CENTRICA PLC
PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

OPERATING AND FINANCIAL OVERVIEW

STRONG PERFORMANCE ALLOWS US TO CONTRIBUTE OUR FAIR SHARE

- Adjusted earnings up 5% to £1,406 million; 27.1 pence adjusted basic earnings per share
- After a warm 2011, cooler weather saw average domestic gas consumption increase by 12%
- Centrica Energy and Direct Energy benefiting from enhanced scale; adjusted operating profit in the UK up by 2%, adjusted operating profit from non-UK operations up by 78%
- Adjusted Group tax charge of £1.1 billion, £773 million relating to the UK; 44% Group effective tax rate
- Share repurchase of £500 million announced and full year dividend up 6% to 16.4 pence per share, benefiting over 700,000 individual shareholders and pension funds

REFRESHED STRATEGIC PRIORITIES TO REFLECT CHANGING MARKET CONDITIONS

- Vision to be the leading integrated energy company, with customers at our core
- New leadership structure, to implement our refreshed strategic priorities:
  - Innovate to drive growth and service excellence
  - Integrate our natural gas business, linked to our core markets
  - Increase our returns through efficiency and continued capital discipline
- Build on our distinctive capabilities downstream, with North America a more material part of the Group
- Optimise and develop our upstream gas portfolio, investing where we see attractive value

HELPING OUR CUSTOMERS IN DIFFICULT TIMES

- Clear and simple bill design and tariffs; helping customers to understand why external costs are rising and how to find the best tariff for them, with our personalised tariff checker product
- 5 star customer service rating from Consumer Focus
- 400,000 customers to receive £130 Warm Home Discount
- British Gas residential energy returned to customer account growth in the early weeks of 2013, following 1% decline in 2012
- Added over 200,000 residential customer accounts in Direct Energy; innovative offerings and high levels of customer service

SECURING SUSTAINABLE AND AFFORDABLE ENERGY SUPPLIES

- £2.7 billion invested in 2012
- Construction of £1.4 billion North Sea Cygnus gas field started, creating 4,000 UK jobs and producing gas for 1.5 million UK homes
- First power from Lincs offshore wind farm, will supply electricity for 200,000 UK homes; first production from three gas fields in last 12 months; York and Rhyl first gas expected in coming weeks
- Positive results from exploration drilling at Rodriguez and Whitehaven in early 2013, following lower levels of drilling success in 2012
- Commitments to secure gas and power for the UK totalling more than £50 billion

"We have taken the lead during 2012 in helping more households save energy and supporting the people who need the most help. It's important that Centrica makes a fair and reasonable return so that we can continue to make our contribution to society and to invest. Last year we incurred a tax charge of over £1 billion and invested over £2 billion to secure new sources of energy for the UK, well in excess of our profits."

Sam Laidlaw
Chief Executive

Unless otherwise stated, all references to operating profit or loss, taxation and earnings numbers throughout the announcement are adjusted figures, as reconciled to their statutory equivalents in the Group Financial Review on pages 9 and 10. Statutory earnings for the year are £1,273 million.

FINANCIAL PERFORMANCE AND KPIS

FINANCIAL PERFORMANCE

For the year ended 31 December	2012	2011	Δ
Revenue from continuing operations	**£23.9bn**	£22.8bn	5%
Adjusted operating profit			
British Gas			
Residential energy supply	£606m	£544m	11%
Residential services	£312m	£269m	16%
Business energy supply and services	£175m	£192m	(9%)
Total British Gas	**£1,093m**	£1,005m	9%
Centrica Energy			
Gas	£919m	£769m	20%
Power	£311m	£254m	22%
Total Centrica Energy	**£1,230m**	£1,023m	20%
Centrica Storage	**£89m**	£75m	19%
Direct Energy	**£331m**	£312m	6%
Total adjusted operating profit	**£2,743m**	£2,415m	14%
Total adjusted taxation charge	**£1,110m**	£891m	25%
Total adjusted effective tax rate	**44%**	40%	4ppt
Adjusted earnings	**£1,406m**	£1,333m	5%
Adjusted basic earnings per share	**27.1p**	25.8p	5%
Full year dividend per share	**16.4p**	15.4p	6%
Group capital and acquisition expenditure	**£2,727m**	£1,601m	70%

To align with management responsibilities and reporting, the British Gas Community Energy and British Gas New Energy businesses have been reallocated from the Residential energy supply segment to the Business energy supply and services and Residential services segments respectively. The 2011 comparatives have been restated accordingly.

KEY OPERATIONAL PERFORMANCE INDICATORS

For the year ended 31 December	2012	2011	Δ
UK residential energy customer accounts (period end, ’000)	**15,656**	15,881	(1%)
UK residential services product holdings (period end, ’000)	**8,402**	8,484	(1%)
UK business energy supply points (period end, ’000)	**924**	999	(8%)
Centrica Energy gas production (mmth)	**2,441**	2,160	13%
Centrica Energy liquids production (mmboe)	**16.3**	12.5	30%
Centrica Energy total gas and liquids production (mmboe)	**56.7**	48.2	18%
Centrica Energy total proven and probable gas and liquids reserves (mmboe)	**525**	410	28%
Centrica Energy power generated (TWh)	**21.5**	26.7	(20%)
Direct Energy residential energy and services accounts (period end, ’000)	**5,856**	5,647	4%
Direct Energy business energy supply electricity volumes (TWh)	**51.4**	46.4	11%
North America total proven and probable gas and liquids reserves (mmboe)	**108**	109	(1%)
Lost time injury frequency rate (per 100,000 hours worked)	**0.20**	0.25	20%

UK residential services product holdings have been restated to exclude the Water Supply Pipe product, which has been incorporated into the Plumbing and Drains product.

STATUTORY RESULTS

For the year ended 31 December 2012

- Operating profit from continuing operations: £2,625m (2011: £1,414m)
- Profit from continuing operations before taxation: £2,442m (2011: £1,268m)
- Earnings: £1,273m (2011: £421m)
- Basic earnings per ordinary share: 24.6p (2011: 8.2p)
- Earnings include £481m of exceptional charges relating to provisions for North American wind power purchase agreements, restructuring charges, an impairment relating to our decision not to proceed with nuclear new build and a restriction on the rate of tax relief on UK oil and gas decommissioning costs.

Unless otherwise stated, all references to operating profit or loss, taxation and earnings numbers throughout the announcement are adjusted figures, as reconciled in the Group Financial Review on page 9 and 10.

CHAIRMAN'S STATEMENT

REVIEW OF THE YEAR

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

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

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

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

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

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

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

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

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

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

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

We believe that under the leadership of Sam Laidlaw we have developed a strong platform on which we can build a rewarding future for both customers and shareholders. This has been achieved with the considerable

CHAIRMAN'S STATEMENT CONTINUED

commitment of the management team and the skills and enthusiastic support of colleagues on both sides of the Atlantic.

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

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

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

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

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

Sir Roger Carr
Chairman
27 February 2013

CHIEF EXECUTIVE'S REVIEW

STRONG PERFORMANCE IN 2012 ALLOWS US TO CONTRIBUTE OUR FAIR SHARE

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

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

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

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

We remain on track to deliver our Group-wide £500 million cost reduction programme, sharpening the business and maintaining our competitive edge. At the same time we have retained our absolute focus on safety which continues to be a core priority across all our activities. Our downstream businesses have continued their significant reduction in accident rates, while our upstream operations have been implementing more rigorous process safety management systems. At a Group level we have developed a more comprehensive process to provide greater assurance of HSE compliance to the Board and Executive. This strong safety culture is reflected in our performance, with the Lost Time Injury Frequency Rate (LTIFR) falling by 20%.

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

HELPING OUR CUSTOMERS IN DIFFICULT TIMES

Taking the lead in making energy choices simple and transparent

In February 2013, Ofgem announced that it was preparing for final proposals and a statutory consultation to be published around the end of March 2013 on its reforms to make the household energy market simpler, clearer and fairer for consumers. These follow on from initial findings published in March 2011 and updated proposals announced in October 2012. The headline proposals are a welcome step forward for the industry and will help to improve customer trust, engagement and understanding. However, it is important that these positive developments do not have the unintended consequence of restricting choice and innovation. We have already implemented a number of changes consistent with the headline proposals, including simplifying our tariff structures and publishing price comparison information to make it easy for customers to ensure they are on the most appropriate British Gas tariff for them.

Customer service, cost efficiency and innovation remain at the heart of everything we do. British Gas operating costs fell year-on-year, but not at the expense of service, as our Net Promoter Score (NPS) increased once again, to +30, and we were awarded the top 5 star rating for customer service from Consumer Focus. Our improved online platform handled 13% more transactions than in 2011, achieving a better customer experience and lower costs. Our new 'Remote Heating Control' product allows customers to monitor and control their

CHIEF EXECUTIVE'S REVIEW CONTINUED

energy use when they are away from the home, and we have now installed over 800,000 smart meters for homes and businesses - substantially more than any other UK energy supplier.

We also spend more than any other energy supplier on those who are most in need of support. In 2012, 400,000 of our most vulnerable customers received the Warm Home Discount, now worth £130 off their annual bill. We are also at the forefront of measures to help people use less energy, installing insulation for nearly 700,000 customers during the year.

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

Innovation in North America

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

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

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

SECURING SUSTAINABLE AND AFFORDABLE ENERGY SUPPLIES

The Group invested £2.7 billion of capital in 2012, helping to secure supplies for the UK. Around £2 billion of that was invested in North Sea gas and oil assets, including the completion of three acquisitions. This materially increased the scale and geographic diversity of the business and Norway is now a core part of our portfolio, with a number of attractive producing, development and exploration assets. Over the past three years we have developed significant capabilities in upstream and midstream, leaving us well placed for future growth.

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

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

CHIEF EXECUTIVE'S REVIEW CONTINUED

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

NEW STRATEGIC PRIORITIES TO REFLECT CHANGING MARKET CONDITIONS

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

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

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

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

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

Innovate to drive growth and service excellence

Underlying household energy consumption in the UK will continue to fall as appliances and homes become more efficient. However with the UK increasingly exposed to global gas prices, and non-commodity costs expected to rise year-on-year, affordability will remain an important issue. By contrast, the low gas price environment in North America makes affordability less of an issue, and favourable market conditions in the United States offer a good opportunity for growth. On both sides of the Atlantic, the roll-out of smart meters will

CHIEF EXECUTIVE'S REVIEW CONTINUED

give customers a new level of control over their energy use and we need to be innovative in the way we help them meet their evolving energy needs.

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

In North America too, service, innovation and cost efficiency will remain a core focus. But the continued liberalisation of markets in the United States, and the undeveloped nature of energy services provision, offer an opportunity to grow our customer base, both organically and through acquisition. We will continue to evaluate both bolt-on and larger acquisitions but remain focused on returns and will only transact where we see value. We will use our UK expertise and experience to develop our protection plan offerings in North America and we will increase the level of energy and services bundling over time. Over the next 3-5 years we are targeting a doubling of profitability in the North America downstream business, through a combination of organic growth and acquisitions, with Direct Energy downstream becoming a more material part of the Group.

Integrate our natural gas business, linked to our core markets

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

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

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

Increase our returns through efficiency and continued capital discipline

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

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

Sam Laidlaw
Chief Executive
27 February 2013

GROUP FINANCIAL REVIEW

Group revenue from continuing operations was up 5% to £23.9 billion (2011: £22.8 billion). Revenue increased in British Gas due to higher gas consumption as a result of colder weather and higher retail gas and electricity prices. Revenue decreased in Centrica Energy, with the impact of lower gas-fired power generation volumes and reduced midstream activity following the closure of our German wholesale business in 2011, more than offsetting the impact of higher gas and liquid volumes. Revenue in Direct Energy was broadly flat, reflecting higher average customer numbers and increased business energy consumption, offset by lower wholesale energy prices.

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

Year ended 31 December	Notes	2012 Business performance £m	2012 Exceptional items and certain re-measurements £m	2012 Statutory result £m	2011 Business performance £m	2011 Exceptional items and certain re-measurements £m	2011 Statutory result £m
Adjusted operating profit:							
British Gas		**1,093**			1,005		
Centrica Energy		**1,230**			1,023		
Centrica Storage		**89**			75		
Direct Energy		**331**			312		
Total adjusted operating profit	5b	**2,743**			2,415		
Depreciation of fair value uplifts from Strategic Investments, before tax	10	**(96)**			(105)		
Interest and taxation on joint ventures and associates	5b	**(85)**			(102)		
Group operating profit	6	**2,562**	**63**	**2,625**	2,208	(794)	1,414
Net interest expense		**(183)**	**–**	**(183)**	(146)	–	(146)
Taxation	6,7,8	**(1,029)**	**(140)**	**(1,169)**	(810)	(16)	(826)
Profit from continuing operations after taxation		**1,350**	**(77)**	**1,273**	1,252	(810)	442
Discontinued operations		**–**	**–**	**–**	13	(34)	(21)
Profit for the year		**1,350**	**(77)**	**1,273**	1,265	(844)	421
Depreciation of fair value uplifts from Strategic Investments, after taxation	10a	**56**			68		
Adjusted earnings		**1,406**			1,333		

Total adjusted operating profit was up 14% to £2,743 million (2011: £2,415 million). In British Gas, profitability increased, with the impact of higher gas consumption and unit prices more than offsetting increased wholesale commodity, transportation and environmental costs in residential energy supply, and cost efficiency measures driving growth in residential services. In Centrica Energy, higher gas and liquids production resulting from acquisitions and higher achieved prices led to increased profitability in the gas segment, while higher nuclear power generation more than offset the impact of reduced gas-fired power generation volumes in the power segment. In Centrica Storage, improved seasonal price differentials during the final quarter of 2011 and first quarter of 2012 led to higher profitability. In Direct Energy, profitability increased, with growth in services and business energy supply more than offsetting slightly lower profitability in residential energy supply, driven by less favourable market conditions in Ontario partially offset by the impact of recent acquisitions.

Net interest expense was £183 million (2011: £146 million), reflecting £1,196 million net issuance of debt during the year. The tax on adjusted profit from continuing operations was £1,029 million (2011: £810 million), reflecting a higher level of operating profit and an increased mix of more heavily taxed upstream operating profit. After adjusting for the tax impact of depreciation on the Venture fair value uplift and our share of taxation on joint ventures and associates, the adjusted tax charge from continuing operations was £1,110 million (2011: £891 million) and the resultant adjusted effective tax rate for the Group was 44% (2011: 40%). An effective tax rate calculation, split UK and non-UK, is shown in the table overleaf:

GROUP FINANCIAL REVIEW CONTINUED

	UK £m	Non-UK £m	2012 Total £m	UK £m	Non-UK £m	2011 Total £m
Adjusted operating profit	**2,079**	**664**	**2,743**	2,042	373	2,415
Share of joint ventures / associates interest	**(44)**	**–**	**(44)**	(58)	–	(58)
Net interest expense	**(79)**	**(104)**	**(183)**	(71)	(75)	(146)
Adjusted profit from continuing operations before taxation	**1,956**	**560**	**2,516**	1,913	298	2,211
Tax on adjusted profit from continuing operations	**692**	**337**	**1,029**	682	128	810
Tax impact of depreciation on Venture fair value uplift	**40**	**–**	**40**	37	–	37
Share of taxation on joint ventures / associates	**41**	**–**	**41**	44	–	44
Adjusted tax charge from continuing operations	**773**	**337**	**1,110**	763	128	891
Adjusted effective tax rate	**40%**	**60%**	**44%**	40%	43%	40%

Reflecting all of the above, profit from continuing operations after taxation was up 8% to £1,350 million (2011: £1,252 million) and after adjusting for fair value uplifts, adjusted earnings increased by 5% to £1,406 million (2011: £1,333 million). Adjusted basic earnings per share (EPS) increased to 27.1 pence (2011: 25.8 pence).

The statutory profit for the year was £1,273 million (2011: £421 million). The reconciling items between profit from business performance and the statutory profit are related to exceptional items, certain re-measurements and discontinued operations. The increase compared with 2011 was principally due to a net gain on certain re-measurements of £404 million (2011: net loss of £322 million). The Group reported a statutory basic EPS of 24.6 pence (2011: 8.2 pence).

In addition to the interim dividend of 4.62 pence per share, we propose a final dividend of 11.78 pence, giving a total ordinary dividend of 16.4 pence for the year (2011: 15.4 pence), an increase of 6%.

Group operating cash flow from continuing operations before movements in working capital was higher at £3,542 million (2011: £3,065 million), reflecting the contribution from Centrica Energy acquisitions. After working capital adjustments, tax, operational interest, and cash flows associated with exceptional charges and discontinued operations, this stood at £2,820 million (2011: £2,337 million).

The net cash outflow from investing activities was £2,558 million (2011: £1,400 million), as described in the business combinations and capital expenditure section on page 11. The increased outflow reflects the acquisitions of North Sea gas and oil assets.

The net cash inflow from financing activities was £190 million (2011: outflow of £907 million). The inflow reflects the net issuance of borrowings during the year exceeding dividends paid.

Reflecting all of the above, the Group's net debt at 31 December 2012 was £4,047 million (2011: £3,292 million). To align with management reporting, net debt has been restated to include mark-to-market values on derivative financial instruments used to hedge offsetting changes in borrowings.

