream UK – Business energy supply and services
Key assumptions
- Gross margin percentage: based on the contractual terms for customers on existing contracts and gross margin percentages achieved in the period leading up to approval of the business plan for new and renewal customers, adjusted to reflect current market conditions and higher expected transportation costs.
- Revenues: based on the average market share achieved immediately prior to the approval of the business plan, adjusted for growth forecasts based on sales and marketing activity and recent customer acquisitions, with prices based on forward market curves for both gas and electricity.
- Operating costs: based on a projection of headcount in line with expected activity and salary increases based on inflation expectations, with a slight increase in the provision for credit losses experienced historically to reflect the current economic environment in the UK.

Summary of results
The recoverable amount of the Downstream UK – Business energy supply and services cash-generating unit exceeded its carrying value at the impairment test date. Reasonably possible changes in the key assumptions listed above would not cause the recoverable amount of the goodwill to be equal to or less than the carrying amount.

17. Impairment testing of goodwill and intangibles with indefinite useful lives continued

(ii) Downstream UK – Residential services – Dyno-Rod

Key assumptions

- Gross margin percentage: based on gross margins achieved in the period leading up to the approval of the business plan.
- Revenues: based on revenue levels achieved in the period leading up to the approval of the business plan adjusted for the impact of increased marketing spend and the targeting of key accounts with individual sales staff, with a slight reduction in growth rates to reflect the current economic environment in the UK.
- Operating costs: based on a projection of headcount in line with expected activity and salary increases based on inflation expectations.

Summary of results

The recoverable amount of the Downstream UK – Residential services – Dyno-Rod cash-generating unit exceeded its carrying value at the impairment test date. Reasonably possible changes in the key assumptions listed above would not cause the recoverable amount of the goodwill or indefinite-lived intangible asset to be equal to or less than their carrying amounts.

(iii) Upstream UK – Upstream gas and oil

Key assumptions

- Cash inflows: based on forward market prices for gas and oil for the active period of the market and internal model inputs thereafter, with reserve volumes and production profiles based on internal management or operator estimates.
- Cash outflows: based on forecast capital and operating expenditure and the estimated future costs of abandonment.
- Taxation: based on tax rates expected to be in effect at the point of the forecast cash flow.

Summary of results

The recoverable amount of the Upstream UK – Gas production and development cash-generating unit exceeded its carrying value at the impairment test date. Reasonably possible changes in the key assumptions listed above would not cause the recoverable amount of the goodwill to be equal to or less than the carrying amount.

(iv) North America – Residential energy supply

Key assumptions

- Gross margin percentage: based on contractual terms for customers on existing contracts and gross margin percentages achieved in the period leading up to the approval of the business plan for new and renewal customers, adjusted to reflect competitor data, where available. Where applicable, regulated gross margin percentages are based on the gross margin percentages included in regulatory applications submitted to the Alberta Utilities Commission in Canada.
- Revenues: based on average market share by individual market sector achieved in the period immediately prior to the approval of the business plan, adjusted for expectations of growth or decline based on individual jurisdictions to reflect regulatory or competitive differences, including customer propensity to switch, and contractual prices, with non-contractual prices based on forward market gas and power curves in Canada and the US.
- Operating costs: based on a projection of headcount in line with expected activity and salary increases based on inflation expectations, with a slight decrease in costs to reflect planned business process efficiencies.

Summary of results

The recoverable amount of the North America – Residential energy supply cash-generating unit exceeded its carrying value at the impairment test date. Reasonably possible changes in the key assumptions listed above would not cause the recoverable amount of the goodwill to be equal to or less than the carrying amount.

(v) North America – Business energy supply

Key assumptions

- Gross margin percentage: based on contractual terms for gross margin under contract and historical experience for planned renewals and new sales. Unit margins were planned to achieve an acceptable return on risk adjusted capital.
- Revenues: based on historical growth trends and planned sales activities by individual market sector. Prices are based on forward market curves for gas and electricity in Canada and the US.
- Operating costs: based on historical trends adjusted to reflect expected cost optimisations, as well as improved bad debt performance as a result of assumed economic and credit market recovery.

Summary of results

The recoverable amount of the North America – Business energy supply cash-generating unit exceeded its carrying value at the impairment test date. Reasonably possible changes in the key assumptions listed above would not cause the recoverable amount of the goodwill to be equal to or less than the carrying amount.

(vi) North America – Residential and business services

Key assumptions

- Gross margin percentage: based on gross margin percentages achieved in the period leading up to the approval of the business plan, adjusted to reflect the current economic conditions and housing decline in North America.
- Revenues: based on historical growth trends by individual market sector, adjusted for new product offerings and continued penetration into new markets.
- Operating costs: based on projected headcount and inflationary increases.

17. Impairment testing of goodwill and intangibles with indefinite useful lives continued

Summary of results

An amount of £3 million of goodwill attributable to the North America – Residential and business services cash-generating unit was written off as a result of the Appliances division being classified as held for sale (in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, the assets should be written down to the lower of their cost and recoverable amount). The recoverable amount of the North America – Residential and business services cash-generating unit exceeded its carrying value at the impairment test date. Reasonably possible changes in the key assumptions listed above would not cause the recoverable amount of the goodwill to be equal to or less than the carrying amount.

18. Property, plant and equipment

	Land and buildings (i) £m	Plant, equipment and vehicles (ii), (iii) £m	Power generation (ii),(iii) £m	Gas storage and production (ii),(iii),(iv) £m	**Total £m**
Cost					
1 January 2009 (restated) (vii)	22	424	2,483	6,234	**9,163**
Additions	60	5	316	469	**850**
Capitalised borrowing costs (note 10)	–	–	–	34	**34**
Acquisitions (note 37)	13	14	903	1,796	**2,726**
Fair value unwind capitalisation (vi)	–	–	–	(18)	**(18)**
Disposals	–	(5)	(9)	(4)	**(18)**
Reclassification as joint venture	–	–	(370)	–	**(370)**
Transfer to assets held for sale (v)	(71)	(47)	(1,094)	–	**(1,212)**
Revisions and additions to decommissioning liability (note 28)	–	–	(6)	74	**68**
Exchange adjustments	(1)	(2)	(79)	64	**(18)**
31 December 2009	**23**	**389**	**2,144**	**8,649**	**11,205**
Aggregate depreciation and impairment					
1 January 2009	10	167	434	3,863	**4,474**
Charge for the year	2	43	144	455	**644**
Disposals	–	(5)	(9)	(4)	**(18)**
Reclassification as joint venture	–	–	(27)	–	**(27)**
Impairments	–	2	35	52	**89**
Transfer to assets held for sale (v)	(1)	(7)	(24)	–	**(32)**
Exchange adjustments	–	3	(8)	21	**16**
31 December 2009	**11**	**203**	**545**	**4,387**	**5,146**
Net book value at 31 December 2009	**12**	**186**	**1,599**	**4,262**	**6,059**

	Land and buildings (i) £m	Plant, equipment and vehicles (ii), (iii) £m	Power generation (ii),(iii) £m	Gas storage and production (ii),(iii),(iv),(vi) £m	Total £m
Cost					
1 January 2008	39	288	2,076	5,433	7,836
Additions	–	115	312	204	631
Capitalised borrowing costs (note 10) (vii)	–	–	–	9	9
Acquisitions (note 37)	–	4	–	342	346
Disposals	(18)	(8)	(8)	–	(34)
Revisions and additions to decommissioning liability (note 28)	–	–	16	165	181
Exchange adjustments	1	25	87	81	194
31 December 2008 (restated) (vii)	22	424	2,483	6,234	9,163
Aggregate depreciation and impairment					
1 January 2008	17	121	305	3,483	3,926
Charge for the year	1	46	117	351	515
Disposals	(8)	(8)	(7)	–	(23)
Exchange adjustments	–	8	19	29	56
31 December 2008	10	167	434	3,863	4,474
Net book value at 31 December 2008 (restated) (vii)	12	257	2,049	2,371	4,689

18. Property, plant and equipment continued

During 2009, declining commodity prices have given rise to impairment charges within Upstream UK – Power generation (£35 million), Upstream UK – Upstream gas and oil (£22 million) and North America – Upstream and wholesale energy (£30 million). The impairment charges arise as a result of the assets being written down to the higher of their value in use (Upstream UK – Power generation) or fair value less costs to sell (Upstream UK – Upstream gas and oil, and North America – Upstream and wholesale energy). Note 17 provides more detail on the general approach to impairment calculations and provides the assumptions used to assess Upstream UK – Upstream gas and oil for impairment. For North America – Upstream and wholesale energy, fair value less cost to sell is determined based on evidence from recent acquisition transactions for similar assets in the local oil and gas market, net of estimated selling costs.

For Upstream UK – Power generation assets, the future cash flows were discounted using a pre-tax discount rate of 7.6%. The key assumptions are:

- Cash inflows: based on forward market prices for power for the active period of the market and internal models thereafter, with production profiles based on best economic running decision;
- Cash outflows: based on planned operating and capital expenditure; and
- Taxation: based on tax rates expected to be in effect at the point of the forecast cash flow.

(i) The net book value of land and buildings comprises the following:	**2009 £m**	2008 £m
Freeholds	**6**	5
Long leaseholds	**1**	1
Short leaseholds	**5**	6
	12	12

(ii) Assets in the course of construction are included within the following categories of property, plant and equipment:	**2009 £m**	2008 £m
Plant, equipment and vehicles	**20**	33
Power generation	**355**	697
Gas storage and production	**757**	186
	1,132	916

(iii) Assets held under finance leases included in totals above:				**2009**			2008
	Plant, equipment and vehicles £m	**Power generation £m**	**Gas storage and production £m**	**Total £m**	Power generation £m	Gas storage and production £m	Total £m
Cost at 1 January	**–**	**469**	**415**	**884**	469	415	884
Additions	**2**	**–**	**–**	**2**	–	–	–
Cost at 31 December	**2**	**469**	**415**	**886**	469	415	884
Aggregate depreciation at 1 January	**–**	**118**	**360**	**478**	90	352	442
Charge for the year	**1**	**28**	**5**	**34**	28	8	36
Aggregate depreciation at 31 December	**1**	**146**	**365**	**512**	118	360	478
Net book value at 31 December	**1**	**323**	**50**	**374**	351	55	406

(iv) The net book value of decommissioning costs included within power generation and gas storage and production assets was £565 million (2008: £413 million).
(v) During 2009 European operations (excluding Germany) have been treated as discontinued operations and Segebel S.A. was subsequently sold (note 38) and hence property, plant and equipment associated with these operations are no longer included within Group property, plant and equipment at 31 December 2009.
(vi) Relates to the consumption of a rig contract which was out-of-the-money on acquisition. As the contract is utilised, the fair value is added to the cost of the associated fixed assets.
(vii) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment), as explained in note 2.

The net book value of assets to which title was restricted at 31 December 2009 was £374 million (2008: £351 million), of which £324 million (2008: £351 million) relates to the Spalding power station finance lease asset. The net book value of assets pledged as security for liabilities as at 31 December 2009 was £157 million (2008: £nil).

19. Interests in joint ventures and associates

(a) Interest in joint ventures and associates

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

(i) On 26 November 2009, the Group acquired a 20% interest in Lake Acquisitions Limited (British Energy) for £2,255 million, which is the holding company of the British Energy Group and a 20% interest in NNB Holding Company Limited for £32 million, which is the investment vehicle for new nuclear build activity.
(ii) Other additions relate to the reclassification of interests in GLID Wind Farms TopCo Limited (note 38) and the acquisitions of North Sea Infrastructure Partners Limited, Bacton Storage Company Limited, Secure Electrans Limited, Ten Degrees North Energy Limited and Sevan Production General Partnership.
(iii) On 20 January 2009 the Group gained control of Segebel S.A. and from this date until the date of subsequent disposal the investment was consolidated as a subsidiary (notes 37 and 38).

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

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

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

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

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

19. Interests in joint ventures and associates continued

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

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

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

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

(i) Restated to present Segebel S.A. as a discontinued operation, as explained in note 38.
(ii) Includes £10 million (2008: £nil) relating to depreciation of fair value uplifts to property, plant and equipment on acquiring the British Energy investments. The associated tax impact is £3 million credit (2008: £nil).
(iii) No profits or losses arose in NNB Holding Company Limited or in Other.

19. Interests in joint ventures and associates continued

British Energy
The Group acquired a 20% interest in British Energy for £2,255 million and NNB Holding Company Limited for £32 million on 26 November 2009, including transaction costs of £15 million which were unpaid at 31 December 2009. As explained in note 2, the Group has undertaken a provisional notional fair value exercise at the date of acquisition to allocate the cost of the investment to the individual assets, liabilities and contingent liabilities at their acquisition-date fair values. The fair values attributed at acquisition date are provisional as the Directors have not yet reached final determination on all aspects of the fair value exercise. The Directors will finalise the fair values within 12 months of the acquisition date. The Group's share of loss arising from its investment in British Energy for the period 26 November 2009 to 31 December 2009 as set out in the table above includes the effect of unwinding the fair value adjustments. As explained in note 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 6 and 14.

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

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

(i) Restated to present Segebel S.A. as a discontinued operation, as explained in note 38.
(ii) Relates to depreciation of fair value uplifts to property, plant and equipment on acquiring the British Energy investments.

20. Inventories

	2009 £m	2008 £m
Gas in storage and transportation	**140**	223
Other raw materials and consumables	**108**	93
Finished goods and goods for resale	**134**	96
	382	412

The Group consumed £786 million of inventories (2008: £515 million) during the year. Write-downs of inventory of £3 million (2008: £23 million) were recognised in gross profit during the year to reflect the impact of a reduction in the forward market price of gas on the net realisable value of gas in storage and transportation, with £1 million recognised in Direct Energy and £2 million recognised in Centrica Energy.

