centrica

ENERGY FOR THE FUTURE

Annual Review and Summary
Financial Statements **2010**

ENERGY FOR THE FUTURE

Centrica performed well in 2010

Centrica made great strides in 2010 towards achieving the goals set last year, through a combination of operational excellence and carefully targeted investment. 2010, my seventh year as Chairman, has seen worldwide energy markets undergoing significant change.

Performance review

Wholesale gas prices in North America remained low due mainly to the impact of shale gas, while gas prices in the UK are around 40% higher in 2011 than they were in 2010. With domestic sources of gas in decline and rising levels of demand in the Far East, liquefied natural gas (LNG) has an increasingly important role to play. I was therefore pleased we were able to conclude a contract that secures significant volumes of LNG from Qatar.

The Government's consultation on Electricity Market Reform will lead to major changes in energy policy and I believe Centrica will play a leading role in securing reliable, lower carbon sources of energy for the years ahead, while helping our customers take control of their energy use.

We were the first major supplier to reduce gas prices for residential customers early in the year. However, higher energy prices and non-commodity costs required us to raise prices in December. We recognise the impact that higher energy prices have, and work with our customers to help them manage their energy consumption, targeting assistance to the most vulnerable.

I am pleased to say that, following the investments in Venture and British Energy in 2009, we now have a more balanced business. The considerable success of our gas and oil drilling programme during the year is testament to the skills and expertise of our upstream team. In North America, we have taken important steps towards delivering our strategy of building a larger, more vertically integrated energy business. North America presents an important opportunity for Centrica to build shareholder value by expanding our business in competitive markets outside the UK.

Dividend

The Board is proposing a final dividend of 10.46 pence per share, bringing our full-year dividend to 14.3 pence per share.

Board changes

Ian Meakins, chief executive of Wolseley Group, was appointed as a Non-Executive Director in October, and in December we announced that Margherita Della Valle would also become a Non-Executive Director. Margherita is group financial Controller for Vodafone Plc and is the third woman on Centrica's Board.

It is one of our key governance objectives to have a Board which, in its diversity, reflects our customer base as far as possible, and I am pleased with the progress made this year.

Our employees

Our people are central to the success of the Company and I thank each of them for their hard work and dedication, particularly during the bad weather. I am very pleased that our British Gas engineers have embraced new working arrangements which will enable us to provide a more flexible service to our customers in future.

Community

Through our British Gas Essentials programme we have been able to help 340,000 of our most disadvantaged and vulnerable customers. We provided direct financial support to help them through this winter, together with free insulation and other energy efficiency measures which will deliver lasting benefit. We also ran our 12th annual winter campaign, in partnership with Age UK, to help the elderly reduce their winter fuel bills.

I am particularly proud of the contribution by our employees of more than 50,000 hours of their time over the year, volunteering in local communities. Our North American employees gave over 10,000 hours in voluntary work.

The future

Centrica has made real progress during 2010, delivering substantial growth from a more robust business. We will continue to drive improvements in the underlying business and have a full programme of investment planned for the year ahead.

We will also consult closely with the Government to ensure that an appropriate framework is developed to stimulate investment in low carbon generation.

Our integrated model leaves us well placed to manage the pressures from lower consumption and higher commodity prices. Our upstream activities will benefit from those higher prices, and we will look to our services and North American businesses to deliver further growth.

Sir Roger Carr,
Chairman
24 February 2011

PERFORMANCE HIGHLIGHTS

FINANCIAL HIGHLIGHTS

	2010	2009
Revenue ‡	**£22.42bn**	£21.96bn
Adjusted operating profit *‡	**£2,390m**	£1,857m
Adjusted earnings ◊	**£1,297m**	£1,111m
Full-year dividend per share	**14.3p**	12.8p
Adjusted basic earnings per share◊	**25.2**	21.7

STATUTORY RESULTS

Operating profit ‡	**£3,074m**	£1,175m
Earnings	**£1,942m**	£856m
Basic earnings per share	**37.6p**	16.5p

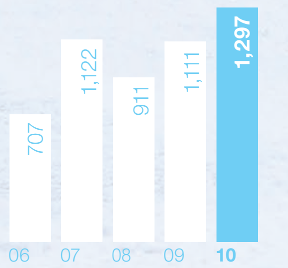
Operating profit‡ includes net exceptional charges of £283m (2009: £568m)

* Including share of joint ventures and associates stated before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements. Strategic Investments are the acquisition of Venture and the investment in British Energy

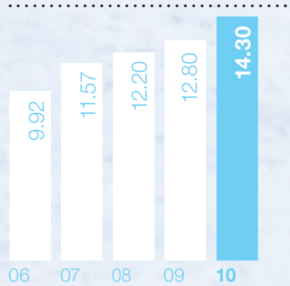
◊ As above, except joint ventures and associates stated net of interest and taxation

‡ From continuing operations

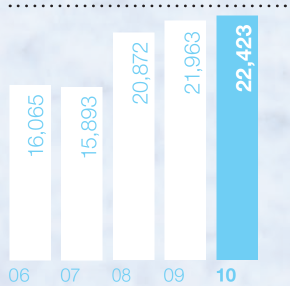
Adjusted earnings◊ £m



Dividend per share pence



Group revenue‡ £m



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

Terms and explanation	2010 £m	2009 £m
Adjusted operating profit* – the principal operational profit measure used by management and used throughout the Operating Review	2,390	1,857
Impact of fair value uplifts – depreciation of fair value uplifts to property, plant and equipment of Strategic Investments	(118)	(27)
Interest and taxation on joint ventures and associates and other costs	(78)	(16)
Group operating profit‡ – operating profit from continuing operations before exceptional items and certain re-measurements	2,194	1,814
Group profit‡ – profit from continuing operations before exceptional items and certain re-measurements	1,221	1,104
Statutory profit/(loss) – profit/(loss) including discontinued operations, exceptional items and certain re-measurements	1,942	856

Our vision: to be the leading integrated energy company in our chosen markets

CENTRICA AT A GLANCE:

Energy for the demands of today, and for the future

Downstream UK

BRITISH GAS
- Residential energy supply
- Residential services
- Business energy supply and services

Upstream UK

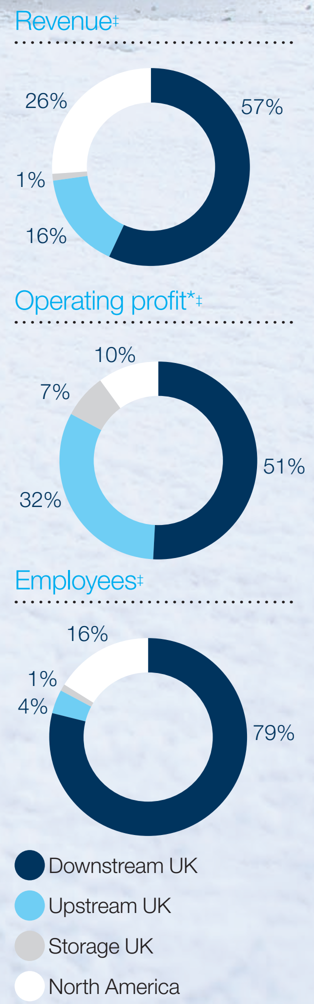
CENTRICA ENERGY
- Upstream gas and oil
- Power generation
- Industrial and commercial
- Proprietary energy trading

Storage UK

CENTRICA STORAGE

North America

DIRECT ENERGY
- Residential energy supply
- Business energy supply
- Residential and business services
- Upstream and wholesale energy



WHAT WE DO:

we source it
by finding and producing new gas reserves across the world

we process it
at our onshore gas terminals to make it safe for our customers to use

we trade it
in the UK, North America and Europe to secure gas supplies

we service it
through our energy services and installation businesses in the UK and North America

we generate it
through our highly efficient gas fired power stations and wind farms

we store it
at our Rough gas storage facility – the largest storage operation in the UK

we supply it
to millions of residential and commercial customers in the UK and North America

we save it
by offering innovative low carbon products and services to our customers

To see more online, go to:
www.centrica.com/report2010

Energy for the demands of today, and for the future

In 2010 we delivered a strong operational and financial result, reflecting the contribution from the enlarged upstream business in the UK, together with a good downstream performance in both the UK and North America. Our investment programme for 2011 and beyond will enable continued growth for the benefit of all our stakeholders, offering a competitive deal for customers, creating further job opportunities, and delivering superior financial returns for our shareholders.

Energy industry overview

In last year's Annual Report I highlighted the need for Centrica to pursue growth opportunities and lead the drive to the low carbon world. This has been the focus of our activities in 2010.

Whilst climate change, security of energy supply and the affordability of energy supply are issues that impact all countries, the UK has a number of particular issues. Our past reliance on low cost North Sea gas is being replaced by an increasing dependence on imports. While a few years ago we were self-sufficient, this winter we imported 50% of our gas. In power generation many of the UK's coal fired stations will have to be closed in the next five years to comply with our EU and International Climate Change commitments and our existing nuclear fleet is ageing. Taken together it is estimated that the UK requires some £200 billion of investment in energy infrastructure to meet the challenges of climate change and energy security. This is a huge task and the majority of this investment will be in offshore wind, new nuclear, additional gas fired generation and grid reinforcement to support intermittent wind generation.

Investment on this scale will require the policy and regulatory framework to ensure that carbon is correctly priced, that all forms of low carbon generation are rewarded and that energy diversity is encouraged. We welcome the UK Government's intent to address these issues through the proposed reform of the electricity market.

Decarbonising power generation is, however, only part of the story. Much more can be done to help customers, whether residential or commercial, to reduce their CO_2 emissions through energy efficiency measures. For Centrica this has been about helping customers, whether in the UK or North America, to use less energy rather than the traditional paradigm of maximising the energy we sell. Homes in the UK are responsible for a quarter of the UK's CO_2 emissions, and programmes to assist on insulation, high efficiency boilers, smart meters and microgeneration have the potential to reduce CO_2 emissions in this sector by 20% over the next 10 years. When coupled with the fact that the electricity that homes will be using will become lower carbon, the overall saving for households could amount to 35%.

This investment in lower carbon generation comes at a price. International commodity costs are rising and, unless we are able to entirely offset this increase with increased consumption savings, higher household bills are inevitable. We need to be honest about this as an industry and as a nation and continue to take steps to protect the most vulnerable in our society.

Centrica's business model is now better balanced and is well placed to thrive, with most of our energy being sourced from our own lower carbon sources. The opportunity for us is to help our customers through our growing services businesses to reduce their fuel bills for today and their emissions for tomorrow.

2010 performance

Centrica delivered a strong financial and operational performance in 2010. We reported a significant increase in year-on-year earnings◊ in a competitive market and continued to grow our downstream operations, both in the UK and in North America. All of this has been built upon a steady improvement in customer service. Upstream, our operations have been transformed by the Venture acquisition, delivering high levels of gas and oil production, underpinned by exacting standards of reliability and safety.