During the year net assets increased to £5,927 million (31 December 2011: £5,600 million), reflecting the impact of statutory profit for the year exceeding dividends paid.

EXCEPTIONAL ITEMS

Exceptional charges from continuing operations of £534 million were included within Group operating profit during the year (2011: £331 million).

Following a decrease in North American power prices, a charge of £89 million has been made to reflect the fair value of the obligation to purchase power above its net realisable value through onerous wind farm power purchase agreements.

On 4 February 2013, Centrica announced its decision not to proceed with nuclear new build investment. Accordingly, the Group has recorded an impairment of £231 million. This amount includes the carrying value of its investment in NNB Holding Company Limited as well as value attributed to nuclear new build in the British Energy acquisition.

GROUP FINANCIAL REVIEW CONTINUED

An exceptional restructuring charge of £214 million was recorded, mainly relating to staff reductions following the Group-wide cost reduction programme announced in 2012.

Taxation on the total of these charges generated a credit of £93 million (2011: £69 million). On 3 July 2012, the UK government substantively enacted the restriction on the rate of tax relief on oil and gas decommissioning costs from the current 62% to 50%. An exceptional tax charge of £40 million has been recognised from revaluing the related deferred tax provisions.

CERTAIN RE-MEASUREMENTS

In our business we enter into a portfolio of forward energy contracts which include buying substantial quantities of commodity to meet the future needs of our customers. Primarily because these contracts include terms that permit net settlement, the rules within IAS39 require the contracts to be fair valued. In addition, the Group also enters into a range of commodity contracts designed to secure the value of its underlying production, generation, storage and transportation assets consistent with an integrated energy business in the UK and North America. Fair value movements on these commodity derivative contracts do not reflect the underlying performance of the business because the contracts are economically related to our upstream assets or downstream demand in our chosen markets, which are not typically fair valued. Therefore, these certain re-measurements are reported separately and are subsequently reflected in business performance when the underlying transaction or asset impacts profit or loss. The operating profit in the statutory results includes net gains of £597 million (2011: losses of £463 million) relating to these re-measurements, of which there are a number of elements. The profits arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements. See note 3 for further details.

BUSINESS COMBINATIONS AND CAPITAL EXPENDITURE

On 30 April 2012, the Group completed the acquisitions of certain oil and gas production and development assets from Statoil and ConocoPhillips for a combined total cash consideration of £911 million. In addition, total tax liabilities of £169 million were assumed on completion of the acquisitions. During the year the Group also completed the acquisition of a portfolio of producing oil and gas assets from Total for total cash consideration of £133 million. These three acquisitions are included within the Centrica Energy gas segment.

On 22 August 2012, the Group acquired 100% of the shares of New York based energy retailers Energetix Inc. and NYSEG Solutions Inc. for total cash consideration of $121 million (£77 million) including $5 million (£3 million) of deferred consideration. Goodwill of $43 million (£27 million) arose on the acquisition. The acquisition is included in the Direct Energy residential energy supply and business energy supply segments.

Further details on capital expenditure and business combinations are included in notes 5(e) and 16 respectively.

EVENTS AFTER THE BALANCE SHEET DATE

On 4 February 2013, Centrica announced its decision not to proceed with nuclear new build investment. Accordingly, the Group has recorded an impairment of £231 million. The Group also announced on 4 February 2013 its intention to launch a £500 million share repurchase programme to return surplus capital to shareholders, which will be conducted over the next 12 months.

Further details on events after the balance sheet are described in note 19.

RISKS AND CAPITAL MANAGEMENT

The Group's risk management processes are largely unchanged from 31 December 2011. Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note 4.

Details on the Group's capital management processes are provided under sources of finance in note 11.

ACCOUNTING POLICIES

UK listed companies are required to comply with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group's specific accounting measures, including changes of accounting presentation and selected key sources of estimation uncertainty, are explained in note 3.

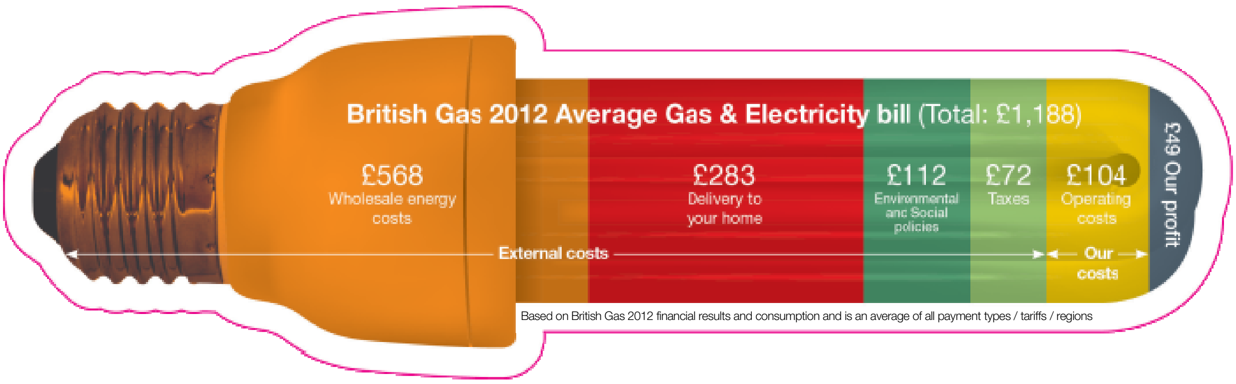
OPERATING REVIEW

BRITISH GAS

Good performance against a challenging economic backdrop

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

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



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

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

Helping our customers in difficult times

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

Unless otherwise stated, all references to operating profit or loss, taxation and earnings numbers throughout the announcement are adjusted figures, as reconciled in the Group Financial Review on page 9 and 10.

OPERATING REVIEW CONTINUED

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

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

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

Customer accounts stabilised despite competitive market conditions

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

The number of residential energy customer accounts on supply reduced by 1% during the year, to 15.7 million (2011: 15.9 million). This reflected a short term increase in customer churn following the implementation of the price rise, although churn of 9% over the year was at its lowest ever level reflecting good customer service. Our competitive pricing position has now improved following the implementation of price rises by all major suppliers and we have seen a return to growth in the early weeks of 2013. We have 5 million customers enrolled in the Nectar loyalty programme, which reduces our cost to serve and improves the customer experience by incentivising the use of our online platform, including the submission of meter reads and payment by direct debit.

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

The number of business energy supply points fell by 8% over the year, to 924,000 (2011: 999,000) due to the challenging economic and competitive environment which is putting pressure on contract renewal rates and

OPERATING REVIEW CONTINUED

margins. However we have recently received the letter of intent to award the renewal of a significant electricity contract from the Government Procurement Service comprising 70,000 sites for a term of four years. A new management team is in place and we continue to invest in our back office systems to reduce costs, sharpen our competitive position and enhance our customer service. In business services we have made good progress. We have now been selected as preferred contractor on seven multi-year energy performance contracts with public sector organisations and have a strong pipeline for the year ahead.

More normal weather and cost reduction programme driving profit growth

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

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

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

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

Leading the transition to smart connected homes and businesses

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

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

Innovate to drive growth and service excellence

Performance in 2012 in a challenging economic and competitive environment has demonstrated that our business model remains sound. In residential energy supply it will be increasingly important to differentiate our offering through service excellence and innovation. Our scale and leadership in customer service, cost efficiency

OPERATING REVIEW CONTINUED

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

British Gas

Total British Gas

For the year ended 31 December	FY 2012	FY 2011	Δ%	H2 2012	H2 2011	Δ%
Total customer accounts (period end) ('000)	**24,982**	25,364	(1.5)	24,982	25,364	(1.5)
Total customer households (period end) ('000)	**11,745**	11,997	(2.1)	11,745	11,997	(2.1)
Joint product households (period end) ('000)	**2,149**	2,207	(2.6)	2,149	2,207	(2.6)
Gross Revenue (£m):	**13,857**	12,403	12	6,650	6,049	10
Operating cost (excluding bad debt) (£m)	**1,418**	1,425	(0.5)	707	678	4.3
Operating profit (£m)	**1,093**	**1,005**	9	**530**	**487**	9

2011 gross revenue has been restated to reflect the reclassification of the British Gas New Energy business from Residential energy supply to Residential services and the reclassification of the British Gas Community Energy business from Residential energy supply to Business energy supply and services.
Total customer accounts has been restated to exclude the Water Supply Pipe product, which has been incorporated into the Plumbing and Drains product.

Residential energy supply

For the year ended 31 December	FY 2012	FY 2011	Δ%	H2 2012	H2 2011	Δ%
Customer accounts (period end):						
Gas ('000)	**8,905**	9,139	(2.6)	8,905	9,139	(2.6)
Electricity ('000)	**6,751**	6,742	0.1	6,751	6,742	0.1
Total ('000)	**15,656**	15,881	(1.4)	15,656	15,881	(1.4)
Estimated market share (%):						
Gas	**39.9**	41.2	(1.3) ppts	39.9	41.2	(1.3) ppts
Electricity	**25.1**	25.2	(0.1) ppts	25.1	25.2	(0.1) ppts
Average consumption:						
Gas (therms)	**494**	443	12	218	181	20
Electricity (kWh)	**3,794**	3,805	(0.3)	1,875	1,858	0.9
Total consumption:						
Gas (mmth)	**4,460**	4,099	9	1,945	1,669	17
Electricity (GWh)	**25,683**	25,602	0.3	12,696	12,600	0.8
Gross Revenue (£m):						
Gas	**5,884**	4,903	20	2,668	2,248	19
Electricity	**3,237**	3,027	7	1,646	1,580	4.2
Total	**9,121**	7,930	15	4,314	3,828	13
Transmission and metering costs (£m):						
Gas	**1,327**	1,212	9	676	611	11
Electricity	**915**	782	17	477	401	19
Total	**2,242**	1,994	12	1,153	1,012	14
Total environmental costs (£m)	**732**	599	22	347	347	0.0
Total social costs (£m)	**89**	78	14	29	40	(28)
Operating profit (£m)	**606**	**544**	11	**261**	**263**	(0.8)
Operating margin (%)	**6.6**	6.9	(0.3) ppts	6.1	6.9	(0.8) ppts

2011 gross revenue and operating profit have been restated to reflect the reclassification of the British Gas New Energy business from Residential energy supply to Residential services and the reclassification of the British Gas Community Energy business from Residential energy supply to Business energy supply and services.
The definition of total environmental costs has been restated and includes CERT, CESP, ROCs, carbon and FIT costs.

OPERATING REVIEW CONTINUED

Residential services

For the year ended 31 December	FY 2012	FY 2011	Δ%	H2 2012	H2 2011	Δ%
Customer product holdings (period end):						
Central heating service contracts ('000)	**4,663**	4,696	(0.7)	4,663	4,696	(0.7)
Kitchen appliances care (no. of customers) ('000)	**465**	476	(2.3)	465	476	(2.3)
Plumbing and drains care ('000)	**1,714**	1,728	(0.8)	1,714	1,728	(0.8)
Home electrical care ('000)	**1,444**	1,462	(1.2)	1,444	1,462	(1.2)
Other contracts ('000)	**116**	122	(4.9)	116	122	(4.9)
Total holdings ('000)	**8,402**	8,484	(1.0)	8,402	8,484	(1.0)
Domestic central heating installations ('000)	**94**	105	(10)	50	51	(2.0)
Gross Revenue (£m):						
Central heating service contracts	**839**	807	4.0	435	411	6
Central heating installations	**258**	295	(13)	137	144	(4.9)
Other	**577**	542	6	291	278	5
Total	**1,674**	1,644	1.8	863	833	3.6
Operating profit (£m)	**312**	**269**	16	**187**	**159**	18
Operating margin (%)	**18.6**	16.4	2.2 ppts	21.7	19.1	2.6 ppts

2011 gross revenue and operating profit have been restated to reflect the reclassification of the British Gas New Energy business from Residential energy supply to Residential services.
UK residential product holdings have been restated to exclude the Water Supply Pipe product, which has been incorporated into the Plumbing and Drains product.

Business energy supply and services

For the year ended 31 December	FY 2012	FY 2011	Δ%	H2 2012	H2 2011	Δ%
Customer supply points (period end):						
Gas ('000)	**322**	363	(11)	322	363	(11)
Electricity ('000)	**602**	636	(5)	602	636	(5)
Total ('000)	**924**	999	(8)	924	999	(8)
Average consumption:						
Gas (therms)	**2,737**	2,629	4.1	1,156	1,130	2.3
Electricity (kWh)	**27,521**	25,732	7	14,014	12,895	9
Total consumption:						
Gas (mmth)	**940**	986	(4.7)	399	413	(3.4)
Electricity (GWh)	**17,110**	16,731	2.3	8,581	8,320	3.1
Gross Revenue (£m):						
Gas	**1,014**	931	9	443	416	6
Electricity	**1,841**	1,713	7	929	866	7
Business services	**207**	**185**	12	101	106	(5)
Total	**3,062**	2,829	8	1,473	1,388	6
Transmission and metering costs (£m):						
Gas	**178**	188	(5)	85	94	(10)
Electricity	**409**	372	10	212	188	13
Total	**587**	560	5	297	282	5
Operating profit (£m)	**175**	**192**	(9)	**82**	**65**	26
Operating margin (%)	**5.7**	6.8	(1.1) ppts	5.6	4.7	0.9 ppts

2011 gross revenue and operating profit have been restated to reflect the reclassification of the British Gas Community Energy business from Residential energy supply to Business energy supply and services.

OPERATING REVIEW CONTINUED

CENTRICA ENERGY

A more balanced upstream business

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

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

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

Increased gas and oil reserves and production

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

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

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

Adding value through gas and oil development, appraisal and exploration

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

In August we announced that the £1.4 billion Cygnus project, in which we own a 48.75% interest, had been sanctioned. Key contracts have now been placed and the fabrication of the jacket and platform deck started ahead of schedule. The development will create around 4,000 jobs, mostly in the UK, and bring 53mmboe of

OPERATING REVIEW CONTINUED

our reserves into production from late 2015, providing enough gas at peak production to supply 1.5 million homes.

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

Our appraisal drilling at Rhyl North towards the end of 2012 was successful, and led to our 2P reserves being revised upwards by 7mmboe to 14mmboe. In early 2013, exploration drilling at Whitehaven confirmed that the Rhyl reservoir extends further than originally anticipated, potentially leading to additional reserve upgrades. Rhyl and Whitehaven will both utilise our existing Morecambe infrastructure. Appraisal drilling at the non-operated Maria North well, in which we own a 20% interest, showed potential gross recoverable reserves of the Maria field towards the upper end of the 70-150mmboe range published following the discovery in 2010. Accordingly we have revised our 2P reserves up by 10mmboe to 25mmboe. Appraisal drilling at Bligh and exploration drilling at Cooper both encountered hydrocarbons, but tight reservoirs meant that commercial flow rates were not achieved. We also experienced non-operated exploration failures in Trinidad and Tobago. However in early 2013 drilling at the Rodriguez prospect in Norway was successful, confirming the presence of gas condensate.

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

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

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

Continued strong performance from nuclear; challenging market conditions for CCGTs

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

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

OPERATING REVIEW CONTINUED

Availability in our wind assets was 88% (2011: 92%), reflecting an outage at Inner Dowsing in the first quarter, with generated volumes down 11% to 533 gigawatt hours (GWh) (2011: 596 GWh). The load factor was 32% (2011: 36%).