21. Trade and other receivables

	2009		2008	
	Current £m	**Non-current £m**	Current £m	Non-current £m
Financial assets:				
Trade receivables	**1,711**	**14**	2,142	25
Accrued energy income	**1,876**	**–**	2,480	–
Cash collateral pledged	**631**	**–**	669	–
Other receivables	**331**	**11**	330	9
	4,549	**25**	5,621	34
Less: Provision for credit losses	**(554)**	**–**	(541)	–
	3,995	**25**	5,080	34
Non-financial assets:				
Prepayments and other receivables	**186**	**118**	255	–
	4,181	**143**	5,335	34

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:

	2009		2008	
	Current £m	**Non-current £m**	Current £m	Non-current £m
Financial assets by class:				
Residential customers	**1,883**	**14**	2,217	25
Business customers	**1,495**	**11**	1,651	9
Treasury, trading and energy procurement counterparties	**1,171**	**–**	1,753	–
	4,549	**25**	5,621	34
Less: Provision for credit losses	**(554)**	**–**	(541)	–
	3,995	**25**	5,080	34

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 being due upon receipt to due in 30 days. An ageing of the carrying value of trade and other receivables that are past due but not considered to be individually impaired by class is as follows:

	2009			2008		
Days past due	**Residential customers £m**	**Business customers £m**	**Treasury, trading and energy procurement counterparties £m**	Residential customers £m	Business customers £m	Treasury, trading and energy procurement counterparties £m
Less than 30 days	**199**	**124**	**119**	299	123	5
30–89 days	**75**	**163**	**–**	127	141	2
Less than 90 days	**274**	**287**	**119**	426	264	7
90–182 days	**63**	**49**	**2**	89	34	–
183–365 days	**98**	**76**	**2**	109	51	5
Greater than 365 days	**41**	**16**	**1**	126	17	5
	476	**428**	**124**	750	366	17

At 31 December 2009, there were £34 million (2008: £107 million) of receivables, net of provisions for credit losses, from residential customers and £8 million (2008: £25 million) from treasury, trading and energy procurement counterparties that were considered to be individually impaired. There were no individually impaired receivables (2008: £nil), net of provisions for credit losses, from business customers. Receivables from residential customers are generally reviewed for impairment on an individual basis once a customer discontinues their relationship with the Group. The provision for credit losses is based on an incurred loss model and is determined by application of expected default and loss factors, determined 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. Movements in the provision for credit losses by class are as follows:

21. Trade and other receivables continued

2009	Residential customers £m	Business customers £m	Treasury, trading and energy procurement counterparties £m	**Total £m**
1 January	(399)	(131)	(11)	**(541)**
Impairment of trade receivables	(240)	(116)	(1)	**(357)**
Transfer to assets held for sale [(i)]	24	4	–	**28**
Receivables written off	247	62	–	**309**
Exchange adjustments	6	1	–	**7**
31 December	**(362)**	**(180)**	**(12)**	**(554)**

(i) During 2009, European operations (excluding Germany) have been treated as discontinued operations (note 38) and hence provisions for credit losses are no longer included within Group trade and other receivables at year end.

2008	Residential customers £m	Business customers £m	Treasury, trading and energy procurement counterparties £m	Total £m
1 January	(350)	(81)	–	(431)
Impairment of trade receivables	(141)	(85)	(11)	(237)
Receivables written off	118	38	–	156
Exchange adjustments	(26)	(3)	–	(29)
31 December	(399)	(131)	(11)	(541)

The charge for the impairment of trade receivables is stated net of credits for the release of specific provisions made in previous years, relating mainly to residential customers in the UK, which are no longer required. At 31 December 2009, the Group held £17 million (2008: £23 million) of customer deposits for the purposes of mitigating the credit risk associated with receivables from residential and business customers. Exposure to credit risk associated with receivables from treasury, trading and energy procurement counterparties is monitored by counterparty credit rating as follows:

Receivables from treasury, trading and energy procurement counterparties by credit rating	**Carrying value £m**	AAA to AA £m	AA- to A- £m	BBB+ to BBB- £m	BB+ to BB- £m	B or lower £m	Unrated £m
2009	**1,171**	12	703	237	13	12	194
2008	1,753	351	1,021	260	3	11	107

The unrated counterparty receivables are comprised primarily of amounts due from subsidiaries of rated entities, exchanges or clearing houses. Receivables from treasury, trading and energy procurement counterparties are managed in accordance with the Group's counterparty credit policy as described in note 4.

22. Derivative financial instruments

Derivative financial instruments are generally held for the purpose of proprietary energy trading, treasury management or energy procurement. Derivatives held for the purpose of proprietary energy trading are carried at fair value, with changes in fair value recognised in the Group's results for the year before exceptional items and certain re-measurements, with the exception of certain derivatives related to cross-border transportation and capacity contracts (note 2). Derivative financial instruments held for the purposes of treasury management or energy procurement are also carried at fair value, with changes in the fair value of derivatives relating to treasury management reflected in the results for the year before exceptional items and certain re-measurements, and those relating to energy procurement reflected in certain re-measurements. In cases where a derivative qualifies for hedge accounting, derivatives are classified as fair value hedges, cash flow hedges or hedges of a net investment in a foreign operation. Notes 2 and 23 provide further detail on the Group's hedge accounting.

Energy contracts designated at fair value through profit and loss include certain energy contracts that the Group has, at its option, designated at fair value through profit and loss under IAS 39 because the energy contract contains one or more embedded derivatives that significantly modify the cash flows under the contract (note 2).

22. Derivative financial instruments continued

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

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

The net total reconciles to the Balance Sheet as follows:

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

(i) Restated to classify the non-current portions of derivative financial instruments from current assets and liabilities to non-current assets and liabilities.

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

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

22. Derivative financial instruments continued

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

Derivative-related credit risk – assets

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

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

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

Maturity profiles of derivative financial instruments – liabilities

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

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

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

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

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

22. Derivative financial instruments continued

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

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

23. Hedge accounting

For the purposes of hedge accounting, hedges are classified as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Note 2 details the Group's accounting policies in relation to derivatives qualifying for hedge accounting under IAS 39. The fair values of derivative and primary financial instruments in hedge accounting relationships at 31 December were as follows:

		2009		2008
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Fair value hedges	**70**	**5**	72	–
Cash flow hedges	**32**	**347**	96	369
Net investment hedges:				
Primary financial instruments	**–**	**–**	–	225
Derivative financial instruments	**–**	**–**	18	77

Fair value hedges

The Group's fair value hedges consist of interest rate swaps, cross-currency interest rate swaps and forward rate agreements used to protect against changes in the fair value of fixed-rate, long-term debt due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the hedging instrument and in the fair value of the hedged item in relation to the risk being hedged are recognised as income within net interest expense.

Gains or losses arising on fair value hedges at 31 December were as follows:

Gains/(losses)	**2009 £m**	2008 £m
On hedging instruments	**(12)**	81
On hedged items attributable to the hedged risk	**14**	(82)
	2	(1)

Cash flow hedges

The Group's cash flow hedges consist primarily of: (a) physical and financial gas and power purchase contracts used to protect against the variability in future cash flows associated with highly probable forecast purchases of gas and power due to movements in market commodity prices; (b) 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; and (c) interest rate swaps, cross-currency interest rate swaps and forward rate agreements used to protect against the variability in cash flows associated with floating-rate borrowings due to movements in market interest rates.

Gains and losses are initially recognised in the cash flow hedging reserve in other comprehensive income and are transferred to the Income Statement when the forecast cash flows affect the Income Statement. Note 31 details movements in the cash flow hedging reserve. The ineffective portion of gains and losses on cash flow hedging are recognised immediately in the Income Statement. During 2009, the Group recognised a £2 million loss (2008: £4 million loss) due to cash flow hedge ineffectiveness.

Net investment hedges

The Group's net investment hedges consist of foreign currency debt issued in the same currency as the net investment, foreign exchange forwards and cross-currency interest rate swaps used to protect against the variability in the pounds sterling value of the Group's net investments in foreign operations due to movements in the relative strength of foreign currencies to pounds sterling.

Gains and losses on the effective portion of the hedge are recognised in equity and transferred to the Income Statement on disposal of the foreign operation. Gains and losses on the ineffective portion of the hedge are recognised immediately in the Income Statement. During 2009, the Group recognised losses of £4 million due to net investment hedge ineffectiveness (2008: £nil).

24. Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank, in transit and in hand	**121**	87
Short-term deposits	**1,173**	2,852
Cash and cash equivalents	**1,294**	2,939

Cash and cash equivalents includes £64 million (2008: £34 million) held by the Group's insurance subsidiary undertakings that is not readily available to be used for other purposes within the Group.

Cash and cash equivalents by counterparty credit rating	Carrying value £m	AAA £m	AA £m	A £m	Unrated £m
2009	**1,294**	818	172	304	–
2008	2,939	1,488	751	692	8

Credit risk associated with cash and cash equivalents is managed in accordance with the Group's counterparty credit policy as described in note 4.

25. Trade and other payables

	2009		2008 (restated) (i)	
	Current £m	Non-current £m	Current £m	Non-current £m
Financial liabilities:				
Trade payables	**784**	**–**	1,384	–
Cash collateral received	**–**	**–**	43	–
Deferred income	**485**	**–**	203	–
Capital creditors	**174**	**–**	67	–
Other payables	**381**	**45**	289	4
Accruals				
Commodity costs	**1,032**	**–**	1,244	–
Transportation, distribution and metering costs	**146**	**–**	70	–
Operating and other accruals	**528**	**–**	494	–
	1,706	**–**	1,808	–
	3,530	**45**	3,794	4
Non-financial liabilities:				
Other payables and accruals	**327**	**31**	381	60
Deferred income	**98**	**6**	220	3
	3,955	**82**	4,395	67

(i) Restated to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 2. The 2008 trade and other payables have been restated by £31 million as a result of this policy change.

Maturity analysis of financial liabilities within trade and other payables on an undiscounted basis	2009 £m	2008 £m
Less than 90 days	**3,046**	3,683
90–182 days	**249**	35
183–365 days	**235**	76
	3,530	3,794
Greater than 365 days	**45**	4
	3,575	3,798

26. Bank overdrafts, loans and other borrowings

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

(i) Issued for $100 million on 4 November 2009.
(ii) Issued for £250 million on 10 March 2009 and increased by £50 million on 24 March 2009 and by an additional £50 million on 17 April 2009.
(iii) Principal amount was increased by £100 million on 29 January 2009.
(iv) Issued on 10 March 2009.
(v) Fixed at 6.40%. Previously floating but capped at 6.854%.
(vi) Principal amount was increased by £150 million on 20 February 2009, by £70 million on 1 April 2009 and by £100 million on 8 June 2009.
(vii) Redeemed on 12 February 2010, as explained in note 42.

Future finance lease commitments:	Minimum lease payments 2009 £m	Capital element of lease payments 2009 £m	Minimum lease payments 2008 £m	Capital element of lease payments 2008 £m
Amounts payable:				
Within one year	44	23	44	21
Between one and five years	183	115	181	107
After five years	283	237	330	269
	510	375	555	397
Less future finance charges	(135)		(158)	
Present value of lease obligations	375		397	

Maturity profile of the Group's borrowings including interest and principal:	2009 £m	2008 (restated) £m
Within one year (i)	326	541
Between one and five years	3,080	2,159
After five years	4,038	2,849
	7,444	5,549
Interest payments	(2,764)	(2,001)
	4,680	3,548

(i) Borrowings include amounts repayable on demand of £28 million (2008: £35 million).

27. Deferred and current corporation tax liabilities and assets

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation (petroleum revenue tax) £m	Deferred corporation tax effect thereon £m	Decommissioning (petroleum revenue tax) £m	Deferred corporation tax effect thereon £m	Retirement benefit obligation and other provisions £m	Accelerated tax depreciation (corporation tax) £m	Other timing differences including losses carried forward £m	Marked-to-market £m	**Total £m**
1 January 2008	167	(84)	(86)	43	28	807	(201)	(105)	**569**
Changes to tax rates	–	–	–	–	–	(1)	–	–	**(1)**
Charge/(credit) to income	42	(21)	(94)	47	53	63	19	(441)	**(332)**
Credit to equity	–	–	–	–	(111)	–	–	(97)	**(208)**
Acquisition of subsidiary	–	–	–	–	–	148	(1)	–	**147**
Exchange and other adjustments	–	–	–	–	–	19	(10)	(47)	**(38)**
31 December 2008	209	(105)	(180)	90	(30)	1,036	(193)	(690)	**137**
Charge/(credit) to income:									
Continuing operations	(28)	14	4	(2)	113	66	(92)	4	**79**
Discontinued operations	–	–	–	–	–	32	–	(21)	**11**
Charge/(credit) to equity	–	–	–	–	(241)	–	(10)	12	**(239)**
Transfer to assets held for sale [(i)]	–	–	–	–	–	3	–	–	**3**
Acquisition of subsidiaries	–	–	–	–	–	1,070	(120)	18	**968**
Disposal of subsidiaries	–	–	–	–	–	(383)	–	41	**(342)**
Exchange and other adjustments	–	–	–	–	–	5	(2)	25	**28**
31 December 2009	**181**	**(91)**	**(176)**	**88**	**(158)**	**1,829**	**(417)**	**(611)**	**645**

(i) During 2009, European operations (excluding Germany) have been treated as discontinued operations (note 38) and hence provisions for current and deferred taxes are no longer included within Group deferred and current corporation tax liabilities and assets at year end.

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 deferred tax balances (after offset) for financial reporting purposes:

	2009 £m	2008 £m
Deferred tax liabilities	**1,179**	448
Deferred tax assets	**(534)**	(311)
	645	137

The following is an analysis of the deferred tax balances before offset:

	2009 £m	2008 £m
Deferred tax assets crystallising within one year	**(329)**	(423)
Deferred tax assets crystallising after one year	**(1,058)**	(890)
	(1,387)	(1,313)
Offset against deferred tax liabilities	**853**	1,002
Net deferred tax assets	**(534)**	(311)
Deferred tax liabilities crystallising within one year	**107**	58
Deferred tax liabilities crystallising after one year	**1,925**	1,392
	2,032	1,450
Offset against deferred tax assets	**(853)**	(1,002)
Net deferred tax liabilities	**1,179**	448

At the balance sheet date the Group had certain deductible temporary differences of £148 million (2008: £178 million) available for utilisation against future profits. No deferred tax asset has been recognised in respect of these temporary differences, due to the unpredictability of future profit streams. These assets may be carried forward indefinitely. At the balance sheet date, temporary differences of £76 million (2008: £76 million) existed in respect of the Group's overseas investments. The deferred tax liability arising on these temporary differences is estimated to be £3 million (2008: £3 million), which has been provided for.

Current tax assets of £69 million (2008: £39 million) include £36 million (2008: £20 million) of recoverable petroleum revenue tax.