UK wholesale gas prices remained relatively low during the cold weather experienced in the first quarter of the year, but then increased sharply. Gas prices were around 40% higher in the fourth quarter of the year than in the first quarter, contributing to substantially lower margins in our downstream supply business in the second half of the year. We have made good progress in expanding our energy services operation and in business energy we once again delivered strong growth.

Upstream in the UK, our gas and oil business delivered strong production performance and benefited from higher wholesale prices in the second half of the year. In UK power generation, the nuclear and wind assets in our portfolio have benefited from higher power prices. However low spark spreads led to weaker returns from our gas fired power stations.

In gas storage, operational performance during the year was strong. Although market spreads reduced from the second quarter onwards, realisations remained high for the 2010/11 storage year, as much of Rough's capacity had already been sold at higher prices.

In North America depressed market prices for both gas and power have led to lower returns from our upstream assets. However, downstream we made encouraging progress, with operational improvements helping us achieve strong returns on capital employed and the acquisition of Clockwork Home Services leaving the business well placed for the future.

◊ Before exceptional items, certain re-measurements and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments

Much more can be done to help customers, whether residential or commercial, to reduce their CO_2 emissions through energy efficiency measures.

Above: Sizewell B nuclear power station.
Above left: Morecambe Bay gas platform.
Left: The new British Gas van livery.

Strategic Progress

We have made real and measurable progress against the strategic priorities we set out a year ago, across each of our businesses. We now have a more balanced business, with the flexibility to perform well in a range of commodity price environments. With strong cash flows and diverse investment options, Centrica is well positioned to deliver growth for the long term and lead the transition to a low carbon world.

Strategic priority 01

GROWING British Gas

British Gas had a strong year.

During the exceptionally cold weather at the start and end of the year, we met around 30% of the country's total gas demand, and our engineers reached up to 35,000 customers a day on boiler repair call-outs, around double the number on a typical winter's day.

In residential energy, we led the market by cutting gas prices in February and achieved a significant increase in customers. While the sharp rise in wholesale energy prices and non-commodity costs necessitated an increase in our retail tariffs towards the end of the year, we have made a priority of helping our customers manage their energy consumption. Energy efficiency measures have helped to reduce our customers' underlying average gas consumption by 22% over the past five years and we are actively helping them make further savings, with market-leading deals such as our free insulation offer for British Gas customers. We have contributed over £80 million to provide help for those most in need, including a £50 reduction in the winter fuel bills for those on the Essentials tariff.

To see more online, go to:
www.centrica.com/ceo2010

In British Gas Services, we have made considerable progress despite the challenging economic climate. The record levels of boiler repair call-outs incurred additional costs as our engineers worked to reach as many customers as possible. We added 265,000 services customer accounts over the year, with growth in each of our core products. We also achieved a significant increase in the number of boiler installations following the launch of a more competitively priced offering.

British Gas Business continued to perform very well, increasing operating profit* by 27% year on year. A key part of its success has been our focus on delivering high and differentiated levels of service to retain and acquire high value customers. Through the acquisition of Connaught's gas and electricity services business, we are also developing complete energy solutions services for our customers.

It is vital that we position ourselves now in the areas that will underpin the future of British Gas – the provision of energy-related services. We are driving ahead with the installation of smart meters and our customers will be able to take advantage of our early phase Green Deal in the first half of 2011. Customers will receive energy efficiency improvements, such as insulation and efficient heating systems, at no up-front cost, spreading the cost over future energy bills – funded by the savings they will make. During 2010, we entered into a commercial agreement with Mears, a leading participant in the social housing sector, and made a number of small acquisitions to help enhance our capability in new technologies, including microgeneration, specialist insulation and home energy management. Our services business is an area of distinctive competitive advantage, and we expect the provision of energy services to play a defining role for the energy company of the future, forming the basis for long-term growth.

Right: British Gas smart metering vans.
Far right: Engineer at our Langage gas fired power station in Devon.

Strategic priority 02

DELIVERING Value from our upstream business

Operating profit* for Upstream UK increased by 47%.

This reflected a full year's contribution from the Venture acquisition and our 20% stake in British Energy, strong production volumes from the Morecambe field, and the addition of Langage to our fleet of gas fired power stations. We also had considerable success in our gas and oil drilling programme, with 11 out of 15 wells showing positive results. During 2011, at least 11 wells are scheduled to be drilled. We completed the £134 million acquisition of Shell's stake in the Statfjord field, and the £247 million purchase of Suncor's portfolio of Trinidad and Tobago gas blocks, which gave us our first producing LNG position. Together, these acquisitions and exploration successes increased our Upstream UK gas and oil reserves by 9% to 434 million barrels of oil equivalent (mmboe), after taking account of 53mmboe production during the year – equivalent to replacing 163% of our production. We have now also approved the development of the York and Ensign gas fields and will invest approximately £450 million, bringing an estimated 30mmboe of reserves into production.

During the year we took 23 LNG cargoes into the Isle of Grain – totalling one billion therms – enough to supply around 20% of our UK residential gas demand. We were pleased to sign a three-year contract with Qatargas, which will secure material volumes of LNG for the UK from Qatar. The deal will provide enough gas to meet approximately 10% of the residential gas demand, equivalent to around 2.5 million UK households.

In power generation, nuclear now makes a significant contribution to our results. The stake in British Energy accounted for over half of our power generation operating profit.* Work continues on the new nuclear build programme with a final investment decision expected in 2012 for Hinkley Point. Five-year life extensions to 2019 were announced for the Hartlepool and Heysham 1 nuclear power stations.

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

In offshore wind, all major contracts have been awarded on the 270MW Lincs joint venture, and onshore works have begun, with the wind farm expected to be operational by winter 2012/13. Centrica was awarded exclusive rights to develop up to 4.2GW of wind generation in the Irish Sea zone in the Crown Estates Round 3 offshore wind tendering process.

In gas storage, the Rough facility once again delivered excellent operational performance, reflecting continuous investment in the asset since its acquisition. The spread between winter and summer prices has narrowed which will significantly affect the profitability of Rough in 2011 and will also alter the economics of our three potential storage projects. We decided not to proceed at present with the Caythorpe onshore storage facility. Work continues on the Baird project, with an investment decision expected later in 2011.

We had considerable success in our gas and oil drilling programme with 11 out of 15 wells showing positive results. During 2011 at least 11 wells are scheduled to be drilled.

Strategic priority 03

BUILDING an integrated North American business

In North America we have made encouraging progress.

Downstream performance was particularly strong, with underlying profitability* up 35%. Upstream profitability* continued to be adversely affected by low wholesale commodity prices.

Downstream, we have improved customer retention and cut the levels of bad debt at our residential energy supply business in Texas. We have also successfully launched a prepayment offering, applying our UK experience to North America.

We continue to enter new markets in the US North East and now have over 100,000 customers in Pennsylvania and Maryland.

Business energy supply achieved strong growth, with higher volumes and improved margins. We will continue to focus on improving operational efficiency and using our scale to increase sales in the most attractive segments.

In our services business, where we faced increased competition in Canada and a slow pace of recovery in the US housing market, we improved efficiency and cost control.

Centrica: The story so far

1997-2002

1997: Centrica is formed following the demerger of British Gas – we have 18 million gas customers, a central heating business, two gas fields in Morecambe Bay and gas trading activities.

1998: British Gas supplies its first electricity as the market opens for competition.

We make our first upstream acquisition.

1999: Centrica extends interests in Hewett, Victor and Chiswick gas fields in Southern North Sea by over 150 billion cubic feet (bcf).

2000: We purchase Direct Energy.

2001: We acquire interests in three gas fired power stations in the UK.

2002: Centrica acquires the Rough offshore gas storage facility.

2003-2005

Direct Energy acquires the electricity supply operations of Texas-based CPL and WTU.

2003: We acquire two wind farm sites off the south Lincolnshire coast and announce plans to spend £500 million on renewable generation.

2004: Direct Energy acquires two gas fired power plants in Texas.

In the UK we acquire the Glens of Foudland onshore wind farm and our fifth CCGT power station.

British Gas acquires Dyno-Rod.

2005: Isle of Grain LNG terminal opens – we sign a deal to access up to 3.4 billion cubic metres of LNG a year from 2008.

The integration of Clockwork, following its acquisition in July, is proceeding well. This makes Direct Energy the market leader in home energy services and Clockwork's established franchise model provides a firm platform for growth.

Upstream, low gas and power prices have significantly affected our returns, although this provided an opportunity to acquire gas assets in the Wildcat Hills region of Alberta at an attractive price, increasing our gas reserves by over 60%. This transaction improves the level of vertical integration in the business, reduces our cost of gas and will allow Direct Energy to meet around 35% of customer gas demand from its own resources.

Our power generation business again faced difficult market conditions, with low prices in Texas affecting the profitability of our gas fired power stations and our wind power purchase agreements.

Strategic priority 04

DRIVING superior financial returns

We have delivered a substantial increase in earnings in 2010, making good progress across each part of the business and we expect to achieve continued growth in 2011.

Market conditions remain competitive, particularly in UK downstream energy supply with pressure from rising wholesale prices. However we expect to deliver further growth in profitability across much of the rest of the Group.

Centrica is distinctive in that our balanced business model gives us the flexibility to perform well in both high and low commodity price environments. The combination of strong cash flows with an attractive range of targeted investment options underpins the future progress of the business, for the benefit both of our customers and shareholders.

We have a full programme of investment planned for 2011, while maintaining financial discipline and directing our capital to areas where the best returns can be achieved. We plan to invest up to £1.5 billion in organic capital expenditure in 2011 in addition to any acquisitions made during the year. Over two-thirds of the investment is planned for our UK upstream business, including development of the York, Ensign and Rhyl fields, together with continuing exploration and appraisal activity. In power generation, projects will include further work on the Lincs offshore wind development and ongoing preparations ahead of the new nuclear investment decision in 2012.

We also continue to invest in our UK downstream businesses, our North American business, the continuous upgrade of our information systems and in new technologies to create the energy efficient homes and businesses of the future.

Sam Laidlaw
Chief Executive
24 February 2011

Left: Frontera power plant in Texas.
Right: Control centre at Bastrop power plant in Texas.

2006-2008

2006: Sam Laidlaw appointed as Chief Executive.

Direct Energy purchases its third gas fired power plant in Texas.

2007: British Gas New Energy launched to develop low carbon products and services and Essentials tariff for our vulnerable customers.

Centrica Energy acquires Newfield UK Holdings adding 300bcf of gas to our reserves.

2008: Rights Issue, raises £2.2bn.

Direct Energy acquires TransGlobe increasing gas reserves.

We acquire Solar Technologies enabling us to install solar photovoltaic technology into homes and businesses.