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

Investing for value in power

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

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

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

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

Integrate our natural gas business, linked to our core markets

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

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

OPERATING REVIEW CONTINUED

Centrica Energy

Total Centrica Energy

For the year ended 31 December	FY 2012	FY 2011	Δ%	H2 2012	H2 2011	Δ%
Operating profit (£m)	**1,230**	**1,023**	20	**548**	**492**	11

Gas

For the year ended 31 December	FY 2012	FY 2011	Δ%	H2 2012	H2 2011	Δ%
Gas production volumes (mmth)						
Morecambe	**740**	817	(9)	378	418	(10)
Other UK and Netherlands	**883**	933	(5)	403	419	(3.8)
Norway	**557**	164	240	381	82	365
Trinidad & Tobago	**261**	246	6	131	162	(19)
Total	**2,441**	2,160	13	1,293	1,081	20
Oil and condensate production volumes (mmboe)						
UK and Netherlands	**7.4**	7.8	(5)	3.5	3.5	0.0
Norway	**8.9**	4.7	89	5.9	2.1	181
Total	**16.3**	12.5	30	9.4	5.6	68
Total production volumes (mmboe)	**56.7**	48.2	18	31.0	23.2	34
Average gas sales price (p/therm)	**54.7**	51.6	6	56.7	52.5	8
Average oil and condensate sales price (£/boe)	**62.8**	57.2	10	63.4	56.9	11
DDA costs (£/boe)	**9.8**	10.1	(3.0)	10.1	9.5	6
Lifting costs (£/boe)	**9.7**	9.9	(2.0)	10.1	10.1	0.0
Total production and overhead costs (£m)	**1,374**	1,127	22	803	544	48
Exploration and appraisal costs (£m)	**139**	97	43	108	51	112
Operating profit (£m)	**919**	**769**	20	**411**	**355**	16
Estimated net proven and probable reserves of gas (BCF)	**2,376**	2,019	18	nm	nm	nm
Estimated net proven and probable reserves of liquids (mmboe)	**129**	73	77	nm	nm	nm
Total net proven and probable reserves (mmboe)	**525**	410	28	nm	nm	nm

Power

For the year ended 31 December	FY 2012	FY 2011	Δ%	H2 2012	H2 2011	Δ%
Power generated (GWh)						
Gas-fired	**8,952**	14,973	(40)	4,046	7,542	(46)
Renewables	**533**	596	(11)	287	321	(11)
Nuclear	**12,004**	11,157	8	6,050	4,966	22
Total	**21,489**	26,726	(20)	10,383	12,829	(19)
Achieved Clean Spark Spread (£/MWh)	**10.7**	10.1	6	11.2	9.3	20
Achieved power price (including ROCs) (£/MWh) - renewables	**105.7**	111.2	(4.9)	111.3	124.7	(11)
Achieved power price (£/MWh) - nuclear	**49.6**	48.5	2.3	49.8	50.4	(1.2)
Operating profit (£m)	**311**	**254**	22	**137**	**137**	0.0

OPERATING REVIEW CONTINUED

CENTRICA STORAGE

Strong performance in a challenging market environment

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

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

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

Forward seasonal spreads have narrowed since the first quarter

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

Improved operating profit

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

Challenging economics for new projects

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

Centrica Storage

For the year ended 31 December	FY 2012	FY 2011	Δ%	H2 2012	H2 2011	Δ%
Average SBU price (in period) (pence)	**31.0**	30.0	3.3	33.9	25.2	35
Gross Revenue (£m)						
Standard SBUs	**141**	136	3.7	77	58	33
Other	**61**	48	27	34	29	17
Total	**202**	184	10	111	87	28
Operating profit (£m)	**89**	**75**	19	**53**	**36**	47

OPERATING REVIEW CONTINUED

DIRECT ENERGY

Further profit growth in a low gas price environment

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

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

Benefiting from enhanced scale in residential energy supply

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

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

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

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

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

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

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

OPERATING REVIEW CONTINUED

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

Strengthening the services platform

Direct Energy Services is performing well, gaining market share in a challenging economic environment, with many of our competitors experiencing losses or credit downgrades. Our nationwide on-demand franchise has provided scale advantages, while the acquisition of Home Warranty of America (HWA), completed in March, provides the necessary licences to offer protection plan products across the United States. The number of contract relationships increased by 5% during 2012, mainly reflecting the HWA acquisition.

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

Continued weak economic conditions, low consumer confidence and a slow housing market have impacted underlying growth in the US services business, leading to less lead generation and reduced demand for home services products. However we continue to focus on delivering high levels of customer satisfaction and our services Net Promoter Score increased to +61 (2011: +58), helping strong customer retention.

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

Solid upstream and wholesale performance in a low price environment

Direct Energy Upstream continues to face a low wholesale price environment, although the Henry Hub natural gas price recovered slightly during the second half of the year from the record low levels seen in the first half. Alberta gas production volumes fell by 3% to 549mmth (2011: 567mmth), with the achieved gas price falling to C$3.8/MCF (2011: C$4.6/MCF). The price of liquids remains relatively high however, and the acquisition of the Carrot Creek assets, completed in January, meant that oil and liquids production volumes nearly doubled to 1.1mmboe (2011: 0.7mmboe). We added 10mmboe of reserves in North America over the year meaning that after taking account of production, 2P reserves remained broadly flat at 108mmboe (2011: 109mmboe).

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

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

Well placed to further grow and develop our North American business

We have built a good platform for growth in North America, with strong capabilities in energy sourcing and supply, risk management, energy services and upstream gas and power. In 2013 we should continue to benefit from recent residential acquisitions, with integration now mostly complete, while we have created a more efficient operating base in both energy and services. Upstream, natural gas prices continue to be constrained by the impact of shale but production expansion opportunities are available and we will pursue them if value can be created.

We continue to look for opportunities to grow our business across North America. Downstream, we will continue to focus on growing organically, through churn reduction and differentiation. We will also continue with our successful bolt-on acquisition strategy, delivering scale and synergies, and will consider larger opportunities where appropriate. Over the next 3 to 5 years we are targeting a doubling in profitability of our North America downstream business through organic growth and acquisition, with Direct Energy downstream becoming a more material part of the Group. We will also look for opportunities upstream, with the potential for exports over time. In each case, we will only invest where we see value and a good fit with our Group-wide capabilities.

OPERATING REVIEW CONTINUED

Direct Energy

Total Direct Energy

For the year ended 31 December	FY 2012	FY 2011	Δ%	H2 2012	H2 2011	Δ%
Total residential energy and services accounts (period end) ('000)	5,856	5,647	3.7	5,856	5,647	3.7
Gross revenue (£m)	**6,015**	6,117	(1.7)	3,096	3,021	2.5
Operating profit (£m)	**331**	**312**	6	**165**	**138**	20

Residential energy supply

For the year ended 31 December	FY 2012	FY 2011	Δ%	H2 2012	H2 2011	Δ%
Customer accounts (period end) ('000)	**3,455**	3,364	2.7	3,455	3,364	2.7
Gross revenue (£m)	**2,357**	2,416	(2.4)	1,147	1,126	1.9
Operating profit (£m)	**156**	**161**	(3.1)	**55**	**56**	(1.8)
Operating margin (%)	**6.6**	6.7	(0.1) ppts	4.8	5.0	(0.2) ppts

Business energy supply

For the year ended 31 December	FY 2012	FY 2011	Δ%	H2 2012	H2 2011	Δ%
Gas sales (mmth)	**793**	714	11	372	297	25
Electricity sales (GWh)	**51,378**	46,350	11	27,443	24,159	14
Gross revenue (£m)	**2,690**	2,748	(2.1)	1,394	1,372	1.6
Operating profit (£m)	**129**	**110**	17	**69**	**52**	33
Operating margin (%)	**4.8**	4.0	0.8 ppts	4.9	3.8	1.1 ppts

Residential and business services

For the year ended 31 December	FY 2012	FY 2011	Δ%	H2 2012	H2 2011	Δ%
Contract relationships (period end) ('000)	**2,401**	2,283	5	2,401	2,283	5
On demand and installation jobs ('000)	**670**	703	(5)	316	372	(15)
Gross revenue (£m)	**532**	520	2.3	279	271	3.0
Operating profit (£m)	**33**	**28**	18	**22**	**19**	16
Operating margin (%)	**6.2**	5.4	0.8 ppts	7.9	7.0	0.9 ppts

On demand and installation jobs has been restated to reflect management reporting.

Upstream and wholesale energy

For the year ended 31 December	FY 2012	FY 2011	Δ%	H2 2012	H2 2011	Δ%
Gas production volumes (mmth)	**549**	567	(3.2)	270	287	(6)
Oil and liquids production volumes (mmboe)	**1.1**	0.7	57	0.5	0.4	25
Total production volumes (mmboe)	**10.1**	10.0	1.0	4.9	5.1	(3.9)
Power generated (GWh)	**6,336**	5,247	21	3,016	2,924	3.1
Gross Revenue (£m)	**436**	433	0.7	276	252	10
Operating profit (£m)	**13**	**13**	0.0	**19**	**11**	73
Estimated net proven and probable reserves of gas (BCF)	**581**	603	(3.6)	nm	nm	nm
Estimated net proven and probable reserves of liquids (mmboe)	**11**	8	38	nm	nm	nm
Total net proven and probable reserves (mmboe)	**108**	109	(0.9)	nm	nm	nm

Direct Energy with comparator year of 2011 restated to remove effect of foreign exchange movements

For the year ended 31 December	FY 2012	FY 2011	Δ%	H2 2012	H2 2011	Δ%
Revenue (£m)						
Residential energy supply	**2,357**	2,425	(2.8)	1,147	1,128	1.7
Business energy supply	**2,690**	2,782	(3.3)	1,394	1,378	1.2
Residential and business services	**532**	523	1.7	279	272	2.6
Upstream and wholesale energy	**436**	437	(0.2)	276	252	10
Direct Energy revenue	**6,015**	6,167	(2.5)	3,096	3,030	2.2
Operating profit (£m)						
Residential energy supply	**156**	163	(4.3)	55	56	(1.8)
Business energy supply	**129**	111	16	69	52	33
Residential and business services	**33**	28	18	22	19	16
Upstream and wholesale energy	**13**	13	0.0	19	11	73
Direct Energy operating profit	**331**	315	5	165	138	20

2011 figures restated at 2012 weighted average exchange rate.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

By order of the Board

Sam Laidlaw
27 February 2013
Chief Executive

Nick Luff
27 February 2013
Group Finance Director

GROUP INCOME STATEMENT

Year ended 31 December	Notes	2012 Business performance £m	2012 Exceptional items and certain re-measurements £m	2012 Results for the year £m	2011 Business performance £m	2011 Exceptional items and certain re-measurements £m	2011 Results for the year £m
Group revenue	5(a)	**23,942**	**–**	**23,942**	22,824	–	22,824
Cost of sales before exceptional items and certain re-measurements		**(18,676)**	**–**	**(18,676)**	(17,959)	–	(17,959)
Exceptional items	6	**–**	**(89)**	**(89)**	–	(221)	(221)
Re-measurement of energy contracts	6	**–**	**603**	**603**	–	(437)	(437)
Cost of sales		**(18,676)**	**514**	**(18,162)**	(17,959)	(658)	(18,617)
Gross profit		**5,266**	**514**	**5,780**	4,865	(658)	4,207
Operating costs before exceptional items		**(2,844)**	**–**	**(2,844)**	(2,750)	–	(2,750)
Exceptional items	6	**–**	**(445)**	**(445)**	–	(110)	(110)
Operating costs		**(2,844)**	**(445)**	**(3,289)**	(2,750)	(110)	(2,860)
Share of profits/(losses) in joint ventures and associates, net of interest and taxation	6,13	**140**	**(6)**	**134**	93	(26)	67
Group operating profit	5(b)	**2,562**	**63**	**2,625**	2,208	(794)	1,414
Interest income	7	**254**	**–**	**254**	212	–	212
Interest expense	7	**(437)**	**–**	**(437)**	(358)	–	(358)
Net interest expense		**(183)**	**–**	**(183)**	(146)	–	(146)
Profit from continuing operations before taxation		**2,379**	**63**	**2,442**	2,062	(794)	1,268
Taxation on profit from continuing operations	8	**(1,029)**	**(140)**	**(1,169)**	(810)	(16)	(826)
Profit from continuing operations after taxation		**1,350**	**(77)**	**1,273**	1,252	(810)	442
Profit from discontinued operations	6	**–**	**–**	**–**	13	22	35
Loss on disposal of discontinued operations	6,17	**–**	**–**	**–**	–	(56)	(56)
Discontinued operations		**–**	**–**	**–**	13	(34)	(21)
Profit for the year		**1,350**	**(77)**	**1,273**	1,265	(844)	421

Earnings per ordinary share	Notes	2012 Pence	2011 Pence
From continuing and discontinued operations:			
Basic	10	**24.6**	8.2
Diluted	10	**24.4**	8.1
From continuing operations:			
Basic	10	**24.6**	8.6
Diluted	10	**24.4**	8.5
Interim dividend paid per ordinary share	9	**4.62**	4.29
Final dividend proposed per ordinary share	9	**11.78**	11.11

The notes on pages 30 to 57 form part of these Financial Statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	2012 £m	2011 £m
Profit for the year	**1,273**	421
Other comprehensive income/(loss):		
Transfer of available-for-sale reserve to Income Statement	**–**	23
Gains/(losses) on revaluation of available-for-sale securities	**7**	(4)
Taxation on revaluation of available-for-sale securities	**(2)**	(2)
	5	17
Net losses on cash flow hedges	**(27)**	(99)
Transferred to income and expense on cash flow hedges	**108**	42
Transferred to assets and liabilities on cash flow hedges	**(1)**	2
Exchange differences on translation of cash flow hedges in foreign operations	**1**	(3)
Taxation on cash flow hedges	**(20)**	23
	61	(35)
Exchange differences on translation of foreign operations	**(44)**	(12)
Recycling of foreign exchange loss on disposal of business	**–**	(3)
	(44)	(15)
Net actuarial (losses)/gains on defined benefit pension schemes	**(319)**	198
Taxation on net actuarial (losses)/gains on defined benefit pension schemes	**69**	(59)
	(250)	139
Share of other comprehensive income of joint ventures and associates, net of taxation	**32**	(25)
Other comprehensive (loss)/income net of taxation	**(196)**	81
Total comprehensive income for the year	**1,077**	502

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Retained earnings £m	Accumulated other comprehensive income/(loss) £m	Other equity £m	**Total equity £m**
1 January 2011	318	833	4,386	(319)	601	5,819
Total comprehensive income	–	–	421	81	–	502
Employee share schemes	1	41	5	–	10	57
Dividends	–	–	(762)	–	–	(762)
Purchase of non-controlling interest	–	–	(7)	–	–	(7)
Taxation	–	–	–	–	(8)	(8)
Exchange adjustments	–	–	–	–	(1)	(1)
31 December 2011	319	874	4,043	(238)	602	5,600
Total comprehensive income	–	–	1,273	(196)	–	**1,077**
Employee share schemes	2	55	11	–	(2)	**66**
Dividends	–	–	(816)	–	–	**(816)**
Taxation	–	–	–	–	(1)	**(1)**
Exchange adjustments	–	–	–	–	1	**1**
31 December 2012	**321**	**929**	**4,511**	**(434)**	**600**	**5,927**

The notes on pages 30 to 57 form part of these Financial Statements.

GROUP BALANCE SHEET

31 December	Notes	2012 £m	2011 £m
Non-current assets			
Goodwill		**2,543**	2,518
Other intangible assets		**1,579**	1,221
Property, plant and equipment		**7,965**	6,412
Interests in joint ventures and associates	13	**2,721**	2,620
Deferred tax assets		**183**	235
Trade and other receivables		**55**	74
Derivative financial instruments	14	**313**	290
Securities	11	**199**	190
Retirement benefit assets	15	**254**	413
		15,812	13,973
Current assets			
Inventories		**545**	442
Current tax assets		**54**	81
Trade and other receivables		**4,335**	4,212
Derivative financial instruments	14	**268**	315
Securities	11	**7**	28
Cash and cash equivalents	11	**931**	518
		6,140	5,596
Total assets		**21,952**	19,569
Current liabilities			
Trade and other payables		**(4,545)**	(4,094)
Current tax liabilities		**(594)**	(226)
Bank overdrafts, loans and other borrowings	11	**(472)**	(502)
Derivative financial instruments	14	**(615)**	(1,140)
Provisions for other liabilities and charges		**(266)**	(308)
		(6,492)	(6,270)
Net current liabilities		**(352)**	(674)
Non-current liabilities			
Trade and other payables		**(26)**	(33)
Bank overdrafts, loans and other borrowings	11	**(4,856)**	(3,669)
Derivative financial instruments	14	**(327)**	(505)
Deferred tax liabilities		**(1,678)**	(1,506)
Provisions for other liabilities and charges		**(2,480)**	(1,903)
Retirement benefit obligations	15	**(166)**	(83)
		(9,533)	(7,699)
Net assets		**5,927**	5,600
Equity			
Share capital		**321**	319
Share premium		**929**	874
Retained earnings		**4,511**	4,043
Accumulated other comprehensive loss		**(434)**	(238)
Other equity		**600**	602
Total equity		**5,927**	5,600

The notes on pages 30 to 57 form part of these Financial Statements.

GROUP CASH FLOW STATEMENT

Year ended 31 December	Notes	2012 £m	2011 £m
Cash generated from continuing operations	12(a)	**3,605**	3,229
Income taxes paid		**(332)**	(430)
Petroleum revenue tax paid		**(192)**	(262)
Interest received		**6**	20
Interest paid		**(1)**	(3)
Payments relating to exceptional charges		**(266)**	(194)
Net cash flow from continuing operating activities		**2,820**	2,360
Net cash flow from discontinued operating activities		**–**	(23)
Net cash flow from operating activities		**2,820**	2,337
Purchase of businesses net of cash and cash equivalents acquired		**(155)**	(394)
Sale of businesses net of cash and cash equivalents disposed of		**30**	78
Purchase of intangible assets	5(e)	**(572)**	(299)
Purchase of property, plant and equipment	5(e)	**(1,795)**	(765)
Disposal of property, plant and equipment and intangible assets		**14**	6
Investments in joint ventures and associates		**(291)**	(236)
Dividends received from joint ventures and associates	13(a)	**110**	147
Repayments of loans to, and disposal of investments in, joint ventures and associates	13(a)	**42**	10
Interest received		**33**	6
Sale of securities	12(b)	**26**	48
Net cash flow from continuing investing activities		**(2,558)**	(1,399)
Net cash flow from discontinued investing activities		**–**	(1)
Net cash flow from investing activities		**(2,558)**	(1,400)
Issue of ordinary share capital		**33**	23
Purchase of own shares		**(9)**	(6)
Financing interest received		**46**	9
Financing interest paid		**(256)**	(202)
Cash inflow from additional debt		**1,712**	114
Cash outflow from payment of capital element of finance leases		**(31)**	(25)
Cash outflow from repayment of other debt		**(471)**	(30)
Cash outflow from settlement of derivative contracts related to borrowings		**(14)**	–
Net cash flow from increase in debt	12(b)	**1,196**	59
Realised net foreign exchange loss on cash settlement of derivative contracts		**(5)**	(28)
Equity dividends paid		**(815)**	(762)
Net cash flow from continuing financing activities		**190**	(907)
Net increase in cash and cash equivalents		**452**	30
Cash and cash equivalents at 1 January		**479**	451
Effect of foreign exchange rate changes		**–**	(2)
Cash and cash equivalents at 31 December		**931**	479
Included in the following lines of the Balance Sheet:			
Cash and cash equivalents	11(b)	**931**	518
Bank overdrafts, loans and other borrowings		**–**	(39)
		931	479

The notes on pages 30 to 57 form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. General information and basis of preparation

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

The Financial Statements for the year ended 31 December 2012 included in this announcement were authorised for issue in accordance with a resolution of the Board of Directors on 27 February 2013.