Notes to the Financial Statements continued

28. Provisions for other liabilities and charges

Current provisions for other liabilities and charges	1 January 2009 £m	Acquisitions and disposals £m	Charged in the year £m	Unused and reversed in the year £m	Transferred (to)/from non-current £m	Utilised £m	**31 December 2009 £m**
Restructuring costs (i), (ii)	22	–	54	(8)	13	(25)	**56**
Decommissioning costs (iii)	–	–	1	–	2	(3)	**–**
Purchase contract loss provision (iv)	–	–	146	–	1	(41)	**106**
Other (v)	7	24	3	6	(6)	(3)	**31**
	29	**24**	**204**	**(2)**	**10**	**(72)**	**193**

Non-current provisions for other liabilities and charges	1 January 2009 £m	Acquisitions and disposals £m	Charged in the year £m	Unused and reversed in the year £m	Revisions and additions £m	Transfers to assets held for sale £m	Transferred (to)/from current £m	Exchange adjustments £m	**31 December 2009 £m**
Restructuring costs (i), (ii)	34	–	2	–	–	–	(13)	(1)	**22**
Decommissioning costs (iii)	769	260	22	–	88	(89)	(2)	4	**1,052**
Purchase contract loss provision (iv)	–	–	108	–	–	–	(1)	1	**108**
Renegotiation provisions (vi)	27	–	–	–	–	–	–	–	**27**
Other (v)	35	14	3	(2)	–	(16)	6	–	**40**
	865	**274**	**135**	**(2)**	**88**	**(105)**	**(10)**	**4**	**1,249**

Financial and non-financial liabilities within provisions for other liabilities and charges	**2009** Current £m	**2009** Non-current £m	2008 Current £m	2008 Non-current £m
Financial liabilities:				
Restructuring costs (i), (ii)	**55**	**19**	20	34
Renegotiation provisions (vi)	**–**	**27**	–	27
Other (v)	**31**	**25**	7	18
	86	**71**	27	79
Non-financial liabilities:				
Restructuring costs (i), (ii)	**1**	**3**	2	–
Decommissioning costs (iii)	**–**	**1,052**	–	769
Purchase contract loss provision (iv)	**106**	**108**	–	–
Other (v)	**–**	**15**	–	17
	107	**1,178**	2	786
	193	**1,249**	29	865

Maturity analysis for financial liabilities within provisions for other liabilities and charges on an undiscounted basis	**2009 £m**	2008 £m
Within one year	**86**	27
Between one and two years	**7**	19
Between two and five years	**54**	53
After five years	**10**	7
	157	106

(i) The brought forward restructuring provisions relate to significant restructuring programmes undertaken to achieve the Group's stated cost reduction targets. Included within the provision are costs related to surplus properties of £39 million (2008: £50 million) estimated with reference to the expected cost to be incurred to the point of lease termination, including costs for dilapidations and sub-letting. The provisions are expected to be utilised between 2010 and 2022.

(ii) The amounts charged in the year relate to the UK restructuring costs recognised in 2009, as explained in note 8.

(iii) 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 proven and probable 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 anticipated to occur between 2010 and 2050, with the substantial majority of the provision being utilised between 2015 and 2030. The charge to income includes £18 million of notional interest (2008: £20 million).

(iv) The purchase contract loss provision relates to an onerous gas procurement contract and North American wind farm power purchase agreements, as explained in note 8.

(v) Other provisions include outstanding litigation for a number of items (none of which are individually significant) and provision for National Insurance payable in respect of Long Term Incentive Scheme liabilities. The National Insurance provision was based on a share price of 281.10 pence at 31 December 2009 (2008: 266.00 pence) and is expected to be utilised between 2010 and 2015.

(vi) In previous years, the Group renegotiated certain long-term take-or-pay contracts which would have resulted in commitments to pay for gas that would be in excess of requirements and/or at prices above likely market rates. The provision represents the net present cost of estimated payments due to suppliers as consideration for the renegotiations, most of which was settled in 2008, based on the reserves in a group of third-party fields.

29. Fair value of financial instruments

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act. The Group has documented internal policies for determining fair value, including methodologies used to establish valuation adjustments required for credit risk.

The fair values of the Group's financial instruments, together with the carrying amounts included in the Balance Sheet are analysed as follows:

Financial assets	Notes	2009 Carrying value £m	2009 Fair value £m	2008 (restated) (i) Carrying value £m	2008 (restated) (i) Fair value £m
Loans and receivables:					
Trade and other receivables, net of provisions	21	**4,020**	**4,020**	5,114	5,114
Cash and cash equivalents	24	**1,294**	**1,294**	2,939	2,939
		5,314	**5,314**	8,053	8,053
Financial assets measured at fair value:					
Derivative financial instruments (i)	22	**808**	**808**	2,025	2,025
Securities:					
Treasury gilts designated at fair value through profit and loss		**104**	**104**	–	–
Available-for-sale financial assets:					
Debt instruments		**118**	**118**	89	89
Equity instruments		**28**	**28**	9	9
		250	**250**	98	98

Financial liabilities	Notes	2009 Carrying value £m	2009 Fair value £m	2008 (restated) (i) Carrying value £m	2008 (restated) (i) Fair value £m
Financial liabilities measured at amortised cost:					
Trade and other payables	25	**(3,575)**	**(3,575)**	(3,798)	(3,798)
Bank overdrafts, loans and other borrowings:					
Bank overdrafts and loans	26	**(447)**	**(422)**	(481)	(535)
Bonds	26	**(3,608)**	**(3,879)**	(2,666)	(2,660)
Other borrowings	26	**(250)**	**(252)**	–	–
Commercial paper	26	**–**	**–**	(4)	(4)
Obligations under finance leases	26	**(375)**	**(375)**	(397)	(397)
Provisions	28	**(157)**	**(157)**	(106)	(106)
		(8,412)	**(8,660)**	(7,452)	(7,500)
Financial liabilities at fair value:					
Derivative financial instruments (i)	22	**(2,750)**	**(2,750)**	(4,199)	(4,199)

(i) Restated to classify the non-current portions of derivative financial instruments from current assets and liabilities to non-current assets and liabilities. The restated carrying value and fair value of derivative financial instruments in 2007 is £1,088 million (asset) and £1,517 million (liability).

Securities

Securities comprise 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.

£3 million of the amounts held as available-for-sale financial assets is ring-fenced within the regulated insurance entity, Centrica Insurance Company Limited, and is not available for use by the rest of the Group (2008: £nil).

Bank overdrafts, loans and other borrowings

The fair values of bonds are based on quoted market prices. The fair values of bank loans have been determined by discounting cash flows with reference to relevant market rates of interest. The fair values of overdrafts 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.

29. Fair value of financial instruments continued

Derivative financial instruments and energy contracts designated at fair value through profit and loss
The fair values of foreign exchange and interest rate derivatives are determined by reference to closing market rates at the balance sheet date. The fair values of energy derivatives are determined using valuation techniques based in part on observable market data and in part on internal estimates not currently supported by observable market data. The extent to which fair values of energy derivatives are based on observable market data is determined by the extent to which the market for the underlying commodity is judged to be active. The Group has judged each of the markets in which it operates as active for the purposes of accounting as follows:

Active period of markets	Gas	Power	Coal	Emissions	Oil
UK (years)	2	2	3	2	3
North America (years)	5	Up to 5	n/a	n/a	n/a
Europe (years)	n/a	Up to 5	n/a	n/a	n/a

The fair values of energy contracts within the scope of IAS 39 that settle inside the active period of the market are based on quoted market prices and expected volumes, discounted at a rate of 1% (2008: 3%). The fair values of derivative financial instruments in North America and Europe are based primarily on quoted market prices. In the UK, however, certain energy contracts extend beyond the active period of the market. The fair values of energy contracts that extend beyond the active period of the market are determined by reference in part to published price quotations in active markets, 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 a discount rate of 3% for 2008.

The net fair value of energy contracts recorded in the Financial Statements determined using valuation techniques based on non-observable market variables at 31 December 2008 was a £272 million liability. The total change in fair value of energy contracts estimated using valuation techniques, based on variables not supported by market prices, recognised in the Income Statement during the year ended 31 December 2008 amounted to a gain of £17 million.

While internal market forecasts outside the active period of the market reasonably reflect all factors that market participants would consider in setting a price, these expectations are not currently supportable by active forward market quotes. The fair values of these contracts would change significantly if the assumptions in respect of gas, power, coal, emissions or oil prices were changed to reasonably possible alternatives. The impacts of reasonably possible changes to assumed gas, power, coal, emissions and oil prices on the net fair value of the Group's derivative financial instruments determined using valuation models based on non-observable market data are as follows:

Energy price	2008 Reasonably possible change in variable
UK gas (p/therm)	+/-14
UK power (£/MWh)	+/-10
UK coal (US$/tonne)	+/-25
UK emissions (€/tonne)	+/-4
UK oil (US$/bbl)	+/-15

Increase/(decrease) in fair value	2008 £m
UK energy prices – increase/(decrease)	179/(175)

The impacts disclosed above result from changing the assumptions used for fair valuing energy contracts in relation to gas, power, emissions, coal and oil prices to reasonably possible alternative assumptions at the balance sheet date. The fair value impacts only concern those contracts entered into which are within the scope of IAS 39 and are marked-to-market based on valuation models using assumptions that are not currently observable in an active market. 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 constantly changing as the Group's portfolio of energy contracts changes. Changes in fair values based on a variation in a market variable cannot be extrapolated as the relationship between the change in market variable and the change in fair value may not be linear.

29. Fair value of financial instruments continued

Where the fair value at initial recognition for such contracts differs from the transaction price, a day-one gain or loss will arise. Such gains and losses are deferred and amortised to the Income Statement based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available (see note 2 for further detail). The amount that has yet to be recognised in the Income Statement relating to the difference between the fair value at initial recognition (the transaction price) and the amount that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is as follows:

Net deferred (gains)/losses	2009 £m	2008 £m
1 January	51	(166)
Net (gains)/losses deferred on new transactions	(74)	128
Recognised in the Income Statement during the period	(63)	89
31 December	**(86)**	51

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are classified into one of three categories:

Level 1

Fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities, for example exchange-traded commodity contracts valued using close-of-day settlement prices. The adjusted market price used for financial assets held by the Group is the current bid price.

Level 2

Fair value is determined using significant inputs that may be either directly observable inputs or unobservable inputs that are corroborated by market data, for example over-the-counter energy contracts within the active period valued using broker quotes or third-party pricing services and foreign exchange or interest rate derivatives valued using quotes corroborated with market data.

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, for example energy contracts within the inactive period valued using in-house valuation techniques.

29. Fair value of financial instruments continued

The fair value hierarchy of financial assets and liabilities measured at fair value as at 31 December 2009 was as follows:

	Level 1 £m	Level 2 £m	Level 3 £m	**Total £m**
Financial assets				
Derivative financial instruments:				
Energy derivatives	46	550	64	660
Interest rate derivatives	–	72	–	72
Foreign exchange derivatives	2	74	–	76
Treasury gilts designated at fair value through profit and loss	104	–	–	104
Debt instruments	62	56	–	118
Equity instruments	17	–	11	28
Total financial assets	**231**	**752**	**75**	**1,058**
Financial liabilities				
Derivative financial instruments:				
Energy derivatives	(198)	(1,954)	(490)	(2,642)
Interest rate derivatives	–	(15)	–	(15)
Foreign exchange derivatives	–	(93)	–	(93)
Total financial liabilities	**(198)**	**(2,062)**	**(490)**	**(2,750)**

There were no significant transfers out of Level 1 into Level 2 and out of Level 2 into Level 1 during 2009.

The reconciliation of the Level 3 fair value measurements during the period is as follows:

	Equity instruments £m	Energy derivatives £m	**2009 £m**
Level 3 financial assets			
1 January	3	399	**402**
Total realised and unrealised losses recognised in profit or loss	–	(247)	**(247)**
Transfers from Level 3 to Level 2	–	(88)	**(88)**
Acquisitions	8	–	**8**
31 December	**11**	**64**	**75**
Total gains for the period for Level 3 financial assets held at the end of the reporting period	**–**	**64**	**64**

Gains or losses for the period (above) are presented in the Income Statement and Statement of Other Comprehensive Income as follows:

	Exceptional items and certain re-measurements £m	Other comprehensive income £m	**Total £m**
Total losses for the period	(247)	–	**(247)**
Total gains for the period for assets held at the end of the reporting period	64	–	**64**

	Energy derivatives £m	**2009 £m**
Level 3 financial liabilities		
1 January	(568)	**(568)**
Total realised and unrealised losses:		
Recognised in profit or loss	(54)	**(54)**
Recognised in other comprehensive income	(9)	**(9)**
Transfers from Level 3 to Level 2	141	**141**
31 December	**(490)**	**(490)**
Total losses for the period for Level 3 financial liabilities held at the end of the reporting period	**(490)**	**(490)**

29. Fair value of financial instruments continued

Losses for the period (above) are presented in the Income Statement and Statement of Other Comprehensive Income as follows:

	Exceptional items and certain re-measurements £m	Other comprehensive income £m	Total £m
Total losses for the period	(54)	(9)	**(63)**
Total losses for the period for liabilities held at the end of the reporting period	(484)	(6)	**(490)**

The impacts of reasonably possible changes to assumed gas, power, coal, emissions and oil prices on the net fair value of the Group's fair value measurements categorised as Level 3 are as follows:

Energy price	2009 Reasonably possible change in variable
UK gas (p/therm)	+/-10
UK power (£/MWh)	+/-5
UK coal (US$/tonne)	+/-20
UK emissions (€/tonne)	+/-3
UK oil (US$/bbl)	+/-19

Increase/(decrease) in fair value	2009 £m
UK energy prices – increase/(decrease)	17/(17)

The impacts disclosed above result from changing the assumptions used for fair valuing energy contracts in relation to gas, power, emissions, coal and oil prices to reasonably possible alternative assumptions at the balance sheet date. The fair value impacts only concern those contracts entered into which are within the scope of IAS 39 and are marked-to-market based on valuation models using assumptions that are not currently observable in an active market. 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 constantly changing as the Group's portfolio of energy contracts changes. Changes in fair values based on a variation in a market variable cannot be extrapolated as the relationship between the change in market variable and the change in fair value may not be linear.

30. Called up share capital

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

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

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

(i) At a General Meeting of the Company held on 11 May 2009, the authorised share capital of the Company was increased from £432 million to £556 million by the creation of 2,000,000,000 ordinary shares of nominal value of $6^{14}/_{81}$ pence each, forming a single class with the existing ordinary shares.
(ii) On 31 October 2008, the Company announced a Rights Issue, which was approved by shareholders on 21 November 2008, on the basis of three new ordinary shares for every eight ordinary shares held at 160 pence per share, all with a nominal value of $6^{14}/_{81}$ pence each. The Company raised proceeds of approximately £2,164 million, net of issue costs of approximately £65 million. The last day for acceptance was 12 December 2008 and dealing in new ordinary shares fully paid commenced on the London Stock Exchange on 15 December 2008.
(iii) Ordinary shares were allotted and issued to satisfy the exercise of share options, share incentive schemes, the Direct Energy Employee Share Purchase Plan and the matching element of the Share Incentive Plan as follows:

30. Called up share capital continued

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

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

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

31. Accumulated other comprehensive (loss)/income

	Available-for-sale revaluation reserve £m	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Actuarial gains and losses reserve £m	**Total £m**
1 January 2009	(15)	(219)	(24)	218	**(40)**
Exchange differences on translation of foreign operations	–	–	83	–	**83**
Recycling of foreign exchange on disposal of business	–	10	(10)	–	**–**
Actuarial losses on retirement benefit obligations (note 36)	–	–	–	(804)	**(804)**
Net gains on revaluation of available-for-sale securities	11	–	–	–	**11**
Cash flow hedges:					
Net fair value losses	–	(253)	–	–	**(253)**
Transferred to income and expense	–	234	–	–	**234**
Transferred to assets and liabilities	–	(4)	–	–	**(4)**
Taxation on above items	(2)	(12)	(41)	241	**186**
31 December 2009	**(6)**	**(244)**	**8**	**(345)**	**(587)**

	Available-for-sale revaluation reserve £m	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Actuarial gains and losses reserve £m	Total £m
1 January 2008	3	51	(14)	506	546
Exchange differences on translation of foreign operations	–	(19)	(10)	–	(29)
Actuarial losses on retirement benefit obligations (note 36)	–	–	–	(399)	(399)
Net losses on revaluation of available-for-sale securities	(19)	–	–	–	(19)
Cash flow hedges:					
Net fair value losses	–	(318)	–	–	(318)
Transferred to income and expense	–	(30)	–	–	(30)
Transferred to assets and liabilities	–	1	–	–	1
Taxation on above items	1	96	–	111	208
31 December 2008	(15)	(219)	(24)	218	(40)

Foreign currency translation reserve

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

Cash flow hedging reserve

The cash flow hedging reserve comprises fair value movements on instruments designated as cash flow hedges under the requirements of IAS 39. Note 23 provides further detail on cash flow hedging.