2009-2010

Direct Energy acquires Strategic Energy with over 26,000 customers.

2009: Our new CCGT power station at Langage is operational.

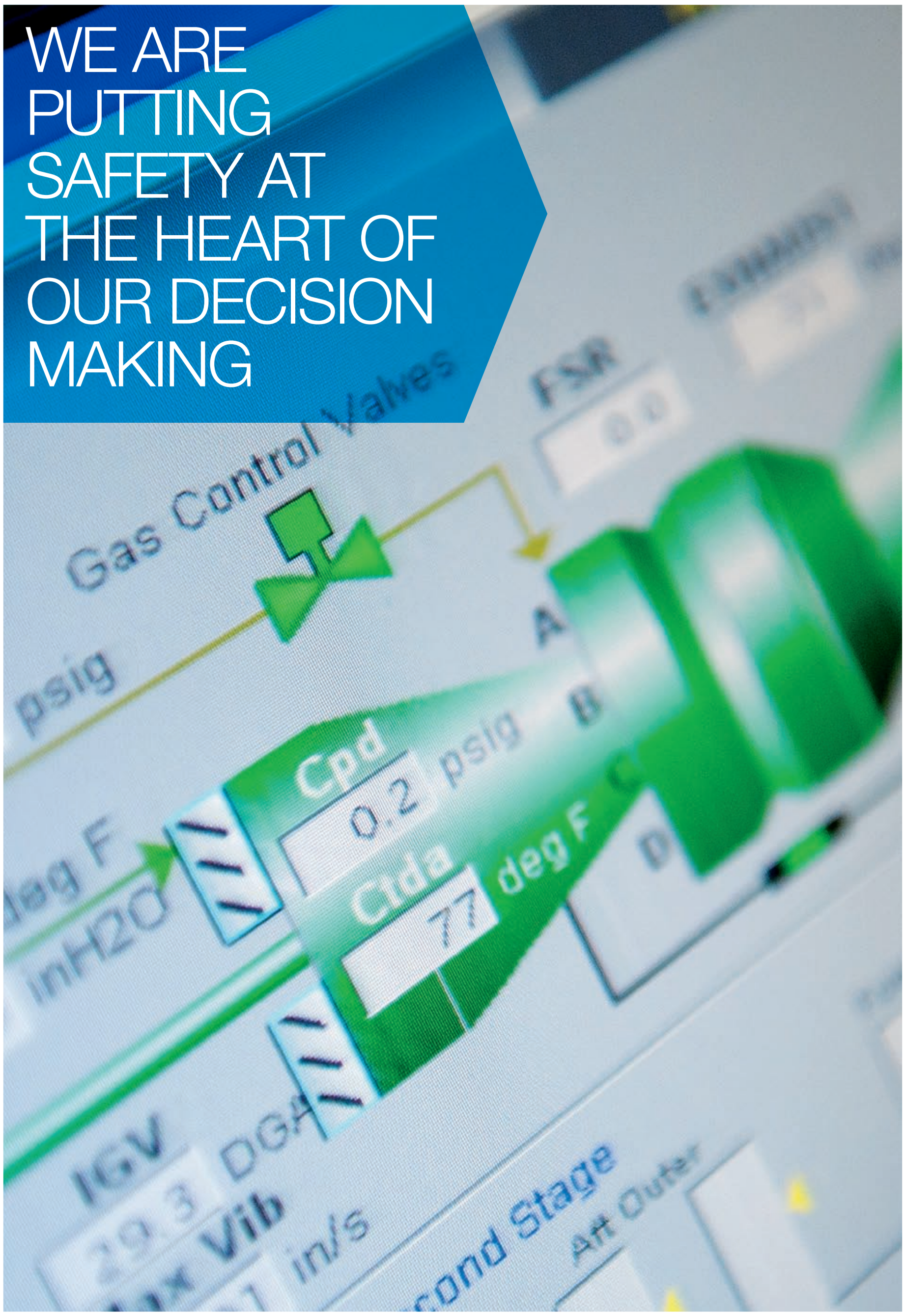
Lincs 270MW offshore wind farm final investment approved.

We acquire Venture, increasing our UK gas and oil reserves by 50% and **a 20% stake in British Energy,** adding nuclear to the portfolio.

2010: Direct Energy acquires Clockwork Home Services.

We acquire 97 wells in Wildcat Hills Alberta.

Centrica Energy doubles equity in Statfjord field in North Sea adding 172bcf gas and oil.



WE ARE PUTTING SAFETY AT THE HEART OF OUR DECISION MAKING

The health and safety of our employees, customers and anyone who could be affected by our activities is our first priority.

We know that in addition to delivering superior financial returns, it is vital to have a strong health and safety focused culture. Safety is therefore embedded in our strategy and culture. Over the past year we have been working hard across all of our businesses to raise awareness of health and safety issues. We equip our employees with the competence and confidence to take responsibility for the safety of themselves and others.

We want to encourage everyone to do things only if they can be done safely; and to take the time to do things right. As well as managing personal safety, we also focus on process safety, ensuring the safe operation of the complex, high hazard upstream assets in our gas production and power generation portfolios.

Safety is fundamental to the way we will measure our success. Our lost time injury rate, which we now report as a key performance indicator, fell again in 2010 but we are still seeking significant further improvement. I want Centrica not just to be industry average, but to be world class, because I believe that all work-related fatalities, injuries and illnesses can be prevented.

British Gas: Leading the way towards a low carbon future

British Gas had a strong year, both operationally and financially. Overall, the number of British Gas accounts increased by 529,000 during 2010, while the number of 'joint product' households, those taking both an energy and a service product, increased by 121,000.

The number of residential energy accounts on supply increased by 267,000, mainly as a result of competitive pricing for most of the year following our price reduction in February. In residential services the number of product holdings increased by 265,000 to over 8.7 million, with improved retention rates and continued sales of service products to energy customers.

Despite the challenging economic climate, sales of central heating service contracts were strong. Over six million of our services contracts are now insurance-based, meaning we are able to offer most customers a more flexible product range. We also reached agreement with our service and repair engineers regarding new contract terms and conditions, enabling us to offer greater flexibility to meet increased customer demand for evening and weekend appointments and during peak winter periods. During the sustained period of cold weather in December, breakdown call-outs were 25% higher than the corresponding period in December 2009.

British Gas

British Gas in numbers:

	Gross revenue^ £m	Profit £m‡*	People‡
Residential energy supply	8,359	742	9,127
Business energy supply and services	2,907	233	2,574
Residential services	1,464	241	15,597
Total	**12,730**	**1,216**	**27,298**

‡ From continuing operations
* Including share of joint ventures and associates stated gross of interest and taxation, and before other costs and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements
^ Includes revenue from internal and external customers

30m

The amount we are investing for British Gas to 'go early' on the Green Deal

No.1

Our Cardiff call centre was voted Best European Call Centre for the second year running – a clear demonstration of our improved customer service

Left: Customer service adviser in Cardiff.
Right: In-home display giving information from a smart meter.

WE HAVE A WORKFORCE WITH THE SKILLS TO SUPPORT THE GREEN REVOLUTION

British Gas remains committed to leading the industry in energy efficiency and enabling new technologies. And with almost 10,000 engineers we have a workforce to support the green revolution. Within a few years, we want energy services to be just as big a part of British Gas as energy supply.

But customers can play their part – roofs, lofts, walls and gardens must become part of the low carbon world. We can help them use the information from their smart meters to cut energy consumption and bills.

9,954

The number of engineers we currently employ. This number is growing year on year.

The number of central heating systems installed was up by over 30% on the previous year, reflecting higher lead conversion resulting from a more competitively priced offer, as well as the Government's boiler scrappage scheme.

In January 2011 British Gas became the new energy partner in the Nectar loyalty programme and in February 2011 we entered into a partnership with Sainsbury's Energy. These partnerships provide new channels for growth.

In business energy supply, we continued to focus on increasing the value of our customer base rather than increasing customer numbers. In business services we significantly enlarged the scale of our activities with the acquisition of Connaught's gas and electricity services business in October. The transaction included over 20,000 customer contracts, together with over 400 engineers, and is a significant step towards our goal of building a complete energy solutions business for commercial customers. We also acquired JK Environmental Services, which provides environmental services, sewer cleaning and tankering to the business market.

The future growth of British Gas will be underpinned by energy efficiency and new technologies. During the year we announced an arrangement with Mears, a leading provider of repairs and maintenance services to the social housing sector. British Gas and Mears now jointly bid on repair and maintenance contracts and in January 2011 we won the contract to run the Welsh Assembly Government's new fuel poverty programme. We also retained the Scottish Parliament's flagship fuel poverty scheme – the Energy Assistance Programme – under which we will provide insulation and energy efficient heating and hot water systems to over 30,000 households across Scotland over the next three years.

We continued to build our insulation capability. In April we acquired Hillserve, an insulation business operating in the North West of England and Wales, while in December we acquired ECL Contracts, a specialist provider of solid wall insulation and external cladding. We now operate nationally, employ over 750 people and we provided insulation for 237,000 homes during 2010.

In March we announced our strategy for an early roll-out of smart meters in the UK, and shared our technical standards with the rest of the industry. We have installed over 250,000 smart meters to date, with a target of two million by the end of 2012. The Government wants all UK households to have a smart meter by 2020. In October we acquired an equity stake in AlertMe, which will give British Gas customers access to AlertMe's home energy management services.

British Gas in partnership with British Swimming – an innovative and ground-breaking approach to swimming sponsorship

Through the Pools 4 Schools™ initiative more than 20,000 children learnt to swim. The 3 Free Swims offer was also very successful, with 950,000 free swims in 583 pools across the country.

We saw success for the elite swimming and diving teams worldwide, particularly at the European Championships where they won an impressive 19 medals. For the Great Swim Series, 20,000 swimmers donned wetsuits and took to open water in three testing one mile challenge events.

British Gas is motivating and inspiring the nation to get swimming.

£15m

A six-year commitment to support and promote swimming from grass roots to elite athletes.

Phil Bentley on growing the business in a low carbon world

A low carbon future is a world in which we all use less energy.

As Britain's leading energy supplier, we are growing our business by insulating homes, installing energy efficient boilers, fitting solar panels and other microgeneration in the home, and leading the revolution in smart metering. Even though this means selling less energy per household, we know that both our existing customers and our new customers value our advice and the new services we are providing.

And, with increased energy efficiency in our homes, energy bills are coming down – British Gas customers who adopted such measures are saving an average of £322 per annum.

But there's more to do as many homes have taken no action at all – which is why British Gas is increasing its investment in such low carbon technologies and services, and why we are confident we can grow British Gas.