The preliminary results of the year ended 31 December 2012 have been extracted from audited accounts (with the exception of notes 21 to 26 which have not been audited) which have not yet been delivered to the Registrar of Companies. The Financial Statements set out in this announcement do not constitute statutory accounts for the year ended 31 December 2012 or 31 December 2011. The financial information for the year ended 31 December 2011 is derived from the statutory accounts for that year. The report of the auditors on the statutory accounts for the year ended 31 December 2012 was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

2. Summary of significant new accounting policies and reporting changes

The accounting policies applied in these condensed Financial Statements for the year ended 31 December 2012 are consistent with those of the annual Financial Statements for the year ended 31 December 2011, as described in those Financial Statements, with the exception of standards, amendments and interpretations effective in 2012.

(a) Standards, amendments and interpretations effective in 2012

There are no International Financial Reporting Standards (IFRSs) or IFRIC interpretations that are effective for the first time for the current financial year that have had a material impact on the Group.

(b) Standards, amendments and interpretations that are issued but not yet applied by the Group

The standards and amendments to standards that are issued but not yet applied which could have an impact on the Group's future Financial Statements are: IFRS 9, 10, 11, 12, 13 and amendments to IAS 19. These standards and amendments to standards have an effective date after the date of these Financial Statements and the Group has not early adopted them. IAS 19 (revised 2011) will apply for the year ended 31 December 2013 and will change the way interest is calculated on pension scheme assets and liabilities. If this standard had been applied to the year ended 31 December 2012, it is estimated that interest income would have been reduced by approximately £26 million. The Group is continuing to assess the impact that the other standards and amendments to standards may have.

3. Centrica specific accounting measures, selected key sources of estimation uncertainty and critical accounting judgements

Use of adjusted profit measures

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

The measure of operating profit used by management to evaluate segment performance is adjusted operating profit. Adjusted operating profit is defined as operating profit before:

- exceptional items;
- certain re-measurements;
- depreciation resulting from fair value uplifts to property, plant and equipment (PP&E) on the acquisition of Strategic Investments;

but including:

- the Group's share of the results from joint ventures and associates before interest and taxation.

Note 5 contains an analysis of adjusted operating profit by segment and a reconciliation of adjusted operating profit to operating profit after exceptional items and certain re-measurements.

Adjusted earnings is defined as earnings before:

- exceptional items net of taxation;
- certain re-measurements net of taxation; and
- depreciation of fair value uplifts to PP&E on the acquisition of Strategic Investments, net of taxation.

A reconciliation of earnings is provided in note 10.

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

The Group has two Strategic Investments for which reported profits have been adjusted due to the impact of fair value uplifts. These Strategic Investments relate to the 2009 acquisitions of Venture Production plc ('Venture') the operating results of which are included within the Centrica Energy – Gas segment and the acquisition of the 20% interest in Lake Acquisitions Limited ('British Energy'), which owned the British Energy Group, the results of which are included within the Centrica Energy – Power segment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. Centrica specific accounting measures, selected key sources of estimation uncertainty and critical accounting judgements continued

(i) Venture
Significant adjustments have been made to the acquired PP&E to report the acquired oil and gas field interests at their acquisition-date fair values which are subsequently depreciated through the Group Income Statement over their respective useful economic lives using the unit of production method.

Whilst the impact of unwinding the PP&E at their acquisition-date fair values is included in overall reported profit for the year, the Directors have reversed the earnings impact of the increased depreciation and related taxation resulting from fair value uplifts to the acquired oil and gas interests in order to arrive at adjusted profit from continuing operations after taxation.

(ii) British Energy
The 20% interest in British Energy is accounted for as an investment in an associate using the equity method. The Group reports its share of the associate's profit or loss, which is net of interest and taxation, within the Group Income Statement.

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

Whilst the impact of increased depreciation and related taxation through unwinding the fair value uplifts to the nuclear power stations is included in the share of associate's post-acquisition result included in overall reported Group profit for the year, the Directors have reversed these impacts in arriving at adjusted profit from continuing operations for the year. The impact of unwinding the acquisition-date fair values attributable to the acquired energy procurement and energy sales contracts is included within certain re-measurements.

Exceptional items and certain re-measurements

The Group reflects its underlying financial results in the 'business performance' column of the Group Income Statement. To be able to provide readers with this clear and consistent presentation, the effects of 'certain re-measurements' of financial instruments, and 'exceptional items', are reported separately in a different column in the Group Income Statement.

In our business we enter into a portfolio of forward energy contracts which include buying substantial quantities of commodity to meet the future needs of our customers. Primarily because these contracts include terms that permit net settlement, the rules within IAS 39 require the contracts to be individually fair valued. In addition, the Group also enters into a range of commodity contracts designed to secure the value of its underlying production, generation, storage and transportation assets consistent with an integrated energy business in the UK and North America. Fair value movements on these commodity derivative contracts do not reflect the underlying performance of the business because the contracts are economically related to our upstream assets or downstream demand in our chosen markets, which are typically not fair valued. Therefore, these certain re-measurements are reported separately and are subsequently reflected in business performance when the underlying transaction or asset impacts profit or loss.

Exceptional items are those items which are of a non-recurring nature and, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Again, to ensure the business performance column reflects the underlying results of the Group, these exceptional items are also reported in a separate column in the Group Income Statement. Items which may be considered exceptional in nature include disposals of businesses, business restructurings, significant onerous contract charges and asset write-downs.

Selected key sources of estimation uncertainty and critical accounting judgements

Impairment of long-lived assets
The Group has several material long-lived assets that are assessed or tested for impairment at each reporting date in accordance with the Group's accounting policy. The Group makes judgements and estimates in considering whether the carrying amounts of these assets or cash generating units (CGUs) are recoverable. The key assets that are subjected to impairment tests are upstream gas and oil assets, power generation assets, storage facility assets, nuclear investment (investment in associate) and goodwill.

Upstream gas and oil assets
The recoverable amount of the Group's gas and oil assets is determined by discounting the post-tax cash flows expected to be generated by the assets over their lives. The cash flows are derived from projected production profiles of each field, based predominantly on expected 2P reserves and take into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on internal model inputs. The recoverable amount also takes into account assumptions market participants would use in estimating fair value.

Power generation assets
The recoverable amount of the Group's power generation assets is calculated by discounting the pre-tax cash flows expected to be generated by the assets and is dependent on views of forecast power generation and forecast power, gas, carbon and capacity prices (where applicable) and the timing and extent of capital expenditure. Where forward market prices are not available, prices are determined based on internal model inputs. The prior year impairment charge in relation to UK gas-fired power stations assumed overcapacity in the UK power generation market post-2018 will diminish and normal returns will be achievable on our most efficient assets.

Storage facility assets
The recoverable amount of our planned storage facilities is calculated by discounting the post-tax cash flows expected to be generated by the assets based on predictions of seasonal gas price differentials and shorter term price volatilities less any related capital and operating expenditure. Should the business cases not support the planned investments, this risks a loss of pre-development costs incurred to date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. Centrica specific accounting measures, selected key sources of estimation uncertainty and critical accounting judgements continued

Nuclear investment

The recoverable amount of the nuclear investment is based on the value of the existing British Energy nuclear fleet. The existing fleet value is calculated by discounting post-tax cash flows derived from the stations based on forecast power generation and power prices, whilst taking account of planned outages and the possibility of life extensions.

Goodwill

Goodwill does not generate independent cash flows and accordingly is allocated at inception to specific CGUs or groups of CGUs for impairment testing purposes. The recoverable amounts of these CGUs are derived from estimates of future cash flows (as described in the asset classes above). The goodwill impairment tests are also subject to these key estimates.

Pensions and other post–employment benefits

The cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits.

Provisions for onerous contracts

The Group has entered into a number of commodity procurement and capacity contracts related to specific assets in the ordinary course of its business. Where the unavoidable costs of meeting the obligations under these contracts exceed the associated, expected future net benefits, an onerous contract provision is recognised. The calculation of these provisions will involve the use of estimates. The key onerous provisions are as follows:

Rijnmond power station operating lease

The onerous provision is calculated using net revenue estimates related to power, gas, and carbon forward prices less the tolling costs. The contract runs until 2030 and there is currently no liquid market for these commodities for much of this period.

European gas transportation capacity contracts

The onerous provision is calculated using capacity costs incurred under the contracts, less any predicted income. The provision assumes that all contracts are onerous for the period to 2018 but that post-2018 the remaining capacities could still be necessary to secure supplies of gas into the UK. Therefore no provision has been recognised relating to this latter period.

Direct Energy wind farm power purchase agreements

The onerous nature of the power purchase agreements is measured using estimates relating to wind forecasts, forward curves for energy prices, balancing costs and renewable energy certificates for which there is not a liquid market for the full term of all the contracts.

Energy Company Obligation

The Energy Company Obligation ('ECO') order came into force on 5 December 2012. The order requires UK-licensed energy suppliers to improve the energy efficiency of domestic households from 1 January 2013. Targets are set in proportion to the size of historic customer bases and must be delivered by 31 March 2015. The Group judges that although targets are based on historic share of supply, it is not obligated by ECO in 2012. Accordingly, no provision has been recognised in the current year.

Metering contracts

The Department of Energy and Climate Change ('DECC') has modified the UK gas and electricity supply licences requiring all domestic premises to be fitted with compliant smart meters for measuring energy consumption by 31 December 2019. The Group has a number of existing rental contracts for non-compliant meters that include penalty charges if these meters are removed from use before the end of their deemed useful lives. The Group considers that these contracts are not onerous until the meters have been physically removed from use and therefore only recognises a provision at this point.

4. Risk management

The Group's normal operating, investing and financing activities expose it to a variety of risks. The processes for managing these risks are set out in the 2011 Annual Report and Accounts. The Group took the following steps to improve the risk reporting process in 2012:

- aligned a number of our risk, controls and audit functions to help facilitate a more integrated approach to our risk and assurance activities;
- developed and rolled out a risk universe, allowing for a more structured approach to risk identification;
- we focused on High Impact Low Probability (HILP) risk identification;
- published a risk newsletter to identify emerging trends and to stimulate debate on changing or emerging risks;
- introduced a risk maturity model to assess the effectiveness of our risk processes across the different business units to enhance the sharing of best practice and focus on mutual areas for improvement; and
- undertook a number of internal and external audits to assess the effectiveness of our risk management processes and identify areas where we can further enhance our risk management activities. The Group believes that these steps will help maintain good governance for the business going forward.

During 2012 financial risk management was overseen by the Group Financial Risk Management Committee (GFRMC) according to objectives, targets and policies set by the Board. Commodity price risk management is carried out in accordance with individual business unit Financial Risk Management Committees and their respective financial risk management policies, as approved by the GFRMC under delegated authority of the Board. Treasury risk management, including management of currency risk, interest rate risk, equity price risk and liquidity risk is approved by the Board. The wholesale credit risk associated with commodity trading and treasury positions is managed

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. Risk management continued

in accordance with the Group's credit risk policy. Downstream credit risk management is carried out in accordance with individual business unit credit policies.

Credit risk for financial assets

Credit risk from financial asset transactions is generated by the potential for the counterparty to default on its contractual obligations. Counterparty credit exposure issues remained a focal point within Centrica throughout 2012 and the Group continues to be vigilant in managing counterparty risks in accordance with its financial risk management policies. The period has seen a large number of credit rating downgrades for both financial institutions and European energy majors. In spite of this, the Group has not altered its rating thresholds for counterparty credit limits and continues to operate within its limits. In the US and Europe, on-going regulatory changes are resulting in an increase in trading over exchanges or via zero threshold margined contracts. This helps to reduce counterparty credit risk, but carries increased liquidity requirements.

Liquidity risk

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

At 31 December 2012, the Group's long-term credit rating was A3 stable outlook for Moody's Investors Service Limited and A- stable outlook for Standard & Poor's Credit Market Services Europe Limited. These ratings did not change during 2012.

At 31 December 2012, the Group had undrawn committed credit facilities of £3,029 million (2011: £3,254 million) and £931 million (2011: £518 million) of cash and cash equivalents. 130% (2011: 115%) of the Group's net debt has been raised in the long-term debt market and the average term to maturity of the long-term debt portfolio was 12.6 years (2011: 9.6 years).

5. Segmental analysis

During the year the Group renamed its external segments. Downstream UK has been renamed as British Gas, Upstream UK as Centrica Energy, Storage UK as Centrica Storage, and North America as Direct Energy.

(a) Revenue

Year ended 31 December			2012			2011 (restated) (ii)
	Gross segment revenue £m	Less inter-segment revenue (i) £m	Group revenue £m	Gross segment revenue £m	Less inter-segment revenue (i) £m	Group revenue £m
Continuing operations:						
Residential energy supply (ii)	**9,121**	**–**	**9,121**	7,930	–	7,930
Residential services (ii)	**1,674**	**(131)**	**1,543**	1,644	(81)	1,563
Business energy supply and services (ii)	**3,062**	**(10)**	**3,052**	2,829	(7)	2,822
British Gas	**13,857**	**(141)**	**13,716**	12,403	(88)	12,315
Gas	**3,712**	**(353)**	**3,359**	3,571	(521)	3,050
Power	**1,237**	**(275)**	**962**	1,588	(179)	1,409
Centrica Energy	**4,949**	**(628)**	**4,321**	5,159	(700)	4,459
Centrica Storage	**202**	**(38)**	**164**	184	(20)	164
Residential energy supply	**2,357**	**–**	**2,357**	2,416	–	2,416
Business energy supply	**2,690**	**–**	**2,690**	2,748	–	2,748
Residential and business services	**532**	**–**	**532**	520	–	520
Upstream and wholesale energy	**436**	**(274)**	**162**	433	(231)	202
Direct Energy	**6,015**	**(274)**	**5,741**	6,117	(231)	5,886
	25,023	**(1,081)**	**23,942**	23,863	(1,039)	22,824
Discontinued operations:						
European Energy	**–**	**–**	**–**	167	–	167

(i) Inter-segment revenue is subject to year-on-year fluctuations principally due to the change in the mix of internal and external energy sales.
(ii) To align with management responsibilities and reporting, the British Gas Community Energy and British Gas New Energy businesses have been reallocated from the Residential energy supply segment to the Business energy supply and services and Residential services segments respectively. The 2011 comparatives have been restated accordingly.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. Segmental analysis continued

(b) Operating profit

Year ended 31 December	2012 £m	2011 (restated) (i) £m
Continuing operations:		
Residential energy supply (i)	**606**	544
Residential services (i)	**312**	269
Business energy supply and services (i)	**175**	192
British Gas	**1,093**	1,005
Gas (ii)	**919**	769
Power (ii)	**311**	254
Centrica Energy	**1,230**	1,023
Centrica Storage	**89**	75
Residential energy supply	**156**	161
Business energy supply	**129**	110
Residential and business services	**33**	28
Upstream and wholesale energy	**13**	13
Direct Energy	**331**	312
Adjusted operating profit – segment operating profit before exceptional items, certain re-measurements and impact of fair value uplifts from Strategic Investments (iii)	**2,743**	2,415
Share of joint ventures/associates' interest and taxation	**(85)**	(102)
Depreciation of fair value uplifts to property, plant and equipment – Venture (ii)	**(67)**	(64)
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) – associates – British Energy (ii)	**(29)**	(41)
	2,562	2,208
Exceptional items (note 6)	**(534)**	(331)
Certain re-measurements included within gross profit (note 6)	**603**	(437)
Certain re-measurements of associates' energy contracts (net of taxation) (note 6)	**(6)**	(26)
Operating profit after exceptional items and certain re-measurements	**2,625**	1,414
Discontinued operations:		
European Energy (iv)	**–**	13

(i) To align with management responsibilities and reporting, the British Gas Community Energy and British Gas New Energy businesses have been reallocated from the Residential energy supply segment to the Business energy supply and services and Residential services segments respectively. The 2011 comparatives have been restated accordingly.
(ii) See note 3 and note 10 for an explanation of the depreciation on fair value uplifts to PP&E on acquiring Strategic Investments.
(iii) Includes results of equity-accounted interests before interest and taxation.
(iv) Represents profit after taxation and before exceptional items and certain re-measurements of Oxxio B.V. up to the date of disposal. This is the measure of results of discontinued operations that is reported regularly to the Group's Executive Committee.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. Segmental analysis continued

(c) Included within adjusted operating profit

Year ended 31 December	Share of results of joint ventures and associates before interest and taxation (i) 2012 £m	2011 £m	Depreciation and impairments of property, plant and equipment (iii) 2012 £m	2011 £m	Amortisation, write-downs and impairments of intangibles 2012 £m	2011 £m
Continuing operations:						
Residential energy supply	**–**	–	**8**	8	**34**	23
Residential services	**–**	–	**20**	18	**8**	6
Business energy supply and services	**–**	–	**2**	2	**6**	7
British Gas	**–**	–	**30**	28	**48**	36
Gas (i) (ii) (iii)	**–**	(1)	**637**	503	**131**	52
Power (i) (iii)	**254**	237	**106**	112	**5**	4
Centrica Energy	**254**	236	**743**	615	**136**	56
Centrica Storage	**–**	–	**30**	30	**–**	–
Residential energy supply	**–**	–	**2**	1	**22**	9
Business energy supply	**–**	–	**2**	1	**7**	4
Residential and business services	**–**	–	**3**	3	**7**	6
Upstream and wholesale energy (ii)	**–**	–	**84**	89	**6**	4
Direct Energy	**–**	–	**91**	94	**42**	23
Other (iv)	**–**	–	**22**	19	**19**	25
	254	236	**916**	786	**245**	140

(i) Share of results of joint ventures and associates is before interest, certain re-measurements, depreciation of fair value uplifts to PP&E on Strategic Investments and taxation.
(ii) During 2012, £118 million of write downs relating to exploration and evaluation assets were incurred in Centrica Energy – Gas (2011: £44 million) and £4 million were incurred in Direct Energy – Upstream and wholesale energy (2011: £2 million).
(iii) Depreciation of PP&E is stated before depreciation of fair value uplifts for Strategic Investments.
(iv) Other comprises Corporate Centre assets which are charged out to other Group segments.