31. Accumulated other comprehensive (loss)/income continued

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

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

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

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

32. Other equity

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

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

Merger reserve

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

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

32. Other equity continued

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

Revaluation reserve
During 2005 the revaluation of the Group's existing interest in Centrica SHB Limited to fair value, following the acquisition by the Group of the remaining 40% stake in the company, was recorded as a revaluation reserve adjustment. During 2009 the revaluation of the Group's existing interest in Segebel S.A. and producing gas and oil assets located in Alberta, Canada, following the acquisition by the Group of additional interests (note 37), was recorded as a revaluation reserve adjustment. The subsequent disposal of Segebel S.A. (note 38) resulted in a transfer of the revaluation gain relating to this investment to retained earnings.

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

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

33. Minority interests

	2009 £m	2008 £m
1 January	60	59
Acquisition of new business (i)	802	–
Profit on ordinary activities after taxation	12	1
Accumulated other comprehensive income	1	–
Purchase of minority interests (i)	(201)	–
Dividends paid	(11)	–
Disposal of business (i)	(589)	–
Exchange adjustments	(11)	–
31 December	63	60

(i) Includes minority interests relating to the acquisition of Venture Production plc (Venture) which were eliminated from 9 November 2009 when Venture became a wholly owned subsidiary of the Group and minority interests relating to the acquisition and subsequent disposal of Segebel S.A.

Minority interests at 31 December 2009 relate primarily to a 30% economic interest (2008: 30%) held by Lloyds TSB Bank plc in GF Two Limited (formerly Goldfish Holdings Limited) and its subsidiary, GF One Limited (formerly Goldfish Bank Limited).

Minority interests' share of profit from operations after taxation can be analysed as follows:

	2009			2008		
	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
Continuing operations	2	–	2	1	–	1
Discontinued operations	48	(38)	10	–	–	–
	50	(38)	12	1	–	1

34. Notes to the Group Cash Flow Statement

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

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 38 and to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 2.
(ii) Adds back unrealised losses arising from re-measurement of energy contracts, including those related to proprietary trading activities.
(iii) Includes net outflow of £79 million of cash collateral in 2009 (2008: net outflow of £556 million).

34. Notes to the Group Cash Flow Statement continued

(b) Net debt	2009 £m	2008 £m
Current borrowings (note 26)	**(86)**	(330)
Non-current borrowings (note 26)	**(4,594)**	(3,218)
Less:		
Cash and cash equivalents	**1,294**	2,939
Securities – current	**74**	63
Securities – non-current	**176**	35
	(3,136)	(511)

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

(d) Relationship between current tax charge and taxes paid	UK £m	North America £m	Other £m	2009 £m	2008 (restated) (i) £m
Current tax charge:					
Corporation tax	154	(9)	13	**158**	408
Petroleum revenue tax	112	–	–	**112**	517
	266	**(9)**	**13**	**270**	925
Taxes paid:					
Corporation tax	245	29	55	**329**	374
Petroleum revenue tax	174	–	–	**174**	533
	419	**29**	**55**	**503**	907

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation (note 38).

Differences between current tax charged and taxes paid arose principally due to the following factors:

- UK corporation tax is paid, based on estimated profits, partly during the year and partly in the following year. 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 tax charged and tax paid.

35. Share-based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders. Centrica operates nine main employee share schemes: the Deferred and Matching Share Scheme (DMSS), the Executive Share Option Scheme (ESOS), the Long Term Incentive Scheme (LTIS), the Sharesave Scheme (Sharesave), the Share Award Scheme (SAS), the Restricted Share Scheme (RSS), the Share Incentive Plan (SIP), the Direct Energy Employee Share Purchase Plan (ESPP) and the Deferred Bonus Plan 2009 (DBP).

On 15 December 2008, the Company raised proceeds of £2,164 million, net of issue costs of £65 million, through a Rights Issue as explained in notes 30 and 32. The number of shares allocated to employees under the Group's share schemes has been adjusted to reflect the bonus element of the Rights Issue. The terms of the Group's employee share schemes were adjusted such that participants of the various plans were no better or worse off as a result of the Rights Issue. Consequently, no additional expense was or will be recognised as a result of changes to the Group's employee share schemes. Details of the adjustments made to the terms of the Group's employee share schemes as a result of the Rights Issue are provided in sections (b) and (c) below.

(a) Summary of share-based payment plans and movements in the number of shares and options outstanding

DMSS

Awards under the DMSS are generally reserved for employees within the senior executive group. The scheme operates over a four-year vesting period. Under normal conditions the grant date of the scheme is the first day of each bonus year. This is followed by a vesting period of four years, being the bonus year plus a three-year performance period. The fair value of the award reflects the market value of the shares at the grant date. The scheme comprises three separate elements:

(i) Deferred shares

The scheme requires participants to defer between 20% and 40% of their annual pre-tax bonus into the scheme. The shares are held in trust over the three-year performance period, during which time they cannot be withdrawn. An employee who leaves prior to the vesting date will forfeit their right to the shares (except where permitted by the rules of the scheme). All shares held in trust will be eligible to receive dividends. The number of shares deferred is estimated from the participant's maximum bonus and the likelihood of bonus payout in the bonus year. Subsequent revisions are made based on the actual bonus paid in the year.

(ii) Investment shares

The scheme allows participants to elect to invest an additional amount of their annual bonus into the scheme up to a maximum of 50% of their total potential after-tax bonus for the year. This 50% limit includes the amount automatically deferred each year pre-tax. The number of shares invested is estimated based on the maximum bonus in year one. The shares may be funded directly from the employee (or through a release of the employee's LTIS shares at the Company's discretion), and thus the shares do not attract an IFRS 2 charge. Subsequent to the bonus year, the shares are held in trust over the three-year performance period and will vest unconditionally. Participants can withdraw the investment shares unconditionally at any point throughout the vesting period, although the related matching shares will be forfeited. The shares are eligible to receive dividends.

(iii) Matching shares

Deferred and investment shares will be matched with conditional matching shares, which will be released upon the achievement, over a three-year performance period, of three-year Group Economic Profit performance targets. Group Economic Profit is calculated by taking Group operating profit before exceptional items and certain re-measurements after tax and subtracting a charge for capital employed based on the Group's weighted average cost of capital. The number of matching shares that will vest will be determined on a straight-line basis from a zero match for no growth in Economic Profit up to a two-times match for growth of 25% or more. The number of investment matching shares, subject to the performance conditions, is grossed up to reflect the impact of tax and employees' National Insurance contributions. The number of matching shares released following the satisfaction of the performance conditions will be increased to reflect the dividends that would have been paid during the three-year performance period. The likelihood of achieving the performance conditions is taken into account in calculating the number of awards expected to vest. Estimates are made in year one and revised in subsequent years. An employee who leaves prior to the vesting date will forfeit their right to the shares (except where permitted by the rules of the scheme).

The number of shares originally granted and fair value allocated are estimated on the grant date and then adjusted following the announcement of the actual annual performance bonus and subsequent investment by participants. Details of the fair values of awards granted and related assumptions are included in section (c) below.

A reconciliation of movements in allocations of deferred and matching shares actually made is shown below:

	2009 Number (i)	2008 Number (i)
Outstanding at start of year	**6,564,395**	3,393,500
Granted	**5,707,931**	3,425,689
Forfeited	**(847,211)**	(254,794)
Outstanding at end of year	**11,425,115**	6,564,395
Vested at end of year	**–**	–

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided in notes 30 and 32.

There were no shares released during the year or in 2008.

35. Share-based payments continued

ESOS

Under the ESOS, the Board may grant options over shares in Centrica plc to employees of the Group. Options are granted with a fixed exercise price equal to the market price of the shares at the legal date of grant which approximates, or is the same as, the grant date for accounting purposes, and are generally reserved for employees within the senior executive group. Options granted under the ESOS will become exercisable in full on the third anniversary of the date of grant, subject to the growth in EPS over that period exceeding RPI growth by 18% or more. The number of options becoming exercisable is determined on a straight-line basis between 40% and 100% if EPS growth exceeds RPI growth by between 9% and 18%. The exercise of options is subject to continued employment within the Group (except where permitted by the rules of the scheme). Performance conditions are non-market based and therefore not included in the fair value calculations. Early exercise has been taken into account by estimating the expected life of the options. Details of the fair values of awards granted and related assumptions are included in section (b) below. A reconciliation of option movements is as follows:

	2009		2008	
	Number (i)	Weighted average exercise price (i)	Number (i)	Weighted average exercise price (i)
Outstanding at start of year	**17,986,135**	**£2.09**	21,953,085	£2.07
Granted (ii)	**–**	**–**	336,012	£2.56
Exercised	**(6,242,045)**	**£1.95**	(3,199,991)	£1.94
Forfeited	**(564,379)**	**£2.33**	(1,102,971)	£2.25
Outstanding at end of year	**11,179,711**	**£2.15**	17,986,135	£2.09
Exercisable at end of year	**11,179,711**	**£2.15**	13,031,276	£1.92

(i) Movements in allocations prior to 14 November 2008 and the corresponding weighted average exercise price have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided in notes 30 and 32.
(ii) Options granted in 2008 relate to a special grant of options that vested and became exercisable immediately.

For options outstanding at the end of the year, the range of exercise prices and average remaining life was as follows:

2009				2008			
Range of exercise prices (i)	Weighted average exercise price (i)	Number of shares (i)	Average remaining contractual life Years	Range of exercise prices (i)	Weighted average exercise price (i)	Number of shares (i)	Average remaining contractual life Years
£1.30–£1.39	**£1.31**	**1,255,753**	**3.2**	£1.30–£1.39	£1.31	2,313,157	4.2
£1.90–£1.99	**£1.99**	**1,239,127**	**4.2**	£1.90–£1.99	£1.99	2,264,509	5.2
£2.00–£2.09	**£2.03**	**3,298,350**	**4.5**	£2.00–£2.09	£2.03	6,576,689	5.3
£2.10–£2.19	**£2.14**	**822,921**	**1.7**	£2.10–£2.19	£2.14	1,357,308	2.6
£2.20–£2.29	**£2.24**	**183,601**	**5.7**	£2.20–£2.29	£2.23	183,601	6.7
£2.50–£2.59	**£2.54**	**4,379,959**	**6.4**	£2.50–£2.59	£2.54	5,290,871	7.4
	£2.15	**11,179,711**	**4.9**		£2.09	17,986,135	5.6

(i) Exercise prices and the number of shares in each range have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided in notes 30 and 32.

For options exercised during the year, the weighted average share price was £2.57 (2008: £2.81). The 2008 share price was adjusted to reflect the bonus element of the Rights Issue.

35. Share-based payments continued

LTIS

Under the LTIS, allocations of shares in Centrica plc are generally reserved for employees at senior management level. The number of shares to be released to participants is calculated subject to the Company's total shareholder return (TSR) and EPS growth during the three years following the grant date. Shares are released to participants immediately following the end of the period in which performance is assessed, however release of shares is subject to continued employment within the Group at the date of release (except where permitted by the rules of the scheme). The vesting of half of each award is made on the basis of TSR performance. For this half of the award, the calculation of TSR performance is compared with the TSR of other shares in the FTSE 100. Allocations are valued using a Monte Carlo simulation model. The number of shares released is determined on a straight-line basis between 25% and 100% if Centrica's TSR is ranked between 50th and 20th. The vesting of the remaining half of awards is dependent on EPS growth. This is considered a non-market condition under IFRS 2. Additional shares for both TSR and EPS portions are awarded or a cash payment is made to reflect dividends that would have been paid on the allocations during the performance period. The fair value of the awards is therefore considered to be the market value at the grant date. The likelihood of achieving the performance conditions is taken into account in calculating the number of awards expected to vest. Details of the fair values of awards granted and related assumptions are included in section (c) below. A reconciliation of movements in allocations is as follows:

	2009 Number (i)	2008 Number (i)
Outstanding at start of year	**26,497,144**	22,272,975
Granted	**13,110,621**	13,026,508
Released	**(6,318,952)**	(3,882,647)
Forfeited – performance related	**(1,084,261)**	(2,649,148)
Forfeited – non-performance related	**(2,236,299)**	(2,270,544)
Outstanding at end of year	**29,968,253**	26,497,144
Vested at end of year	**82,632**	264,143

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided in notes 30 and 32.

For shares released during the year, the weighted average share price was £2.32 (2008: £2.72). The 2008 share price was adjusted to reflect the bonus element of the Rights Issue.

Sharesave

Under Sharesave, the Board may grant options over shares in Centrica plc to all UK-based employees of the Group. To date, the Board has approved the grant of options with a fixed exercise price equal to 80% of the average market price of the shares for the three days prior to invitation which is three to four weeks prior to the grant date. Employees pay a fixed amount from salary into a savings account each month, and may elect to save over three and/or five years. At the end of the savings period, employees have six months in which to exercise their options using the funds saved. If employees decide not to exercise their options, they may withdraw the funds saved, and the options expire six months after maturity. Exercise of options is subject to continued employment within the Group (except where permitted by the rules of the scheme). Details of the fair values of awards granted and related assumptions are included in section (b) below. A reconciliation of movements in allocations is as follows:

	2009		2008	
	Number (i)	**Weighted average exercise price (i)**	Number (i)	Weighted average exercise price (i)
Outstanding at start of year	**38,186,565**	**£2.20**	57,663,048	£1.58
Granted	**25,102,695**	**£1.94**	15,823,636	£2.27
Exercised	**(8,881,843)**	**£1.98**	(30,637,590)	£1.08
Forfeited	**(8,376,276)**	**£2.27**	(4,603,041)	£1.76
Expired	**(377,764)**	**£2.03**	(59,488)	£1.28
Outstanding at end of year	**45,653,377**	**£2.09**	38,186,565	£2.20
Exercisable at end of year	**15,546**	**£2.05**	144,015	£1.13

(i) Movements in allocations prior to 14 November 2008 and the corresponding weighted average exercise price have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided in notes 30 and 32.