We also continued to enhance our capabilities in new technologies. In October, alongside our partners Thames Water and Scotia Gas Networks, we delivered the UK's first plant to inject renewable gas into the grid, while in November we acquired the assets of Cool Planet Technologies, a heat pump installation company, which should benefit from the introduction of Renewable Heat Incentive funding from later in 2011. We are one of the largest installers of solar photovoltaic panels in the UK and have begun commercial trials of fuel cell boilers.

Health and safety remains critical to our success and lost time incidents continued to fall. We were again recognised as one of the 'UK's 50 Best Workplaces', and our Cardiff call centre was 'Call Centre of the Year' in the 2010 European Call Centre Awards.

The contact net promoter score (NPS) for our services business remained high, at 52%, while the contact NPS for both British Gas Residential and British Gas Business increased substantially. Our online platform for self-serve transactions now accounts for around 40% of all customer contacts.

Gross revenue in the period was slightly up at £12,730 million (2009: £12,565 million), with lower retail tariffs offset by services growth and higher energy consumption. Operating profit* increased by 20% to £1,216 million (2009: £1,011 million).

Residential energy supply operating profit* increased by 24% to £742 million and operating margin increased to 8.9% (2009: 7.6%). Energy efficiency measures continue to deliver underlying reductions in energy consumption, however average gas consumption actually increased by 11% and electricity consumption by 2%, because of the exceptionally cold weather.

During 2010 we contributed £80 million to provide help for those most in need, and our social spend has far exceeded our commitment to Government in each of the past two years. We also announced in September that we would 'go early' on the Government's proposed Green Deal with a £30 million investment.

Residential services revenue rose by 9% to £1,464 million with operating profit* up to £241 million (2009: £230 million), and operating margin strong at 16.5% (2009: 17.2%).

Business energy supply and services gross revenue fell by 12% to £2,907 million as a result of lower commodity prices. However operating profit* increased by 27% to £233 million and operating margin rose to 8.0% (2009: 5.5%). Operating profit* for this business has increased by an average of 25% for each of the past five years.

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

Solar thermal panels

Solar thermal panels harness sunlight and use it to heat water. They don't rely on direct sunlight, so they can even work on cloudy days. We also install solar photovoltaic panels which convert sunlight directly into electricity – both help to cut electricity bills and reduce carbon emissions.

Left: Engineer training at one of our engineering academies.
Right: Solar panel installation.

Centrica Energy: Upstream acquisitions strengthen our business model again

centrica energy

Centrica Energy in numbers:

	Gross revenue^ £m	Profit £m*‡	People‡
Upstream gas and oil	1,637	581	760
Power generation	1,112	226	599
Industrial and commercial	2,017	(36)	150
Proprietary energy trading	17	–	47
Total	**4,783**	**771**	**1,556**

‡ From continuing operations
* Including share of joint ventures and associates stated gross of interest and taxation, and before other costs and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements
^ Includes revenue from internal and external customers

Our UK upstream business performed strongly during 2010. Upstream gas and oil production volumes were up 43%.

Upstream UK

Reserves increased by 9% over the year, equivalent to replacing 163% of our production, through acquisitions and successful drilling. The power generation business achieved high reliability from both our gas fired and wind assets. Operating profit* for the Upstream UK business was up 47% to £771 million (2009: £525 million) with the impact of lower gas and power prices offset by higher gas production volumes from Morecambe, a full year's contribution from Venture, and higher power generation volumes from British Energy.

Upstream gas and oil

Our gas and oil business had a good year operationally, with strong production performance and considerable drilling success. Our upstream capabilities are much enhanced following the integration of Venture and employee retention has remained high, giving us the depth of expertise required to be a leading operator in the UK, Norway, The Netherlands and Trinidad and Tobago. The business is led from Aberdeen. The third and fourth development wells at our Chiswick field in the North Sea were successfully drilled and brought on stream, while both the Eris and Ceres gas fields and the non-operated Babbage field produced first gas in 2010. We successfully installed the F3-FA platform on the Dutch continental shelf, with the field producing first gas in January 2011. We approved field development on the Ensign and York gas fields and expect to make a final investment decision on Rhyl in the first quarter of 2011.

Our focused exploration and appraisal programme delivered a high level of drilling success, with 11 out of 15 wells in the UK North Sea and Norway showing positive results. We plan to drill at least 11 wells during 2011 which will help to maintain Centrica's position as one of the most active drillers in the North Sea.

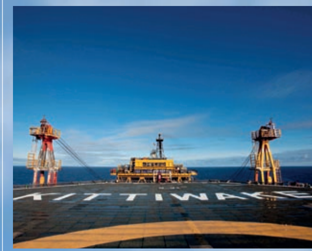
In August we acquired Suncor's portfolio of Trinidad and Tobago production, development and exploration assets, providing access to one of the Atlantic Basin's key LNG export areas. This was followed in December by the acquisition of Shell's stake in the Statfjord field, doubling our interest.

Left: Transporting personnel to the North Sea platforms.
Right: Centrica's F3-FA platform prior to being towed out to the North Sea.

WE ARE APPLYING INNOVATIVE METHODS TO TRADITIONAL MODELS OF ENERGY SUPPLY

The state-of-the-art F3-FA mobile production platform on the Dutch continental shelf is the largest gas platform of its kind to be installed anywhere in the world.

This innovative gas platform is self-installing and portable so when the field is finished it can be moved to a new location once production is complete. Depending on the life of the fields, this can be done two or three times, significantly reducing costs.



9%

Our UK gas reserves increased by 9% in 2010. Centrica is one of the most active drillers in the North Sea.

Total gas and liquids production volumes increased by 43%, with gas volumes up 48% at 2,533 million therms (mmth), and oil and condensate volumes up 26% to 11.1mmboe, reflecting strong asset performance and higher volumes from Morecambe, which was shut in for parts of 2009. The average achieved gas sales price was down 15% at 41.6 pence per therm, reflecting 2009 forward gas sales entered into when the gas price was materially higher. The average achieved oil and condensate price was £46.8 per barrel of oil equivalent (boe) (2009: £38.1/boe) reflecting an increase in the global oil price.

Overall operating profit* for our upstream gas and oil business increased by 31% to £581 million.

Power generation

Last year saw relatively low market power prices and spark spreads. Our CCGT fleet reliability remained high at 97%, but gas fired generation volumes decreased slightly to 22.8 terawatt hours (TWh), despite the commissioning of the Langage power station. The availability of our joint venture wind assets remained high throughout the year, though unfavourable weather patterns resulted in a lower overall load factor of 29% (2009: 32%). Early in 2010 we completed the joint venture agreement with DONG and Siemens Project Ventures for the development of the Lincs 270MW offshore wind project. All major contracts for this project were awarded during the first half of the year and we expect the farm to be operational by winter 2012/13.

In nuclear, our 20% equity share of output from the British Energy fleet was 9.7TWh. Output was impacted by a number of outages, the most significant being the six-month shutdown of Sizewell B. The average achieved power price in 2010 was £42.9/MWh reflecting the baseload market power price and the extent to which power had been forward sold by British Energy before the acquisition in 2009. Overall operating profit* for the period was £226 million (2009: £147 million), reflecting the inclusion of a full year of output from British Energy. The profitability* of our gas fired fleet was slightly down reflecting low market spark spreads. While wind profitability* was also down due to the impact of low wind yields and the sale of 50% of our interests in the Glens of Foudland, Lynn and Inner Dowsing wind assets at the end of 2009.

Industrial and commercial

This segment includes legacy gas sales contracts, LNG activity, our German wholesale business and the Rijnmond 2 gas fired power station tolling agreement. The majority of the legacy gas sales contracts ended during the second half of 2010. As a result, the remaining activities in this segment will be reported in either the upstream gas and oil segment or power generation segment in 2011.

Overall, industrial and commercial delivered an operating loss* of £36 million (2009: operating loss* of £93 million).

Mark Hanafin on the importance of diversity within energy supply

Britain faces a number of simultaneous energy challenges: dwindling output from the North Sea, an ageing power generation fleet, and the need to cut our carbon emissions.

If Centrica is to ensure a secure and sustainable supply for the future we need to increase the diversity of our lower carbon energy sources.

So in the search for clean electricity we are building a 270MW wind farm off the Lincolnshire coast and have rights to develop a further 4.2GW in the Irish Sea. Then in 2012 we will be making a final investment decision on the UK's first new nuclear power station for more than 20 years.

The acquisition of gas assets in Trinidad and Tobago and Norway, together with one of the most active drilling programmes in the UK North Sea, means that we are continuing to increase our gas reserves and our ability to supply from our own resources.

Proprietary energy trading

Our proprietary trading business broke even in 2010 (2009: operating profit* £27 million), reflecting continuing difficult trading conditions. From 2011, proprietary trading profits* will be reported in the upstream gas and oil and power generation segments.

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

Above left: The Kittiwake platform, part of the Venture acquisition.
Right: Langage power station.

WE ARE INVESTING IN MORE CAPACITY AND SAFEGUARDING FUTURE SUPPLIES

We are investing in power generation and gas assets to safeguard the future supply of energy for our customers. Our Langage gas fired power station in Devon is one such investment.

While wind and nuclear will be increasingly important as we decarbonise power generation, we see gas as a bridging fuel to a low carbon future. Langage has a thermal efficiency of 53% and the flexibility to back up the intermittent power generated by wind farms.

23

We took 23 LNG cargoes into the Isle of Grain, enough to supply around 20% of our UK residential gas demand.

Centrica Storage: Securing UK energy supplies

centrica storage

Centrica Storage in numbers:

	Gross revenue^ £m	Profit £m*‡	People‡
Total	267	169	255

‡ From continuing operations
^ Includes revenue from internal and external customers

The operational performance of the Rough storage facility was again extremely strong with reliability of 98%.

The exceptionally cold weather in January and February resulted in a record low Net Reservoir Volume (NRV) in March, followed by injection during the summer of more than 100 billion cubic feet (bcf). More cold weather late in the year led to 47 days of consecutive withdrawals – and the lowest ever NRV at the end of a year.

Gross revenue was flat at £267 million as were costs and operating profits* (2010: £169 million). But with current summer and winter forward spreads narrower than in recent years, substantially lower achievable prices for 2011/12 will have a material impact on 2011 profitability*.

Our Caythorpe project remains on hold, due to reduced market volatility and higher than anticipated construction costs. Work is continuing on the Baird project, and we expect to make an investment decision in 2011. We continue to evaluate the Bains project.

When Centrica bought Rough, the acquisition was subject to Competition Commission undertakings that Centrica would keep no more than 15% of Rough's capacity for its own use, and would maintain Centrica Storage separate from the rest of the Group.

In April 2010 we asked the Office of Fair Trading (OFT) to review the undertakings. In September 2010, the OFT referred the matter back to the Competition Commission, which in January 2011 decided the changes to the market were insufficient to remove the need for the undertakings. However the Commission is consulting on a possible increase in the amount of Rough capacity Centrica can buy and the product range we can offer. Their final decision is expected in April 2011.

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

Grant Dawson explains the importance of storage

In order to be able to guarantee gas supply to our customers when they need it most, we must have gas in storage. Neither Centrica nor the UK can operate on a 'just-in-time' basis.

With the UK rapidly becoming more dependent on imported gas, increasing the country's gas storage capacity is essential to ensure security of supply. At present the UK has the ability to store enough gas to cover around 17% of peak demand. This is well below other European countries. And it leaves the UK vulnerable, particularly if imported gas is diverted to other countries during a shortfall – which happened during the dispute between Russia and the Ukraine just over a year ago.

Our Rough gas storage facility represents 70% of the UK's total storage capacity. It is an incredibly important asset which remains a key part of the Group's integrated energy business.

Direct Energy: North America's largest home services company

Direct Energy™

Direct Energy in numbers:

	Gross revenue^ £m	Profit £m*‡	People‡
Residential energy supply	2,502	177	1,138
Business energy supply	2,682	88	487
Residential and business services	485	15	3,454
Upstream and wholesale energy	328	(46)	455
Total	**5,997**	**234**	**5,534**

‡ From continuing operations
^ Includes revenue from internal and external customers

A strong operational performance from Direct Energy saw a much improved financial result, despite continuing low commodity prices.

Through organic improvements and value-adding acquisitions, we have made good progress towards doubling the contribution of the business.

Downstream performance was particularly strong, with underlying downstream profitability* up 35%. In residential energy supply, bad debt costs were reduced and customer retention improved in Texas. In business energy supply we significantly strengthened sales productivity, increased our power volumes by 19% and improved operating margin.

The acquisition of Clockwork represents a step-change in scale for our services business. And we increased our gas reserves through the acquisition of the Wildcat Hills assets.

Direct Energy gross revenue was down 3% to £5,997 million while operating profit* increased to £234 million (2009: £153 million), in part reflecting one-off items from 2009. Overall underlying profitability* increased by 9%.

Residential energy supply

Our residential energy supply business had a strong year, with a significant increase in underlying profit*, operational improvements and an increase in customer satisfaction levels. Overall operating costs fell, and in Texas the deployment of prepaid products helped reduce the underlying level of bad debt.

Customer numbers fell by 7% during 2010 as we focused on retaining the most valuable customers and tightened our acquisition criteria. Retention improved in Texas with churn at its lowest ever level. In the US North East we focused on the most valuable segments, and saw some attrition of low value customers in the first half of the year. The US North East remains key for growth in North America and we achieved some significant milestones, including reaching 100,000 customers in Pennsylvania and Maryland from a base of just 11,000 at the beginning of the year. In Canada, market conditions remain challenging in Ontario, where new legislation will likely lead to a reduction in our Canadian customer base in 2011.

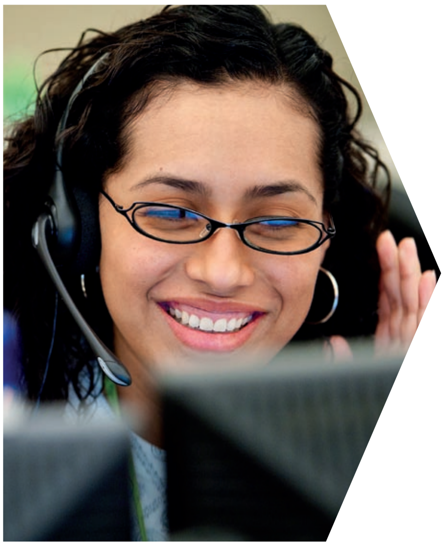
Gross revenue was down 5% to £2,502 million but underlying profitability* was up 14% reflecting the fall in wholesale commodity prices and operational improvements. Operating profit* was £177 million (2009: £94 million), partially reflecting one-off charges in 2009. The operating margin increased to 7.1% (2009: 3.6%).

Business energy supply

Our business energy supply division, the third largest commercial and industrial power supplier in North America, once again grew materially as we improved sales, customer satisfaction and profit*. Electricity volumes increased by 19% reflecting strong sales from the second quarter onwards, following a period in which wholesale commodity price uncertainty meant customers were hesitant to sign new contracts. Overall, net margin improved to 3.3% (2009: 1.4%) as gross revenue increased 8% to £2,682 million. Operating profit* more than doubled to £88 million (2009: £34 million).

Residential and business services

The acquisition of Clockwork, completed in July, has materially increased the size of our North American services business, expanding our geographic coverage to 46 US states and all Canadian provinces. As the largest home services company in North America, we now serve three million customers' heating, cooling, plumbing and electrical needs. Clockwork has both owned and franchise locations and an



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affinity programme for independent contractors, which will help generate scale synergies through lower procurement costs, while contributing to operating profit*. The acquisition increased the proportion of households to which Direct Energy can offer both energy and services, and provides a platform for growth through an established franchise model.

In Canada, increased competition led to a small decline in customer numbers; and in the US, the slow recovery in the housing market continues to impact our services business. However, customer satisfaction improved and profitability* grew as we improved efficiency and reduced our cost base.

Gross revenue was up 19% to £485 million reflecting the acquisition of Clockwork. Operating profit* fell slightly to £15 million (2009: £18 million), as a result of the integration costs of Clockwork and the closure of our Appliance Care business.

Upstream and wholesale energy

Continued low gas and power prices across North America and low spark spreads in Texas significantly impacted returns, and our natural gas production business made a reduced year-on-year profit*.

However, the acquisition of the Wildcat Hills assets from Suncor provided 241 billion cubic feet equivalent (bcfe) of reserves at an attractive price. Gas production volumes grew by 9%, including three months of volume from Wildcat Hills – which more than offset the impact of deferring development activity due to the low price environment.

Power generation in Texas experienced very difficult market conditions throughout 2010. The margin we made from our power plants didn't cover our fixed costs and our wind farm power purchase agreements were loss-making. Volumes were down 23%.

Overall, the division made an operating loss* of £46 million (2009: operating profit* of £7 million).

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

The addition of Clockwork to our services business helps deliver on Direct Energy's growth strategy of being North America's leading integrated energy and services company.

Chris Weston explains the steps being taken to create an integrated business in North America

The energy market in North America presents significant opportunities and we are making real progress toward our strategy of building an integrated energy business.

Since I took over as Managing Director a year and a half ago we have focused on our people, strengthened the business and made some exciting acquisitions, all of which put us in a position to see continued growth in 2011.

Downstream, we are the third largest commercial and industrial power supplier, and growing. Our residential energy supply business, the largest in North America, has benefited from concentrating on higher value customers. There are also exciting organic growth opportunities in the US North East as markets open to competition. The acquisition of Clockwork gives us a strong presence across the US, a market leading position in home services and real opportunities for growth.

Upstream, shale gas is reducing commodity prices. But low prices provide attractive acquisition opportunities, and we have significantly increased our gas reserves through the purchase of Wildcat Hills. We can now supply 35% of our customers demand for gas from our own production and we continue to look for other upstream acquisition opportunities.

Left: Direct Energy vans in Toronto.
Right: Wildcat Hills, Alberta.

WE ARE OPERATING ON AN EVEN LARGER SCALE IN NORTH AMERICA

We increased the overall scale of our North American business with two significant acquisitions in 2010.

The acquisition of gas assets in the Wildcat Hills region of Alberta has provided an additional 241bcfe of gas, increasing our reserves by 60%. This transaction increases the level of vertical integration in our North American business and reduces our cost of gas.

In July we acquired Clockwork, making Direct Energy the market leader in home energy services. This leaves us well placed for the future with a good platform for growth.

35%

In North America we can now meet 35% of our customers' gas demand from our own production.

Recognising the impact of our business on society and the environment

"There is a clear and compelling business case for Centrica to show leadership in response to pressing environmental and social challenges."

Our corporate responsibility key performance indicators

Lost time injury (LTI) rate/100,000 hours worked

0.41 2009: 0.49

What's next: Reduce LTI rate to 0.20 by 2013

Carbon intensity of our UK power generation (g CO_2/kWh)

275[(i)] 2009: 371

What's next: Reduce our UK power generation carbon intensity to 270g CO_2/kWh by 2012; reduce our UK carbon intensity to 260g CO_2/kWh by 2020

Customer satisfaction in British Gas (brand net promoter score – NPS[(ii)])

+5 2009: -2

What's next: Achieve a brand NPS of +10 in 2012

Customer satisfaction in Direct Energy (brand net promoter score – NPS[(ii)])

+21 2009: +9.5

What's next: Achieve a brand NPS of +28 in 2011

Employee engagement (measured through the Employee Engagement Survey[(iii)])

64% 2009: 66%

What's next: Achieve a score of 67% and remain in the high performance category in 2012

Footnotes

(i) 2010 data subject to final verification

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

Direct Energy's 2009 data is geographically more inclusive than 2010 data and so is not directly comparable

(iii) Questions in the survey 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?

Centrica's corporate responsibility (CR) ambition is to be the most trusted energy company, leading the move to a low carbon future. We must understand the impact our activities have on society and the environment, and contribute to the long-term health and sustainability of both. We believe that we can do this in a way which creates opportunities and advantages for our business and shareholders.

During 2010 we developed a new CR strategy which is aligned with the Group's strategic goals. In addition to our flagship CR programme delivering 'energy for a low carbon world', the strategy has four supporting focus areas: prioritising safety; supplying energy needs; building and maintaining customer trust; and developing our people. These are underpinned by responsible business practices and behaviours which are essential to being trusted by our stakeholders.

Energy for a low carbon world

Centrica is an energy business, with intrinsic environmental impacts. In 2010, we were responsible for approximately 10.3 million tonnes of carbon dioxide (CO_2) emissions from the gas and oil we produced, the electricity we generated and the energy we used in our operations and company vehicles.

But we are taking steps to reduce the overall carbon intensity of our business, and help our customers both to consume less energy and use lower carbon energy.

Customer carbon

In the UK, we continue to deliver against our Carbon Emissions Reduction Target (CERT), providing energy efficiency measures to customers. In 2010, we provided household energy efficiency products with equivalent lifetime carbon savings of 15.6 million tonnes, compared to our target of 14.6 million tonnes.

British Gas also has targets within the UK Government's Community Energy Saving Programme (CESP), to provide energy efficiency measures to some of the most deprived communities in the UK. We are working in partnership with facilities management company Mears to meet our CESP obligations.

During the year, the Government announced plans for a new 'Green Deal' that will enable homeowners to install energy efficiency measures without having to make an upfront investment. British Gas has decided to 'go early' on the Green Deal by installing up to £30 million of energy efficiency measures in our customers' homes before new legislation comes into force in 2012.

Lower carbon power generation

In 2010, the average carbon intensity of our UK power generation was 275g CO_2/kWh, a significant reduction on 2009 which was 371g CO_2/kWh. We have set a target to reduce the average carbon intensity of our UK power generation to 270g CO_2/kWh by 2012. The Group's overall responsibility is to secure energy for its customers' needs. Energy security is enhanced by diversity in the technologies and geographic regions that supply us.

Prioritising safety

We are building a strong safety culture, embedding safe behaviours, and making sure each of our businesses each has the right systems in place to manage and address safety risks.

Initiatives across the Group led to a

£1.1bn

Amount saved by British Gas customers who implemented energy efficiency measures between 2006 and 2010

58,500

Number of hours our employees spent volunteering in 2010

reduction in our lost time injury rate per 100,000 hours worked to 0.41, down 16.3% from 0.49 in 2009. There were no fatal incidents among Centrica Group employees in 2010. Tragically, two contractors working on Centrica projects were killed in 2010.

During 2011 we will introduce improved monitoring, and in some cases control, of safety performance among our contractors and continue to embed a culture where employees feel able to challenge any unsafe practices.

Building customer trust

Customer service

Brand net promoter scores measure our customers' willingness to recommend us, and we have continued to improve. In the UK, British Gas achieved a score of +5, beating our target of +3 and a leading score when compared to the other big five UK energy suppliers. The proportion of complaints to the Ombudsman from British Gas residential customers remains well below market share.

Direct Energy's brand net promoter score has increased to +21, up significantly on last year's score of +9.5.

Support for vulnerable customers

Although we are a commercial organisation, we accept a responsibility for vulnerable customers who cannot afford the energy they need to live safely.

The 2010 Energy Act introduced the Warm Home Discount scheme that comes into force later in 2011. The scheme will more than double the number of vulnerable households supported by British Gas and we will increase our commitment to approximately £105 million by 2014/15.

The introduction of this scheme – which we support – will fundamentally change how we manage fuel poverty in future, requiring us to work more closely with the UK Government and other suppliers.

Investing in our employees

In 2010 we employed an average of 34,970 people and our retention rate was 89.9% compared with 92% in 2009.

Our annual employee survey measures 'employee engagement' – how committed and satisfied our employees are in their work.

In 2010, our overall engagement score dropped two points from 66% to 64%. Given the scale of changes to the business experienced in 2010, this was expected. The scores can be compared to an independent external benchmark which indicates that organisations with engagement scores above 60% consistently deliver better business results.

We invest in the skills and development of our employees. For example, in 2010 we opened our British Gas Green Skills academy in Tredegar, Wales – an area of high unemployment.

We also provide highly regarded opportunities for people entering the job market. In 2010 opportunities for 77 summer placements, 70 graduate recruits and 450 technical apprenticeships were offered across the Group.

In brief

Other significant CR issues managed by our businesses and reported in our corporate responsibility report include supply chain risk, environmental management (water, waste, biodiversity) and community engagement and investment.

To see our CR report, go to: www.centrica.com/responsibility

195,000

Number of smart meters installed in British Gas homes and businesses

No.1

We were ranked top global utility in the Carbon Disclosure Leadership Index's Global 500

Board of Directors and Executive Team


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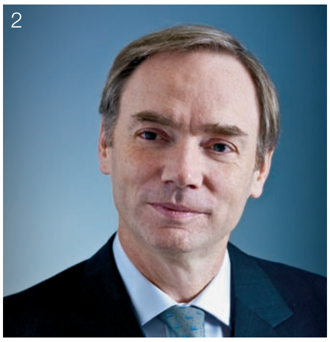
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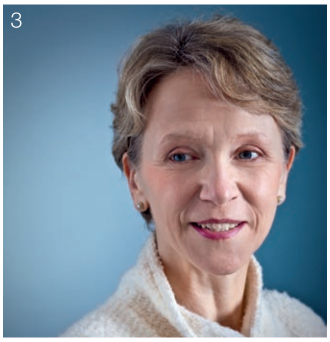
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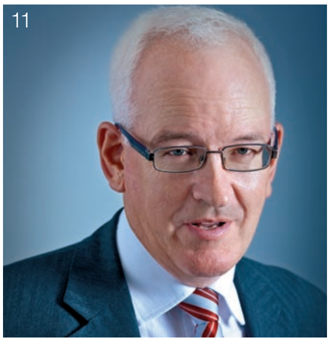
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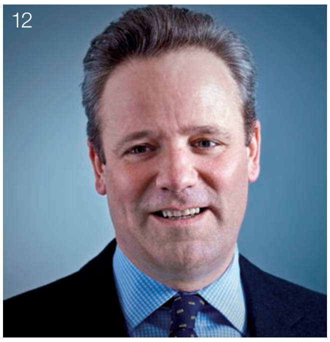
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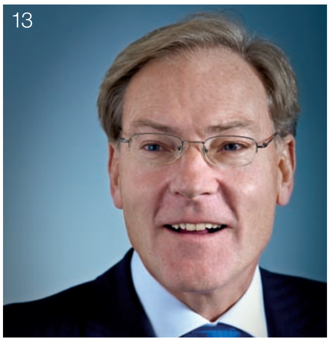
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Key to membership of committees

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

1. Sir Roger Carr
Chairman (64) N,R

Sir 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 has been nominated to be the next president of the CBI from June 2011 and from January 2011 was appointed deputy president. He is a director on the Court of the Bank of England and he is also a senior adviser to Kohlberg Kravis Roberts. He has previously held a number of senior appointments including chief executive of Williams plc and chairman of Chubb plc, Thames Water plc, Mitchells & Butlers plc and Cadbury plc. He is a fellow of the Royal Society for the encouragement of the Arts, Manufacturers and Commerce, a visiting fellow to the Said Business School, Oxford and is a companion of the Institute of Management. Throughout his career he has served on a number of external committees including the Manufacturing Council of the CBI, Higgs Committee on Corporate Governance and Business for New Europe.

2. Sam Laidlaw
Chief Executive (55) 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. In January 2008, he was appointed a non-executive director of HSBC Holdings plc and in December 2010 he was appointed as the lead non-executive director on the board of the Department for Transport. He is also a member of the UK Prime Minister's Business Advisory Group. Previously he was executive vice president of the Chevron Corporation, chief executive officer at Enterprise Oil and president and chief operating officer at Amerada Hess. 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 (54) 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 chair of the Business Advisory Council of the Said Business School, Oxford 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 (52) 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. Until March 2010, he was also a non-executive director and the chairman of the audit committee of Kingfisher plc.

5. Margherita Della Valle
Non-Executive Director (45) A,N,R

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

6. Mary Francis CBE
Senior Independent Director (62) 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 Communications 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.

7. Mark Hanafin
Managing Director, Centrica Energy (51) E

Mark Hanafin joined Centrica as Managing Director, Centrica Energy in July 2008. He was appointed as a 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, he worked for General Electric Company (GEC) having qualified as a chartered engineer.

8. Nick Luff
Group Finance Director (43) D,E

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

9. Andrew Mackenzie
Non-Executive Director (54) 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.

10. Ian Meakins
Non-Executive Director (54) A,N,R

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

11. Paul Rayner
Non-Executive Director (56) 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.

12. Chris Weston
Managing Director, North America (47) C,E

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

Executive Team

13. Grant Dawson
General Counsel & Company Secretary (51) 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.

14. Catherine May
Group Director, Corporate Affairs (46) 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.

15. Anne Minto OBE
Group Director, Human Resources (57) 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 was the Chairman of the Centrica Pension Schemes until September 2010. She is a non-executive director of Shire plc.

Summary Group Income Statement

Year ended 31 December	2010 Business performance £m	2010 Exceptional items and certain re-measurements £m	2010 Results for the year £m	2009 Business performance £m	2009 Exceptional items and certain re-measurements £m	2009 Results for the year £m
Continuing operations						
Group revenue	**22,423**	**–**	**22,423**	21,963	–	21,963
Cost of sales before exceptional items and certain re-measurements	**(17,595)**	**–**	**(17,595)**	(17,663)	–	(17,663)
Exceptional items	**–**	**(102)**	**(102)**	–	(393)	(393)
Re-measurement of energy contracts	**–**	**1,177**	**1,177**	–	(62)	(62)
Gross profit	**4,828**	**1,075**	**5,903**	4,300	(455)	3,845
Operating costs before exceptional items	**(2,641)**	**–**	**(2,641)**	(2,496)	–	(2,496)
Exceptional items	**–**	**(181)**	**(181)**	–	(175)	(175)
Share of profits in joint ventures and associates, net of interest and taxation	**7**	**(14)**	**(7)**	10	(9)	1
Group operating profit	**2,194**	**880**	**3,074**	1,814	(639)	1,175
Net interest expense	**(265)**	**–**	**(265)**	(179)	–	(179)
Profit/(loss) from continuing operations before taxation	**1,929**	**880**	**2,809**	1,635	(639)	996
Taxation on profit from continuing operations	**(708)**	**(221)**	**(929)**	(531)	185	(346)
Profit/(loss) from continuing operations after taxation	**1,221**	**659**	**1,880**	1,104	(454)	650
Profit/(loss) from discontinued operations	**(8)**	**67**	**59**	40	(131)	(91)
Gain on disposal of discontinued operations	**3**	**–**	**3**	–	297	297
Profit/(loss) for the year	**1,216**	**726**	**1,942**	1,144	(288)	856
Attributable to:						
Equity holders of the parent	**1,209**	**726**	**1,935**	1,094	(250)	844
Non-controlling interests	**7**	**–**	**7**	50	(38)	12
	1,216	**726**	**1,942**	1,144	(288)	856

	2010 Pence	2009 Pence
Earnings per ordinary share		
From continuing and discontinued operations:		
Basic	**37.6**	16.5
Diluted	**37.3**	16.4
From continuing operations:		
Basic	**36.4**	12.7
Diluted	**36.1**	12.6
Interim dividend paid per ordinary share	**3.84**	3.66
Final dividend proposed per ordinary share	**10.46**	9.14

	2010 £000	2009 £000
Directors' emoluments	**8,394**	7,184

Summary Group Balance Sheet

31 December	2010 £m	2009 £m
Non-current assets	**13,269**	12,472
Current assets	**5,551**	6,492
Current liabilities	**(5,268)**	(6,162)
Net current assets	**283**	330
Non-current liabilities	**(7,820)**	(8,675)
Net assets of disposal groups classified as held for sale	**87**	128
Net assets	**5,819**	4,255
Shareholders' equity	**5,819**	4,192
Non-controlling interests in equity	**–**	63
Total non-controlling interests and shareholders' equity	**5,819**	4,255

Summary Group Statement of Changes in Equity

Year ended 31 December	2010 £m	2009 £m
1 January	**4,255**	4,372
Profit for the year	**1,942**	856
Other comprehensive income/(loss)	**268**	(546)
	6,465	4,682
Employee share schemes	**69**	63
Amounts arising on consolidation	**–**	946
Repurchase of non-controlling interests (i)	**–**	(201)
Disposal of Segebel S.A.	**–**	(589)
Liquidation of subsidiaries	**(70)**	–
Dividends paid by subsidiaries	**–**	(11)
Dividends	**(668)**	(635)
Taxation	**20**	12
Exchange adjustments	**3**	(12)
31 December	**5,819**	4,255

Summary Group Cash Flow Statement

Year ended 31 December	2010 £m	2009 £m
Cash generated from continuing operations	**3,445**	3,082
Net interest, taxation and other operating cash flows	**(762)**	(435)
Net cash flow from operating activities	**2,683**	2,647
Net cash flow from investing activities	**(1,839)**	(4,520)
Net cash flow from financing activities	**(1,677)**	304
Net decrease in cash and cash equivalents	**(833)**	(1,569)
Cash and cash equivalents at 1 January	**1,285**	2,904
Effect of foreign exchange rate changes	**(1)**	(50)
Cash and cash equivalents at 31 December	**451**	1,285

(i) On 14 May 2010, GF Two Limited (formerly Goldfish Holdings Limited) and its subsidiary, GF One Limited (formerly Goldfish Bank Limited), both non-trading entities were put into liquidation.

The Summary Financial Statements on pages 26 to 27 were approved and authorised for issue by the Board of Directors on 24 February 2011 and were signed below on its behalf by:

Sam Laidlaw
Chief Executive

Nick Luff
Group Finance Director

Independent Auditors' Statement to the members of Centrica plc

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

Respective responsibilities of Directors and Auditors

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

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

We also read the other information contained in the Annual Review and Summary Financial Statements and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statements.

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

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

Opinion

In our opinion the Summary Financial Statements are consistent with the full annual Financial Statements, the Directors' Report and the Directors' Remuneration Report of Centrica plc for the year ended 31 December 2010 and comply with the applicable requirements of section 428 of the Companies Act 2006, and the regulations made thereunder.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London 24 February 2011

Full Annual Report

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

The full Annual Report can be downloaded from the Company's website at www.centrica.com or can be obtained, free of charge, by contacting the Centrica shareholder helpline (see page 33 for contact details). Shareholders may also elect to receive the full Annual Report instead of the Summary Financial Statements for all future years by contacting the Centrica shareholder helpline.

Dividends

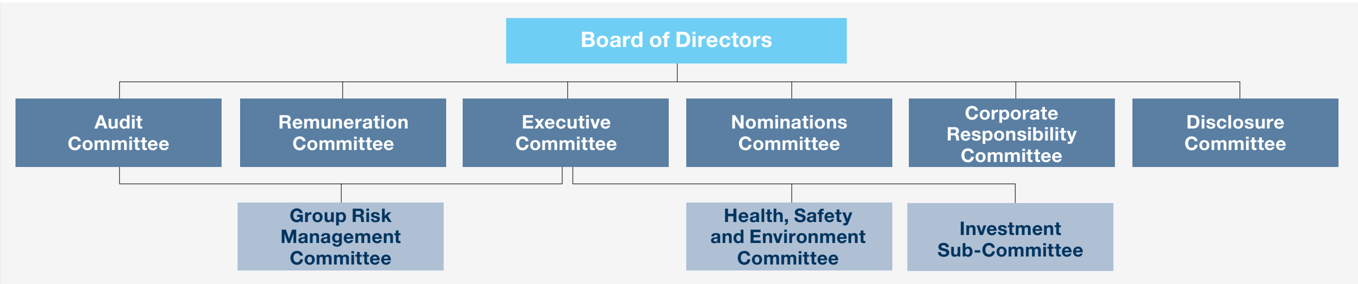
An interim dividend for 2010 of 3.84 pence per share was paid on 17 November 2010. The Directors propose that, subject to approval at the 2011 Annual General Meeting (AGM), a final dividend of 10.46 pence per share will be paid on 15 June 2011 to those shareholders registered on 3 May 2011. This would make a total ordinary dividend for the year of 14.3 pence per share (2009: 12.8 pence per share).

Corporate governance

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

Throughout the year ended 31 December 2010, 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. Following Paul Walsh's retirement as a Non-Executive Director in 2009 and Chris Weston's appointment as an Executive Director also in 2009, the constitution of the Board did not meet provision A.3.2. However in October 2010, Ian Meakins was appointed as a Non-Executive Director of the Company. As a result of this appointment, the membership of the Board has been fully compliant with provision A.3.2 of the Code since October 2010. Whilst the Board recognises the balance of Executive and Non-Executive Directors was not in line with the Code throughout the year, it believes that it still had a robust governance structure during the period of non-compliance and that no individual or small group of individuals dominated the Board's decision making.

Board governance structure



Details of the Board governance structure are provided on pages 43 to 46 of the full Annual Report.

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.

The Board has a schedule of matters specifically reserved for its approval. The Board has delegated some of its authority to committees to carry out certain tasks. The Board reviews each committee's terms of reference against best practice and approves revised terms on a regular basis. The full 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.

Board appointments, evaluation and development

During 2010 and in accordance with the Code and the Articles, all Directors were subject to reappointment by shareholders at the first AGM following their appointment to the Board and thereafter were subject to reappointment at least every three years. Following appointment, Non-Executive Directors are subject to review by the Nominations Committee and can serve up to a maximum of nine years. As recommended by the new UK Corporate Governance Code, the Board has decided that all Directors will be proposed for reappointment at each AGM, with effect from the 2011 AGM. 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 Corporate Governance Report in the Annual Report.

Ian Meakins was appointed to the Board as a Non-Executive Director from 1 October 2010 and Margherita Della Valle was also appointed to the Board as a Non-Executive Director from 1 January 2011.

The Board realises the value of a formal process whereby there is a comprehensive, open and honest assessment of how well they are performing so that the Board continues to deliver effective leadership of the Company. Therefore, each year the Board undertakes a formal evaluation of its own performance and that of its committees and individual Directors. The evaluation was prepared and carried out by the Chairman and the General Counsel & Company Secretary in respect of the year ended 31 December 2010. The evaluation process and outcomes are described in the Corporate Governance Report in the Annual Report.

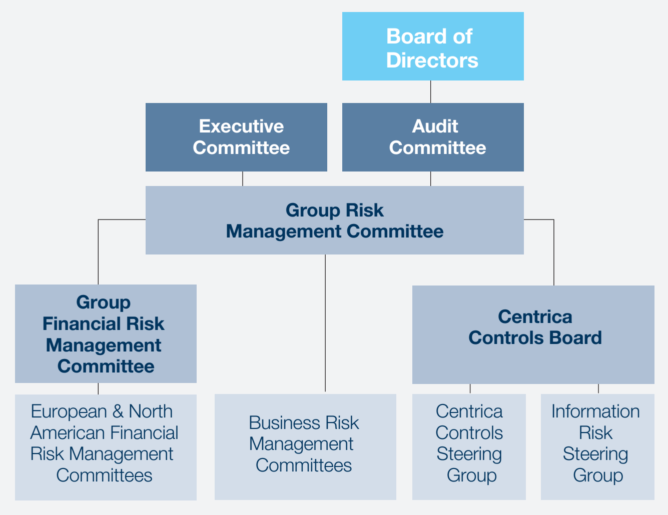
All new Directors appointed to the Board receive a comprehensive induction briefing tailored to meet their individual needs. Ongoing development and training is also provided to all Directors at Board and committee meetings. During the year, Directors received regular updates and presentations on changes and developments to the business and to the legislative and regulatory environments in which the Group operates.

Internal control

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

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 2010 to the date of this report, 24 February 2011, 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.

Group risk governance structure



The above diagram shows some of the key elements of Centrica's risk governance structure. A detailed description of the risk governance structure is given in the Corporate Governance Report in the Annual Report.

Summary Remuneration Report

This is a summary of the Remuneration Report, which is contained in the Annual Report and Accounts, copies of which are available on the Company's website.

The principal role of the Remuneration Committee (the Committee) is to determine and make recommendations to the Board on the Company's framework and broad policy for the remuneration of the Chairman of the Board, the Company's Executive Directors and other senior executives. Members of the Committee are shown on pages 24 and 25 and the Board has determined that each of the Non-Executive Directors who are members is independent.

The Committee believes alignment between Centrica's business strategy, in particular the delivery of value to shareholders, and the remuneration of its Executive Directors and senior executives is essential. The remuneration policy provides a competitive reward framework for its Executive Directors and other senior executives. The policy takes into account the Company's and the individual's performance, employment conditions throughout the Company, and the current economic climate as a whole. In constructing the remuneration packages, the Committee aims to achieve an appropriate balance between fixed and variable compensation for each executive. A significant proportion depends on delivering business performance in line with the strategic priorities over both the short and long term. The Annual Incentive Scheme (AIS) provides a focus on 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 the delivery of Health, Safety & Environment (HS&E) and personal objectives. Long-term share-based incentives align interests with the wider shareholder interests.

During the year, the Committee reviewed executive remuneration arrangements and considered their alignment with the Group's strategic priorities and the link between risk and remuneration in Centrica. In light of the prevailing economic climate, the Committee concluded that no changes would be made at the present time and is satisfied that our remuneration arrangements do not encourage excessive risk-taking. We plan to keep this under review.

In 2010, executive remuneration comprised base salary, AIS, an allocation of shares under the Long Term Incentive Scheme (LTIS), and the Deferred and Matching Share Scheme (DMSS). The Chief Executive was awarded a base salary increase of 3.8%. All other Executive Directors were awarded increases averaging between 2.0% and 8.9%.

As a matter of policy, notice periods in the Executive Directors' service contracts do not exceed one year. However, in the case of new external appointments to the Board, the Committee retains a level of flexibility, as permitted by the Combined Code on Corporate Governance (the Code), and exercised its discretion in respect of the appointment of Mark Hanafin on 14 July 2008. His service contract contains a notice period of two years, which reduced to one year on the second anniversary of his date of appointment in 2010.

Components of remuneration

There was no change to the target and maximum bonus opportunity for 2010. These, as well as the relative proportions of the components that made up the target bonus opportunity, were as follows:

	% of base salary	Target	Max
Chief Executive	50 / 20 / 10 / 10	90%	180%
Executive Directors	25 / 17.5 / 17.5 / 7.5 / 7.5	75%	150%
General Counsel & Company Secretary	25 / 5 / 17.5 / 5 / 7.5	60%	120%
Other executives immediately below Board level	30 / 17.5 / 5 / 7.5	60%	120%

Financial performance targets · Individual business unit targets · Group/business-related targets · HS&E targets · Personal objectives

A balanced range of measures is used to determine overall AIS performance. The annual performance metrics used in 2010 were designed to reward the delivery of key strategic priorities for the year and included: growth in Group economic profit (EP); cost reduction targets; operating reliability; and customer satisfaction levels.