The Group operates in the following geographical areas:

Revenue (based on location of customer)

Year ended 31 December	2012 £m	2011 £m
Continuing operations:		
UK	**16,991**	15,760
North America	**5,741**	5,886
Rest of the world	**1,210**	1,178
	23,942	22,824

Non-current assets (based on location of assets) (i)

31 December	2012 £m	2011 £m
UK	**9,788**	9,146
North America	**2,458**	2,413
Norway	**2,113**	745
Rest of the world	**449**	467
	14,808	12,771

(i) Non-current assets include goodwill, other intangible assets, PP&E and interest in joint ventures and associates.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. Segmental analysis continued

(d) Assets and liabilities

31 December	Net segment assets/(liabilities) 2012 £m	Net segment assets/(liabilities) 2011 (restated) (i) £m	Average capital employed Year ended 31 December 2012 £m	Average capital employed Year ended 31 December 2011 (restated) (i) (ii) £m
Residential energy supply (i) (ii)	**(118)**	28	**212**	325
Residential services (i) (ii)	**349**	264	**289**	247
Business energy supply and services (i) (ii)	**645**	645	**714**	645
British Gas	**876**	937	**1,215**	1,217
Gas	**3,447**	2,427	**1,868**	1,500
Power	**3,671**	3,534	**2,995**	3,335
Centrica Energy	**7,118**	5,961	**4,863**	4,835
Centrica Storage	**510**	517	**301**	221
Residential energy supply (ii)	**800**	925	**840**	716
Business energy supply (ii)	**534**	459	**413**	316
Residential and business services (ii)	**393**	377	**371**	367
Upstream and wholesale energy (ii)	**720**	733	**743**	736
Direct Energy	**2,447**	2,494	**2,367**	2,135
	10,951	9,909	**8,746**	8,408
Unallocated current and deferred tax balances	**(7)**	186		
Certain derivative financial instruments (iii)	**(553)**	(1,214)		
Bank overdrafts and loans, securities and treasury derivatives	**(5,054)**	(3,868)		
Net retirement benefit asset	**88**	330		
Corporate centre assets and discontinued operations	**502**	257		
Non-operating liabilities	**(5,024)**	(4,309)		
Net assets	**5,927**	5,600		

(i) To align with management responsibilities and reporting, the British Gas Community Energy and British Gas New Energy businesses have been reallocated from the Residential energy supply segment to the Business energy supply and services and Residential services segments respectively. The 2011 comparatives have been restated accordingly.
(ii) To align with management reporting, capital employed in British Gas and Direct Energy has been adjusted to include assets under construction. The 2011 comparatives have been restated accordingly.
(iii) Includes balances held by joint ventures/associates.

Capital employed represents the investment required to operate each of the Group's segments. Capital employed is used by the Group to calculate the return on capital employed for each of the Group's segments as part of the Group's 'managing for value' concept. Additional value is created when the return on capital employed exceeds the cost of capital. Net segment assets of the Group can be reconciled to the Group's capital employed as follows:

Year ended 31 December	2012 £m	2011 £m
Net segment assets at 31 December	**10,951**	9,909
Effect of averaging net segment assets	**177**	475
Deduct:		
Average intra-group balances	**55**	49
Average pre-productive assets	**(1,987)**	(1,592)
Average margin call debtor	**(114)**	(73)
Average cash at bank, in transit and in hand excluding certain restricted cash	**(336)**	(360)
Average capital employed	**8,746**	8,408

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. Segmental analysis continued

(e) Capital expenditure

Year ended 31 December	Capital expenditure on property, plant and equipment 2012 £m	2011 (restated) (i) £m	Capital expenditure on intangible assets other than goodwill 2012 £m	2011 £m
Continuing operations:				
Residential energy supply (i)	**7**	28	**230**	240
Residential services (i)	**44**	26	**9**	22
Business energy supply and services (i)	**9**	3	**91**	75
British Gas	**60**	57	**330**	337
Gas (ii)	**1,733**	488	**380**	97
Power	**76**	89	**8**	6
Centrica Energy	**1,809**	577	**388**	103
Centrica Storage	**42**	59	**1**	–
Residential energy supply	**–**	–	**3**	4
Business energy supply	**–**	1	**27**	18
Residential and business services	**3**	2	**2**	1
Upstream and wholesale energy	**79**	36	**14**	8
Direct Energy	**82**	39	**46**	31
Other	**17**	26	**64**	49
Capital expenditure on continuing operations	**2,010**	758	**829**	520
Decrease in prepayments related to capital expenditure	**(4)**	(15)	**–**	–
Capitalised borrowing costs	**(53)**	(46)	**(7)**	–
(Increase)/decrease in payables related to capital expenditure	**(158)**	68	**–**	(5)
Purchases of emissions allowances and renewable obligations certificates	**–**	–	**(250)**	(216)
Net cash outflow	**1,795**	765	**572**	299

(i) To align with management responsibilities and reporting, the British Gas Community Energy and British Gas New Energy businesses have been reallocated from the Residential energy supply segment to the Business energy supply and services and Residential services segments respectively. The 2011 comparatives have been restated accordingly.
(ii) During the period, £1,175 million of assets were acquired from Statoil, ConocoPhillips and Total. See note 16.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. Exceptional items and certain re-measurements

(a) Exceptional items

Year ended 31 December	2012 £m	2011 £m
Continuing operations:		
Provision for Direct Energy wind power purchase agreements (i)	**(89)**	–
Provision for European onerous capacity contracts	**–**	(221)
Exceptional items from continuing operations included within gross profit	**(89)**	(221)
Impairment of UK generation assets	**–**	(226)
British Gas contract migration	**–**	(63)
Restructuring charges (ii)	**(214)**	(154)
Pension curtailment (note 15)	**–**	333
Impairment of investment in nuclear new build (notes 13 and 19)	**(231)**	–
	(445)	(110)
Exceptional items from continuing operations included within Group operating profit	**(534)**	(331)
Taxation on exceptional items (note 8)	**93**	69
Effect of change in upstream UK tax rates (note 8)	**(40)**	(204)
Net exceptional items from continuing operations after taxation	**(481)**	(466)
Discontinued operations:		
Loss on disposal of Oxxio B.V. after taxation (note 17)	**–**	(56)
Total exceptional items after taxation	**(481)**	(522)

(b) Certain re-measurements

Year ended 31 December	2012 £m	2011 £m
Continuing operations:		
Certain re-measurements recognised in relation to energy contracts:		
Net gains arising on delivery of contracts (iii)	**745**	200
Net losses arising on market price movements and new contracts (iv)	**(135)**	(632)
Net losses arising on positions in relation to cross-border transportation or capacity contracts	**(7)**	(5)
Net re-measurements from continuing operations included within gross profit	**603**	(437)
Net losses arising on re-measurement of associates' energy contracts (net of taxation) (v)	**(6)**	(26)
Net re-measurements included within Group operating profit	**597**	(463)
Taxation on certain re-measurements (note 8)	**(193)**	119
Net re-measurements from continuing operations after taxation	**404**	(344)
Discontinued operations:		
Net re-measurements on energy contracts of discontinued operations after taxation	**–**	22
Total re-measurements after taxation	**404**	(322)

(i) An exceptional charge has been recognised in relation to wind power purchase agreements in Direct Energy to reflect the fair value of the obligation to purchase power above its net realisable value.
(ii) As a result of a Group-wide cost reduction programme, restructuring charges have been recorded including staff redundancies, onerous lease charges and £48 million of asset impairments. See Business Review for more details.
(iii) As energy is delivered or consumed from previously contracted positions the related fair value recognised in the opening Balance Sheet (representing the discounted difference between forward energy prices at the opening balance sheet date and the contract price of energy to be delivered) is charged or credited to the Income Statement.
(iv) Represents fair value losses arising from the change in fair value of future contracted sales and purchase contracts as a result of changes in forward energy prices between reporting dates (or date of inception and the reporting date, where later).
(v) Includes fair value unwinds relating to the recognition of energy procurement contracts and energy sales contracts at their acquisition-date fair values.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7. Net interest

Year ended 31 December	2012 Interest expense £m	2012 Interest income £m	2012 Total £m	2011 Interest expense £m	2011 Interest income £m	2011 Total £m
Continuing operations:						
Cost of servicing net debt:						
Interest income	**–**	**39**	**39**	–	37	37
Interest expense on bonds, bank loans and overdrafts (i)	**(232)**	**–**	**(232)**	(176)	–	(176)
Interest expense on finance leases	**(18)**	**–**	**(18)**	(19)	–	(19)
	(250)	**39**	**(211)**	(195)	37	(158)
(Losses)/gains on revaluation:						
(Losses)/gains on fair value hedges	**(22)**	**31**	**9**	(83)	72	(11)
Fair value (losses)/gains on other derivatives (ii)	**(155)**	**132**	**(23)**	(71)	35	(36)
Fair value gains on other securities measured at fair value	**–**	**3**	**3**	–	14	14
Net foreign exchange translation of monetary assets and liabilities (iii)	**(10)**	**–**	**(10)**	–	19	19
	(187)	**166**	**(21)**	(154)	140	(14)
Notional interest arising from discounting and other interest (iv)	**(60)**	**49**	**(11)**	(55)	35	(20)
	(497)	**254**	**(243)**	(404)	212	(192)
Capitalised borrowing costs (v)	**60**	**–**	**60**	46	–	46
Interest (expense)/income	**(437)**	**254**	**(183)**	(358)	212	(146)

(i) During 2012 the Group increased its outstanding bond debt principal by £1,250 million, €150 million and HK$450 million, and decreased it by £284 million. See note 11(c).
(ii) Primarily reflects changes in the fair value of derivatives used to hedge the foreign exchange exposure associated with inter-company loans denominated in foreign currencies.
(iii) Primarily reflects foreign exchange (losses)/gains on loans denominated in foreign currencies.
(iv) Other includes interest received for cash collateral balances, supplier early payment arrangements and a net £45 million (2011: £27 million) for pension schemes.
(v) Borrowing costs have been capitalised using an average rate of 4.70% (2011: 4.94%).

8. Taxation

Analysis of tax charge

Year ended 31 December	2012 Business performance £m	2012 Exceptional items and certain re-measurements £m	2012 Results for the year £m	2011 Business performance £m	2011 Exceptional items and certain re-measurements £m	2011 Results for the year £m
Current tax						
UK corporation tax	**(376)**	**14**	**(362)**	(529)	69	(460)
UK petroleum revenue tax	**(208)**	**–**	**(208)**	(220)	–	(220)
Foreign tax	**(285)**	**(7)**	**(292)**	(107)	10	(97)
Adjustments in respect of prior years	**(53)**	**–**	**(53)**	23	–	23
Total current tax	**(922)**	**7**	**(915)**	(833)	79	(754)
Deferred tax						
Current year	**(143)**	**(86)**	**(229)**	(40)	90	50
UK petroleum revenue tax	**13**	**–**	**13**	46	–	46
Foreign deferred tax	**(70)**	**(11)**	**(81)**	(24)	17	(7)
Change in tax rates	**40**	**(50)**	**(10)**	30	(201)	(171)
Adjustments in respect of prior years	**53**	**–**	**53**	11	(1)	10
Total deferred tax	**(107)**	**(147)**	**(254)**	23	(95)	(72)
Total tax on profit from continuing operations (i)	**(1,029)**	**(140)**	**(1,169)**	(810)	(16)	(826)

(i) Total tax on profit from operations excludes taxation on the Group's share of profits in joint ventures and associates.

The Group earns its profits primarily in the UK, therefore the tax rate used for tax on profit from ordinary activities is the standard rate for UK corporation tax, which from 1 April 2012 was 24% (2011: 26%), with the exception of upstream profits, which were taxed at a UK corporation tax rate of 30% (2011: 30%) plus a supplementary charge of 32% (2011: 32%). On 3 July 2012, the UK government substantively enacted the restriction on the rate of tax relief on oil and gas decommissioning costs from the current 62% to 50%. A one off exceptional charge of £40 million has been recognised from revaluing the related deferred tax provisions.

Certain upstream assets also bear petroleum revenue tax at 50% (2011: 50%). Norwegian upstream profits are taxed at the standard rate of 28% (2011: 28%) plus a special tax of 50% (2011: 50%) resulting in an aggregate tax rate of 78%. Taxation for other jurisdictions is calculated at the rates prevailing in those respective jurisdictions.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. Taxation continued

The UK Government has announced its intention to propose that Parliament reduce the main rate of UK corporation tax to 21% by 1 April 2014. At 31 December 2012 a reduction in the rate to 23% had been substantively enacted so the relevant UK deferred tax assets and liabilities included in these Financial Statements have been based on that rate. The effect of the additional proposed reduction in the UK corporation tax rate by 2014 would be to decrease the net deferred tax liability by £18 million.

9. Dividends

	2012 £m	2012 Pence per share	2012 Date of payment	2011 £m	2011 Pence per share	2011 Date of payment
Prior year final dividend	**576**	**11.11**	**13 Jun 2012**	540	10.46	15 Jun 2011
Interim dividend	**240**	**4.62**	**14 Nov 2012**	222	4.29	16 Nov 2011
	816			762		

The Directors propose a final dividend of 11.78 pence per ordinary share (totalling £602 million) for the year ended 31 December 2012. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 13 May 2013 and, subject to approval, will be paid on 12 June 2013 to those shareholders registered on 26 April 2013.

10. Earnings per ordinary share

Basic earnings per ordinary share has been calculated by dividing the earnings attributable to equity holders of the Company for the year of £1,273 million (2011: £421 million) by the weighted average number of ordinary shares in issue during the year of 5,183 million (2011: 5,159 million). The number of shares excludes six million ordinary shares (2011: seven million), being the weighted average number of the Company's own shares held in the employee share trust. The Directors believe that the presentation of adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for certain re-measurements, exceptional items and the impact of Strategic Investments, assists with understanding the underlying performance of the Group, as explained in note 3.

The reconciliation of basic to adjusted basic earnings per ordinary share is as follows:

(a) Continuing and discontinued operations

Year ended 31 December	2012 £m	2012 Pence per ordinary share	2011 £m	2011 Pence per ordinary share
Earnings – basic	**1,273**	**24.6**	421	8.2
Net exceptional items after taxation (note 6)	**481**	**9.2**	522	10.1
Certain re-measurement (gains)/losses after taxation (note 6)	**(404)**	**(7.8)**	322	6.2
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation	**56**	**1.1**	68	1.3
Earnings – adjusted basic	**1,406**	**27.1**	1,333	25.8
Earnings – diluted	**1,273**	**24.4**	421	8.1
Earnings – adjusted diluted	**1,406**	**27.0**	1,333	25.6

Strategic Investments

During 2009, the Group acquired a 20% interest in British Energy and the entire share capital of Venture. As explained in note 3, the depreciation relating to fair value uplifts of the acquired Venture PP&E and associated taxation is excluded in arriving at adjusted earnings for the year, which amounted to £67 million (2011: £64 million) depreciation and a taxation credit of £40 million (2011: £37 million) in the period. Additionally, the impact of depreciation arising on fair value uplifts attributed to the British Energy nuclear power stations and related taxation included within the Group's share of the post-taxation results of the associate is excluded in arriving at adjusted earnings for the period, which amounted to £29 million (2011: £41 million) net of taxation.