35. Share-based payments continued

For options outstanding at the end of the year, the range of exercise prices and the average remaining life was as follows:

2009				2008			
Range of exercise prices (i)	Weighted average exercise price (i)	Number of shares (i)	Average remaining contractual life Years	Range of exercise prices (i)	Weighted average exercise price (i)	Number of shares (i)	Average remaining contractual life Years
£0.90–£0.99	**–**	**–**	**–**	£0.90–£0.99	£0.95	109,440	–
£1.60–£1.69	**£1.67**	**3,181,119**	**0.3**	£1.60–£1.69	£1.66	5,731,196	0.9
£1.90–£1.99	**£1.94**	**23,817,369**	**3.3**	£1.90–£1.99	–	–	–
£2.10–£2.19	**£2.12**	**2,669,773**	**1.4**	£2.10–£2.19	£2.12	9,801,088	2.3
£2.20–£2.29	**£2.27**	**10,213,684**	**2.3**	£2.20–£2.29	£2.27	14,930,249	4.3
£2.50–£2.59	**£2.59**	**5,771,432**	**1.1**	£2.50–£2.59	£2.59	7,614,592	3.3
	£2.09	**45,653,377**	**2.5**		£2.20	38,186,565	3.0

(i) Exercise prices and the number of shares in each range have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided in notes 30 and 32.

For options exercised during the year, the weighted average share price at the date of exercise was £2.36 (2008: £2.64). The 2008 share price was adjusted to reflect the bonus element of the Rights Issue.

SAS

Under the SAS, allocations of shares in Centrica plc are made to selected employees at middle management levels, based on recommendation by the Chief Executive and the Group Director, Human Resources. There is no contractual eligibility for SAS and each year's award is made independently from previous awards. Allocations are subject to no performance conditions and vest unconditionally subject to continued employment within the Group (except where permitted by the rules of the scheme) in two stages – half of the award vesting after two years, the other half vesting after three years. On vesting, additional shares are awarded or a cash payment is made to reflect dividends that would have been paid on the allocations during the vesting period. The fair value is therefore considered to be the market value at date of grant. Details of the fair values of awards granted and related assumptions are included in section (c) below. A reconciliation of movements in the allocations is as follows:

	2009 Number (i)	2008 Number (i)
Outstanding at start of year	**3,606,533**	2,768,440
Granted	**3,369,583**	1,787,004
Released	**(1,190,691)**	(685,573)
Forfeited	**(298,292)**	(263,338)
Outstanding at end of year	**5,487,133**	3,606,533
Vested at end of year	**–**	–

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided in notes 30 and 32.

For shares released during the year, the weighted average share price at the date of release was £2.31 (2008: £2.71). The 2008 share price was adjusted to reflect the bonus element of the Rights Issue.

RSS

Awards under the RSS are normally reserved for certain selected key employees, based on recommendation by the Chief Executive and the Group Director, Human Resources. Neither the Executive Directors nor the next tier of executive management are eligible to participate. There is no contractual eligibility for RSS and each year's award is made independently from previous awards. Allocations are subject to no performance conditions and vest unconditionally subject to continued employment within the Group (except where permitted by the rules of the scheme) in one or two stages dependent on the individual awards. On vesting, additional shares are awarded or a cash payment is made to reflect dividends that would have been paid on the allocations during the vesting period. The fair value is therefore considered to be the market value at date of grant. Details of the fair values of awards granted and related assumptions are included in section (c) below.

35. Share-based payments continued

A reconciliation of movements in the allocations is as follows:

	2009 Number (i)	2008 Number (i)
Outstanding at start of year	**400,708**	408,597
Granted	**817,519**	32,795
Released	**(166,897)**	(40,684)
Forfeited	**(9,791)**	–
Outstanding at end of year	**1,041,539**	400,708
Vested at end of year	**–**	–

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided in notes 30 and 32.

For shares released during the year, the weighted average share price at the date of release was £2.35 (2008: £2.69). The 2008 share price was adjusted to reflect the bonus element of the Rights Issue.

SIP

Under SIP, employees in the UK may purchase 'partnership shares' through monthly salary deductions. The Company then awards one 'matching share' for every two partnership shares purchased, up to a maximum of 22 matching shares per employee per month (increased in 2009 from 20 to 22 matching shares to reflect the bonus element of the Rights Issue). Both partnership shares and matching shares are held in a trust. Partnership shares may be withdrawn at any time, however matching shares are forfeited if the related partnership shares are withdrawn within three years from the original purchase date. Matching shares vest unconditionally for employees after being held for three years in the trust. Vesting of matching shares is also subject to continued employment within the Group (except where permitted by the rules of the scheme). Matching shares are valued at the market price at the grant date. Details of the fair values of awards granted and related assumptions are included in section (c) below.

A reconciliation of matching shares held in trust is as follows:

	2009 Number (i)	2008 Number (i) (ii)
Unvested at start of year	**1,773,152**	1,785,021
Granted	**996,604**	730,122
Released	**(504,163)**	(637,681)
Forfeited	**(127,116)**	(104,310)
Unvested at end of year	**2,138,477**	1,773,152

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided in notes 30 and 32.
(ii) Amounts in 2008 have been restated to include only unvested matching shares.

For shares released during the year, the weighted average share price at the date of release was £2.52 (2008: £2.77). The 2008 share price was adjusted to reflect the bonus element of the Rights Issue.

ESPP

Under the ESPP, employees in North America may purchase 'partnership shares' through salary deductions. The Company then awards one 'matching share' for every two partnership shares two years from the date the corresponding partnership shares were purchased. Partnership shares may be withdrawn at any time, however the entitlement to matching shares is forfeited if the related partnership shares are withdrawn within two years from the original purchase date. Awards of matching shares are also subject to continued employment within the Group (except where permitted by the rules of the scheme). Matching shares are valued at the market price at the grant date. Details of the fair values of awards granted and related assumptions are included in section (c) below.

A reconciliation of matching shares granted is as follows:

	2009 Number (i)	2008 Number (i)
Unvested at start of year	**476,088**	383,230
Granted	**517,707**	287,300
Released	**(227,078)**	(151,024)
Forfeited	**(150,174)**	(43,418)
Unvested at end of year	**616,543**	476,088

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided in notes 30 and 32.

For shares released during the year, the weighted average share price at the date of release was £2.45 (2008: £2.75). The 2008 share price was adjusted to reflect the bonus element of the Rights Issue.

35. Share-based payments continued

DBP

Awards under the DBP are generally reserved for a selected group of employees. The plan operates over a three-year vesting period. Under normal conditions the grant date of the plan is the first day of each bonus year. This is followed by a vesting period of three years, being the bonus year plus a two-year employment period. The fair value of the award reflects the market value of the shares at the grant date. The plan allows participants to elect to defer up to 100% of their annual bonus into the plan. Bonuses can be deferred on a pre-tax basis (as 'bonus awards') or a post-tax basis (as 'bonus shares').

Bonus awards do not have entitlements to voting or dividend rights until the shares are transferred to them whereas bonus shares entitle participants to all the rights of a shareholder. Unless it is determined otherwise at grant, an employee who leaves prior to the vesting date will not forfeit their rights to bonus awards (although vesting will usually be accelerated and time-apportioned). Participants can withdraw the bonus shares at any point throughout the vesting period, although the related matching awards will be forfeited.

The Company awards one and a half shares as a 'matching award' for every bonus award and bonus share purchased. Matching awards vest unconditionally for employees after being held for two years. Vesting of matching awards is also subject to continued employment within the Group (except where permitted by the rules of the plan). Matching awards are valued at the market price on the grant date.

The number of shares originally granted and fair value allocated are estimated on the grant date and then adjusted following the announcement of the actual annual performance bonus and subsequent investment by participants. Details of the fair values of awards granted under IFRS 2 and related assumptions are included in section (c) below. As 2009 was the first year in which the plan became operational, there were no bonus awards, bonus shares or related matching awards legally granted under the plan.

(b) Fair values and associated details of options granted

	Sharesave		ESOS	
	2009	2008	**2009**	2008
Number of options granted [(i)]	**25,102,695**	15,823,636	**–**	336,012
Weighted average fair value at grant date [(i)]	**£0.49**	£0.65	**–**	£0.60
Weighted average share price at grant date [(i)]	**£2.30**	£2.71	**–**	£2.91
Weighted average exercise price [(i)]	**£1.94**	£2.27	**–**	£2.56
Expected volatility [(ii)]	**29%**	23%	**–**	23%
Contractual option life	**4.3 years**	4.4 years	**–**	10 years
Expected life	**4.3 years**	4.1 years	**–**	5 years
Vesting period	**4 years**	4.1 years	**–**	–
Expected dividend yield	**5.00%**	3.50%	**–**	4.20%
Risk-free interest rate [(iii)]	**2.43%**	4.08%	**–**	4.30%
Expected forfeitures	**31%**	32%	**–**	0%

(i) For options granted prior to 14 November 2008 amounts have been adjusted to take account of the bonus element of the Rights Issue. Details of the Rights Issue are provided in notes 30 and 32.
(ii) The expected volatility is based on historical volatility over the last three years.
(iii) The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the expected option life.

35. Share-based payments continued

(c) Fair values and associated details of shares granted

2009	DMSS	LTIS	SAS	RSS	SIP	ESPP	DBP
Number of equity instruments granted	**5,031,994**	**13,110,621**	**3,369,583**	**817,519**	**996,604**	**517,707**	**1,750,267**
Weighted average fair value at grant date	**£2.81**	**£1.65**	**£2.22**	**£2.53**	**£2.45**	**£2.45**	**£2.81**
Expected performance lapses	**0%**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Expected dividend yield	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Vesting period	**4 years**	**3 years**	**2.5 years**	**1 year**	**3 years**	**2 years**	**3 years**
Expected volatility (ii)	**n/a**	**31%**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Expected forfeitures	**25%**	**25%**	**20%**	**2%**	**0%**	**20%**	**0%**
Risk-free rate (iii)	**n/a**	**2.2%**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Average volatility of FTSE 100	**n/a**	**31%**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Average cross-correlation of FTSE 100 (iv)	**n/a**	**39.8%**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**

2008	DMSS	LTIS	SAS	RSS	SIP	ESPP	DBP
Number of equity instruments granted (i)	5,707,931	13,026,508	1,787,004	32,795	730,122	287,300	–
Weighted average fair value at grant date (i)	£2.27	£2.00	£2.71	£2.47	£2.69	£2.96	–
Expected performance lapses	0%	n/a	n/a	n/a	n/a	n/a	–
Expected dividend yield	n/a	n/a	n/a	n/a	n/a	n/a	–
Vesting period	4 years	3 years	2.5 years	3 years	3 years	2 years	–
Expected volatility (ii)	n/a	22%	n/a	n/a	n/a	n/a	–
Expected forfeitures	25%	25%	20%	25%	0%	20%	–
Risk-free rate (iii)	n/a	4.05%	n/a	n/a	n/a	n/a	–
Average volatility of FTSE 100	n/a	27%	n/a	n/a	n/a	n/a	–
Average cross-correlation of FTSE 100 (iv)	n/a	30%	n/a	n/a	n/a	n/a	–

(i) For options granted prior to 14 November 2008 amounts have been adjusted to take account of the bonus element of the Rights Issue. Details of the Rights Issue are provided in notes 30 and 32.
(ii) The expected volatility is based on historical volatility over the last three years.
(iii) The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the expected option life.
(iv) The cross-correlation of the FTSE 100 has been obtained from a model which calculates the correlation between Centrica's historical share price and each of the remaining FTSE 100 companies over the period commensurate with the performance period of the awards.

36. Pensions

Pension schemes

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

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

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

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

Governance

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

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

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

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

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

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

36. Pensions continued

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

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

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

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

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

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

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

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

36. Pensions continued

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

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

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

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

Five-year history of surplus/(deficit)	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Plan assets	3,533	2,642	3,327	2,988	2,570
Defined benefit obligation	(4,098)	(2,755)	(3,230)	(3,284)	(3,390)
Surplus/(deficit)	(565)	(113)	97	(296)	(820)

Five-year history of experience gains and losses	2009	2008	2007	2006	2005
Difference between the expected and actual return on scheme assets:					
Amount (£m)	344	(1,121)	(38)	95	307
Percentage of scheme assets	9.7%	42.4%	1.1%	3.2%	11.9%
Experience gains and losses on scheme liabilities:					
Amount (£m)	(104)	–	(16)	145	21
Percentage of the present value of scheme liabilities	2.5%	–	0.5%	4.4%	0.6%
Total actuarial (loss)/gain recognised in the Statement of Comprehensive Income:					
Amount (£m)	(804)	(399)	284	475	(126)
Percentage of the present value of scheme liabilities	19.6%	14.5%	8.8%	14.5%	3.7%

Movement in the defined benefit obligation during the year	2009 £m	2008 £m
1 January	2,755	3,230
Current service cost	70	106
Past service credit	–	(3)
Loss on curtailment	6	6
Interest on scheme liabilities	185	190
Plan participants' contributions	30	26
Benefits paid from schemes	(97)	(79)
Benefits paid by company	(1)	(1)
Actuarial loss/(gain)	1,148	(722)
Acquisitions of businesses (note 37)	63	–
Disposals of businesses	(62)	–
Exchange adjustments	1	2
31 December	4,098	2,755

36. Pensions continued

Movement in plan assets during the year	2009 £m	2008 £m
1 January	**2,642**	3,327
Movements in the year:		
Expected return on scheme assets	**209**	249
Actuarial gain/(loss)	**344**	(1,121)
Employer contributions (i)	**403**	240
Plan participants' contributions	**30**	26
Benefits paid from schemes	**(97)**	(79)
Acquisitions of businesses (note 37)	**46**	–
Disposals of businesses	**(45)**	–
Exchange gains	**1**	–
31 December	**3,533**	2,642

(i) Includes £nil (2008: £56 million) related to exceptional charges recorded in prior years.

Estimated future employer contribution rates (pensionable salary and percentage of pensionable salary) for the year ended 31 December 2010	£m	% (i)
Centrica Pension Scheme – Final salary section	**6**	**31.4**
Centrica Pension Scheme – Career average salary section	**105**	**10.7**
Centrica Engineers Pension Scheme – Final salary section	**186**	**19.7**
Centrica Engineers Pension Scheme – Career average salary section	**67**	**9.5**
Centrica Pension Plan – Management section	**71**	**20.7**
Centrica Pension Plan – 2008 section	**119**	**19.5**

(i) Contribution rates have been agreed in principle based on the 31 March 2009 triennial actuarial valuation.