In addition, each business unit head, Phil Bentley, Mark Hanafin, Chris Weston and the General Counsel & Company Secretary had an individual business unit target based on business unit EP growth. A separate HS&E metric for 2010 was also applied, and extended to the Chief Executive and a number of the executives immediately below Board level. If overall business performance, including HS&E performance is not deemed satisfactory, the individual's bonus for the year may be reduced or forfeited, at the discretion of the Committee.

Part of an Executive Director's AIS award is compulsorily deferred and invested in the DMSS. 40% of any AIS award for the Chief Executive and 30% for Executive Directors and executives immediately below Board level will be deferred. Participants are also given the opportunity to invest an additional amount in investment shares from their actual bonus, up to 50% of the individual's maximum AIS opportunity (including the compulsory deferral). In respect of Chris Weston, who is based in Toronto, deferred shares are held as a notional entitlement, due to local tax laws.

Deferred and Matching Share Scheme

Award year	Vesting criteria	Performance condition over three-year period
2009 and 2010	Level at which shares matched depends on growth in point-to-point EP performance	• 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
2008	Level at which shares matched depends on growth in cumulative EP performance	• 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

Long Term Incentive Scheme

Award year	Vesting criteria	Performance condition over three-year period
2010	One half on EPS(i) growth against RPI growth	• Full vesting for EPS growth exceeding RPI growth by 30% • Zero vesting if EPS growth does not exceed RPI growth by 9% • Vesting will increase on a straight-line basis between 25% and 100% between these points
	One half on TSR measured as a percentage out-performance of the FTSE 100 Index	• Full vesting for TSR out-performance of the FTSE 100 Index by 7% • Zero vesting if TSR out-performance of the FTSE 100 Index does not exceed 0.1% • Vesting will increase on a straight-line basis between 25% and 100% for TSR out-performance of the FTSE 100 Index between these points
2008 and 2009	One half on EPS(i) growth against RPI growth	• Full vesting for EPS growth exceeding RPI growth by 30% • Zero vesting if EPS growth does not exceed RPI growth by 9% • Vesting will increase on a straight-line basis between 25% and 100% between these points
	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 these points

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

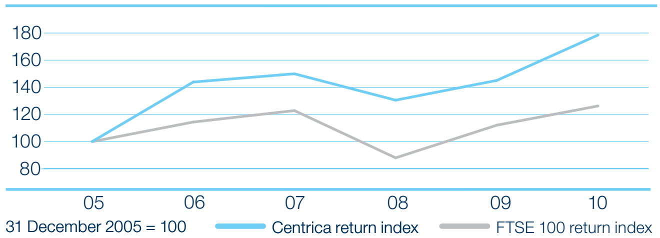
In 2010, deferred and investment shares were matched with conditional matching shares, structured as nil-cost options for all UK resident participants. Matching shares will be released upon the achievement of a performance target (see table above). For the purposes of matching, the investment shares are grossed up for income tax and employee's National Insurance contributions. Released matching shares will be increased to reflect the dividends that would have been paid during the performance period. In the event of a change of control the number of matching shares that would vest will be subject to time-apportionment in line with best practice.

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

In 2010, LTIS allocations were awarded to Executive Directors equal to 200% of base salary and at lower levels to other senior executives. LTIS allocations were structured as nil-cost options for all UK resident participants. The release of allocations will be subject to the performance conditions set out in the table above.

The following graph compares the Company's TSR performance with that of the FTSE 100 Index for the five years ended 31 December 2010.

TSR – 5 year FTSE 100 Index



The Centrica Pension Plan (CPP) (a contributory final salary arrangement) was closed to new employees from 30 June 2003. Executive Directors in office or employed by the Company prior to this date (Phil Bentley and Chris Weston) participated in the scheme during 2010. Mark Hanafin, Sam Laidlaw and Nick Luff are not members of any of Centrica's pension schemes and alternative arrangements are in place for them.

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

Directors' emoluments, pension benefits and interests in shares

As at 31 December 2010	Total emoluments excluding pension 2010 £000 (i)	Total emoluments excluding pension 2009 £000(ii)	Accrued pension 2010 £pa (iii)	Shareholdings in 2010 (iv)	DMSS total matching shares 2010 (v)	LTIS total allocations of shares 2010 (vi)	Sharesave total options 2010(vii)	ESOS and SESOS total options 2010 (viii)
Executive Directors								
Phil Bentley	**1,299**	1,249	191,500	2,184,946	588,285	1,408,432	3,977	–
Mark Hanafin	**1,427**	1,294	–	319,259	599,594	1,229,137	4,727	336,012
Sam Laidlaw	**2,045**	2,011	–	1,859,419	1,707,182	2,129,974	3,977	–
Nick Luff	**1,433**	1,267	–	624,534	865,804	1,322,949	7,392	–
Chris Weston	**1,380**	589	102,500	552,344	652,367	1,043,752	4,727	630,816
	7,584	6,410	294,000	5,540,502	4,413,232	7,134,244	24,800	966,828
Chairman								
Sir Roger Carr	**470**	450	–	26,441	–	–	–	–
Non-Executive Directors								
Helen Alexander	**79**	72	–	3,465	–	–	–	–
Mary Francis	**99**	92	–	3,500	–	–	–	–
Andrew Mackenzie	**63**	60	–	28,875	–	–	–	–
Ian Meakins (ix)	**16**		–	–	–	–	–	–
Paul Rayner	**83**	78	–	56,875	–	–	–	–
	810	752	–	119,156	–	–	–	–
Total emoluments	**8,394**	7,162	294,000	5,659,658	4,413,232	7,134,244	24,800	966,828

Notes on information shown in the table

(i) Total emoluments for 2010 for Executive Directors include all taxable benefits arising from employment by the Company, including the provision of a car (Sam Laidlaw was also provided with a driver for limited personal mileage), financial counselling and medical insurances. In addition, cash payments in lieu of pension to Mark Hanafin, Sam Laidlaw and Nick Luff, and a cash payment to Chris Weston in respect of continued relocation expenses, and Nick Luff in lieu of the provision of a company car, are also included.

(ii) Total emoluments figure for 2009 excludes the fees paid to Paul Walsh until his retirement from the Board on 11 May 2009 (2009: £22,000).

(iii) Accrued pension is that which would be paid annually on retirement at age 62, based on eligible service to and pensionable salary at 31 December 2010. Sam Laidlaw is contractually entitled to a salary supplement of 40% of base pay in lieu of any pension provision. This amounted to £376,500 (2009: £366,000) of which £252,500 (2009:£242,500) (not included above) was paid directly by the Company into his personal pension plan. Mark Hanafin and Nick Luff are contractually entitled to a salary supplement of 40% of base pay respectively in lieu of any pension provision. Nick Luff's entitlement was increased from 30% of base salary, with effect from 1 April 2010. Full details of the Directors' pension scheme arrangements can be found in the Annual Report.

(iv) Executive Directors' shareholdings above include those held in the Share Incentive Plan and the deferred and investment shares held in the DMSS. Details of the DMSS can be found in the Annual Report. Due to local tax laws in Canada, shareholdings for Chris Weston include 54,898 notional deferred shares allocated for 2010 under the DMSS. As at 24 February 2010, the beneficial shareholdings of Phil Bentley, Mark Hanafin, Nick Luff and Chris Weston had each increased by 113 shares and by 114 shares for Sam Laidlaw, acquired through the Share Incentive Plan.

(v) Awards were made under the DMSS on 13 October 2008, 3 April 2009 and 6 April 2010. The aggregate value of shares vested to Executive Directors under the first release from the DMSS was £2,852,299.

(vi) Allocations were made under the LTIS on 3 April 2008, 1 September 2008, 26 September 2008, 3 April 2009, 9 September 2009 and 6 April 2010. The aggregate value of shares vested to Executive Directors under the LTIS and Special Long Term Incentive Scheme (SLTIS) was £2,435,828 (2009: £2,000,486). Full details of the SLTIS can be found in the Annual Report.

(vii) Options that were granted under the ESOS and Special Executive Share Option Scheme (SESOS) on 31 May 2001, 2 April 2002, 24 March 2003, 18 March 2004, 1 April 2005, 3 April 2006 and 26 September 2008 have vested in full and are exercisable until the tenth anniversary of the grant date. Full details of the SESOS can be found in the Annual Report. The theoretical aggregate gain made by Phil Bentley on the exercise of executive share options during the year was £2,692,697. (No executive options were exercised by Executive Directors during 2009).

(viii) Options we granted under the Sharesave Scheme on 4 April 2007, 3 April 2008, 7 April 2009 and 6 April 2010. Sam Laidlaw and Phil Bentley exercised Sharesave options during the year and the theoretical gains made were £808 and £553 respectively. (The theoretical gain made by Chris Weston in respect of the exercise of Sharesave options during 2009 was £2,004).

(ix) Ian Meakins was appointed to the Board on 1 October 2010.

FINANCIAL CALENDAR

27 April 2011	Ex-dividend date for 2010 final dividend
3 May 2011	Record date for 2010 final dividend
9 May 2011	AGM, Queen Elizabeth II Conference Centre, London SW1
15 June 2011	Payment date for 2010 final dividend
28 July 2011	Announcement date for 2011 interim results
16 November 2011	Payment date for proposed 2011 interim dividend

Electronic communications and the Centrica website

At the 2007 AGM 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 new 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 2010 Annual Report, Annual Review and Notice of 2011 AGM are available to view on the Centrica website at **www.centrica.com/report2010**. The Centrica website at **www.centrica.com** also provides news and details of the Company's activities, plus information on the share price and 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, and shareholder documents.

REGISTER FOR ELECTRONIC SHAREHOLDER COMMUNICATIONS

- view the Annual Report on the day it is published;
- receive an email alert when shareholder documents are available;
- cast your AGM vote electronically; and
- manage your shareholding quickly and securely online.

For more information and to register visit: www.centrica.com/shareholders.

SHAREHOLDER SERVICES

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 any query relating to your Centrica shareholding, please contact our Registrar, Equiniti:

Telephone: 0871 384 2985*
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 frequently asked shareholder questions is also available at www.centrica.com/shareholders.

Direct dividend payments

Make your life easier by having your dividends paid directly into your designated bank or building society account on the dividend payment date. The benefits of this service include:

- 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 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 your self-assessment tax return.

To register for this service, please call the shareholder helpline on 0871 384 2985* to request a direct dividend payment form or download it from www.centrica.com/shareholders.

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.

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ACCESSIBILITY

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Telephone: 0800 111 4371 Textphone: 18001 0800 111 4371
Please note that these numbers should be used to order copies of alternative formats only. For general shareholder enquiries, please use the shareholder helpline 0871 384 2985*.

* Calls to these numbers are charged at 8 pence per minute from a BT landline. Other providers' telephony costs may vary.

Centrica plc
Registered office: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD
Company registered in England and Wales No. 3033654
www.centrica.com