(b) Continuing operations

Year ended 31 December	2012 £m	2012 Pence per ordinary share	2011 £m	2011 Pence per ordinary share
Earnings – basic	**1,273**	**24.6**	442	8.6
Net exceptional items after taxation (note 6)	**481**	**9.2**	466	9.0
Certain re-measurement (gains)/losses after taxation (note 6)	**(404)**	**(7.8)**	344	6.7
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation	**56**	**1.1**	68	1.3
Earnings – adjusted basic	**1,406**	**27.1**	1,320	25.6
Earnings – diluted	**1,273**	**24.4**	442	8.5
Earnings – adjusted diluted	**1,406**	**27.0**	1,320	25.4

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. Earnings per ordinary share continued

(c) Discontinued operations

Year ended 31 December	2012 £m	2012 Pence per ordinary share	2011 £m	2011 Pence per ordinary share
Loss – basic and diluted	–	–	(21)	(0.4)

Certain re-measurements (note 6) included within operating profit and discontinued operations comprise certain re-measurements arising on energy procurement activities and re-measurements of proprietary trades in relation to cross-border transportation or capacity contracts. All other re-measurements are included within results before exceptional items and certain re-measurements.

In addition to basic and adjusted basic earnings per ordinary share, information is presented for diluted and adjusted diluted earnings per ordinary share. Under this presentation, no adjustments are made to the reported earnings for either 2012 or 2011, however the weighted average number of shares used as the denominator is adjusted for potentially dilutive ordinary shares.

(d) Weighted average number of shares

	2012 Million shares	2011 Million shares
Weighted average number of shares used in the calculation of basic earnings per ordinary share	**5,183**	5,159
Dilutive impact of share-based payment schemes	**33**	44
Weighted average number of shares used in the calculation of diluted earnings per ordinary share	**5,216**	5,203

11. Sources of finance

The Group funds its business using a combination of debt and equity.

(a) Group funding

31 December	2012 £m	2011 (restated) (i) £m
Net debt	**4,047**	3,292
Equity	**5,927**	5,600
Capital	**9,974**	8,892

(i) To align with management reporting, net debt has been restated to include mark-to-market values on derivative financial instruments used to hedge offsetting changes in borrowings.

The Group seeks to maintain an efficient capital structure with a balance of debt and equity. Debt levels are restricted to limit the risk of financial distress and, in particular, to maintain strong credit ratings. The Group's credit ratings are important in keeping the cost of debt down, in limiting collateral requirements in energy trading, hedging and decommissioning security arrangements, and ensuring the Group is an attractive counterparty to energy producers and long term customers.

The Group monitors its current and projected capital position on a regular basis, considering a medium-term view of three to five years, and different stress case scenarios, including the impact of changes in the Group's credit ratings and significant movements in commodity prices. A number of financial ratios are monitored, including those used by the credit rating agencies, such as debt to cash flow ratios and adjusted EBITDA to gross interest expense. At 31 December 2012, the ratio of the Group's net debt to adjusted EBITDA was 1.1 (2011: 1.1). Adjusted EBITDA to gross interest expense for the year ended 31 December 2012 was 8.4 (2011: 8.7).

British Gas Insurance Limited (BGIL) is required under FSA regulations to hold a minimum capital amount and has complied with this requirement in 2012 (and 2011). For the remainder of the Group, the level of debt that can be raised is restricted by the Company's Articles of Association. Net debt is limited to the greater of £5.0 billion and a gearing ratio of three times adjusted capital and reserves. Based on adjusted capital and reserves as at 31 December 2012 of £5.9 billion, the limit for net debt was £17.8 billion. The Group funds its debt principally through issuing bonds. In addition the Group also maintains substantial committed facilities from banks (see note 4), but generally uses these to provide backup liquidity and does not typically draw on them.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. Sources of finance continued

(b) Net debt summary

31 December	2012 £m	2011 (restated) (i) £m
Cash at bank, in transit and in hand	**201**	94
Short-term deposits	**730**	424
Cash and cash equivalents (ii)	**931**	518
Securities – current (iii)	**7**	28
Securities – non-current (iii) (iv)	**199**	190
Current and non-current borrowings	**(5,328)**	(4,171)
Derivatives	**144**	143
Net debt	**(4,047)**	(3,292)

(i) To align with management reporting, net debt has been restated to include mark-to-market values on derivative financial instruments used to hedge offsetting changes in borrowings.
(ii) Cash and cash equivalents includes £241 million (2011: £262 million) of restricted cash mostly held by the Group's insurance undertakings that is not readily available to be used for other purposes within the Group.
(iii) Securities balances include £76 million of available for sale financial assets (2011: £90 million).
(iv) Non-current securities include £130 million (2011: £128 million) of index-linked gilts which management use for short term liquidity management purposes.

(c) Borrowings summary

31 December	Coupon rate %	Principal m	2012 Current £m	2012 Non-current £m	2012 Total £m	2011 Current £m	2011 Non-current £m	2011 Total £m
Bank overdrafts and loans (i)			**33**	**336**	**369**	69	198	267
Bonds (by maturity date):								
2 November 2012	5.875	£284	**–**	**–**	**–**	291	–	291
27 February 2013	1.045	¥3,000	**22**	**–**	**22**	–	26	26
9 December 2013	7.125	€367	**305**	**–**	**305**	–	317	317
4 November 2014	Floating	$100	**–**	**62**	**62**	–	64	64
10 December 2014	5.125	£315	**–**	**332**	**332**	–	335	335
31 March 2015	Floating	$70	**–**	**44**	**44**	–	45	45
24 October 2016	5.500	£300	**–**	**338**	**338**	–	336	336
19 September 2018	7.000	£400	**–**	**479**	**479**	–	473	473
1 February 2019	3.213	€100	**–**	**83**	**83**	–	–	–
22 February 2022	3.680	HK$450	**–**	**36**	**36**	–	–	–
10 March 2022	6.375	£500	**–**	**527**	**527**	–	527	527
4 September 2026	6.400	£200	**–**	**228**	**228**	–	224	224
16 April 2027	5.900	$70	**–**	**43**	**43**	–	45	45
13 March 2029	4.375	£750	**–**	**766**	**766**	–	–	–
5 January 2032 (ii)	Zero	€50	**–**	**41**	**41**	–	–	–
19 September 2033	7.000	£770	**–**	**777**	**777**	–	777	777
12 September 2044	4.250	£500	**–**	**495**	**495**	–	–	–
			327	**4,251**	**4,578**	291	3,169	3,460
Commercial paper			**82**	**–**	**82**	114	–	114
Obligations under finance leases			**30**	**269**	**299**	28	302	330
			472	**4,856**	**5,328**	502	3,669	4,171

(i) At 31 December the maturity analysis for non-current bank loans was: 1-2 years £15 million, 2-5 years nil and >5 years £321 million (2011: 1-2 years £34 million, 2-5 years £18 million, and >5 years £146 million).
(ii) During the period, the Group issued €50 million of zero coupon notes with an accrual yield of 4.200%, which will result in a €114 million repayment on maturity.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. Notes to the Group Cash Flow Statement

(a) Reconciliation of Group operating profit to cash generated from continuing operations

Year ended 31 December	2012 £m	2011 £m
Group operating profit including share of result of joint ventures and associates	**2,625**	1,414
Less share of profit of joint ventures and associates	**(134)**	(67)
Group operating profit before share of results of joint ventures and associates	**2,491**	1,347
Add back/(deduct):		
Amortisation, write-down and impairment of intangible assets	**289**	140
Depreciation, write-down and impairment of property, plant and equipment	**987**	1,055
Impairment of associate	**231**	–
Recycling of write-down of available-for-sale financial assets	**–**	23
(Profit)/loss on sale of businesses, property, plant and equipment and other intangible assets	**(38)**	5
Increase in provisions	**201**	395
Defined benefit pension curtailment gain	**(3)**	(332)
Defined benefit pension service cost	**87**	118
Defined benefit pension contributions	**(136)**	(130)
Employee share scheme costs	**43**	40
Re-measurement of energy contracts (i)	**(610)**	404
Operating cash flows before movements in working capital	**3,542**	3,065
Increase in inventories	**(88)**	(79)
(Increase)/decrease in trade and other receivables (ii)	**(210)**	201
Increase in trade and other payables (ii)	**361**	42
Cash generated from continuing operations	**3,605**	3,229

(i) Adds back unrealised (gains)/losses arising from re-measurement of energy contracts.
(ii) Includes net inflow of £114 million of cash collateral in 2012 (2011: net outflow of £26 million).

(b) Reconciliation of net increase in cash and cash equivalents to movement in net debt

	2012 £m	2011 restated (i) £m
Net increase in cash and cash equivalents	**452**	30
Add back/(deduct):		
Net sale of securities	**(26)**	(48)
Cash inflow from additional debt	**(1,712)**	(114)
Cash outflow from payment of capital element of finance leases	**31**	25
Cash outflow from repayment of other debt	**471**	30
Cash outflow from settlement of derivative contracts related to borrowings	**14**	–
	(770)	(77)
Revaluation of:		
Securities	**10**	10
Loans and other borrowings	**2**	(59)
Derivative contracts related to borrowings	**(12)**	26
	(770)	(100)
Increase in interest payable on loans and other borrowings	**(41)**	(2)
Acquisitions	**5**	(3)
Exchange adjustments	**46**	8
Other non-cash movements	**5**	–
Movement in net debt	**(755)**	(97)
Net debt at 1 January	**(3,292)**	(3,195)
Net debt at 31 December	**(4,047)**	(3,292)

(i) To align with management reporting, net debt has been restated to include mark-to-market values on derivative financial instruments used to hedge offsetting changes in borrowings. See note 11(b).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. Interests in joint ventures and associates

(a) Interest in joint ventures and associates

	Investments in joint ventures and associates (i) £m	Shareholder loans £m	**2012 Total £m**	Investments in joint ventures and associates £m	Shareholder loans £m	2011 Total £m
1 January	2,351	269	**2,620**	2,343	164	2,507
Additions (i)	140	178	**318**	113	115	228
Decrease in shareholder loans	–	(42)	**(42)**	–	(10)	(10)
Share of profits for the year	134	–	**134**	67	–	67
Share of other comprehensive income	32	–	**32**	(25)	–	(25)
Impairment (ii)	(231)	–	**(231)**	–	–	–
Dividends	(110)	–	**(110)**	(147)	–	(147)
31 December	**2,316**	**405**	**2,721**	2,351	269	2,620

(i) Additions include £30 million in relation to the Group's retained 50% interest in Celtic Array Limited ('Round 3'). See note 17.
(ii) On 4 February 2013, the Group announced its decision not to proceed with the nuclear new build investment. Accordingly, the Group has recorded an exceptional impairment of £231 million. This amount includes the carrying value of its investment in NNB Holding Company Limited as well as value attributed to nuclear new build in the British Energy acquisition. See note 19.

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

The Group's share of joint ventures' and associates' gross assets and gross liabilities at 31 December 2012 principally comprised of its interests in the following entities (all reported in the Centrica Energy – Power segment):

- Wind farms – Braes of Doune Wind Farm (Scotland) Limited, Barrow Offshore Wind Limited, GLID Wind Farms TopCo Limited (i), Lincs Wind Farm Limited (i) and Celtic Array Limited ('Round 3'); and
- Nuclear – Lake Acquisitions Limited ('British Energy') and NNB Holding Company Limited ('Nuclear New Build').

31 December	Joint ventures Wind farms £m	Associates Nuclear £m	Other (ii) £m	**2012 Total £m**	2011 Total £m
Share of non-current assets	842	3,420	57	**4,319**	4,384
Share of current assets	128	634	3	**765**	676
	970	4,054	60	**5,084**	5,060
Share of current liabilities	(286)	(187)	–	**(473)**	(315)
Share of non-current liabilities	(523)	(1,744)	(16)	**(2,283)**	(2,385)
	(809)	(1,931)	(16)	**(2,756)**	(2,700)
Restricted interest on shareholder loan (iii)	(12)	–	–	**(12)**	(9)
Share of net assets of joint ventures and associates	149	2,123	44	**2,316**	2,351
Shareholder loans	384	–	21	**405**	269
Interests in joint ventures and associates	**533**	**2,123**	**65**	**2,721**	2,620
Net (debt)/cash included in share of net assets	(395)	128	(12)	**(279)**	(283)

(i) As part of the finance arrangements entered into by GLID Wind Farms TopCo Limited and Lincs Wind Farm Limited, the Group's shares in GLID Wind Farms TopCo Limited and Lincs Wind Farm Limited are secured in favour of third parties. The securities would only be enforced in the event that GLID Wind Farms TopCo Limited or Lincs Wind Farm Limited default on any of their obligations under their respective finance arrangements.
(ii) Other includes joint ventures of North Sea Infrastructure Partners Limited and Bacton Storage Company Limited.
(iii) The Group restricts an element of interest receivable on the shareholder loan to Lincs Wind Farm Limited.

(c) Share of profits in joint ventures and associates

Year ended 31 December	Joint ventures Wind farms £m	Associates Nuclear £m	**2012 Total £m**	2011 Total £m
Income	49	592	**641**	594
Expenses excluding certain re-measurements (i)	(33)	(420)	**(453)**	(444)
Certain re-measurements	–	(8)	**(8)**	(33)
	16	164	**180**	117
Interest paid	(17)	(27)	**(44)**	(58)
Taxation excluding certain re-measurements (i)	1	(5)	**(4)**	1
Taxation on certain re-measurements	–	2	**2**	7
Share of post-taxation results of joint ventures and associates (i)	–	134	**134**	67

(i) Includes £66 million (2011: £86 million) relating to depreciation of fair value uplifts to PP&E on acquiring the British Energy investments. The associated tax impact is £37 million credit (2011: £45 million credit).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. Interests in joint ventures and associates continued

British Energy

During November 2009 the Group acquired a 20% interest in British Energy for £2,255 million and NNB Holding Company Limited ('Nuclear New Build') for £32 million. The Group's share of profit arising from its investment in British Energy for the year to 31 December 2012 as set out in table (c) includes the effect of unwinding the fair value adjustments. As explained in note 3 the depreciation, net of taxation, arising on fair value uplifts attributed to the nuclear power stations is reversed in arriving at adjusted profit for the period as shown in the reconciliation table below and as set out in note 5(b).

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

Year ended 31 December	Joint ventures Wind farms £m	Associates Nuclear £m	2012 Total £m	2011 Total £m
Share of post-taxation results of joint ventures and associates	–	134	**134**	67
Certain re-measurements (net of taxation)	–	6	**6**	26
Depreciation – British Energy (net of taxation) [(i)]	–	29	**29**	41
Interest paid	17	27	**44**	58
Taxation (excluding certain re-measurements and British Energy depreciation)	(1)	42	**41**	44
Share of adjusted results of joint ventures and associates	16	238	**254**	236

(i) Relates to depreciation of fair value uplifts to PP&E on acquiring the British Energy investments.

14. Derivative financial instruments

Derivative financial instruments are held for the following purposes and accounted for accordingly:

Purpose	Accounting treatment
Proprietary energy trading and treasury management	Carried at fair value with changes in fair value recognised in the Group's results for the year before exceptional items and certain re-measurements [(i)]
Energy procurement	Carried at fair value, with changes in the fair value reflected in certain re-measurements [(ii)]

(i) With the exception of certain energy derivatives related to cross-border transportation and capacity contracts.
(ii) Energy contracts designated at fair value through profit or loss include certain energy contracts that the Group has, at its option, designated at fair value through profit or loss under IAS 39 because the energy contract contains one or more embedded derivatives that significantly modify the cash flows under the contract.

In cases where a derivative qualifies for hedge accounting, derivatives are classified as fair value hedges or cash flow hedges.

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

31 December	2012 Assets £m	2012 Liabilities £m	2011 Assets £m	2011 Liabilities £m
Derivative financial instruments – held for trading under IAS 39:				
Energy derivatives – for procurement	**229**	**(772)**	332	(1,390)
Energy derivatives – for proprietary trading	**69**	**–**	61	(14)
Interest rate derivatives	**13**	**(86)**	22	(79)
Foreign exchange derivatives	**33**	**(42)**	23	(37)
Energy derivative contracts designated at fair value through profit or loss	**65**	**–**	7	(46)
Derivative financial instruments in hedge accounting relationships:				
Energy derivatives	**–**	**(14)**	–	(65)
Interest rate derivatives	**172**	**(2)**	157	(7)
Foreign exchange derivatives	**–**	**(26)**	3	(7)
Total derivative financial instruments	**581**	**(942)**	605	(1,645)
Included within:				
Derivative financial instruments – current	**268**	**(615)**	315	(1,140)
Derivative financial instruments – non-current	**313**	**(327)**	290	(505)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. Derivative financial instruments continued

The contracts included within energy derivatives are subject to a wide range of detailed specific terms but comprise the following general components, analysed on a net carrying value basis:

31 December	2012 £m	2011 £m
Short-term forward market purchases and sales of gas and electricity:		
UK and Europe	**(163)**	(458)
North America	**(209)**	(406)
Structured gas purchase contracts	**(36)**	(91)
Structured gas sales contracts	**(78)**	(120)
Structured power purchase contracts	**54**	(27)
Other	**9**	(13)
Net total	**(423)**	(1,115)

15. Pensions

(a) Summary of main defined benefit schemes

Name of scheme	Section	Status	Funding/tax status	Country
Centrica Engineers Pension Scheme	Final salary section	Closed to new members	Funded/tax-registered	UK
	Career average section	Open to new members	Funded/tax-registered	UK
Centrica Pension Plan	Management section	Closed to new members	Funded/tax-registered	UK
	2008 section	Closed to new members	Funded/tax-registered	UK
Centrica Pension Scheme	Final salary section	Closed to new members	Funded/tax-registered	UK
	Career average section	Closed to new members	Funded/tax-registered	UK
Direct Energy Marketing Limited Pension Plan		Closed to new members	Funded/tax-registered	Canada

The Centrica Pension Scheme also has a defined contribution section which is open to new members.