37. Business combinations

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

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

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

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

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

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

37. Business combinations continued

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

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

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

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

37. Business combinations continued

(b) Segebel

On 20 January 2009 the Group acquired 50% of the issued share capital of Segebel for total consideration of €591 million (£544 million), including deferred consideration of €70 million (£62 million) and transaction costs of €6 million (£6 million), bringing the Group's total ownership interest in Segebel to 100%. As explained in note 38, the Group disposed of its total interest in Segebel on 26 November 2009 for cash consideration of €1,325 million (£1,205 million), recognising a gain on disposal of £297 million. The additional interest in Segebel acquired on 20 January 2009 resulted in the Group acquiring a controlling interest in Segebel, and it was therefore consolidated as a subsidiary from the date of acquisition to the date of disposal.

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

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

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

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

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

37. Business combinations continued

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

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

(c) Other acquisitions

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

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

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

(d) Pro forma results

The pro forma consolidated results of the Group, as if the 2009 acquisitions had been made at the beginning of the period, include revenue from continuing operations of £22,308 million (compared to reported Group revenue of £21,963 million), excluding revenue in respect of Segebel which was sold during the period (see note 38), and profit after taxation of £860 million (compared to reported profit of £856 million). In preparing the pro forma results, revenue and costs have been included as if the businesses were acquired on 1 January 2009 and inter-company transactions had been eliminated. This information is not necessarily indicative of the results of the combined Group that would have occurred had the purchases actually been made at the beginning of the period presented, or indicative of the future results of the combined Group.

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

On 11 May 2009, the Group announced that it had reached a definitive agreement with EDF to dispose of its 100% interest in Segebel S.A. (Segebel) for €1,325 million (£1,205 million). The disposal is linked to the acquisition of the 20% interest in Lake Acquisitions, owner of British Energy (see note 19). The Group acquired its controlling interest in Segebel on 20 January 2009, as described in note 37, and the disposal was completed on 26 November 2009 (see note 38(c)).

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

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

Centrica signed an agreement on 23 December 2009, with Dong Wind (UK) Limited and Siemens Project Ventures GmbH, to sell 50% of the issued share capital of Centrica (Lincs) Limited (Lincs), the owner of the proposed Lincs wind farm. The transaction was subject to conditions precedent, and hence the assets and liabilities associated with Lincs have been classified as assets held for sale from this date. Post year end, the conditions precedent were fulfilled, and the transaction completed on 5 February 2010, as explained in note 42.

(a) Discontinued operations

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

			2009			2008
Year ended 31 December	**Business performance £m**	**Exceptional items and certain re-measurements £m**	**Results for the year £m**	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m
Revenue	**2,357**	**–**	**2,357**	471	–	471
Cost of sales before exceptional items and certain re-measurements	**(2,008)**	**–**	**(2,008)**	(475)	–	(475)
Re-measurement of energy contracts	**–**	**(123)**	**(123)**	–	(80)	(80)
Cost of sales	**(2,008)**	**(123)**	**(2,131)**	(475)	(80)	(555)
Gross profit	**349**	**(123)**	**226**	(4)	(80)	(84)
Operating costs before exceptional items	**(246)**	**–**	**(246)**	(55)	–	(55)
Exceptional items	**–**	**(24)**	**(24)**	–	(67)	(67)
Operating costs	**(246)**	**(24)**	**(270)**	(55)	(67)	(122)
Share of profits/(losses) in joint ventures and associates, net of interest and taxation	**2**	**(4)**	**(2)**	7	(4)	3
Operating profit/(loss)	**105**	**(151)**	**(46)**	(52)	(151)	(203)
Net interest expense	**(12)**	**–**	**(12)**	–	–	–
Profit/(loss) from operations before taxation	**93**	**(151)**	**(58)**	(52)	(151)	(203)
Taxation on profit from operations	**(53)**	**20**	**(33)**	–	21	21
Profit/(loss) after taxation from operations	**40**	**(131)**	**(91)**	(52)	(130)	(182)
Gain on disposal of Segebel (after taxation)	**–**	**297**	**297**	–	–	–
Profit/(loss) after taxation from discontinued operations	**40**	**166**	**206**	(52)	(130)	(182)
Attributable to:						
Equity holders of the parent	**(8)**	**204**	**196**	(52)	(130)	(182)
Minority interests	**48**	**(38)**	**10**	–	–	–
	40	**166**	**206**	(52)	(130)	(182)

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

(b) Disposal groups classified as held for sale

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

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

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

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

Trade and other receivables include £171 million financial assets and £70 million non-financial assets. £96 million of financial trade and other receivables relate to residential customers, £70 million relate to business customers and £5 million relate to treasury, trading and energy procurement counterparties. Trade and other payables include £185 million financial liabilities and £80 million non-financial liabilities.

The fair value of financial instruments held by disposal groups classified as held for sale are equal to their carrying values.

The derivative financial instruments included in the Balance Sheet predominantly comprise energy derivatives – held for trading under IAS 39 and relate to short-term forward market purchases and sales of electricity. Net losses of £6 million associated with these derivatives were recognised in the Income Statement during 2009.

The derivative financial instruments held by discontinued operations are classified into the following fair value hierarchies (as defined in note 29):

	Level 1 £m	Level 2 £m	Level 3 £m	**Total £m**
Financial assets				
Derivative financial instruments:				
Energy derivatives – held for trading under IAS 39	3	28	–	31
Total financial assets	3	28	–	31
Financial liabilities				
Derivative financial instruments:				
Energy derivatives – held for trading under IAS 39	(14)	(68)	–	(82)
Foreign exchange derivatives	(3)	–	–	(3)
Total financial liabilities	(17)	(68)	–	(85)

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

(c) Disposals

The disposal of the Group's 100% interest in Segebel on 26 November 2009 resulted in a profit on disposal, net of taxation, of £297 million. As described in note 37, Segebel holds a controlling stake (51%) in SPE S.A.

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

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

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

39. Commitments and contingencies

(a) Commitments

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

(i) The Lincs wind farm has been classified as held for sale at the balance sheet date, and was disposed of on 5 February 2010, as described in note 42.

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

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

39. Commitments and contingencies continued

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

(i) Restated to include an additional £920 million and £756 million of commodity commitments 'within one year' and 'between one and five years' respectively.
(ii) Includes £144 million (2008: £249 million) in relation to discontinued operations, as described in note 38.
(iii) Includes £112 million (2008: £202 million) in relation to discontinued operations, as described in note 38.

The Group procures gas and electricity through a mixture of production from owned 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 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 resulting monetary commitment is based on the minimum quantities of gas that the Group is contracted to pay at estimated future prices.

The estimated commitment to make payments under gas procurement contracts differs in scope and in basis from the maturity analysis of energy derivatives disclosed in note 22. Only certain procurement and sales contracts are within the scope of IAS 39 and included in note 22. In addition, the volumes used in calculating principal values are estimated using valuation techniques. Contractual commitments which are subject to fulfillment of conditions precedent are excluded.

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

(b) Decommissioning costs

The Group has provided certain guarantees and indemnities to BG Group plc in respect of the decommissioning costs of the Morecambe gas fields. The Company and its wholly owned subsidiary, Hydrocarbon Resources Limited, have agreed to provide security, in respect of such guarantees and indemnities, to BG International Limited, which, as original licence holder for the Morecambe gas fields, will have exposure to decommissioning costs relating to the Morecambe gas fields should liabilities not be fully discharged by the Group. The security is to be provided when the estimated future net revenue stream from the Morecambe gas fields falls below 150% of the estimated cost of such decommissioning. 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 Department of Business, Innovation and Skills (formerly Department of Business Enterprise and Regulatory Reform) decommissioning notice in respect of the Morecambe gas fields has been revoked.

(c) Operating lease commitments

At 31 December, the total of future minimum lease payments under non-cancellable operating leases for each of the following periods were:

	2009 £m	2008 £m
Within one year (i)	**109**	126
Between one and five years (ii)	**214**	230
After five years	**116**	142
	439	498

	2009 £m	2008 £m
The total of future minimum sub-lease payments expected to be received under non-cancellable operating sub-leases at 31 December	**19**	14
Lease and sub-lease payments recognised as an expense in the year were as follows:		
Minimum lease payments	**68**	77
Contingent rents – renewables (iii)	**113**	116
Contingent rents – other	**3**	3

(i) Includes £2 million (2008: £1 million) in relation to discontinued operations, as described in note 38.
(ii) Includes £2 million (2008: £2 million) in relation to discontinued operations, as described in note 38.
(iii) 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 therefore the commitment to a minimum lease payment included above is £nil (2008: £nil). Payments made for physical power are charged to the Income Statement as incurred and disclosed as contingent rents.

39. Commitments and contingencies continued

(d) Contingent liabilities

There are no material contingent liabilities.

(e) Guarantees and indemnities

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 or provide credit support or 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.

40. Related party transactions

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

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

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

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

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

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

Remuneration of key management personnel	**2009 £m**	2008 £m
Short-term benefits	**10**	10
Post-employment benefits	**1**	1
Share-based payments	**9**	6
	20	17

Key management personnel comprise members of the Board and Executive Committee, a total of 13 individuals at 31 December 2009 (2008: 15). Key management personnel and their families purchase gas, electricity and home services products from the Group for domestic purposes on terms equal to those for other employees of the Group.

41. Fixed-fee service and insurance contracts

Fixed-fee service contracts are entered into with home services customers in the UK and home and business services customers in North America. These contracts continue until cancelled by either party to the contract. These plans incorporate both an annual service element and a maintenance element.

Insurance contracts are entered into with home service customers in the UK by British Gas Insurance Limited, an entity regulated by the Financial Services Authority ('FSA') since August 2009. Product offerings include central heating, boiler and controls, plumbing and drains and electrical appliance insurance cover. These contracts are normally for periods of 12 months with the option of renewal.

Fixed-fee service and insurance contracts protect purchasers of these contracts against the risk of breakdown of electrical, plumbing, heating, cooling and household appliances, resulting in the transfer of an element of risk from contract holders to Centrica. Benefits provided to customers vary in accordance with terms and conditions of the contracts entered into, however, generally include repair and/or replacement of the items affected.

The risk and level of service required within these contracts is dependent upon the occurrence of uncertain future events, in particular the number of call-outs, the cost per call-out and the nature of the fault. Accordingly, the timing and amount of future cash outflows related to 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
- caps on certain maintenance and repair costs within fixed-fee service and insurance contracts.

Revenue from fixed-fee service and insurance contracts is recognised 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. Cost of sales relates directly to the engineer workforce employed by Centrica within home services, the cost of which is accounted for over a 12-month period with adjustments made to reflect the seasonality of workload over a given year. The costs of claims under the fixed-fee service and insurance contracts will be the costs of the engineer workforce employed by Centrica within home services. 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 maintenance can affect the number of call-outs, the cost per call-out and the nature of the fault. Centrica's obligations under the terms of home services fixed-fee service and insurance contracts are based on the number of breakdowns occurring within the contract period.

Centrica actively manages the risk exposure of these uncertain events by undertaking the following risk mitigation activities:

- an initial service visit is performed for central heating care and insurance cover. If, at the initial visit, faults that cannot be rectified are identified, the fixed-fee service and insurance contract will be cancelled and no further cover provided;
- an annual or biennial safety and maintenance inspection is performed to ensure all issues are identified prior to them developing into significant maintenance or breakdown issues; and
- caps on certain maintenance and repair work are incorporated into fixed-fee service and insurance contracts to limit liability in areas considered to be higher risk in terms of prevalence and cost to repair.

The Group considers the adequacy of estimated future cash flows under the contracts to meet expected future costs under the contracts. Any deficiency is charged immediately to the Income Statement.

Service requests are sensitive to the reliability of appliances as well as the impact of weather conditions. Each incremental 1% increase in service requests would impact profit and equity by approximately £8 million (2008: £8 million). The contracts are not exposed to any interest rate risk or significant credit risk and do not contain any embedded derivatives.

The fixed-fee service claims and insurance claims notified during the year were £305 million (2008: £291 million) and £2 million (2008: £nil) respectively and were exactly matched by expenses related to fixed-fee service and insurance contracts. All claims are settled immediately and in full. Due to the short lead time between claims being incurred and claims being rectified, there are no material provisions outstanding at the balance sheet date (2008: £nil).

	2009 £m	2008 (restated) (i) £m
Total revenue	**995**	942
Expenses relating to fixed-fee service and insurance contracts	**803**	754
Deferred income (unearned premium)	**55**	58
Accrued income	**21**	3

(i) Restated to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 2.

42. Events after the balance sheet date

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

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

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

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

43. Principal undertakings

31 December 2009	Country of incorporation/formation	Percentage holding in ordinary shares and net assets	Principal activity
Subsidiary undertakings (i)			
Accord Energy Limited	England	100	Proprietary energy trading
Accord Energy (Trading) Limited	England	100	Proprietary energy trading
Bastrop Energy Partners LP	USA	100	Power generation
Brae Canada Ltd	Canada	100	Investment company
British Gas Insurance Limited	England	100	Insurance services
British Gas Services Limited	England	100	Energy services
British Gas Trading Limited	England	100	Energy supply
Caythorpe Gas Storage Limited	England	100	Gas storage
Centrica Barry Limited	England	100	Power generation
Centrica Brigg Limited	England	100	Power generation
Centrica Canada Limited	Canada	100	Holding company and gas production
Centrica Energy Operations Limited	England	100	Power generation
Centrica KL Limited	England	100	Power generation
Centrica KPS Limited	England	100	Power generation
Centrica Langage Limited	England	100	Power generation
Centrica PB Limited	England	100	Power generation
Centrica Renewable Energy Limited	England	100	Renewable energy holding company
Centrica Resources Limited	England	100	Gas and oil production
Centrica Resources (Nigeria) Limited	Nigeria	100	Upstream exploration
Centrica Resources (Norge) AS	Norway	100	Upstream exploration
Centrica RPS Limited	England	100	Power generation
Centrica SHB Limited	England	100	Power generation
Centrica Storage Limited	England	100	Gas storage
CPL Retail Energy LP	USA	100	Energy supply
DER Partnership 2	Canada	100	Gas production
Direct Energy LP	USA	100	Energy supply
Direct Energy Bates LLC	USA	100	Asset holding company
Direct Energy Business LLC	USA	100	Energy supply
Direct Energy Marketing Inc	USA	100	Wholesale energy trading
Direct Energy Marketing Limited	Canada	100	Energy supply and home services
Direct Energy Partnership	Canada	100	Energy supply
Direct Energy Resources Partnership	Canada	100	Gas production
Direct Energy Services LLC	USA	100	Energy supply and home services
Direct Energy US Home Services Inc (ii)	USA	100	Holding company
Dyno Holdings Limited	England	100	Home services
Energy America LLC	USA	100	Energy supply
Frontera Generation LP	USA	100	Power generation
GB Gas Holdings Limited	England	100	Holding company
Hydrocarbon Resources Limited	England	100	Gas production
NSGP (Ensign) Limited (iii)	Jersey	100	Oil and natural gas development
Paris Generation LP	USA	100	Power generation
The Centrica Gas Production LP	England	100	Gas production
Venture North Sea Gas Limited (iii)	Scotland	100	Gas and oil production
Venture North Sea Gas Exploration Limited (iii)	England	100	Gas and oil production
Venture North Sea Oil Limited (iii)	Scotland	100	Gas and oil production
Venture Production plc (iii)	Scotland	100	Holding company
WTU Retail Energy LP	USA	100	Energy supply
Joint ventures and associates (i)			
Barrow Offshore Wind Limited	England	50	Power generation
Braes of Doune Wind Farm (Scotland) Limited	Scotland	50	Power generation
GLID Wind Farms TopCo Limited (iv)	England	50	Renewable energy holding company
Lake Acquisitions Limited (iii)	England	20	Power generation
NNB Holding Company Limited (iii)	England	20	Power generation

(i) All principal undertakings are held indirectly by the Company. The information is only given for those subsidiaries which in the Directors' opinion principally affect the figures shown in the Financial Statements.
(ii) Previously called Residential Services Group Inc.
(iii) Interest acquired in 2009.
(iv) Previously called Centrica Renewable Holdings Limited, as explained in note 38.

Independent Auditors' Report to the Members of Centrica plc

We have audited the parent Company Financial Statements of Centrica plc for the year ended 31 December 2009 which comprise the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 43, the Directors are responsible for the preparation of the parent Company Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent Company Financial Statements in accordance with applicable law and International Standards on Auditing (UK and 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.

Scope of the audit of the Financial Statements

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 parent 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.

Opinion on Financial Statements

In our opinion the parent Company Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the parent Company Financial Statements are prepared is consistent with the parent Company Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group Financial Statements of Centrica plc for the year ended 31 December 2009.

John Maitland **(Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 February 2010

Company Balance Sheet

31 December	Notes	2009 £m	2008 (restated) (i) £m
Fixed assets			
Tangible fixed assets	III	**39**	35
Investments in subsidiary undertakings	IV	**2,122**	2,091
		2,161	2,126
Current assets			
Debtors	V	**9,882**	8,162
Current asset investments	VI	**1,259**	2,842
Cash at bank and in hand		**10**	–
		11,151	11,004
Creditors (amounts falling due within one year)			
Borrowings	VII	**(53)**	(297)
Other creditors	VIII	**(4,910)**	(4,945)
		(4,963)	(5,242)
Net current assets		**6,188**	5,762
Total assets less current liabilities		**8,349**	7,888
Creditors (amounts falling due after more than one year)			
Borrowings	VII	**(3,982)**	(2,835)
Other creditors	VIII	**(69)**	(29)
		(4,051)	(2,864)
Provisions for liabilities and charges	IX	**(8)**	(17)
Net assets		**4,290**	5,007
Capital and reserves – equity interests			
Called up share capital	X	**317**	315
Share premium account	X	**778**	729
Capital redemption reserve	X	**16**	16
Other reserves	X	**3,179**	3,947
Shareholders' funds	XI	**4,290**	5,007

(i) Restated to classify the non-current portion of those derivative financial instruments held for the purpose of treasury management from debtors and creditors due within one year to debtors and creditors due after one year.

The Financial Statements on pages 152 to 158 were approved and authorised for issue by the Board of Directors on 25 February 2010 and were signed on its behalf by:

Sam Laidlaw
Chief Executive

Nick Luff
Group Finance Director

The notes on pages 153 to 158 form part of these Financial Statements, along with notes 30 and 35 to the Group Financial Statements.

Notes to the Company Balance Sheet

I. Principal accounting policies of the Company

Accounting principles
The Company Balance Sheet has been prepared in accordance with applicable UK accounting standards and under the historical cost convention and the Companies Act 2006.

Basis of preparation
No profit and loss account is presented for the Company as permitted by section 408(3) of the Companies Act 2006. The Company loss after tax for the year ended 31 December 2009 was £132 million (2008: £93 million loss).

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. Previously these balances were classified as current, irrespective of settlement date.

This change in presentation has resulted in recognition of derivative financial assets due after more than one year of £125 million, current derivative financial assets of £6 million, current derivative financial liabilities of £16 million and derivative financial liabilities due after more than one year of £60 million. The impact on comparatives has been to report an increase in derivative financial assets due after more than one year of £12 million, a decrease in current derivative financial assets of £12 million, a decrease in current derivative financial liabilities of £25 million and an increase in derivative financial liabilities due after more than one year of £25 million.

Employee share schemes
The Group has a number of employee share schemes, detailed in note 35, 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 issue of share incentives by the Company to employees of its subsidiaries represents additional capital contributions. An addition to the Company's investment in subsidiary undertakings is reported with a corresponding increase in shareholders' funds. The addition to the Company's investment in subsidiary undertakings is reduced on the issue of share incentives as these are recharged to the subsidiaries.

Fair value is measured using methods appropriate to each of the different schemes as follows:

LTIS: awards up to 2005	A Black-Scholes valuation augmented by a Monte Carlo simulation to predict the total shareholder return performance
LTIS: EPS awards after 2005	Market value on the date of grant
LTIS: TSR awards after 2005	A Monte Carlo simulation to predict the total shareholder return performance
Sharesave	Black-Scholes
ESOS	Black-Scholes using an adjusted option life assumption to reflect the possibility of early exercise
SAS, SIP, DMSS, RSS, ESPP and DBP	Market value on the date of grant

Foreign currencies
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 are taken to the Profit and Loss Account.

Tangible fixed assets
Tangible fixed assets are included in the Balance Sheet at cost, less accumulated depreciation and any provisions for impairment. 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 ten years.

Leases
Rentals under operating leases are charged to the Profit and Loss Account on a straight-line basis.

Investments
Fixed asset investments are held in the Balance Sheet at cost, 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-retirement benefits
The Company's employees participate in a number of the Group's defined benefit pension schemes as described in note 36 to the Group Financial Statements. The Company is unable to identify its share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis and therefore accounts for the schemes as if they were defined contribution schemes. The charge to the Profit and Loss Account is equal to the contributions payable to the schemes in the accounting period. Details of the defined benefit schemes of the Group (accounted for in accordance with the Group's accounting policies detailed in note 2 to the Group Financial Statements) can be found in note 36 to the Group Financial Statements.

Notes to the Company Balance Sheet continued

I. Principal accounting policies of the Company continued

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 Group'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 not recognised when fixed assets are revalued unless, by the balance sheet date, there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the Financial Statements. Deferred tax is not recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in the future has been entered into by the subsidiary or associate.

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 a non-discounted basis.

Financial instruments and borrowings
The Company's accounting policies for financial instruments and borrowings are consistent with those of the Group, and are disclosed in note 2 to the Group Financial Statements. The Company's financial risk management policies are consistent with those of the Group and are described in the Directors' Report – Governance on pages 42 and 43, and in note 4 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 accounts and its financial instruments are incorporated into the disclosures in the notes to the Group Financial Statements.

II. Directors and employees

Included within the Company's Profit and Loss Account for the year are wages and salaries costs of £46 million (2008: £42 million), social security costs of £4 million (2008: £4 million), share scheme costs of £7 million (2008: £8 million) and other pension and retirement benefit costs of £45 million (2008: £27 million).

Details of Directors' remuneration, share-based payments and pension entitlements in the Remuneration Report on pages 45 to 59 form part of these Financial Statements. Details of employee share-based payments are given in note 35. Details of the remuneration of key management personnel are given in note 40.

The average number of employees of the Company during the year was 594 (2008: 631), who were employed primarily in the UK.

III. Tangible fixed assets

	2009	2008
	Plant, equipment and vehicles £m	Plant, equipment and vehicles £m
Cost		
1 January	**84**	79
Additions	**19**	5
Disposals	**(2)**	–
31 December	**101**	84
Depreciation and amortisation		
1 January	**49**	36
Charge for the year	**13**	13
31 December	**62**	49
Net book value		
31 December	**39**	35

IV. Investments in subsidiary undertakings

	2009	2008
	Investments in subsidiaries' shares £m	Investments in subsidiaries' shares £m
Cost		
1 January	**2,091**	2,080
Additions and disposals (i)	**31**	11
31 December	**2,122**	2,091

(i) Additions and disposals represent the net change in shares to be issued under employee share schemes in Group undertakings.

V. Debtors

	2009			2008 (restated) (i)		
	Due within one year £m	**Due after more than one year £m**	**Total £m**	Due within one year £m	Due after more than one year £m	Total £m
Amounts owed by Group undertakings	**9,729**	**–**	**9,729**	7,933	–	7,933
Derivative financial instruments (ii)	**6**	**125**	**131**	48	150	198
Other debtors	**14**	**–**	**14**	18	–	18
Prepayments and other accrued income	**8**	**–**	**8**	13	–	13
	9,757	**125**	**9,882**	8,012	150	8,162

(i) Restated to classify the non-current portion of derivative financial instruments from debtors due within one year to debtors due after more than one year, as explained in note I.
(ii) Derivative financial instruments comprise foreign currency derivatives held for trading of £37 million (2008: £40 million), interest rate derivatives held for trading of £3 million (2008: £2 million), interest rate derivatives held for hedging of £70 million (2008: £62 million) and foreign currency derivatives held for hedging of £21 million (2008: £94 million). The fair value of these derivatives is equivalent to the carrying value.

Notes to the Company Balance Sheet continued

VI. Current asset investments

	2009 £m	2008 £m
Short-term investments	**1,259**	2,842

£48 million (2008: £26 million) of investments were held by the Law Debenture Trust, on behalf of the Company, as security in respect of the Centrica Unapproved Pension Scheme (refer to note 36 to the Group Financial Statements).

VII. Borrowings

	2009		2008	
Amounts falling due	**Within one year £m**	**After one year £m**	Within one year £m	After one year £m
Bank loans and overdrafts	**53**	**374**	40	422
Bonds	**–**	**3,608**	253	2,413
Commercial paper	**–**	**–**	4	–
	53	**3,982**	297	2,835

The Company's financial instruments and related disclosures are included within the consolidated accounts of the Group. As permitted by FRS 29, Financial Instruments: Disclosures, further detailed disclosure in respect of the Company is not included. Disclosures in respect of the Group's borrowings are provided in note 26 to the Group Financial Statements.

VIII. Other creditors

	2009		2008 (restated) (i)	
	Due within one year £m	**Due after more than one year £m**	Due within one year £m	Due after more than one year £m
Trade creditors	**17**	**–**	17	–
Amounts owed to Group undertakings	**4,839**	**4**	4,597	–
Derivative financial instruments (ii)	**16**	**60**	284	29
Taxation and social security	**1**	**–**	1	–
Accruals and deferred income	**37**	**5**	46	–
	4,910	**69**	4,945	29

(i) Restated to classify the non-current portion of derivative financial instruments from creditors due within one year to creditors due after more than one year, as explained in note I.
(ii) Derivative financial instruments comprise foreign currency derivatives held for trading of £61 million (2008: £213 million), interest rate derivatives held for trading of £5 million (2008: £19 million), interest rate derivatives held for hedging of £10 million (2008: £4 million) and foreign currency derivatives held for hedging of £nil (2008: £77 million). The fair value of these derivatives is equivalent to the carrying value.

IX. Provisions for liabilities and charges

	1 January 2009 £m	Profit and loss charge £m	Utilised in the year £m	Reserves movements £m	31 December 2009 £m
Other provisions	10	–	(2)	–	**8**
Deferred tax	7	(1)	–	(6)	**–**
	17	(1)	(2)	(6)	**8**

Potential unrecognised deferred corporation tax assets amounted to £9 million (2008: £6 million), primarily relating to unused tax losses. The Company does not expect to be able to utilise these losses within the foreseeable future.

Other provisions principally represent estimated liabilities for contractual settlements and National Insurance in respect of employee share scheme liabilities. The National Insurance provision was based on a share price of 281.10 pence at 31 December 2009 (2008: 266.00 pence). The majority of the amounts are expected to be utilised between 2010 and 2015.

X. Reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Cash flow hedging reserve £m	Profit and loss reserve £m	**Total £m**
1 January 2009	315	729	16	14	3,933	**5,007**
Loss for the year [(i)]	–	–	–	–	(132)	**(132)**
Losses on revaluation of cash flow hedges	–	–	–	(18)	–	**(18)**
Deferred tax on revaluation gains	–	–	–	6	–	**6**
Dividends	–	–	–	–	(635)	**(635)**
Employee share schemes:						
Increase in treasury shares	–	–	–	–	(7)	**(7)**
Value of services provided	–	–	–	–	38	**38**
Exercise of awards	–	–	–	–	(24)	**(24)**
Gains on revaluation of available-for-sale securities	–	–	–	–	4	**4**
Share issue	2	49	–	–	–	**51**
31 December 2009	317	778	16	2	3,177	**4,290**

(i) As permitted by section 408(3) of the Companies Act 2006, no profit and loss account is presented. The Company's loss for the year was £132 million (2008: loss of £93 million) before dividends paid of £635 million (2008: £500 million).

The profit and loss reserve can be analysed further as follows:

	Treasury shares £m	Share-based payments reserve £m	Other £m	**Profit and loss reserve £m**
1 January 2009	(10)	66	3,877	**3,933**
Loss for the year [(i)]	–	–	(132)	**(132)**
Dividends	–	–	(635)	**(635)**
Employee share schemes:				
Increase in treasury shares	(7)	–	–	**(7)**
Value of services provided	–	38	–	**38**
Exercise of awards	2	(30)	4	**(24)**
Gains on revaluation of available-for-sale securities	–	–	4	**4**
31 December 2009	(15)	74	3,118	**3,177**

(i) Includes a £2 million profit on re-measurement of interest rate derivatives and bonds designated as the hedged item (2008: £1 million loss) and a £137 million profit on re-measurement of foreign currency derivatives (2008: £138 million loss). Further details of the Company's interest rate and foreign currency derivatives are included within the financial instrument disclosures in notes 4, 22 and 23 to the Group Financial Statements.

Notes to the Company Balance Sheet continued

XI. Movements in shareholders' funds

	2009 £m	2008 £m
1 January	**5,007**	3,373
Loss attributable to the Company	**(132)**	(93)
(Loss)/gain on revaluation of cash flow hedges	**(18)**	17
Deferred tax on revaluation gains	**6**	(7)
Dividends paid to shareholders	**(635)**	(500)
Employee share schemes:		
Increase in treasury shares	**(7)**	(9)
Value of services provided	**38**	40
Exercise of awards	**(24)**	(24)
Gains on revaluation of available-for-sale securities	**4**	–
Rights Issue	**–**	2,164
Share issue	**51**	46
Net movement in shareholders' funds for the financial year	**(717)**	1,634
31 December	**4,290**	5,007

The Directors propose a final dividend of 9.14 pence per share (totalling £470 million) for the year ended 31 December 2009. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 10 May 2010. These Financial Statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2010.

Details of the Company's share capital are provided in the Group Statement of Changes in Equity and note 30 to the Group Financial Statements.