The Centrica Engineers Pension Scheme (CEPS), Centrica Pension Plan (CPP) and Centrica Pension Scheme form the majority of the Group's defined benefit obligation and are referred to below as the 'Registered Pension Schemes'.

(b) 2011 curtailment gain

During 2011, the Company announced changes to the terms of the final salary sections of the CEPS and the CPP with the changes taking effect from 1 January 2012 and 1 March 2012 respectively. Employees' annual increases in pensionable pay will be capped to 2% and annual increases in respect of future years' service for pensions in deferment will be the lower of CPI and 2.5%. Following agreement of the changes in October 2011 (for CEPS) and December 2011 (for CPP) with the trade unions and the trustees, the Company recognised exceptional curtailment gains of £333 million, as disclosed in note 6.

The final salary section of the Centrica Pension Scheme has an active membership of approximately 50 employees.

(c) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes have been given below.

Major assumptions used for the actuarial valuation

31 December	2012 %	2011 %
Rate of increase in employee earnings:		
Subject to cap	**1.7**	2.0
Other	**3.2**	4.3
Rate of increase in pensions in payment	**3.2**	3.3
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**2.5**	2.3
In line with RPI	**3.2**	3.3
Discount rate	**4.8**	5.4

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date have been based on a combination of standard actuarial mortality tables, scheme experience and other relevant data, and include an allowance for future improvements in mortality.

The longevity assumptions for members in normal health are as follows:

	2012		2011	
Life expectancy at age 65 for a member	Male Years	Female Years	Male Years	Female Years
Currently aged 65	**22.8**	**25.2**	22.7	24.0
Currently aged 45	**24.6**	**27.2**	24.5	25.4

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. Pensions continued

At 31 March 2012, the date of the most recent actuarial review, the schemes had approximately 40,200 members and beneficiaries, of which approximately 4,000 were members of the defined contribution section of the Centrica Pension Scheme. The other demographic assumptions have been set having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the pension schemes.

Impact of changing material assumptions	**2012** Increase/ decrease in assumption	**2012** Indicative effect on scheme liabilities %	2011 Increase/ decrease in assumption	2011 Indicative effect on scheme liabilities %
Rate of increase in employee earnings subject to cap	**0.25%**	**+/–1**	0.25%	+0/–1
Rate of increase in pensions in payment and deferred pensions	**0.25%**	**+/–4**	0.25%	+/–5
Discount rate	**0.25%**	**–/+5**	0.25%	–/+6
Inflation assumption	**0.25%**	**+/–4**	0.25%	+/–5
Longevity assumption	**1 year**	**+/–2**	1 year	+/–2

The remaining disclosures in this note cover all of the Group's defined benefit schemes.

(d) Amounts included in the Balance Sheet

31 December	**2012 £m**	2011 £m
Fair value of plan assets	**5,133**	4,670
Present value of defined benefit obligation	**(5,045)**	(4,340)
Net asset recognised in the Balance Sheet	**88**	330
Associated deferred tax liability recognised in the Balance Sheet	**(19)**	(81)
Net pension asset after deferred tax	**69**	249
Pension asset presented in the Balance Sheet as:		
Retirement benefit assets	**254**	413
Retirement benefit liabilities	**(166)**	(83)
Net pension asset	**88**	330

(e) Movement in the year

	2012 Pension liabliities £m	**2012** Pension assets £m	2011 Pension liabilties £m	2011 Pension assets £m
1 January	**(4,340)**	**4,670**	(4,574)	4,335
Items included in the Income Statement:				
Current service cost	**(87)**	**–**	(118)	–
Gain/(loss) on curtailment	**3**	**–**	(1)	–
Exceptional gains on curtailment	**–**	**–**	333	–
Interest on scheme liabilities	**(235)**	**–**	(258)	–
Expected return on scheme assets	**–**	**280**	–	285
Items included in Other Comprehensive Income:				
Actuarial (loss)/gain	**(449)**	**130**	198	–
Exchange adjustments	**2**	**(2)**	1	(1)
Items included in the Cash Flow Statement:				
Employer contributions	**–**	**187**	–	130
Other movements:				
Plan participants' contributions	**(27)**	**27**	(29)	29
Benefits paid from schemes	**159**	**(159)**	108	(108)
Transfers from provisions for other liabilities and charges	**(71)**	**–**	–	–
31 December	**(5,045)**	**5,133**	(4,340)	4,670

In addition to current service cost on the Group's defined benefit pension schemes, the Group also charged £13 million (2011: £10 million) to operating profit in respect of defined contribution pension schemes.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. Pensions continued

(f) Pension schemes assets

The expected long-term rate of return and the market value of plan assets were:

31 December	2012 Fair value £m	2012 Proportion of total fair value %	2012 Expected long-term rate of return per annum %	2011 Fair value £m	2011 Proportion of total fair value %	2011 Expected long-term rate of return per annum %
UK equities	**322**	**6.3**	**6.8**	400	8.6	7.5
Non-UK equities	**1,580**	**30.8**	**7.3**	1,337	28.6	7.7
Fixed-interest bonds	**1,412**	**27.5**	**4.4**	1,370	29.3	5.3
Inflation-linked assets (i)	**1,027**	**20.0**	**4.1**	1,067	22.8	3.9
High-yield debt	**324**	**6.3**	**5.3**	292	6.3	6.3
Diversified asset funds	**246**	**4.8**	**6.8**	–	–	–
Property	**210**	**4.1**	**6.8**	168	3.6	6.8
Cash pending investment	**12**	**0.2**	**5.9**	36	0.8	4.6
	5,133	**100.0**	**5.7**	4,670	100.0	6.0

(i) Consists of government bonds and other assets providing inflation-linked revenue.

(g) Pension scheme contributions

The UK Registered Pension Schemes were subject to their triennial valuation carried out by Towers Watson, the schemes' independent actuaries, at 31 March 2012. The results of this valuation were approved by the trustees of the schemes on 11 December 2012. Based on the valuation, the Group and the trustees agreed a revised schedule for deficit payments consisting of an amount of £37 million paid in the year to 31 December 2012 and £77 million per annum from 2013 to 2016. This payment profile replaces the deficit payments as agreed to in the 2009 triennial valuation. A continuing charge over the Humber power station provides additional security for the trustees.

On 31 December 2012 the Group and the trustees also agreed to partially fund the deficit payments using an asset-backed contribution arrangement. Under the arrangement, certain loans to UK Group companies were transferred to a Scottish Limited Partnership established by the Group. The Group made a special contribution to the UK Registered Pension Schemes of £84 million; on the same date the schemes used this contribution to acquire an interest in the partnership for its fair value of £84 million. The schemes' partnership interests entitle them to a distribution from the income of the partnership of £22 million per annum for 4 years. The partnership is controlled by Centrica and its results are consolidated by the Group. As the trustees' interest in the partnership does not meet the definition of a plan asset under IAS 19, it is not reflected in the Balance Sheet. Distributions from the partnership to the schemes will be recognised as scheme assets in the future as they occur.

16. Business combinations and asset purchases

Principal acquisitions made during the year are described below.

Business combinations

The business combinations are immaterial in aggregate to the Group's consolidated Financial Statements. The fair values are provisional unless stated otherwise.

Carrot Creek

On 10 January 2012, the Group acquired control of a business comprising a portfolio of interests in a number of gas assets located in west central Alberta, Canada from Encana Corporation for CA$59 million (£37 million) in cash and Direct Energy's existing Entice asset with a fair value of CA$48 million (£30 million). No goodwill arose on the acquisition. The acquisition allows the Group to grow its North American Upstream gas business. The acquisition is included in the Direct Energy – Upstream and wholesale energy segment.

Home Warranty of America

On 1 March 2012, the Group acquired 100% of the shares of Home Warranty Holding Corporation as well as the assets of HWOA LLC ('HWA') for total cash consideration of $52 million (£32 million) including $10 million (£6 million) of deferred consideration. Goodwill of $47 million (£29 million) arose on the acquisition, of which 40% is expected to be deductible for tax purposes. HWA is a US home warranty protection plan company. The acquisition allows Direct Energy to sell home protection plans nationwide and provides further growth and integration opportunities. The acquisition is included in the Direct Energy – Residential and business services segment.

Energetix Inc and NYSEG Solutions Inc

On 22 August 2012, the Group acquired 100% of the shares of New York based energy retailers Energetix Inc. and NYSEG Solutions Inc. for total cash consideration of $121 million (£77 million) including $5 million (£3 million) of deferred consideration. Goodwill of $43 million (£27 million) arose on the acquisition, of which 100% is expected to be deductible for tax purposes. This acquisition will further strengthen Direct Energy's position as a leading competitive energy retailer in the US Northeast, increasing the number of residential and small commercial customer accounts by approximately 245,000. The acquisition is included in the Direct Energy – Residential energy supply and Business energy supply segments.

Goodwill recognised on the above acquisitions is attributable to enhanced geographical presence, cost savings, synergies and growth opportunities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. Business combinations and asset purchases continued

2011 Business Combinations – fair value updates

During the year, there have been no significant updates to the fair value entries posted in relation to acquisitions which occurred in 2011. The net impact of fair value updates on goodwill is an increase of £18 million.

Asset purchases

Statoil asset acquisition

On 30 April 2012, the Group completed its acquisition of certain oil and gas production and development assets in the Norwegian North Sea from Statoil for total cash consideration of £770 million with an additional payment of up to $100 million (£62 million) contingent on future production performance. In addition, a tax liability of £144 million was assumed which is included in the purchase cost.

ConocoPhillips asset acquisition

On 30 April 2012, the Group completed its acquisition of certain non-operated interests in the gas and oil producing Statfjord field and associated satellite fields from ConocoPhillips for total cash consideration of £141 million. As part of this transaction, a pre-existing contract with ConocoPhillips with a fair value of £20 million (asset) was novated so that it is now entirely between Group companies. Accordingly, the value of this contract forms part of the asset acquisition cost. In addition, a tax liability of £25 million was assumed which is included in the purchase cost.

Total asset acquisition

During the year, the Group completed its acquisition of a portfolio of non-operated interests in producing oil and gas assets in the UK North Sea from Total for total cash consideration of £133 million. The acquisition of the interests was executed through separate purchase agreements which completed on 11 May, 1 August and 23 August 2012. Certain assets in the original portfolio, when the deal was announced in February 2012, were not acquired since pre-emption rights in the respective fields were exercised.

These asset purchases will help to deliver UK energy security and further expand the Group's upstream business. The acquisitions are included within the Centrica Energy – Gas segment.

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

On 30 April 2012, the Group disposed of a 50% interest in its Round 3 wind farm, which resulted in a profit on disposal of £43 million.

On 1 June 2011, the Group completed its planned disposal of its European segment with the sale of the trade and assets of Oxxio B.V. for a total consideration of £111 million, which resulted in a loss on disposal of £56 million.

18. Commitments and contingencies

(a) Commitments

The Group procures commodities through a mixture of production from gas fields, power stations, wind farms and procurement contracts. Procurement contracts include short-term forward market purchases of gas and electricity at fixed and floating prices. They also include gas and electricity contracts indexed to market prices and long-term gas contracts with non-gas indexation. The commitments in relation to commodity purchase contracts disclosed overleaf are stated net of amounts receivable under commodity sales contracts, where there is a right of set-off with the counterparty.

The total volume of gas to be taken under certain long-term structured contracts depends on a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis. The commitments disclosed overleaf are based on the minimum quantities of gas that the Group is contracted to buy at estimated future prices.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. Commitments and contingencies continued

31 December	2012 £m	2011 £m
Commitments in relation to the acquisition of property, plant and equipment:		
Acquisition of Statoil oil and gas assets	**–**	983
Development of Norwegian oil and gas assets	**283**	–
Development of Cygnus gas field	**88**	–
Development of York gas field	**–**	82
Other capital expenditure	**21**	87
Commitments in relation to the acquisition of intangible assets:		
Renewable obligation certificates to be purchased from joint ventures (i)	**1,376**	1,377
Renewable obligation certificates to be purchased from other parties	**784**	774
EUAs and CERs	**42**	44
Other intangible assets (iv)	**105**	193
Other commitments:		
Commodity purchase contracts (ii)	**51,933**	58,311
LNG capacity	**844**	844
Transportation capacity	**936**	969
Outsourcing of services	**277**	348
Commitments to invest in joint ventures	**174**	234
Other long term commitments	**562**	777
Operating lease commitments:		
Future minimum lease payments under non-cancellable operating leases (iii) (iv)	**974**	950

(i) Renewable obligation certificates are purchased from several joint ventures which produce power from wind energy under long term offtake agreements (up to 15 years). The commitments disclosed above are the gross contractual commitments and do not take into account the Group's economic interest in the joint venture.
(ii) At 31 December the maturity analysis for commodity purchase contracts was: <1 year £9.2 billion, 1-2 years £7.2 billion, 2-3 years £5.9 billion, 3-4 years £5.1 billion, 4-5 years £3.0 billion and >5 years £21.5 billion (2011: <1 year £10.3 billion, 1-2 years £8.0 billion, 2-3 years £6.3 billion, 3-4 years £5.6 billion, 4-5 years £4.7 billion and >5 years £23.4 billion).
(iii) At 31 December the maturity analysis for the total minimum lease payments under non-cancellable operating leases was: <1 year £222 million, 1-2 years £98 million, 2-3 years £82 million, 3-4 years £64 million, 4-5 years £54 million and >5 years £454 million (2011: <1 year £157 million, 1-2 years £130 million, 2-3 years £88 million, 3-4 years £65 million, 4-5 years £54 million and >5 years £456 million).
(iv) Included within future minimum lease payments and other intangible assets are commitments of £67 million (2011: £122 million) relating to exploration activity.

Lease payments recognised as an expense in the year were as follows:

Year ended 31 December	2012 £m	2011 £m
Minimum lease payments (net of sub-lease receipts)	**125**	126
Contingent rents – renewables (i)	**130**	132

(i) The Group has entered into long-term arrangements with renewable providers to purchase physical power, renewable obligation certificates and levy exemption certificates from renewable sources. Payments made under these contracts are contingent upon actual production and so there is no commitment to a minimum lease payment (2011: nil). Payments made for physical power are charged to the Income Statement as incurred and disclosed as contingent rents.

(b) Contingent liabilities

Under the Carbon Emissions Reduction Target ('CERT') scheme, British Gas was required to meet a variety of carbon emissions reduction targets by 31 December 2012. Ofgem has indicated that mitigating actions undertaken after this date will also be taken into account when assessing delivery. Accordingly the Group believes it will have fulfilled the CERT requirements. Ofgem is still to formally conclude on the Group's compliance and has the option of enforcement action if they consider the targets have not been met. As the outcome of the Ofgem review cannot be predicted with any degree of certainty, it is not possible to accurately assess the impact of enforcement action (if any).

There are no other material contingent liabilities.

19. Events after the balance sheet date

Dividends

The Directors propose a final dividend of 11.78 pence per ordinary share (totalling £602 million) for the year ended 31 December 2012. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 13 May 2013 and, subject to approval, will be paid on 12 June 2013 to those shareholders registered on 26 April 2013.

Nuclear new build and share repurchase programme

As part of the 2009 transaction to acquire a 20% interest in British Energy, EDF Energy and the Group formed an 80/20 arrangement to undertake pre-development activities for a nuclear new build programme, with the intention of constructing, operating and decommissioning four European Pressurised Nuclear Reactors. On 4 February 2013, the Group announced its decision not to proceed with this nuclear new

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. Events after the balance sheet date continued

build investment. Accordingly, the Group has recorded an impairment of £231 million at the year end. This amount includes the carrying value of its investment in NNB Holding Company Limited as well as value attributed to nuclear new build in the British Energy acquisition. No further impairments are expected as a result of this decision and the Group's 20% interest in the existing nuclear power stations in the UK remains unaffected.

As a result of this decision, the Group also announced on 4 February 2013 its intention to launch a £500 million share repurchase programme to return surplus capital to shareholders, to be conducted over 12 months.