XII. Commitments and indemnities

(a) Other commitments
At 31 December 2009, the Company had commitments of £151 million (2008: £169 million) relating to contracts with outsource service providers.

(b) Lease commitments
At 31 December 2009, lease commitments over land and buildings included non-cancellable operating lease payments due within one to five years of £1 million (2008: £1 million) and guaranteed operating commitments of a subsidiary undertaking of £7 million (2008: £7 million). The Company had no vehicle lease commitments at year end (2008: £1 million).

(c) Guarantees and indemnities
Refer to note 39(e) to the Group Financial Statements for details of guarantees and indemnities. The maximum credit risk exposure was represented by the carrying amount for all financial instruments with the exception of financial guarantees issued by the Company to third parties, principally to support its subsidiaries' gas and power procurement and banking activities. At 31 December 2009, the credit risk exposure under financial guarantees issued by Centrica plc was £3,755 million (2008: £2,558 million).

Gas and Liquids Reserves (unaudited)

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

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

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

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

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

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

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

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

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

Liquids reserves include oil, condensate and natural gas liquids.

Five Year Record

Results

Year ended 31 December	2005 (restated) (i), (iii), (iv) £m	2006 (restated) (i), (iii), (iv) £m	2007 (restated) (i), (iii), (iv) £m	2008 (restated) (i), (ii), (iii), (iv) £m	**2009 £m**
Group revenue from continuing operations (i), (iii), (iv)	13,274	16,065	15,893	20,872	**21,963**
Operating profit from continuing operations before exceptional items and certain re-measurements (iv):					
Downstream UK	278	284	840	712	**1,011**
Upstream UK	863	686	663	881	**525**
Storage UK	154	228	240	195	**168**
North America	147	173	187	215	**153**
Adjusted operating profit – operating profit before exceptional items, certain re-measurements and impact from fair value uplifts from Strategic Investments	1,442	1,371	1,930	2,003	**1,857**
Share of joint ventures' and associates' interest and taxation (iv)	40	(1)	(2)	(3)	**(11)**
Other	7	13	1	(8)	**(5)**
Depreciation of fair value uplifts to property, plant and equipment	–	–	–	–	**(27)**
	1,489	1,383	1,929	1,992	**1,814**
Operating profit/(loss) from discontinued operations:					
European operations (v)	(14)	9	20	(52)	**105**
The Consumers' Waterheater Income Fund (vi)	38	50	39	–	**–**
OneTel (vii)	12	(11)	–	–	**–**
Exceptional items and certain re-measurements after taxation	340	(862)	383	(1,048)	**(288)**
Profit/(loss) attributable to equity holders of the parent	1,012	(155)	1,505	(137)	**844**
	Pence	Pence	Pence	Pence	**Pence**
Earnings/(loss) per ordinary share (ii), (iii), (ix)	24.4	(3.8)	36.5	(3.3)	**16.5**
Adjusted basic earnings per ordinary share (ii), (iii), (viii), (ix)	16.2	17.3	27.2	21.7	**21.7**

Assets and liabilities

At 31 December	2005 (restated) (iii) £m	2006 (restated) (iii) £m	2007 (restated) (iii) (x) £m	2008 (restated) (ii), (iii), (x) £m	**2009 £m**
Goodwill and other intangible assets	1,739	1,501	1,539	2,181	**2,822**
Other non-current assets	4,490	4,171	4,942	6,341	**9,650**
Net current assets/(liabilities)	644	(134)	747	2,163	**330**
Non-current liabilities	(4,453)	(3,918)	(3,868)	(6,313)	**(8,675)**
Net assets of disposal groups held for sale	–	–	–	–	**128**
Net assets	2,420	1,620	3,360	4,372	**4,255**
Debt, net of cash, cash equivalents and securities:					
Net debt (excluding non-recourse debt)	(1,060)	(1,527)	(795)	(511)	**(3,136)**
The Consumers' Waterheater Income Fund (non-recourse) debt	(532)	(483)	–	–	**–**
	(1,592)	(2,010)	(795)	(511)	**(3,136)**

Cash flows

Year ended 31 December	2005 £m	2006 £m	2007 £m	2008 £m	**2009 £m**
Cash flow from operating activities before exceptional payments	1,192	850	2,447	371	**2,850**
Payments relating to exceptional charges	(48)	(113)	(90)	(74)	**(203)**
Net cash flow from investing activities	(529)	(720)	(964)	(1,122)	**(4,520)**
Cash flow before cash flow from financing activities	615	17	1,393	(825)	**(1,873)**

(i) Group revenue and cost of sales have been restated to report gas sales revenue of Centrica Storage net of cost of sales to better reflect the nature of the transactions, as explained in note 2.
(ii) Restated to capitalise borrowing costs on the adoption of IAS 23 (Amendment), as explained in note 2.
(iii) Restated to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 2.
(iv) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 38. The operating profit of the Group's operations in Germany is reported within the Upstream UK – Industrial and commercial segment. Also restated to present the operating profit of British Gas New Energy within Downstream UK – Residential energy supply and to include the operating profit of joint ventures and associates pre-interest and tax.
(v) Discontinued in 2009.
(vi) Discontinued in 2007.
(vii) Discontinued in 2005.
(viii) Adjusted earnings per ordinary share excludes depreciation of fair value uplifts to property, plant and equipment from Strategic Investments after taxation and certain re-measurements and exceptional items.
(ix) Figures for 2005 through to 2007 have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided in notes 30 and 32.
(x) Restated to classify the non-current portions of derivative financial instruments from current assets and liabilities to non-current assets and liabilities, as explained in note 2. 2005 and 2006 have not been restated on this basis as it is considered impracticable to do so.

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The primary means of communication: Go online for more information and analysis of your business.

www.centrica.com/report2009

Electronic communications and the Centrica website
At the 2007 Annual General Meeting the Company passed a resolution allowing the Centrica website to be used as the primary means of communication with its shareholders. Those shareholders who have positively elected for website communication (or who were deemed to have consented to electronic communication in accordance with the Companies Act 2006) will receive written notification whenever shareholder documents are available to view on the Centrica website.

The electronic arrangements provide shareholders with the opportunity to access information in a timely manner and help Centrica to reduce both its costs and its impact on the environment.

The 2009 Annual Report, Annual Review and Notice of 2010 Annual General Meeting are available to view at **www.centrica.com/report2009**. The Centrica website at **www.centrica.com** also provides news and details of the Company's activities with links to its business sites.

The investors' section of the website contains up-to-date information for shareholders including:

- comprehensive share price information;
- financial results;
- dividend payment dates and amounts;
- access to shareholder documents such as the Annual Report and Annual Review; and
- Company issued share capital.

Shareholders who have registered to receive shareholder documentation from Centrica electronically can:

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

Visit **www.centrica.com/shareholders** for more information and to register for electronic shareholder communication.

Centrica shareholder helpline
Centrica's shareholder register is maintained by Equiniti, which is responsible for making dividend payments and updating the register.

If you have a query on the following:

- transfer of shares;
- change of name or address;
- lost share certificates;
- lost or out-of-date dividend cheques and payment of dividends into a bank or building society account;
- death of the registered holder of shares; or

any other query relating to your Centrica shareholding, please contact Equiniti:

Telephone: 0871 384 2985*
(overseas callers: +44 121 415 7061)
Textphone: 0871 384 2255*

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

Email: centrica@equiniti.com

A range of answers to frequently asked questions is also available at **www.centrica.com/shareholders**.

FlexiShare

The Centrica FlexiShare service
FlexiShare is a 'corporate nominee', sponsored by Centrica and administered by Equiniti Financial Services Limited. It is a convenient way to manage your Centrica shares without the need for a share certificate. Your share account details will be held on a separate register and you will receive an annual confirmation statement.

By transferring your shares into FlexiShare you will benefit from:

- low-cost share dealing facilities provided by a panel of independent share dealing providers;
- quicker settlement periods;
- no share certificates to lose; and
- a dividend reinvestment plan – your cash dividend can be used to buy more Centrica shares (for a small dealing charge) which are then credited to your FlexiShare account.

Participants will have the same rights to attend and vote at general meetings as all other shareholders. There is no charge for holding your shares in FlexiShare, nor for transferring in or out at any time.

For further details about FlexiShare, please call the Centrica shareholder helpline on 0871 384 2985* or visit **www.centrica.com/flexishare**.

Direct dividend payments
Dividends can be paid automatically into your designated bank or building society account. This service has a number of benefits:

- there is no chance of the dividend cheque going missing in the post;
- the dividend payment is received more quickly as the cash is paid directly into the account on the payment date without the need to pay in the cheque and then wait for it to clear; and
- a single consolidated tax voucher is issued at the end of each tax year, in March, in time for the preparation of your self-assessment tax return.

Direct dividend payment also helps Centrica improve its efficiency by reducing postage and cheque clearance costs. To register for this service, please call the Centrica shareholder helpline on 0871 384 2985* to request a direct dividend payment form, or download it from our website at **www.centrica.com/shareholders**.

Overseas dividend payments
A service has been established to provide shareholders in over 30 countries with the opportunity to receive Centrica dividends in their local currency. For a small fixed fee, shareholders can have their dividends automatically converted from sterling and paid into their bank account, normally within five working days of the dividend payment date. For further details, please contact the Centrica overseas shareholder helpline on +44 121 415 7061.

Buying and selling shares in the UK – share certificates
If you wish to buy or sell certificated Centrica shares, you will need to use a stockbroker or high street bank which trades on the London Stock Exchange. There are also many telephone and online sharedealing services available. If you are selling, you will need to present your share certificate at the time of sale.

Buying and selling shares – FlexiShare
Centrica has made arrangements at favourable commission rates with four independent share dealing service providers to allow you to buy and sell Centrica shares from your FlexiShare account. To buy or sell shares, please contact one of the share dealing providers. You will need to quote the reference number provided on your FlexiShare statement or dividend tax voucher. You should check the charges with the broker before dealing. Shares held in FlexiShare cannot be sold directly through any other broker service.

The share dealing arrangements have been made with:

- Equiniti Financial Services Limited;
- Halifax Share Dealing Limited;
- NatWest Stockbrokers Limited; and
- WH Ireland Stockbrokers.

For further information, including the contact details of the share dealing service providers, a summary of dealing charges and terms and conditions that apply, please visit **www.centrica.com/shareholders**.

Share price information
As well as using the Centrica website to view details of the current and historical Centrica share price, shareholders can find share prices listed in most national newspapers. Ceefax and Teletext pages also display share prices that are updated regularly throughout the trading day. For a real-time buying or selling price, you should contact a stockbroker.

American Depositary Receipts
Centrica has a Level 1 American Depositary Receipt (ADR) programme which trades under the symbol CPYYY. Centrica's ADR ratio is one ADR being equivalent to four UK ordinary shares.

For enquiries, please contact:
ADR Depositary
BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
Email: shrrelations@bnymellon.com
or via **www.bnymellon.com/shareowner**

Telephone: 1 877 353 1154 toll-free in the US or +1 201 680 6825 from outside the US.

Website address: **www.adrbnymellon.com**.

ShareGift
ShareGift (registered charity No. 1052686) is an independent charity which provides a free service for shareholders wishing to dispose charitably of small parcels of shares, which would cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information can be obtained at **www.sharegift.org** or from the Centrica shareholder helpline on 0871 384 2985*.

* Calls to these numbers are charged at 8 pence per minute from a BT landline. Other providers' telephony costs may vary.

Shareholder Information continued

Financial calendar

28 April 2010	Ex-dividend date for 2009 final dividend
30 April 2010	Record date for 2009 final dividend
10 May 2010	AGM, Queen Elizabeth II Conference Centre, London SW1
16 June 2010	Payment date for 2009 final dividend
28 July 2010	Announcement date for 2010 interim results
17 November 2010	Payment date for proposed 2010 interim dividend

Analysis of shareholders as at 31 December 2009

Distribution of shares by the type of shareholder	Holdings	Shares
Nominees and institutional investors	13,023	4,769,377,307
Individuals	750,929	362,676,766
Total	763,952	5,132,054,073

Size of shareholding	Number of holdings	Shares
1–500	566,550	130,056,477
501–1,000	117,240	80,971,342
1,001–5,000	72,319	129,646,475
5,001–10,000	4,680	32,232,215
10,001– 50,000	1,913	34,228,169
50,001–100,000	198	14,650,198
100,001– 1,000,000	611	228,778,081
1,000,001 and above	441	4,481,491,116
Total	763,952	5,132,054,073

As at 31 December 2009 there were 78,061 participants in the Centrica FlexiShare service, with an aggregate shareholding of 130,313,446 shares, registered in the name of Equiniti Corporate Nominees Limited.

Useful historical information

Demerger

The shares of Centrica plc were traded on the London Stock Exchange for the first time on 17 February 1997, the date of demerger from British Gas plc. Shares were acquired in Centrica plc on the basis of one Centrica share for every British Gas share held at demerger. The split between the post-demerger Centrica and British Gas shares was in the proportion Centrica 27.053% and British Gas 72.947%.

Shares in Centrica plc acquired on demerger are treated as having a base cost for capital gains tax purposes (calculated in accordance with taxation legislation) of 64.25 pence each.

Share capital consolidations and the 2008 Rights Issue

The share capital of Centrica plc was consolidated on two occasions, in 1999 and 2004, and in 2008 the Company offered shareholders the right to subscribe for additional shares as set out below:

- on 10 May 1999, the ordinary share capital was consolidated on the basis of nine new ordinary shares of $5\frac{5}{9}$ pence for every ten ordinary shares of 5 pence held on 7 May 1999. The consolidation was linked to the payment of a special dividend of 12 pence per share on 23 June 1999;
- on 25 October 2004, the ordinary share capital was consolidated on the basis of nine new ordinary shares of $6\frac{14}{81}$ pence for every ten ordinary shares of $5\frac{5}{9}$ pence held on 22 October 2004. The consolidation was linked to the payment of a special dividend of 25 pence per share on 17 November 2004; and
- on 31 October 2008, a Rights Issue was announced on the basis of three new ordinary shares for every eight existing shares held on 14 November 2008, at a subscription price of 160 pence per share. Dealing in the new fully paid ordinary shares commenced on the London Stock Exchange on 15 December 2008. Shareholders who subscribed for their rights in full should, for UK tax on chargeable gains (CGT) purposes, treat the existing and new shares as the same asset acquired at the time of acquisition of their existing shares, and the subscription monies for the new shares should be added to the base cost of their existing shareholding. Further tax information can be found in the Rights Issue prospectus on the Centrica website.

Accessibility

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

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Designed and produced by **35** Communications.
Photography by Charlie Fawell and Andy Wilson.
Printed by St Ives Westerham Press Ltd, ISO14001, FSC certified and CarbonNeutral®.

Centrica plc
Company registered in England
and Wales No. 3033654
Registered office: Millstream,
Maidenhead Road, Windsor,
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