20. Seasonality of operations

Certain activities of the Group are affected by weather and temperature conditions. As a result of this, amounts reported for the six months ended 31 December 2012 may not be indicative of the amounts that would be reported for a full year due to seasonal fluctuations in customer demand for gas, electricity and services, the impact of weather on demand and commodity prices, market changes in commodity prices and changes in retail tariffs.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED (UNAUDITED)

21. Group Income Statement for the six months ended 31 December

	Notes	2012 Business performance £m	2012 Exceptional items and certain re-measurements £m	2012 Results for the period £m	2011 Business performance £m	2011 Exceptional items and certain re-measurements £m	2011 Results for the period £m
Group revenue	23(a)	**11,965**	**–**	**11,965**	11,315	–	11,315
Cost of sales before exceptional items and certain re-measurements		**(9,313)**	**–**	**(9,313)**	(8,944)	–	(8,944)
Exceptional items	24(a)	**–**	**(89)**	**(89)**	–	(221)	(221)
Re-measurement of energy contracts	24(b)	**–**	**90**	**90**	–	(598)	(598)
Cost of sales		**(9,313)**	**1**	**(9,312)**	(8,944)	(819)	(9,763)
Gross profit		**2,652**	**1**	**2,653**	2,371	(819)	1,552
Operating costs before exceptional items		**(1,518)**	**–**	**(1,518)**	(1,353)	–	(1,353)
Exceptional items	24(a)	**–**	**(355)**	**(355)**	–	(110)	(110)
Operating costs		**(1,518)**	**(355)**	**(1,873)**	(1,353)	(110)	(1,463)
Share of profits in joint ventures and associates, net of interest and taxation		**82**	**(4)**	**78**	46	25	71
Group operating profit	23(b)	**1,216**	**(358)**	**858**	1,064	(904)	160
Interest income		**120**	**–**	**120**	127	–	127
Interest expense		**(215)**	**–**	**(215)**	(195)	–	(195)
Net interest expense		**(95)**	**–**	**(95)**	(68)	–	(68)
Profit before taxation		**1,121**	**(358)**	**763**	996	(904)	92
Taxation on profit		**(508)**	**28**	**(480)**	(369)	230	(139)
Profit/(loss) for the period		**613**	**(330)**	**283**	627	(674)	(47)

Earnings/(loss) per ordinary share	Notes	2012	2011
Basic	25	**5.5**	(0.9)
Diluted	25	**5.4**	(0.9)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED (UNAUDITED)

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

	2012 £m	2011 £m
Cash generated from operations (note 26)	**2,125**	1,767
Income taxes paid	**(151)**	(329)
Petroleum revenue tax paid	**(90)**	(110)
Interest received	**4**	7
Interest paid	**(1)**	(3)
Payments relating to exceptional charges	**(99)**	(63)
Net cash flow from operating activities	**1,788**	1,269
Purchase of businesses net of cash and cash equivalents acquired	**(81)**	(280)
Sale of businesses net of cash and cash equivalents disposed of	**3**	–
Purchase of intangible assets	**(281)**	(175)
Purchase of property, plant and equipment	**(686)**	(463)
Disposal of property, plant and equipment and intangible assets	**9**	3
Investments in joint ventures and associates	**(171)**	(191)
Dividends received from joint ventures and associates	**74**	84
Repayments of loans to, and disposal of investments in, joint ventures and associates	**5**	3
Interest received	**12**	3
Net sale of securities	**1**	74
Net cash flow from investing activities	**(1,115)**	(942)
Issue of ordinary share capital	**10**	6
Purchase of own shares	**(2)**	(2)
Financing interest received	**46**	9
Financing interest paid	**(182)**	(120)
Cash inflow from additional debt	**179**	114
Cash outflow from payment of capital element of finance leases	**(17)**	(12)
Cash outflow from repayment of other debt	**(456)**	(11)
Cash outflow from settlement of derivative contracts related to borrowings	**(14)**	–
Net cash flow from (reduction)/increase in debt	**(308)**	91
Realised net foreign exchange loss on cash settlement of derivative contracts	**(18)**	(23)
Equity dividends paid	**(244)**	(222)
Net cash flow from financing activities	**(698)**	(261)
Net (decrease)/increase in cash and cash equivalents	**(25)**	66
Cash and cash equivalents at beginning of period	**954**	418
Effect of foreign exchange rate changes	**2**	(5)
Cash and cash equivalents at 31 December	**931**	479
Included in the following lines of the Balance Sheet:		
Cash and cash equivalents	**931**	518
Bank overdrafts, loans and other borrowings	**–**	(39)
	931	479

NOTES TO THE FINANCIAL STATEMENTS CONTINUED (UNAUDITED)

23. Segmental analysis for the six months ended 31 December

The Group's results are discussed in the Operating Review (page 12 to 24). The Group's segmental results are as follows:

(a) Revenue

	2012 Gross segment revenue £m	2012 Less inter-segment revenue (i) £m	2012 Group revenue £m	2011 (restated) (ii) Gross segment revenue £m	2011 (restated) (ii) Less inter-segment revenue (i) £m	2011 (restated) (ii) Group revenue £m
Residential energy supply (ii)	**4,314**	**–**	**4,314**	3,828	–	3,828
Residential services (ii)	**863**	**(75)**	**788**	833	(52)	781
Business energy supply and services (ii)	**1,473**	**(5)**	**1,468**	1,388	(4)	1,384
British Gas	**6,650**	**(80)**	**6,570**	6,049	(56)	5,993
Gas	**1,979**	**(104)**	**1,875**	1,814	(187)	1,627
Power	**597**	**(104)**	**493**	822	(93)	729
Centrica Energy	**2,576**	**(208)**	**2,368**	2,636	(280)	2,356
Centrica Storage	**111**	**(23)**	**88**	87	(11)	76
Residential energy supply	**1,147**	**–**	**1,147**	1,126	–	1,126
Business energy supply	**1,394**	**–**	**1,394**	1,372	–	1,372
Residential and business services	**279**	**–**	**279**	271	–	271
Upstream and wholesale energy	**276**	**(157)**	**119**	252	(131)	121
Direct Energy	**3,096**	**(157)**	**2,939**	3,021	(131)	2,890
	12,433	**(468)**	**11,965**	11,793	(478)	11,315

(i) Inter-segment revenue is subject to period on period fluctuations principally due to the change in the mix of internal and external energy sales.
(ii) To align with management responsibilities and reporting, the British Gas Community Energy and British Gas New Energy businesses have been reallocated from the Residential energy supply segment to the Business energy supply and services and Residential services segments respectively. The 2011 comparatives have been restated accordingly.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED (UNAUDITED)

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

(b) Operating profit

	2012 £m	2011 (restated) (i) £m
Residential energy supply (i)	**261**	263
Residential services (i)	**187**	159
Business energy supply and services (i)	**82**	65
British Gas	**530**	487
Gas (ii)	**411**	355
Power (ii)	**137**	137
Centrica Energy	**548**	492
Centrica Storage	**53**	36
Residential energy supply	**55**	56
Business energy supply	**69**	52
Residential and business services	**22**	19
Upstream and wholesale energy	**19**	11
Direct Energy	**165**	138
Adjusted operating profit – segment operating profit before exceptional items, certain re-measurements and impact of fair value uplifts from Strategic Investments (iii)	**1,296**	1,153
Share of joint ventures/associates' interest and taxation	**(36)**	(41)
Depreciation of fair value uplifts to property, plant and equipment – Venture (ii)	**(30)**	(27)
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) – associates – British Energy (ii)	**(14)**	(21)
	1,216	1,064
Exceptional items (note 24)	**(444)**	(331)
Certain re-measurements included within gross profit (note 24)	**90**	(598)
Certain re-measurements of associates' energy contracts (net of taxation) (note 24)	**(4)**	25
Operating profit after exceptional items and certain re-measurements	**858**	160

(i) To align with management responsibilities and reporting, the British Gas Community Energy and British Gas New Energy businesses have been reallocated from the Residential energy supply segment to the Business energy supply and services and Residential services segments respectively. The 2011 comparatives have been restated accordingly.
(ii) See note 3 and 10 for an explanation of the depreciation on fair value uplifts to PP&E on acquiring Strategic Investments.
(iii) Includes results of equity-accounted interests before interest and taxation.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED (UNAUDITED)

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

(a) Exceptional items

	2012 £m	2011 £m
Provision for Direct Energy wind power purchase agreements (i)	**(89)**	–
Provision for European onerous capacity contracts	**–**	(221)
Exceptional items included within gross profit	**(89)**	(221)
Impairment of UK generation assets	**–**	(226)
British Gas contract migration	**–**	(63)
Restructuring charges (ii)	**(124)**	(154)
Pension curtailment (note 15(b))	**–**	333
Impairment of investment in nuclear new build (notes 13 and 19)	**(231)**	–
	(355)	(110)
Exceptional items included within Group operating profit	**(444)**	(331)
Taxation on exceptional items	**69**	69
Effect of change in upstream UK tax rates (note 8)	**(40)**	–
Total exceptional items after taxation	**(415)**	(262)

(b) Certain re-measurements

	2012 £m	2011 £m
Certain re-measurements recognised in relation to energy contracts:		
Net gains arising on delivery of contracts (iii)	**254**	90
Net losses arising on market price movements and new contracts (iv)	**(142)**	(685)
Net losses arising on positions in relation to cross-border transportation or capacity contracts	**(22)**	(3)
Net re-measurements included within gross profit	**90**	(598)
Net (losses)/gains arising on re-measurement of associates' energy contracts (net of taxation) (v)	**(4)**	25
Net re-measurements included within Group operating profit	**86**	(573)
Taxation on certain re-measurements	**(1)**	161
Total re-measurements after taxation	**85**	(412)

(i) An exceptional charge has been recognised in relation to wind power purchase agreements in Direct Energy to reflect the fair value of the obligation to purchase power above its net realisable value.
(ii) As a result of a Group-wide cost reduction programme, restructuring charges have been recorded including staff redundancies, asset impairments and onerous lease charges. See Business Review for more details.
(iii) As energy is delivered or consumed from previously contracted positions the related fair value recognised in the opening Balance Sheet (representing the discounted difference between forward energy prices at the opening balance sheet date and the contract price of energy to be delivered) is charged or credited to the Income Statement.
(iv) Represents fair value losses arising from the change in fair value of future contracted sales and purchase contracts as a result of changes in forward energy prices between reporting dates (or date of inception and the reporting date, where later).
(v) Includes fair value unwinds relating to the recognition of energy procurement contracts and energy sales contracts at their acquisition-date fair values.

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

	2012 £m	2012 Pence per ordinary share	2011 £m	2011 Pence per ordinary share
Earnings/(loss) – basic	**283**	**5.5**	(47)	(0.9)
Net exceptional items after taxation (note 24)	**415**	**7.9**	262	5.1
Certain re-measurement (gains)/losses after taxation (note 24)	**(85)**	**(1.6)**	412	8.0
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation	**26**	**0.5**	33	0.6
Earnings – adjusted basic	**639**	**12.3**	660	12.8
Earnings/(loss) – diluted	**283**	**5.4**	(47)	(0.9)
Earnings – adjusted diluted	**639**	**12.3**	660	12.7

NOTES TO THE FINANCIAL STATEMENTS CONTINUED (UNAUDITED)

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

Reconciliation of Group operating profit to cash generated

	2012 £m	2011 £m
Group operating profit including share of result of joint ventures and associates	**858**	160
Less share of profit of joint ventures and associates	**(78)**	(71)
Group operating profit before share of results of joint ventures and associates	**780**	89
Add back/(deduct):		
Amortisation, write-down and impairment of intangible assets	**225**	68
Depreciation, write-down and impairment of property, plant and equipment	**564**	611
Impairment of associate	**231**	–
Recycling of write-down of available-for-sale financial assets	**–**	23
Loss on sale of businesses, property, plant and equipment and other intangible assets	**5**	8
Increase in provisions	**153**	401
Defined benefit pension curtailment gain	**(3)**	(332)
Defined benefit pension service cost	**42**	56
Defined benefit pension contributions	**(84)**	(70)
Employee share scheme costs	**20**	16
Re-measurement of energy contracts (i)	**(72)**	539
Operating cash flows before movements in working capital	**1,861**	1,409
(Increase)/decrease in inventories	**(31)**	58
Increase in trade and other receivables (ii)	**(337)**	(138)
Increase in trade and other payables (ii)	**632**	438
Cash generated from operations	**2,125**	1,767

(i) Adds back unrealised losses arising from re-measurement of energy contracts.
(ii) Includes net outflow of £18 million of cash collateral in 2012 (2011: outflow of £149 million).

GAS AND LIQUIDS RESERVES (UNAUDITED)

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

The Group discloses 2P gas and liquids reserves, representing the central estimate of future hydrocarbon recovery. Reserves for Centrica-operated fields are estimated by in-house technical teams composed of geoscientists and reservoir engineers. Reserves for non-operated fields are estimated by the operator, but are subject to internal review and challenge.

As part of the internal control process related to reserves estimation, an assessment of the reserves, including the application of the reserves definitions is undertaken by an independent technical auditor. An annual reserves assessment has been carried out by DeGoyler and MacNaughton for the Group's global reserves. Reserves are estimated in accordance with a formal policy and procedure standard.

The Group has estimated 2P gas and liquids reserves in Europe, North America and Trinidad and Tobago.

The principal fields in Centrica Energy are the Kvitebjorn, South Morecambe, Cygnus, Statfjord, Valemon, Chiswick, NCMA Poinsettia, York, Maria, Rhyl and Grove fields. The principal field in Centrica Storage is the Rough field. The European and Trinidad and Tobago reserves estimates are consistent with the guidelines and definitions of the Society of Petroleum Engineers, the Society of Petroleum Evaluation Engineers and the World Petroleum Council's Petroleum Resources Management System using accepted principles.

The principal fields in Direct Energy are the Foothills, Medicine Hat, Carrot Creek and Central Alberta fields located in the province of Alberta, Canada. The Direct Energy reserves estimates have been evaluated in accordance with the Canadian Oil and Gas Evaluation Handbook (COGEH) reserves definitions and are consistent with the guidelines and definitions of the Society of Petroleum Engineers and the World Petroleum Council.

Estimated net 2P reserves of gas (billion cubic feet)	Europe	Trinidad and Tobago (iii)	**Centrica Energy**	Centrica Storage	Direct Energy	**Total**
1 January 2012	1,858	161	**2,019**	182	603	**2,804**
Revisions of previous estimates	(73)	(2)	**(75)**	–	(10)	**(85)**
Purchases/(disposals) of reserves in place (i)	632	–	**632**	–	37	**669**
Extensions, discoveries and other additions (ii)	39	–	**39**	–	5	**44**
Production (iv)	(220)	(19)	**(239)**	–	(54)	**(293)**
31 December 2012	**2,236**	**140**	**2,376**	**182**	**581**	**3,139**

Estimated net 2P reserves of liquids (million barrels)	Europe	Trinidad and Tobago (iii)	**Centrica Energy**	Centrica Storage	Direct Energy	**Total**
1 January 2012	73	–	**73**	–	8	**81**
Revisions of previous estimates	6	–	**6**	–	2	**8**
Purchases/(disposals) of reserves in place (i)	55	–	**55**	–	2	**57**
Extensions, discoveries and other additions (ii)	10	–	**10**	–	–	**10**
Production (iv)	(15)	–	**(15)**	–	(1)	**(16)**
31 December 2012	**129**	**–**	**129**	**–**	**11**	**140**

Estimated net 2P reserves (million barrels of oil equivalent)	Europe	Trinidad and Tobago (iii)	**Centrica Energy**	Centrica Storage	Direct Energy	**Total**
31 December 2012 (v)	502	23	**525**	30	108	**663**

(i) Reflects the acquisition of additional equity in the Statfjord, Seymour, Armada, Skirne, Vale, Heimdal and Maria fields and the acquisition of equity in the Alba, Kvitebjorn, and Valemon fields in Centrica Energy and the Carrot Creek field in Direct Energy.
(ii) Recognition of reserves associated with the Rhyl and Maria fields in Centrica Energy.
(iii) The Trinidad and Tobago reserves are subject to a production sharing contract and accordingly have been stated on an entitlement basis (including tax barrels).
(iv) Represents total gas and oil produced from the Group's reserves.
(v) Includes the total of estimated gas and liquid reserves at 31 December 2012 in million barrels of oil equivalent.

Liquids reserves include oil, condensate and natural gas liquids.

DISCLOSURES

DISCLAIMERS

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

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

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

FOR FURTHER INFORMATION

Centrica will hold its 2012 Preliminary Results presentation for analysts and institutional investors at 9.30am followed by a strategy update presentation at 11am on **Wednesday 27 February 2013**. There will be a live audio webcast of the presentation and slides from 9.30am at www.centrica.com/investors. All times UK (GMT).

A live audio broadcast of the presentation will be available by dialling in using the following number:

+ 44 20 3059 8125

The call title is "**Centrica plc Preliminary Results 2012 announcement and strategy update**".

An archived webcast and full transcript of the presentation and the question and answer session will be available on the website on Friday 1 March.

ENQUIRIES

Investors and Analysts:	Andrew Page	Director of Investor Relations
	Telephone:	01753 494 900
	email:	ir@centrica.com
Media:	Centrica Media Relations	
	Telephone:	0800 107 7014
	email:	media@centrica.com

FINANCIAL CALENDAR

Ex-dividend date for 2012 final dividend	24 April 2013
Record date for 2012 final dividend	26 April 2013
2012 final dividend payment date	12 June 2013
Interim Management Statement	13 May 2013
Annual General Meeting	13 May 2013
2013 Interim results announcement	31 July 2013

REGISTERED OFFICE

Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD