centrica

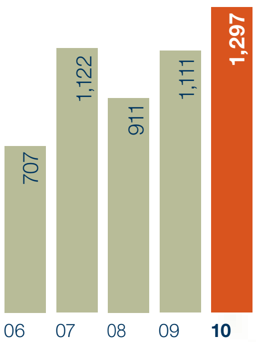
ENERGY FOR THE FUTURE

Annual Report
and Accounts **2010**

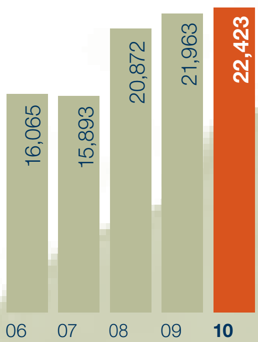
PERFORMANCE HIGHLIGHTS

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

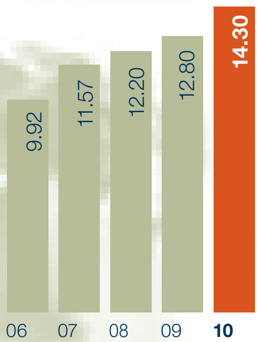
Adjusted earnings◊
£m



Group revenue‡
£m



Dividend per share
pence



Financial highlights	**2010**	2009
Revenue‡	**£22.42bn**	£21.96bn
Adjusted operating profit*‡	**£2,390m**	£1,857m
Total taxation charge^	**£761m**	£548m
Adjusted effective tax rate^	**37%**	33%
Adjusted earnings◊	**£1,297m**	£1,111m
Adjusted basic earnings per share◊	**25.2p**	21.7p
Full-year dividend per share	**14.3p**	12.8p
Statutory results		
Operating profit‡	**£3,074m**	£1,175m
Earnings	**£1,942m**	£856m
Basic earnings per share	**37.6p**	16.5p

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

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

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

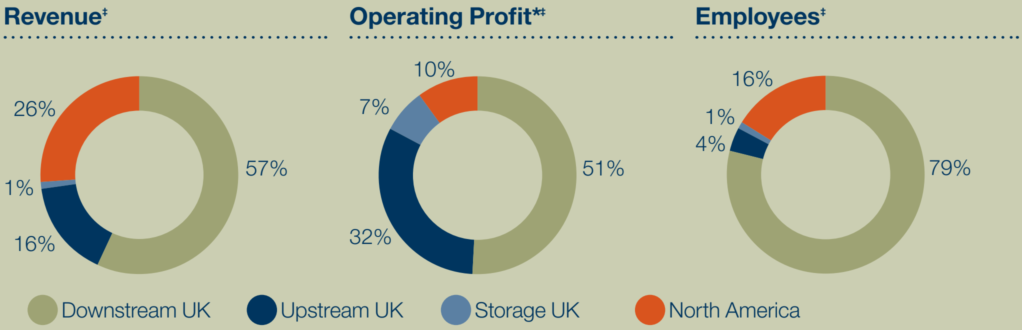
◊ As above, except after other costs and joint ventures and associates stated net of interest and taxation

^ Includes taxation on profit from continuing operations and tax from joint ventures and associates as reconciled in the Group Financial Review on page 23

‡ From continuing operations

UK: British Gas, Centrica Energy and Centrica Storage

North America: Direct Energy



		Revenue‡ £m	Operating profit*‡ £m
Downstream UK	British Gas		
Residential energy supply	We are the biggest energy supplier in Britain's domestic market.	8,355	742
Residential services	We are Britain's largest operator in the installation and maintenance of domestic central heating and gas appliances.	1,464	241
Business energy supply and services	We are Britain's leading supplier of energy and related services to businesses.	2,906	233
Upstream UK	centrica energy		
Upstream gas and oil	With assets primarily in the UK and Norwegian continental shelf, our activities include gas and oil production, development and exploration.	864	581
Power generation	We own and operate eight gas fired power stations, have a leading position in offshore wind and a 20% stake in British Energy's nuclear fleet.	1,105	226
Industrial and commercial	We have a growing liquefied natural gas (LNG) business and also manage a number of legacy gas supply contracts.	1,594	(36)
Proprietary energy trading	We buy and sell gas and power from a variety of sources.	2	–
Storage UK	centrica storage		
Storage	We are the owner and operator of Rough, the UK's largest gas storage facility.	232	169
North America	Direct Energy		
Residential energy supply	We supply gas and power to residential and small business customers in chosen deregulated states and provinces in North America.	2,502	177
Business energy supply	We supply gas and power to commercial and industrial customers in chosen deregulated markets across North America.	2,682	88
Residential and business services	We are the largest home services company in North America covering 46 US states and all Canadian provinces.	485	15
Upstream and wholesale energy	We own and operate gas fired power stations in Texas and gas and oil assets in Alberta. We also have a wholesale energy trading business.	232	(46)

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

Transporting personnel to the North Sea platforms

ENERGY FOR THE FUTURE

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

Energy for the demands of today, and for the future.

Contents

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

Centrica performed well in 2010

Sir Roger Carr
Chairman

Centrica has made great strides in 2010 towards achieving the goals we set out last year, building on our core expertise in the provision of energy and energy related services to deliver strong financial growth. Through a combination of operational excellence and carefully targeted investment, Centrica is well placed to continue to grow.

2010, my seventh year as Chairman, has seen worldwide energy markets undergoing significant change. While wholesale gas prices in North America have remained low mainly due to the impact of shale gas, prices in the UK are around 40% higher in 2011 than they were in 2010. With domestic sources of gas in decline and rising levels of demand in the Far East, the need for the UK to secure future supplies is essential. In the UK it is clear that liquefied natural gas (LNG) has an increasingly important role to play. I was therefore pleased we were able to conclude a contract that secures significant volumes of gas for the UK from Qatar, the world's largest exporter of LNG, sufficient to meet 10% of UK residential gas demand over the next three years.

The UK power market is entering a period of transformation. The Government's consultation on Electricity Market Reform will lead to major changes in energy policy. If the country is to meet its climate change targets, substantial reductions in carbon intensity will be needed. I believe Centrica has a leading role to play, both upstream in gas production and power generation, and downstream in homes and businesses – securing reliable, lower carbon sources of energy for the years ahead and helping our customers take control of their energy use.

Centrica's F3-FA platform prior to being towed out to the North Sea

We were the first of the major suppliers to reduce gas prices for residential customers early in the year and we achieved significant growth in UK residential energy customer accounts. However the combination of higher forward energy prices and rising non-commodity costs necessitated an increase in our gas and electricity prices in December. We recognise the impact that higher energy prices have on our customers, particularly during periods of very cold weather. We continue to work closely with all our customers to help them manage their energy consumption, while targeting assistance to our most vulnerable customers, especially the elderly.

I am pleased to say that following the investments in Venture and British Energy in 2009 we now have a more balanced business. The combination of our own gas production and a clearly differentiated mix of low carbon power generation gives us great flexibility. Most notably, the considerable success we recorded during the year in our gas and oil drilling programme is testament to the skills and expertise of our upstream team. Continued investment will enable us to replace and develop reserves where opportunities to create value have been identified.

In North America, we have taken important steps in delivering our strategy of building a larger, more vertically integrated energy business, through a combination of organic growth and acquisitions. North America presents an important opportunity for Centrica to expand our business outside the UK, by applying our core expertise in markets that are open to competition in the pursuit of building shareholder value.

Dividend

The Board is proposing a final dividend of 10.46 pence per share to be paid in June 2011, bringing our full-year dividend to 14.3 pence per share, an increase of 12%. This is in line with our policy of delivering sustained real growth in the ordinary dividend, and is a reflection of the significant increase in earnings we have delivered during the year.

Board changes

I am delighted to welcome two new Non-Executive Directors to the Board who bring considerable experience, skills and value. They strengthen its composition and improve the Board's succession planning and diversity.

Ian Meakins was appointed as a Non-Executive Director of the Company in October. Ian is chief executive of Wolseley Group, the FTSE 100 heating, plumbing and building materials distributor. In December we announced the appointment of Margherita Della Valle as a Non-Executive Director of the Company, effective January 2011. Margherita is group financial controller for

Vodafone Group Plc and brings the total number of women on Centrica's Board to three. They have both become members of Centrica's Audit, Nominations and Remuneration Committees.

It is one of our key governance objectives to have a Board which, in its diversity, reflects our customer base as far as possible. These appointments have helped us to make real progress towards that goal, balancing youth with experience, and placing those in full-time executive employment alongside others with a broader portfolio of responsibilities. I am therefore pleased with the progress we have made this year, to strengthen and reinvigorate the Board as an integral part of our long-term succession planning programme.

In addition, the Board continues to pursue high standards of governance with rigorous annual Board evaluation reviews. The adoption of a disciplined process has continued to ensure a culture of openness and transparency where the strengths of the Board are identified and areas for improvement clearly highlighted. This year the review confirmed the enthusiasm and engagement of Board members and highlighted an appetite for greater knowledge of our North American competitors and the potential for new technologies in our customer offering.

Our employees

Our people are central to the success of the Company and I thank each of our employees for their hard work and dedication, particularly during the adverse weather conditions experienced during the year, which were the worst in living memory. I am very pleased that our British Gas engineers have embraced new working arrangements which will enable us to provide a more flexible service to our customers. These are necessary changes which will set the business in good stead as we strive to provide our customers with warm, well lit and energy efficient homes and businesses.

Community

Our work in the community is central to the way Centrica operates as an environmentally and socially responsible business. It is particularly rewarding to be able to deliver tangible improvements for the long term and to see communities embrace the opportunity to work with us.

Through our British Gas Essentials programme we have been able to help 340,000 of our most disadvantaged and vulnerable customers. We provided additional direct financial support to help them through this winter, while offering free insulation and other energy efficiency measures which will deliver a lasting benefit. We also launched our 12th annual winter campaign, in partnership with Age UK, to help the elderly reduce their winter fuel bills. The campaign distributed 350,000 packs, which included advice on how to plan for cold weather and keep homes warm, and provided information on support that may be available.

Our innovative work with schools enables them to embrace new technologies, while also helping the next generation to understand the importance of energy efficiency. We have also continued our partnership with British Swimming, which benefits families across the country as well as providing support for some of our most promising athletes.

I am particularly proud of the contribution made by our employees who have given more than 50,000 hours of their time over the year, bringing considerable skills and experience to a wide range of projects. Most notably, our employees in North America contributed over 10,000 volunteering hours in their local communities, an increase of some 70% from 2009 and a commendable achievement.

The future

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

We will also consult closely with the Government over Electricity Market Reform to ensure that an appropriate framework is developed – in addition to setting a carbon price floor – to stimulate investment in the low carbon forms of generation that will be necessary to meet the country's environmental targets. A stable regulatory climate will be essential, providing a level playing field, efficient and effective planning measures and appropriate financial incentives for industry to be able to make the long-term investments that are required, for the benefit of our shareholders and customers alike.

As we enter 2011, our integrated model leaves us well placed to manage the pressures on the downstream business from lower consumption and higher commodity prices. Our upstream activities will benefit from those higher prices, and we will look to our services and North American businesses to deliver further growth.

Sir Roger Carr
Chairman
24 February 2011

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

Our business principles

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

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

Our ongoing campaign to communicate these principles will help our employees, business partners and external audiences understand the standards we expect. For more information, go to **www.centrica.com/businessprinciples**.

Earnings and operating profit numbers are stated, throughout the Annual Report, before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and before exceptional items and certain re-measurements where applicable – see note 2 for definitions. All references to profit or loss are stated before share of joint venture and associate interest and tax. All references to underlying profit in North America exclude £61 million of cost incurred in 2009 relating to the write-off of final debt balances in Texas and other one-off items. The Directors believe these measures assist with better understanding the underlying performance of the Group. The equivalent amounts after exceptional items and certain re-measurements are reconciled at Group level in the Group Income Statement. Exceptional items and certain re-measurements are described in note 9. Adjusted earnings and adjusted basic earnings per share are reconciled to their statutory equivalents in note 14.

All current financial results listed are for the year ended 31 December 2010. All references to 'the prior period', 'the prior year', '2009' and 'last year' mean the year ended 31 December 2009 unless otherwise specified.

Energy for the future

Sam Laidlaw
Chief Executive

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

An overview of the energy industry

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

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

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

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

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

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

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

2010 performance

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

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

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

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

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

Strategic progress

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

British Gas Smart Metering vans

Strategic priority 01

GROWING British Gas

British Gas has had a strong year. We played a key role in helping our customers maintain warm, well lit homes during the exceptionally cold weather at the start and end of the year, meeting around 30% of the country's total gas demand.

In residential energy, we led the market by cutting gas prices in February and achieved a significant increase in customer accounts over the course of the year. While the sharp increase in wholesale gas and power prices and non-commodity costs necessitated an increase in our retail tariffs towards the end of the year, we have made a priority of helping our customers manage their energy consumption and we have targeted help directly to our most vulnerable customers, especially the elderly. Energy efficiency measures have helped to reduce underlying average gas consumption by 22% amongst our customers over the past five years and we are actively helping our customers make further savings, with market-leading deals such as our free insulation offer for British Gas customers. We have contributed over £80 million to provide help for our most vulnerable customers.

In British Gas Services, we have made considerable progress despite the challenging economic climate. The record levels of boiler repair call-outs during the cold weather incurred additional costs for the business as our engineers worked hard to reach as many of our customers as possible. In total we added 265,000 services customer accounts over the year, with growth in each of our core products, including an increase in central heating service contracts towards the end of the year. We have agreed new working arrangements with our engineers which will improve the flexibility and responsiveness of the service we provide to our customers.

We also achieved a significant increase in the number of boiler installations, up over 30% year on year, following the launch of a more competitively priced offering.

Early in 2011 British Gas established partnerships with Nectar and Sainsbury's Energy, offering customers the opportunity to earn additional benefits when they take our energy and services products and providing further channels for growth.

British Gas Business continues to perform very well, increasing operating profit* by 27% year on year. A key part of its success has been our customer segmented volume-to-value strategy, which focuses on delivering high and differentiated levels of service to retain and acquire high value small enterprise, medium enterprise and multi-site customers. Through the acquisition of Connaught's gas and electricity services business, we are also developing a complete energy solutions service for our business customers. We understand that these are difficult times for many small businesses and we have been taking the lead, through our expert credit solutions team, in providing flexible payment plans and energy efficiency advice to those business customers that need it.

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


British Gas engineer

p10 For more on British Gas

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

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

Engineer at our Langage gas fired power station in Devon

Strategic priority 02

DELIVERING value from our upstream business

The operational performance of the Upstream UK business was also strong. Despite lower gas prices at the beginning of the year and the effect of tight market spreads for gas fired generation, operating profit* for the business increased by 47%. This reflected a full year's contribution from the Venture acquisition, strong production volumes from the Morecambe field, a full year's contribution from our 20% stake in British Energy and the addition of Langage to our fleet of gas fired power stations. Strong optimisation performance also helped to improve our returns.

We also had considerable success in our gas and oil drilling programme, with 11 out of 15 wells showing positive results. During 2011, at least 11 wells are scheduled to be drilled, which will help maintain Centrica's position as one of the most active drillers in the North Sea. We completed the £247 million acquisition of Suncor's portfolio of Trinidad and Tobago gas blocks, giving us our first producing LNG position, and the £134 million acquisition of Shell's stake in the Statfjord field. These acquisitions, combined with our exploration success and development progress, have resulted in an increase in reported gas and oil reserves of 9% in our Upstream UK business. We are also investing £450 million to develop the York and Ensign gas fields which offer attractive returns.

During the year we took 23 LNG cargoes totalling one billion therms into the Isle of Grain, enough to supply around 20% of our UK residential gas demand. We were also pleased to sign a three-year contract with Qatargas in February 2011, which will secure material volumes of LNG for the UK from Qatar. The deal will provide enough gas to meet approximately 10% of UK residential gas demand, equivalent to around 2.5 million UK households.

In power generation, nuclear now makes a significant contribution to the results of the division. Although British Energy's performance was adversely affected by an outage at the Sizewell B power station, which lasted for approximately six months, the business contributed over half of our power generation operating profit.* We welcomed the announcement of plant life extensions for Hartlepool and Heysham 1 nuclear power stations by five years to 2019. Work continues on the new nuclear build programme with a final investment decision expected in 2012 for Hinkley Point. In offshore wind, all major contracts have now been awarded on the 270MW Lincs joint venture and onshore works have begun, with the wind farm expected to be operational by winter 2012/13. We also welcomed the news that Centrica was awarded exclusive rights to develop up to 4.2GW of wind generation in the Irish Sea zone in the Crown Estate's Round 3 offshore wind tendering process.

In gas storage, the Rough facility once again delivered excellent operational performance, reflecting continuous investment in the asset since its acquisition. Exceptionally cold weather in the first quarter of the year resulted in record depletion by March. This was followed by a record injection season during the summer months and then unusually high levels of withdrawal in November and December. The spread between winter and summer prices has narrowed, which will significantly affect the profitability of Rough in 2011 and will also alter the economics of our three potential storage development projects if narrow spreads persist. We took the decision not to proceed at the present time with the Caythorpe onshore storage facility. Work continues on the Baird project, with an investment decision expected later in 2011.

p14 For more on Centrica Energy

Frontera power plant, Texas

Strategic priority 03

BUILDING an integrated North American business

In North America we have made encouraging progress. Downstream performance was particularly strong, with underlying profitability* up 35%. Upstream profitability* however, continues to be adversely affected by low wholesale commodity prices.

Downstream, we have made significant operational progress. We have improved customer retention and cut the levels of bad debt at our residential energy supply business in Texas. We have also successfully launched a prepayment offering, a good example of our ability to apply our UK experience in the North American market. We continue to enter new markets in the US North East and now have over 100,000 customers in Pennsylvania and Maryland. Business energy supply achieved strong growth, with higher volumes and improved margins through disciplined targeting of our sales activity. We will continue to focus on improving operational efficiency, using our scale to increase sales in the most attractive customer segments. In our services business, where we faced increased competition in the Canadian market and a slow pace of recovery in the US housing market, we improved efficiency and cost control. Following the acquisition of Clockwork in July the integration is proceeding well, making Direct Energy the market leader in the home energy services market and providing a robust platform for growth through its established franchise model.

Upstream, the continuing low gas and power price environment has significantly affected our returns, although this provided an opportunity to acquire gas assets in the Wildcat Hills region of Alberta at an attractive price. This gave us an additional 241 billion

p19 For more on our North American operations

cubic feet equivalent (bcfe) of reserves and increased our gas reserves by over 60%. This transaction improves the level of vertical integration in the business, reduces our cost of gas and will allow Direct Energy to meet around 35% of its customers' gas demand through its own sources of production.

Our power generation business again faced difficult market conditions, with low power prices in Texas affecting the profitability of our gas fired power stations and our wind power purchase agreements. We continue to look for value-adding opportunities to increase our asset cover. However, we retain a tight focus on financial discipline and will only invest where appropriate returns can be achieved.

Overall, we have continued to successfully build our North American business during the year, through organic improvements and acquisitions, and are well positioned to make further progress.

Clockwork offices in Sarasota, Florida

Strategic priority 04

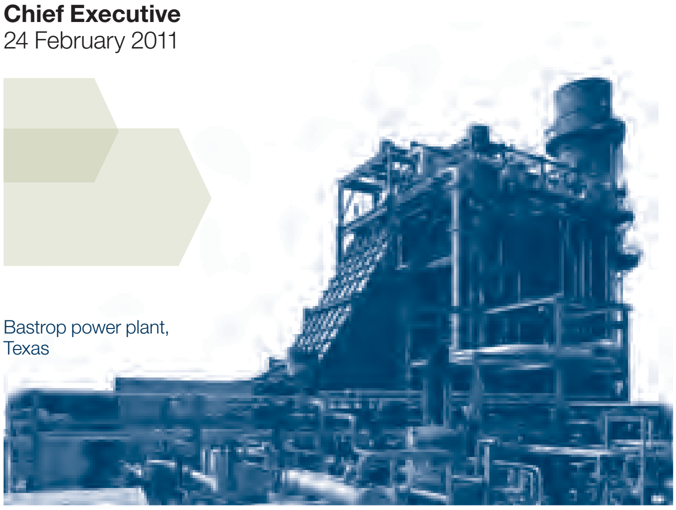
DRIVING superior financial returns

We have delivered a substantial increase in earnings◊ in 2010, making good progress across each part of the business and we expect to achieve continued growth in 2011. Market conditions remain competitive, particularly in UK downstream energy supply, with pressure from rising wholesale prices. However we expect to deliver further improvements in profitability across much of the rest of the Group, building on our progress to date.

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

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

Sam Laidlaw
Chief Executive
24 February 2011



Bastrop power plant, Texas

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

Term	2010 £m	2009 £m	Explanation
Adjusted operating profit*:			
Downstream UK	**1,216**	1,011	The supply of gas, electricity and services for UK residential and business customers
Upstream UK	**771**	525	The production, generation, optimisation and trading of energy in the UK
Storage UK	**169**	168	Gas storage in the UK
North America	**234**	153	Downstream and upstream activities in North America
Total adjusted operating profit*	**2,390**	1,857	The principal operating profit measure used by management and used throughout the Operating Review
Impact of fair value uplifts	**(118)**	(27)	Depreciation of fair value uplifts to property, plant and equipment of Strategic Investments
Interest and taxation on joint ventures and associates and other costs	**(78)**	(16)	
Group operating profitΩ	**2,194**	1,814	Operating profit from continuing operations before exceptional items and certain re-measurements, reconciled to statutory profit in the Group Income Statement
Group profitΩ	**1,221**	1,104	Profit from continuing operations before exceptional items and certain re-measurements, reconciled to statutory profit in the Group Income Statement
Adjusted earnings◊	**1,297**	1,111	Earnings before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements, reconciled to statutory profit in note 11
Statutory profit	**1,942**	856	Profit including discontinued operations, exceptional items and certain re-measurements

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

KPIs

Measuring the performance and health of our business

We monitor our performance by measuring and tracking areas that we see as key to our longer term success. This year we added a new key performance indicator (KPI) which reflects the importance we place on safety. The results across all areas are strong and are a good demonstration of the health of the Company.

To see more online, go to:
www.centrica.com/kpis2010

p10 Detailed operational and financial KPIs in the Operating Review start on page 10

p24 Go to the Corporate Responsibility Review for more information on the non-financial KPIs

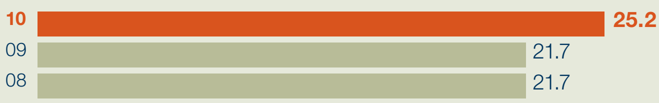
Financial KPIs

Adjusted basic earnings per share (EPS)

EPS is an industry standard determining corporate profitability for shareholders. 2010 saw growth in EPS reflecting our strong performance during the year. In 2009 EPS remained unchanged at 21.7 pence, despite a 22% increase in the average number of shares in issue.

Target – To deliver growth in adjusted EPS over a three-year period. This measure is used as one of the performance conditions in the Long Term Incentive Scheme, outlined on pages 55 and 56.

Adjusted basic earnings per share (pence)



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

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

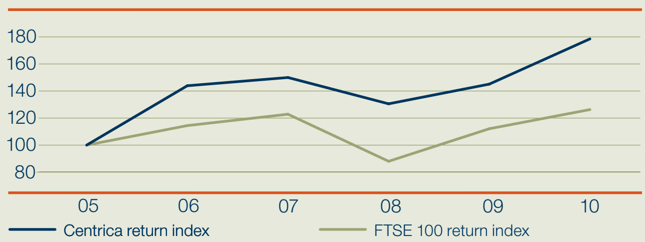
Total shareholder return (TSR)

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

Centrica has outperformed the FTSE 100 Index by 41% over a five-year period.

Target – TSR is utilised as a measure of performance over a three-year period in the Long Term Incentive Scheme, outlined on pages 55 and 56.

Total shareholder return indices – Centrica and FTSE 100 Index for the five years ended 31 December 2010



Total shareholder return measures the return to shareholders in terms of the growth of a £100 investment in the Company's shares, assuming that dividends and returns of capital are reinvested. We compare our TSR with those of the other 99 members of the FTSE 100.

Source: Alithos Limited, 31 December 2005 = 100.

Dividends per share

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

The 2010 dividend shows an increase of 12% on the 2009 dividend.

Target – To deliver real growth per annum.

Ordinary dividend (pence)

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

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

Non-Financial KPIs

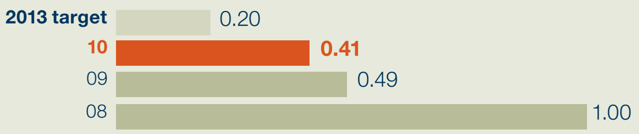
Lost time injuries

Safety is the top priority for Centrica as we believe that all work-related injuries and process safety incidents can be prevented. We want to develop a culture where all safety risks are tackled with a determination to improve performance, people look out for each other and we share learnings and successes.

Initiatives across the Group led to a reduction in our lost time injuries (LTIs) per 100,000 hours by 16.3% in 2010 to 0.41. This exceeded our target for existing businesses of 0.43 and reflects a continuing downward trend over the last three years. In 2011 we are prioritising road safety to help reduce LTIs further.

Target – Reduce LTIs to 0.20 per 100,000 hours worked by 2013.

Lost time injuries per 100,000 hours worked



A lost time injury is defined as an incident arising out of Centrica's operations which leads to an injury where the employee or contractor is not available to work for one day or more, excluding the day that the injury occurred.

Source: Internal data collection

Carbon intensity

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

We continued to reduce the carbon intensity of our UK power generation fleet in 2010, achieving 275g CO_2/kWh. This reduction is mainly attributable to the increased offtake in nuclear power from our 20% stake in British Energy. Our global carbon intensity was also 275g CO_2/kWh in 2010.

Target – Reduce our UK power generation carbon intensity to 270g CO_2/kWh by 2012 and aim to bring our global carbon intensity down to that level in the same period; reduce our UK carbon intensity to 260g CO_2/kWh by 2020.

Carbon intensity g CO_2/kWh

* 2010 data subject to final verification

† verified 2009 figure restated

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

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

Customer trust

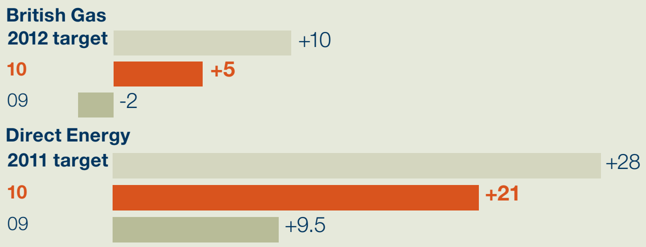
To build customer trust, we recognise that we need leading customer service. We track our performance using brand net promoter scores (NPS) for our two customer-facing businesses: British Gas in the UK and Direct Energy in North American markets.

British Gas brand NPS increased steadily throughout the year, achieving an annual average score of +5, exceeding our 2010 target of +3. Direct Energy brand NPS rose to +21, up from +9.5 in 2009. The increases across all our markets are a result of a much sharper focus on customer satisfaction and better training for employees to recognise and understand customer needs.

Target – Achieve British Gas brand NPS of +10 in 2012 and Direct Energy brand NPS of +28 in 2011.

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

Net promoter scores



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

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

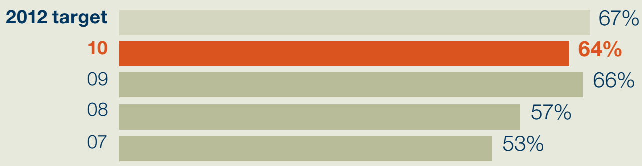
Employee engagement

Engaged employees are essential to the delivery of our business objectives. Measuring engagement and the factors that drive it strengthens our ability to attract, develop and retain talent across the organisation.

The scores for engagement Group-wide decreased slightly by two percentage points to 64% from 2009 but, given the scale of changes to the business, this was not unexpected. We remain in the top quartile performance range of an independent benchmark.

Target – Achieve a score of 67% in 2012 when the next full survey will be completed and remain in the high performance category.

Engagement score



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

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

British Gas

Leading the way towards a low carbon future

Phil Bentley on growing the business in a low carbon world

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

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

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

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

OUR STRATEGY IN ACTION:

GROWING British Gas

DELIVERING value from upstream

BUILDING our North American business

DRIVING superior financial returns

Customer service adviser in Cardiff

Downstream UK

British Gas had a strong year, both operationally and financially. In residential energy supply, our focus on customer service, innovation, and a competitive pricing position resulted in a higher number of accounts. In a year of exceptionally cold weather, average gas consumption rose by 11%, more than offsetting the underlying savings in consumption made by customers as a result of energy efficiency improvements. In business energy supply we focus the business on three customer segments – small enterprise, medium enterprise and multi-site customers. This has allowed us to deliver high and differentiated levels of customer service and to pursue a volume-to-value strategy which focuses on retaining and acquiring high value customers in each segment. With the Connaught transaction, we also took a material step forward in our ambition to build a larger scale business energy services presence. In residential services, we achieved a further increase in the number of customer account holdings, reflecting our commitment to continually improve the responsiveness and quality of service we provide to our customers.

Overall, the number of British Gas accounts increased by 529,000 during 2010, while the number of 'joint product' households, those which take both an energy and a services product from us, increased by 121,000. The number of residential energy accounts on supply increased by 267,000, mainly as a result of a strong competitive pricing position for most of the year following our market leading price reduction early in February. In common with the rest of the industry, we face higher forward market wholesale gas and power prices and rising non-commodity costs, such as network charges and environmental obligations. These increases in costs necessitated a 7% increase in our gas and electricity prices, which took effect in December.

In residential services the number of product holdings increased by 265,000 to over 8.7 million, with improved retention rates and continued sales of services products to energy customers. Despite the challenging economic climate, sales of central heating service contracts towards the end of the year were strong. Over six million of our services contracts are now insurance based, meaning we are able to offer most customers a more flexible product range. We also reached agreement with our service and repair engineers regarding new contract terms and conditions, enabling us to offer greater flexibility to meet increased customer demand for evening and weekend appointments and during peak winter periods. During the sustained period of cold weather in December we received record levels of breakdown call-outs, 25% higher than the corresponding period in December 2009. Following improved preparation for peak periods of demand our engineers were able to visit up to 35,000 customers a day – around double the amount normally visited on a typical winter's day – despite facing difficult driving conditions. We prioritised work to reach vulnerable customers first.

Downstream UK

For the year ended 31 December	FY 2010	FY 2009	Δ%	H2 2010	H2 2009	Δ%
Total customer accounts ('000)	**25,740**	25,211	2.1	25,740	25,211	2.1
Total customer households ('000)	**12,206**	12,226	(0.2)	12,206	12,226	(0.2)
Joint product households ('000)	**2,164**	2,043	6	2,164	2,043	6
Gross revenue (£m)	**12,730**	12,565	1.3	5,996	5,688	5
Operating cost (excluding bad debt) (£m)	**1,358**	1,313	3.4	661	652	1.4
Operating profit (£m)*	**1,216**	1,011	20	374	539	(31)

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

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

In January 2011 British Gas became the new energy partner in the Nectar loyalty programme offering customers the opportunity to earn additional benefits when they take our energy and services products and in February 2011 we entered into a partnership with Sainsbury's Energy. These partnerships provide us with new channels for account growth.

In business energy supply, customer supply points were broadly unchanged since the start of the year at 1.04 million as we continued to focus on increasing the value of our customer base rather than increasing customer numbers. Increased demand forecasting accuracy and tighter hedging have also contributed to an improved level of profitability*, whilst reducing the overall risk in the business model. In business services we significantly enlarged the scale of our activities with the acquisition of the assets of Connaught's gas and electricity business in October. The transaction included more than 20,000 customer contracts, together with a workforce of over 400 engineers. This is a significant step forward in our goal to build a complete energy solutions business for commercial customers. We also acquired JK Environmental Services (UK) Ltd, a company which provides environmental services, sewer cleaning and tankering to the business market, with a particular focus on water and sewerage companies.

We have made good progress during the year in those areas that will underpin the future growth of British Gas and we remain committed to leading the industry in energy efficiency and enabling new technologies. During the year we announced an arrangement with Mears, a leading provider of repairs and maintenance services to the social housing sector. British Gas and Mears now jointly bid on repair and maintenance contracts in the social housing sector, with British Gas delivering energy services as well as providing access to CERT, CESP, Feed-in tariff and, later in 2011, Renewable Heat Incentive (RHI) funding. In January 2011 we won the contract to run the Welsh Assembly Government's new

Residential energy supply

For the year ended 31 December	FY 2010	FY 2009	Δ%	H2 2010	H2 2009	Δ%
Customer accounts (period end)						
Gas ('000)	**9,332**	9,378	(0.5)	9,332	9,378	(0.5)
Electricity ('000)	**6,646**	6,333	4.9	6,646	6,333	4.9
Total ('000)	**15,978**	15,711	1.7	15,978	15,711	1.7
Estimated market share (%)						
Gas	**42.4**	42.8	(0.4) ppts	42.4	42.8	(0.4) ppts
Electricity	**25.3**	24.0	1.3 ppts	25.3	24.0	1.3 ppts
Average consumption						
Gas (therms)	**564**	506	11	245	211	16
Electricity (kWh)	**3,982**	3,892	2.3	1,970	1,932	2.0
Total consumption						
Gas (mmth)	**5,291**	4,771	11	2,294	1,983	16
Electricity (GWh)	**26,002**	24,021	8	13,016	12,106	8
Gross revenue (£m)						
Gas	**5,570**	5,286	5	2,460	2,197	12
Electricity	**2,789**	2,625	6	1,416	1,288	10
Total	**8,359**	7,911	6	3,876	3,485	11
Transmission and metering costs (£m)						
Gas	**1,231**	1,239	(0.6)	620	612	1.3
Electricity	**714**	617	16	378	313	21
Total	**1,945**	1,856	4.8	998	925	8
Operating profit (£m)*	**742**	598	24	157	300	(48)
Operating margin (%)	**8.9**	7.6	1.3 ppts	4.1	8.6	(4.5) ppts

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

fuel poverty programme. We also retained the Scottish Parliament's flagship fuel poverty scheme – the Energy Assistance Programme – under which we will provide insulation and energy efficient heating and hot water systems to over 30,000 households across Scotland over the next three years.

We continued to build our insulation capability. In April we acquired Hillserve Ltd, an insulation business operating in the North West of England and Wales, while in December we acquired ECL Contracts Ltd, a specialist provider of solid wall insulation solutions and external cladding for both commercial and residential buildings. We now operate nationally from 12 regional areas, employ over 750 people and in total we provided insulation for 237,000 homes during the year.

In March we announced our strategy to build momentum for an early roll-out of smart meters in the UK. We shared our smart metering technical standards with the rest of the industry and announced the companies we would be partnering in the initial stage of the roll-out. We have installed over 250,000 smart meters for homes and businesses to date, with a target of installing two million smart meters by the end of 2012, to help meet the Government's target date of 2020 for all UK households to have a smart meter installed. In October we announced that we had acquired an equity stake in AlertMe, a provider of home energy management services. British Gas customers will be able to gain access to AlertMe's innovative product portfolio, helping them to reduce energy consumption.

We also continue to enhance our capabilities in new technologies. In October, alongside our partners Thames Water and Scotia Gas Networks, we delivered the UK's first plant to inject renewable gas (biomethane) into the grid, while in November we acquired the assets of Cool Planet Technologies Limited, a heat pump installation company, which should benefit from the introduction of RHI funding. We are one of the largest installers of solar photovoltaic panels in the UK and retain interests in biomass through a stake in Econergy. We are also able to offer our customers Stirling Engine boilers via our partnership with Baxi and retain an interest in fuel cell boilers, for which commercial trials have commenced, through our equity stake in Ceres Power Holdings plc.

Operationally we continue to perform well. Health and safety remains critical to the success of British Gas and we have a good safety record, with lost time incidents continuing to fall across British Gas despite the high number of boiler breakdown call-outs during the cold weather. We were once again recognised by the Great Places to Work Institute as one of the 'UK's 50 Best Workplaces', and our Cardiff call centre was recognised as 'Call Centre of the Year' in the 2010 European Call Centre Awards for the second year in a row.

The contact net promoter score (NPS) for our services business remained high, at 52%, while the contact NPS for both British Gas Residential and British Gas Business increased substantially during the year. For the second year running we were placed top of the Morgan Stanley Energy Supply survey for customer service and loyalty, increasing our lead following further improvements. Our online platform continues to improve, and self serve transactions now account for around 40% of all customer contacts, with the number of meter reads submitted, payment transactions and annual services visits booked online all increasing substantially year on year.

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

Residential energy supply operating profit* increased by 24% to £742 million (2009: £598 million) and operating margin increased to 8.9% (2009: 7.6%). Energy efficiency measures continue to deliver underlying reductions in energy consumption, however average gas consumption increased by 11% and average electricity consumption increased by 2%, reflecting the exceptionally cold weather at the beginning and end of the year. As a result of our industry leading price reduction in February, the revenue per therm fell by 5% and revenue per kilowatt hour fell by 2%, although higher customer numbers and higher weather related consumption resulted in an increase in gross revenue to £8,359 million (2009: £7,911 million). Overall, costs increased

Residential services

For the year ended 31 December	FY 2010	FY 2009	Δ%	H2 2010	H2 2009	Δ%
Customer product holdings (period end)						
Central heating service contracts ('000)	**4,684**	4,598	1.9	4,684	4,598	1.9
Kitchen Appliances Care (no. of customers) ('000)	**438**	433	1.2	438	433	1.2
Plumbing and Drains Care ('000)	**1,781**	1,724	3.3	1,781	1,724	3.3
Home Electrical Care ('000)	**1,480**	1,430	3.5	1,480	1,430	3.5
Other contracts ('000)	**335**	268	25	335	268	25
Total holdings ('000)	**8,718**	8,453	3.1	8,718	8,453	3.1
Domestic central heating installations ('000)	**124**	95	31	71	52	37
Gross revenue (£m)						
Central heating service contracts	**774**	725	7	403	366	10
Central heating installations	**324**	289	12	180	157	15
Other	**366**	324	13	190	169	12
Total	**1,464**	1,338	9	773	692	12
Engineering staff employed	**9,954**	9,295	7.1	9,954	9,295	7.1
Operating profit (£m)*	**241**	230	5	132	121	9
Operating margin (%)	**16.5**	17.2	(0.7) ppts	17.1	17.5	(0.4) ppts

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

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

by 4% to £7,617 million (2009: £7,313 million), as lower unit commodity costs for gas and electricity were more than offset by higher weather related consumption, a cost of £167 million relating to the closing out of some out-of-the-money contracts for delivery of gas mainly during 2011 and 2012, a 16% increase in electricity transmission and metering costs, higher environmental costs and incremental expenditure on social and community programmes.

During 2010 we contributed a total of £80 million to provide help for those most in need. This included an additional £50 reduction off the winter fuel bills of each of our most vulnerable customers – the 340,000 customers on the Essentials tariff – and a £20 million donation to the British Gas Energy Trust. Our social spend has far exceeded our commitment to Government in each of the past two years. We also announced in September that we would 'go early' on the Government's proposed Green Deal, with a £30 million investment, and also made a £15 million investment to install solar panels for schools.

Residential services revenue rose by 9% to £1,464 million (2009: £1,338 million) reflecting the increase in the contract base and the number of boilers installed. Operating profit* increased to £241 million (2009: £230 million), with operating margin remaining strong at 16.5% (2009: 17.2%). We incurred additional costs as a result of the higher number of engineer call-outs due to the cold weather at the beginning and end of the year, partially offset by receipts from a cold weather hedge contract with the residential energy supply business.

Business energy supply and services gross revenue fell by 12% to £2,907 million (2009: £3,316 million) as the impact of lower commodity prices flowed through to the end consumer. This also reflects our segmented strategy to move away from high consuming, single-site industrial customers to lower consuming multi-site customers, where our retail skills give us a significant competitive advantage. Operating profit* increased by 27% to £233 million (2009: £183 million) and operating margin increased to 8.0% (2009: 5.5%). This reflects higher weather related gas and electricity volumes and our strategy to retain and acquire high value customers. Overall, operating profit* for business energy supply and services has increased by an average of 25% each year over the past five years.

Cost control remains a key focus, allowing us to reinvest in the business to drive growth in key areas including investments to improve customer service, to improve our online capability and in new markets. We also continue to monitor our debt collection rates closely, providing flexible payment plans and advice for customers struggling to pay their bills on time. So despite the challenging macroeconomic environment, we have been able to limit the impact of bad debt on our operations.

Visit the British Gas website at:
www.britishgas.co.uk

Business energy supply and services

For the year ended 31 December	FY 2010	FY 2009	Δ%	H2 2010	H2 2009	Δ%
Customer supply points (period end)						
Gas ('000)	**389**	400	(2.8)	389	400	(2.8)
Electricity ('000)	**655**	647	1.2	655	647	1.2
Total ('000)	**1,044**	1,047	(0.3)	1,044	1,047	(0.3)
Average consumption						
Gas (therms)	**3,152**	3,134	0.6	1,368	1,295	5.6
Electricity (kWh)	**29,326**	32,275	(9)	14,415	15,947	(10)
Total consumption						
Gas (mmth)	**1,250**	1,275	(2.0)	538	519	3.7
Electricity (GWh)	**19,060**	20,512	(7)	9,388	10,245	(8)
Gross revenue (£m)						
Gas	**1,062**	1,170	(9)	459	454	1.1
Electricity	**1,845**	2,146	(14)	888	1,057	(16)
Total	**2,907**	3,316	(12)	1,347	1,511	(11)
Transmission and metering costs (£m)						
Gas	**189**	204	(7)	88	97	(9.3)
Electricity	**382**	418	(9)	184	208	(12)
Total	**571**	622	(8)	272	305	(11)
Operating profit (£m)*	**233**	183	27	85	118	(28)
Operating margin (%)	**8.0**	5.5	2.5 ppts	6.3	7.8	(1.5) ppts

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

Centrica Energy

Delivering value from an enlarged upstream business

Langage power station

Mark Hanafin on the importance of diversity within energy supply

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

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

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

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

OUR STRATEGY IN ACTION:

GROWING British Gas

DELIVERING value from upstream

BUILDING our North American business

DRIVING superior financial returns

Upstream UK

Our UK upstream business performed strongly during 2010. Upstream gas and oil production volumes were up 43%. Reserves increased by 9% over the year, equivalent to replacing 163% of our production, through acquisitions and a focused drilling programme. The power generation business achieved high reliability from both our gas fired and wind assets. Operating profit* for the Upstream UK business was up 47% to £771 million (2009: £525 million) with the impact of lower realised gas and power prices being offset by higher gas production volumes from Morecambe and a full year's contribution from Venture, together with higher power generation volumes following the acquisition of a 20% equity stake in British Energy.

Upstream gas and oil

Our gas and oil business had a good year operationally, with strong production performance and considerable drilling success. Our upstream capabilities are much enhanced following the integration of Venture and employee retention has remained high, giving us the depth of expertise required to be a leading operator in the UK, Norway, The Netherlands and Trinidad and Tobago. The business is led from Aberdeen, operating with the pace and flexibility required to take advantage of the available opportunities.

During the year we continued to make progress on our gas development projects. The third and fourth development wells at our Chiswick field in the North Sea were successfully drilled and brought on stream, while both the Eris and Ceres gas fields and the non-operated Babbage field produced first gas in 2010. We successfully installed the F3-FA platform on the Dutch continental shelf with the field producing first gas in January 2011. We approved field development on the York and Ensign gas fields and expect to make a final investment decision on Rhyl in the first quarter of 2011. Development of York and Ensign will require an investment of approximately £450 million, over half of which will be in 2011. These projects offer attractive returns, and are estimated to bring over 30 million barrels of oil equivalent (mmboe) of reserves into production.

Overall during the year our focused exploration and appraisal programme delivered a high level of drilling success, with 11 out of 15 operated and non-operated wells showing positive results. Successful appraisal drilling in the western region of the Cygnus field was completed during the first half of the year. We had discoveries at the Olympus and Fulham prospects in the UK North Sea and the Fogelberg, Maria and David prospects in Norway. However, exploration drilling on the Alcyone, Morpheus, Caerus and Halley Delta prospects were unsuccessful. In total 31mmboe of 2P reserves were added as a result of drilling activity in 2010 and we plan to drill at least 11 wells during 2011.

In August we completed the acquisition of Suncor's portfolio of Trinidad and Tobago production, development and exploration assets, announced in February, providing us with access to one of the Atlantic Basin's key LNG export areas. In December we completed the acquisition of Shell's stake in the Statfjord field, announced in September, doubling our interest. These two acquisitions, combined with organic development progress, have resulted in a 9% increase in our European and Trinidad and Tobago reserves, to 434mmboe. After taking account of 53mmboe of production during the year, this equates to a production replacement ratio of 163%.

Total gas and liquids production volumes increased by 43%, with gas volumes up 48% at 2,533 million therms (mmth) (2009: 1,708mmth), and oil and condensate volumes up 26% to 11.1mmboe (2009: 8.8mmboe), reflecting the acquisition of Venture in 2009, strong asset performance and higher volumes from Morecambe, which was shut in for parts of 2009. The average achieved gas sales price was down 15% at 41.6 pence per therm (p/th) (2009: 48.9p/th) reflecting a benefit in the prior year from forward gas sales entered into when the gas price was materially higher. The average achieved oil and condensate price was £46.8 per barrel of oil equivalent (boe) (2009: £38.1/boe) reflecting an increase in the global oil price.

Overall operating profit* for our upstream gas and oil business increased by 31% to £581 million (2009: £444 million) as higher production volumes offset a lower achieved gas price. Production costs increased to £980 million (2009: £734 million), reflecting higher production volumes following the Venture acquisition. Unit production costs fell, reflecting a higher proportion of production from the lower cost Morecambe field.

Power generation

Low gas prices and healthy UK system margins for most of the year led to relatively low market power prices and spark spreads. Our CCGT fleet reliability remained high at 97% (2009: 97%), however gas fired generation volumes decreased slightly to 22.8 terawatt hours (TWh) (2009: 23.2TWh), despite the commissioning of the Langage gas fired power station. Most of our CCGT portfolio ran peak running patterns and consequently the average load factor fell to 56% (2009: 69%). The average spark spread

Upstream UK

For the year ended 31 December	FY 2010	FY 2009	Δ%	H2 2010	H2 2009	Δ%
Total upstream UK						
Operating profit (£m)*	**771**	525	47	286	191	50
Upstream gas and oil						
Gas production sales volumes (mmth)						
Morecambe	**1,381**	847	63	645	294	119
Other	**1,152**	861	34	567	475	19
Total	**2,533**	1,708	48	1,212	769	58
Average gas sales price (p/therm)	**41.6**	48.9	(15)	43.6	40.5	8
Oil and condensate production volumes (mmboe)	**11.1**	8.8	26	5.1	5.6	(9)
Average oil and condensate sales price (£/boe)	**46.8**	38.1	23	52.6	43.0	22
Production costs (£m)	**980**	734	34	509	447	14
Operating profit (£m)*	**581**	444	31	267	98	172
Estimated net proven and probable reserves of gas (bcf)	**2,187**	2,018	8	nm	nm	nm
Estimated net proven and probable reserves of liquids (mmboe)	**69**	63	10	nm	nm	nm
Power generation						
Power generated (GWh)						
Gas fired	**22,786**	23,203	(1.8)	10,458	13,552	(23)
Renewables	**493**	821	(40)	284	435	(35)
British Energy	**9,655**	1,128	nm	4,695	1,128	nm
Total	**32,934**	25,152	31	15,437	15,115	2.1
Achieved clean spark spread (£/MWh)	**11.6**	11.7	(1)	11.4	11.7	(2.6)
Achieved power price (including ROCs) (£/MWh) – renewables	**109.1**	97.3	12	119.4	91.2	31
Achieved power price (£/MWh) – British Energy	**42.9**	45.9	nm	42.9	45.9	nm
Operating profit (£m)*	**226**	147	54	99	104	(5)
Industrial and commercial						
UK I&C external sales volumes (mmth)	**1,070**	1,268	(16)	342	651	(47)
UK I&C average sales price (p/therm)	**48.4**	45.8	6	49.5	42.6	16
Operating profit/(loss) (£m)*	**(36)**	(93)	nm	(82)	(4)	nm
Proprietary energy trading						
Operating profit/(loss) (£m)*	**0**	27	nm	2	(7)	nm

* Including share of joint ventures and associates stated gross of interest and taxation, and before other costs and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements
nm denotes not material

achieved declined slightly to £11.6 per megawatt hour (MWh) (2009: £11.7/MWh). This represents a 62% premium to average market spreads and reflects optimisation and volumes sold at peak prices.

The availability of our joint venture wind assets remained high throughout the year; however, unfavourable weather patterns resulted in a lower overall load factor of 29% (2009: 32%). Early in 2010 we completed the joint venture agreement with DONG and Siemens Project Ventures for the development of the Lincs 270MW offshore wind project. All major contracts for this project were awarded during the first half of the year and onshore works are ongoing. We expect the wind farm to be operational by winter 2012/13. We also welcomed the news that Centrica had been successful in the Crown Estate's Round 3 offshore wind tendering process, having been awarded exclusive rights to develop up to 4.2GW in the Irish Sea zone. Round 3 development projects are expected to commence no earlier than 2016.

In nuclear, our 20% equity share of the output from the British Energy fleet was 9.7TWh in 2010. Output was adversely impacted by a number of outages, the most significant being at the Sizewell B power station, which was shut down for approximately six months during the year for inspection and repair of the pressuriser. The average achieved power price in 2010 was £42.9/MWh reflecting the baseload market power price and the extent to which power had been forward sold by British Energy before the acquisition in 2009. In December we welcomed the announcement of plant life extensions until 2019 for Hartlepool and Heysham 1 nuclear power stations.

Work continues on new nuclear build. Site investigation works have now been completed at Hinkley Point and planning permission for some preparatory works has been received. Key contracts have been put out to tender, including the main civil engineering works. Subject to the necessary approvals and the outcome of the Government's Electricity Market Reform consultation, a final investment decision is expected in 2012 for Hinkley Point.

Overall operating profit* for the period was £226 million (2009: £147 million), reflecting the inclusion of a full year of output from British Energy, which contributed over half of the operating profit* of the power generation business. The profitability* of our gas fired fleet was slightly down reflecting low market spark spreads while wind profitability* was also down due to the impact of low wind yields and the sale of 50% of our interests in the Glens of Foudland, Lynn and Inner Dowsing wind assets at the end of 2009.

Industrial and commercial

This segment includes legacy gas sales contracts, LNG activity, our German wholesale business and the Rijnmond 2 gas fired power station tolling agreement. The legacy gas sales contracts achieved an average sales price of 48.4p (2009: 45.8p) reflecting the index-linked pricing mechanisms within the contracts. Sales volumes were lower, at 1,070mmth (2009: 1,268mmth) as the majority of these contracts ended during the second half of 2010. As a result, the remaining activities in this segment will be reported in either the upstream gas and oil segment or power generation segment in 2011.

During 2010 we took 23 LNG cargoes into the Isle of Grain (2009: 15), totalling one billion therms, reflecting favourable prices in the UK compared to other global markets. Overall the industrial and commercial segment delivered an operating loss* of £36 million (2009: operating loss* of £93 million).

Proprietary energy trading

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

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

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Centrica Storage

Exceptional operational performance and reliability

Rough gas storage facility

Grant Dawson explains the importance of storage

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

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

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

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DRIVING superior financial returns

Storage UK

The operational performance of the Rough storage facility was again extremely strong in 2010 with reliability of 98%. This reflects the investment made in the asset since its acquisition in 2002, and came in a year of record levels of injection and withdrawal. The exceptionally cold weather in January and February resulted in a record low Net Reservoir Volume (NRV) in March, followed by injection during the summer months of more than 100 billion cubic feet (bcf). More cold weather late in the year led to 47 days of consecutive withdrawals between the middle of November and the end of December, resulting in the lowest ever NRV at the end of a year.

Gross revenue was broadly flat at £267 million (2009: £266 million), as a lower average calendar year standard bundled unit (SBU) price of 42.1p (2009: 44.2p) was offset by strong optimisation performance. The calendar year SBU price reflected the announcement in April that we had sold all SBUs for the 2010/11 storage year at an average selling price of 39.7p (2009/10: 46.8p). With current summer and winter forward spreads narrower than in recent years, this indicates a substantially lower SBU price for 2011/12, which would have a material impact on 2011 profitability*. Total costs remained flat, resulting in a marginal increase in operating profit* to £169 million (2009: £168 million).

Our Caythorpe project remains on hold, due to reduced market volatility and higher than anticipated construction costs. We are seeking to compulsorily acquire certain land rights required to implement the project and expect to review the position again towards the end of 2011. Work is ongoing on our Baird gas storage project, in which we hold a 70% interest, where we continue to review aspects of the project design and the economics. We also expect to make an investment decision on Baird in 2011 which would result in an operational facility for storage year 2016/17. We continue to evaluate the Bains project, in which we hold an 86.8% interest and aim to make a further decision on this project in 2011.

Rough, which provides over 70% of UK storage capacity, is an important asset for both Centrica and the UK. The UK has significantly less storage capacity than other European countries, and gas storage can play an important role in ensuring UK security of supply into the future. When Centrica bought Rough the acquisition was the subject of a Competition Commission inquiry which was cleared in August 2003 subject to certain undertakings. Broadly, the original undertakings included conditions that Centrica would keep no more than 15% of Rough's capacity for its own use, and would maintain Centrica Storage legally, financially and physically separate from the rest of the Group – to make sure Centrica does not benefit from a competitive advantage in the retail market from owning the UK's primary storage facility. So although Centrica Storage is a wholly-owned

The Easington gas reception terminal, owned and managed by Centrica Storage

subsidiary of Centrica it is managed at arm's length from Centrica's upstream and downstream energy businesses.

In April 2010 we asked the Office of Fair Trading (OFT) to review the undertakings on the basis that since 2002 there have been changes in the gas market, which make the undertakings unnecessary. New LNG import terminals and pipelines have been built and the UK is now a net importer of gas. The request was also based on the fact that new European legislation on storage operators (in the form of the Third Energy Package) will replace the need for many of the requirements of the undertakings. In September 2010, the OFT referred the matter to the Competition Commission having determined that there had been a change of circumstances with regard to both the market conditions and the legal framework.

In January 2011, the Competition Commission published its provisional decision. We are disappointed that the Competition Commission does not agree that changes in the gas market since 2002 or the introduction of the EU Third Energy Package remove the need for the undertakings. However the Competition Commission is consulting on a possible increase in the amount of Rough capacity that can be bought by Centrica and the possibility of us being able to offer a more flexible product range to our customers. We await the final decision, due April 2011.

Storage UK

For the year ended 31 December	FY 2010	FY 2009	Δ%	H2 2010	H2 2009	Δ%
Average SBU price (in period) (pence)	**42.1**	44.2	(4.8)	39.7	46.8	(15)
Gross revenue (£m)						
Standard SBUs	**191**	201	(5)	91	107	(15)
Optimisation/other	**76**	65	17	28	35	(20)
Total	**267**	266	0.4	119	142	(16)
External revenue (£m)	**232**	196	18	104	101	3.0
Cost of gas (£m)	**15**	19	(21)	6	8	(25)
Operating profit (£m)*	**169**	168	0.6	72	95	(24)

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

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Direct Energy

Building a strong business in North America

Direct Energy vans in Toronto

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

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

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

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

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

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North America

Our North American business, Direct Energy, made good progress in 2010 with strong operational performance resulting in a much improved overall financial result, despite continuing low commodity prices across North America. Through organic improvements and value-adding acquisitions, we have made solid progress towards doubling the contribution of the business.

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

The acquisition of Clockwork Home Services provides a step change in scale in a cost effective manner for our services business. Upstream the market remains challenging, with low commodity prices reflecting the impact of shale gas and healthy reserve margins in Texas. However, the low price environment did provide us with an opportunity to increase our gas reserves through the acquisition of the Wildcat Hills assets.

Direct Energy gross revenue was down 3% to £5,997 million (2009: £6,197 million), reflecting the impact of lower commodity prices flowing through to the downstream energy businesses, partially offset by the increase in business energy supply volumes and the acquisition of Clockwork. Operating profit* increased to £234 million (2009: £153 million), mostly reflecting the one-off write off in 2009 of final debt balances in Texas and other one-off items. Overall underlying profitability* increased by 9%, reflecting a strong underlying downstream performance that more than offset the impact of low commodity prices upstream. The impact of currency movements on the reported results was not significant in 2010.

North American residential energy supply

Our residential energy supply business had a strong year, with a significant increase in underlying profit*, operational improvements and an increase in customer satisfaction levels. Overall operating costs fell, while in Texas we continue to transform the business, with an improved focus on the quality of our customer base, tighter acquisition criteria and the deployment of prepaid products helping to reduce the underlying level of bad debt.

Customer numbers fell by 7% during 2010 as we focused on retaining the most valuable customers and tightened our acquisition criteria. During the second half of the year we completed a review of sales channels to better position us for growth in 2011. Retention improved in Texas through an increased focus on value based pricing and proactive outbound retention driving churn to its lowest ever level. In the US North East we remain focused on the most valuable segments and as a result we saw attrition of some blocks of low value customers in the first half of the year. The US North East remains a key region for growth in North America and we achieved a number of significant milestones in 2010, including reaching 100,000 customers in Pennsylvania and Maryland from a base of just 11,000 at the beginning of the year. In Canada, market conditions remain challenging in Ontario, where the Energy Consumer Protection Act has made customer acquisition and retention more difficult. This will lead to a reduction in our Canadian customer base in 2011.

Gross revenue was down 5% to £2,502 million (2009: £2,644 million) as a result of lower retail tariffs, lower customer numbers and lower weather related average consumption. Operating profit* in our residential energy supply business was £177 million (2009: £94 million), partially reflecting one-off charges of £61 million in 2009 relating to final debt write off in Texas and other one-off items.

North America

For the year ended 31 December	FY 2010	FY 2009	Δ%	H2 2010	H2 2009	Δ%
Total North America						
Gross revenue (£m)	**5,997**	6,197	(3.2)	2,914	2,801	4.0
Operating profit (£m)*	**234**	153	53	95	87	9
Residential energy supply						
Customer numbers (period end) ('000)	**2,855**	3,075	(7)	2,855	3,075	(7)
Gross revenue (£m)	**2,502**	2,644	(5)	1,133	1,190	(4.8)
Operating profit (£m)*	**177**	94	88	67	48	40
Operating margin (%)	**7.1**	3.6	3.5 ppts	5.9	4.0	1.9 ppts
Business energy supply						
Gas sales (mmth)	**633**	689	(8)	272	289	(6)
Electricity sales (GWh)	**39,722**	33,430	19	21,442	17,942	20
Gross revenue (£m)	**2,682**	2,491	8	1,363	1,180	16
Operating profit (£m)*	**88**	34	159	44	14	214
Operating margin (%)	**3.3**	1.4	1.9 ppts	3.2	1.2	2.0 ppts
Residential and business services						
Contract relationships (period end) ('000)†	**2,300**	2,111	9	2,300	2,111	9
On demand jobs ('000)†	**582**	142	nm	469	71	nm
Gross revenue (£m)	**485**	406	19	277	205	35
Operating profit (£m)*	**15**	18	(17)	7	15	(53)
Operating margin (%)	**3.1**	4.4	(1.3) ppts	2.5	7.3	(4.8) ppts
Upstream and wholesale energy						
Gas production volumes (mmth)	**409**	375	9	232	189	23
Power generated (GWh)	**3,851**	4,982	(23)	1,661	2,775	(40)
Gross revenue (£m)	**328**	656	(50)	141	226	(38)
Operating profit (£m)*	**(46)**	7	nm	(23)	10	nm
Estimated net proven and probable reserves of gas (bcf)	**538**	377	43	nm	nm	nm
Estimated net proven and probable reserves of liquids (mmboe)	**6**	5	20	nm	nm	nm

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

† 2010 contract relationships and on demand jobs include customers obtained following the Clockwork acquisition which completed on 14 July 2010

North America with comparator year of 2009 restated to remove effect of foreign exchange movements

For the year ended 31 December	FY 2010	FY 2009^	Δ%	H2 2010	H2 2009^	Δ%
Gross revenue (£m)						
Residential energy supply	**2,502**	2,803	(11)	1,133	1,278	(11)
Business energy supply	**2,682**	2,553	5	1,363	1,245	9
Residential and business services	**485**	437	11	277	221	25
Upstream and wholesale energy	**328**	577	(43)	141	192	(27)
Direct Energy gross revenue (£m)	**5,997**	6,370	(6)	2,914	2,936	(0.7)
Operating profit (£m)*						
Residential energy supply	**177**	94	88	67	51	31
Business energy supply	**88**	33	167	44	14	214
Residential and business services	**15**	20	(25)	7	16	(56)
Upstream and wholesale energy	**(46)**	8	nm	(23)	11	nm
Direct Energy operating profit* (£m)	**234**	154	52	95	91	4

^ Restated at 2010 weighted average exchange rate
nm denotes not material

As a result the operating margin increased to 7.1% (2009: 3.6%). Underlying profitability* was up 14% reflecting the fall in wholesale commodity prices and operational improvements.

Business energy supply

Our business energy supply division, the third largest commercial and industrial power supplier in North America, once again grew materially as we made significant progress in improving sales, customer satisfaction and profit*. Electricity volumes increased by 19% reflecting strong sales from the second quarter onwards, following a period in which customers were hesitant to sign new contracts as a result of wholesale commodity price uncertainty. This increase in activity was due to increased sales productivity, entry into new markets and an improved customer experience, and came against a backdrop of continued disciplined acquisition as suppliers priced for credit and capital utilisation. Together with operational efficiencies, lower debt as a proportion of revenue, and the targeting of particular customer segments, this resulted in an improvement in the net margin to 3.3% (2009: 1.4%). The progress made during 2010 in business energy supply leaves us well placed for continued organic growth in this market as we continue to improve operational efficiencies, leverage our scale, and increase volume while focusing on the most attractive customer segments.

Gross revenue increased 8% to £2,682 million (2009: £2,491 million), reflecting higher volumes, offset by the lower commodity price environment. Operating profit* more than doubled to £88 million (2009: £34 million), as a result of the higher volumes and the higher margin.

Residential and business services

The acquisition of Clockwork, completed in July, has materially increased the size of our North American services business, expanding our geographic coverage to 46 US states and all Canadian provinces. As the largest home services company in North America we now serve three million customers' heating, cooling, plumbing and electrical needs. Clockwork has both owned and franchise locations and an affinity programme for independent contractors, which will help generate scale synergies through lower procurement costs, while contributing to operating profit*. The acquisition also increases the proportion of households to which Direct Energy can offer both energy and services, and makes Direct Energy the market leader in the home energy services market, providing a robust platform for growth through an established franchise model. The integration of Clockwork is on track and the prospects for the enlarged business are encouraging.

In Canada, we achieved a considerable improvement in churn for our water heater customers; however, increasing competitive pressures resulted in a small decline in the number of customers. In the US, the slow recovery in the housing market continues to impact our services business as workload in the new housing construction and light commercial new construction sectors remains low. However, customer satisfaction improved, and profitability* grew in both of these sectors compared to 2009 as we improved efficiency and reduced our cost base.

Gross revenue was up 19% to £485 million (2009: £406 million), principally reflecting the acquisition of Clockwork. Operating profit* decreased slightly to £15 million (2009: £18 million), after taking account of integration charges incurred relating to the acquisition of Clockwork and one-off charges relating to the closure of our Appliance Care business, a market we announced we were exiting earlier in the year.

Upstream and wholesale energy

Continued low gas prices across North America and low spark spreads in Texas significantly impacted the returns of our upstream and wholesale business in 2010. Our natural gas production business made a reduced year-on-year profit*, reflecting lower gas prices. However, the low gas price environment gave us the opportunity to increase the scale of our business at an attractive price, through the acquisition of the Wildcat Hills assets from Suncor. The acquisition provided 241 billion cubic feet equivalent of reserves, increasing reserves by 60%. Gas production volumes increased by 9%, including three months of volume from Wildcat Hills which more than offset the impact of deferring development activity due to the low price environment.

Our power generation business in Texas continued to experience very difficult market conditions throughout 2010. As a result of lower prices, the margin we made from our power plants was insufficient to cover our fixed costs and our wind farm power purchase agreements were loss-making. Power generation volumes were down 23%.

The upstream and wholesale energy division made an operating loss* of £46 million (2009: operating profit* of £7 million) as a result of the low commodity price environment, low spark spreads in Texas, and a one-off loss* on the disposal of turbines in the power generation business. As with other upstream producers, our upstream gas assets and wind power purchase agreements have been written down due to low North American gas and Texas power prices.

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Group Financial Review

Ensuring financial discipline to support our strategy

Nick Luff
Group Finance Director

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Group revenue from continuing operations was up 2% to £22.4 billion (2009: £22.0 billion). Revenue increased in the Downstream UK segment as higher consumption due to cold weather and an increase in the number of residential accounts more than offset the impact of lower retail energy tariffs. Revenue increased in the Upstream UK segment mainly due to higher gas and oil volumes, partially offset by lower average realised wholesale commodity prices. In North America, revenue fell slightly as lower average customer numbers and unit retail prices more than offset higher residential and business energy consumption.

Total adjusted operating profit* was up 29% to £2,390 million (2009: £1,857 million) as profitability* increased in all segments. In Downstream UK, higher customer accounts and consumption and lower total costs more than offset reduced unit prices and a cost of £167 million relating to the closing out of some out-of-the-money contracts for delivery of gas mainly during 2011 and 2012. In Upstream UK, the impact of the acquisitions of Venture and British Energy in 2009 more than offset lower achieved selling prices reflecting wholesale market conditions. In North America, continued operational improvements and organic growth downstream more than offset the impact of low commodity prices on the upstream gas and power businesses.

Group operating profit$^{\Omega}$ from continuing operations was up 21% at £2,194 million (2009: £1,814 million), reflecting the increase in adjusted operating profit*, a full year of depreciation of fair value uplifts following the acquisitions of Venture and British Energy in 2009, higher associate interest and taxation following the British Energy transaction and higher joint venture interest and tax following the refinancing of the wind portfolio in 2009.

Group profit$^{\Omega}$ on a continuing basis was up 11% to £1,221 million (2009: £1,104 million). This reflects the increased Group operating profit$^{\Omega}$ offset by increased interest and tax expense. Net interest cost was £265 million (2009: £179 million), including the net cost of early debt repayments of £51 million during the year. The taxation charge was £708 million (2009: £531 million), reflecting the increased pre-tax profit$^{\Omega}$, which includes a larger proportion of more highly taxed upstream and North American profits$^{\Omega}$, partially offset by the release of £62 million of surplus provisions following agreement of our UK tax returns up to 2007. The resultant effective tax rate^ for the Group was 37% (2009: 33%). The effective tax rate calculation is shown on the table on page 23.

Reflecting all of the above, adjusted earnings increased by 17% to £1,297 million (2009: £1,111 million), while adjusted earnings per share (EPS)$^{\lozenge}$ increased to 25.2 pence (2009: 21.7 pence).

The statutory profit for the year was £1,942 million (2009: £856 million). The reconciling items between Group profit$^{\Omega}$ and the statutory profit are related to exceptional items, certain re-measurements and discontinued operations. The significant increase compared with the 2009 statutory profit was principally due to the net gain on certain re-measurements of £891 million (2009: net loss of £179 million), as well as the increase in underlying profitability. The Group reported a statutory basic EPS of 37.6 pence, up from basic EPS of 16.5 pence in 2009.

In addition to the interim dividend of 3.84 pence per share, we propose a final dividend of 10.46 pence, giving a total ordinary dividend of 14.3 pence for the year (2009: 12.8 pence), an increase of 12%.

Net cash flow from operating activities stood at £2,683 million (2009: £2,647 million). In 2009, operating cash flow included £261 million from discontinued operations compared with £7 million in 2010 so the improvement in operating cash flow reflects higher levels of cash generated from continuing operations.

The net cash outflow from investing activities was £1,839 million (2009: £4,520 million), as described in the business combinations and capital expenditure section on page 23. The 2009 comparator included the acquisition of Venture and the investment of 20% in British Energy.

There was a net cash outflow from financing activities of £1,677 million (2009: inflow of £304 million). This reflects the fact that there was a net cash outflow from a reduction in debt during the year of £684 million (2009: inflow from an increase in debt of £993 million), mainly reflecting the early debt repayments in the year.

The Group's net debt level at 31 December 2010 was £3,312 million (2009: £3,136 million). This increase was due to cash flows described above and revaluation of foreign currency denominated borrowings.

During the year net assets increased to £5,819 million from £4,255 million as at 31 December 2009, reflecting the levels of retained profits during the period.

Exceptional items

Net exceptional charges from continuing operations before tax of £283 million were incurred during the year (2009: £568 million). A further charge of £35 million was recorded to provide against the onerous gas procurement contract in the industrial and commercial segment of Upstream UK. The provision for North American wind power purchase agreements was increased by £67 million following deterioration in North American power prices, to reflect the fair value of the obligation to purchase power above its net realisable value. Impairment charges of £96 million relating to UK generation, exploration and production assets in the UK were incurred as a result of low spark spreads and updated reserves data and changes to infrastructure development expectations. Impairment charges of £67 million relating to North American exploration and production assets were incurred as a result of declining commodity prices. Additionally, an exceptional charge of £43 million relating to a major contract renegotiation in Downstream UK was recorded. The Group disposed of its investment in Hummingbird Oil Pte, which was acquired as part of the wider Venture acquisition in 2009. This resulted in a profit on disposal of £25 million.

Certain re-measurements

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

The statutory results include net credits to operating profit relating to these re-measurements of £1,163 million (2009: charges of £71 million) from continuing operations. As gas and power were delivered under these contracts, net out-of-the-money mark-to-market positions from year end 2009 were unwound generating a net credit to the Income Statement in the period of £1,023 million (2009: £928 million). As forward prices increased in the second half of the year the portfolio of contracts fair valued under IAS 39 reported a net credit on revaluation of £130 million (2009: charge of £1,097 million, following a deterioration in prices). A credit of £24 million (2009: charge of £28 million) reflects positions relating to cross-border capacity and storage contracts. There were also net losses arising on re-measurement of associates' energy contracts (net of taxation) of £14 million (2009: £9 million) and net credits on re-measurement on energy contracts of discontinued operations after taxation of £67 million (2009: net charge of £107 million).

Business combinations and capital expenditure

On 5 August 2010, the Group acquired full control of a business constituting a portfolio of interests in a number of gas assets located off the coast of Trinidad and Tobago for total cash consideration of US$375 million (£247 million). The portfolio consists of a producing gas field which supplies gas into the Atlantic LNG facility as well as areas of development and exploration. The acquisition increases the gas reserves of the Group and provides access to the Atlantic basin LNG market. The acquisition is included within the Upstream UK – Upstream gas and oil segment.

On 30 September 2010, the Group acquired full control of a business constituting a portfolio of interests in a number of gas assets located in the Wildcat Hills region of Alberta for total cash consideration of CAN$352 million (£218 million). The package of natural gas assets consists of 97 producing wells and working interests in three processing facilities. The acquisition increases the natural gas reserves of the Group and provides additional gas to meet supply requirements of the North American retail customers. The acquisition is included within the North America – Upstream and wholesale energy segment.

On 1 July 2010, the Group acquired the business and net assets of Clockwork Home Services Inc and 100% of the shares of Air Time Canada Inc, together known as Clockwork. The total cash consideration for the acquisition was US$183 million (£122 million), which includes deferred consideration of US$17 million (£11 million), payable in 2012. Clockwork provides heating, air conditioning, ventilation, plumbing and electrical services in the US and Canada. The acquisition supports the Group's existing home services business in the US and Canada by providing increased geographical coverage, as well as expanding our shared expertise.

The Group completed its sale of its Spanish business, Centrica Energía S.L. for total proceeds of £29 million, including a dividend of £17 million which was paid before the business was disposed of. The sale resulted in a £6 million loss on disposal. It also continued with the process to sell its business in The Netherlands, Oxxio B.V.

During the year, a number of other smaller acquisitions were completed for total cash consideration of £29 million.

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

Principal risks and uncertainties

The Group's risk management process remains unchanged from 31 December 2009. A description of the impact of volatility in wholesale commodity prices and other risks on the Group's financial risk management process is included in note 4.

Capital management

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

Accounting policies

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

Effective tax rate reconciliation

The table below shows a reconciliation of the adjusted effective tax rate:

Term	2010 £m	2009 £m
Taxation on profit from continuing operations	**708**	531
Tax impact of depreciation on Venture fair value uplift	**30**	10
Share of joint ventures / associates taxation	**23**	7
Adjusted tax charge from continuing operations^	**761**	548
Adjusted operating profit*	**2,390**	1,857
Share of joint ventures / associates interest	**(55)**	(4)
Other	**–**	(5)
Net interest expense	**(265)**	(179)
Adjusted profit from continuing operations before taxation	**2,070**	1,669
Adjusted effective tax rate^	**37%**	33%

Nick Luff
Group Finance Director
24 February 2011

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

◊ As above, except after other costs and share of joint ventures and associates stated net of interest and taxation

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

^ Including tax from share of joint ventures and associates and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Corporate Responsibility

Managing our business impact

Smart Energy Expert training at Dartford engineering academy

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

Centrica's corporate responsibility (CR) ambition is to be the most trusted energy company, leading the move to a low carbon future. We must understand the impact our activities have on society and the environment, and contribute to the long-term health and sustainability of both.

We believe that we can do this in a way which creates opportunities and advantages for our business and shareholders.

CR is also about the values which underpin our business. Our experience is that a principled approach to doing business wins the trust of our customers, regulators, investors and other stakeholders. It also helps us to attract and retain talented and committed employees.

During 2010 we developed a new CR strategy which is aligned with our business goals. It is described in more detail in the following section.

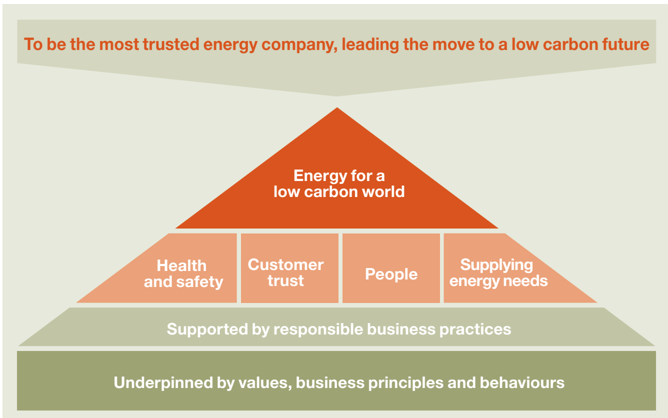
An integrated business and CR strategy

Centrica's corporate vision is to be the leading integrated energy company in our chosen markets.

In February 2010, we agreed a new CR strategy and programme, which directly supports our vision. The main emphasis of our CR strategy is to identify ways in which Centrica can contribute to reducing the levels of carbon emitted into the environment; a role we are uniquely placed to fulfil through our customer relationships, the skills of our service engineers and our expertise in sourcing energy and generating power. We see significant new market opportunities in helping to deliver a low carbon society and want to ensure that British Gas and Direct Energy are the energy services providers of choice. Building trust in this area will enable us to grow our business whilst delivering environmental and social benefits to society.

Our flagship programme focuses on delivering 'energy for a low carbon world'. The strategy has four supporting focus areas: prioritising safety; supplying energy needs; building and maintaining customer trust; and developing our people. These are underpinned by responsible business practices and behaviours which are essential to gaining the trust of our stakeholders.

CR strategy



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

CR governance

Building a successful and sustainable business requires an organisation to have strong values and clear principles. Strong governance and internal communication are essential.

The Board of Directors has oversight of the CR strategy and programme through its Corporate Responsibility Committee, chaired by the Senior Independent Director. The Committee endorses our CR strategy, oversees its implementation and challenges the Group's performance and alertness to external developments. The Executive Committee, chaired by the Chief Executive, has overall responsibility for implementing the CR strategy.

Centrica's set of business principles underpins our culture and approach to decision-making. In 2010, we continued to embed the business principles through training and awareness campaigns, which included asking all management to sign a declaration that they understood and adhered to the principles. More than 99% of management have done so, exceeding our 95% target, and the exceptions are being followed up. While we are already in compliance with the US Foreign Corrupt Practices Act, we are also working to ensure that our procedures will meet the standards that will be required under the new UK Bribery Act.

Risk management

Our business involves us in a wide range of social, environmental and ethical issues. Most of these are familiar longstanding subjects that we are experienced at managing. But there is always the possibility that new issues will become relevant as a result of changes in our operations, the political or social environment or technical knowledge.

The Group risk and internal control functions already cover some aspects of CR. Following the CR strategy review, they have been asked to ensure that CR risk management is fully integrated into a regular cycle of review and audit. The principal risks and uncertainties for the Group are described on page 30.

We ensure that we have a comprehensive understanding of the material issues affecting our business by undertaking regular stakeholder engagement. Understanding society's expectations of us as a business is important and we believe our approach ensures we are accountable and can listen to and respond accordingly. During the year, CR issues were included within a number of shareholder presentations. We also engaged with a range of opinion formers on current and future CR issues and, in late 2010, agreed the creation of a CR advisory panel with members drawn from key stakeholder groups to provide regular dialogue on CR issues, strategy and performance. British Gas also created a 'Customer Panel' in 2010 to gain a better insight into how customers view us.

Energy for a low carbon world

Climate change presents significant risks to people and the environment and requires sustained global action and urgent cuts in greenhouse gas (GHG) emissions. Our business has a substantial environmental impact. In 2010, we were responsible for approximately 10.3 million tonnes of carbon dioxide (CO_2) emissions from the gas and oil we produced, the electricity we generated and the energy we used in our operations and company vehicles. We are taking steps to reduce both the carbon emissions from the energy and services we provide and the overall environmental impact of our own operations.

The biggest positive environmental contribution we can make is by helping our customers to be more energy efficient in their homes and businesses and to use lower carbon energy. Our size means we can drive significant change in energy markets and we are vigorously pursuing the move towards a low carbon economy. We are investing in innovative technologies and developing employees' skills so that we are well positioned to sell our customers low carbon and energy efficiency products and services. In a keynote speech, delivered in September 2010, Sam Laidlaw outlined how we are aiming to cut the average carbon footprint of Britain's homes by 35% within 10 years, by using lower carbon energy and improving energy efficiency.

In the geographies in which we operate, the strongest public and political focus on carbon reduction, and the main commercial opportunities, are in the UK. We are also positioning ourselves to take advantage of any changes in the political and regulatory climate in North America. Direct Energy is building partnerships with technology providers to develop products such as a home energy management system which controls energy use remotely. Our acquisition of Clockwork is helping us to build our capabilities and expertise in energy services and we plan to share knowledge between our British Gas and Direct Energy businesses.

Customer carbon

The UK Government sees both domestic and commercial energy efficiency as key to meeting its targets of reducing carbon emissions 34% from 1990 levels by 2020 and 80% by 2050. Schemes are in place that include requirements for energy suppliers to achieve improvements in customer energy efficiency. We have used these as a platform for building a business in energy efficiency and going beyond the minimum required under the regulations. British Gas is particularly well positioned to take advantage of these opportunities through our network of 10,000 engineers and six engineering academies across the UK. We have the skills and capacity needed to install energy efficiency measures on a significant scale.

In the UK, we continue to deliver against our Carbon Emissions Reduction Target (CERT), providing energy efficiency measures to customers that cover insulation, energy efficient light bulbs, home appliances and energy saving devices. We set ourselves annual targets under the scheme and have consistently exceeded these, providing household energy efficiency products with equivalent lifetime carbon savings of 15.6 million tonnes in 2010, compared to our target of 14.6 million tonnes.

British Gas also has targets within the Community Energy Saving Programme (CESP), a Government scheme to provide energy efficiency measures to some of the most deprived communities in the UK, delivering lower bills and carbon savings. In order to meet our CESP obligations British Gas' growing energy services business is working in a new partnership with facilities management company Mears.

During the year, the UK Government announced plans for a new 'Green Deal' that will enable homeowners to install energy efficiency measures without having to make an upfront investment. Repayments from customers will be made via savings in their energy bill over time, up to 15 years (depending on the measures installed), enabling them to benefit immediately from warmer

Aim	What we said we'd do in 2010	2010 performance	2009 performance	What we aim to do next
Lead the UK consumer market for low carbon products and services	Install two million smart meters by end of 2012	195,228 installed	62,897 installed	Continue to work to install two million by 2012
	Implement the CERT scheme by providing energy efficiency products with total lifetime carbon savings of 14.6 million tonnes of CO_2	15.6 million tonnes of CO_2 saved	17.5 million tonnes of CO_2 saved	Provide energy efficiency products in 2011 with total lifetime carbon savings of 16.3 million tonnes[i] of CO_2
	Implement the Government's CESP scheme	0.45 million tonnes of CO_2 saved	n/a	Deliver 3.5 million tonnes of CO_2 in 2011
Decarbonise power generation	Reduce our UK power generation carbon intensity to 270g CO_2/kWh by 2012 and 260g CO_2/kWh by 2020	275g CO_2/kWh in the UK[ii]; 275g CO_2/kWh Group-wide	371g CO_2/kWh in the UK; 348g CO_2/kWh Group-wide	Reduce our UK power generation carbon intensity to 270g CO_2/kWh by 2012 and aim to bring our global carbon intensity down to that level in the same period; reduce our UK carbon intensity to 260g CO_2/kWh by 2020
Internal carbon footprint	Reduce the carbon footprint of our existing offices, company vehicles and travel by 20% by 2015[iv]	11.2% reduction from base year	7% reduction from base year	Meet our 20% reduction target by 2015

homes and energy savings. British Gas welcomed this announcement and has decided to 'go early' on the Green Deal by installing up to £30 million of energy efficiency measures in our customers' homes before new legislation comes into force in 2012. We intend to share the lessons we learn for the benefit of all.

British Gas has launched an insulation business and continued to build our capacity with the acquisitions of heat pump installation company Cool Planet and solid wall insulation company ECL. Our new smart metering business is enabling us to lead in rolling out this technology, installing 195,000 in 2010 and over 258,000 since 2009. We will be substantially accelerating this work so that by the end of 2012 we aim to have installed two million smart meters. Smart meters provide energy usage information directly to both the energy supplier and the customer. We plan to help our customers use this information to help them consume less energy, thereby cutting carbon emissions and saving energy.

This activity is not just essential to meet the UK's climate change commitment, it also benefits the economy helping residential customers and businesses save money and creating employment. Centrica is creating 3,700 new jobs in energy efficiency, smart meters and renewable microgeneration by the end of 2012. These new green jobs contribute to the development of the UK's capabilities in a rapidly growing economic sector.

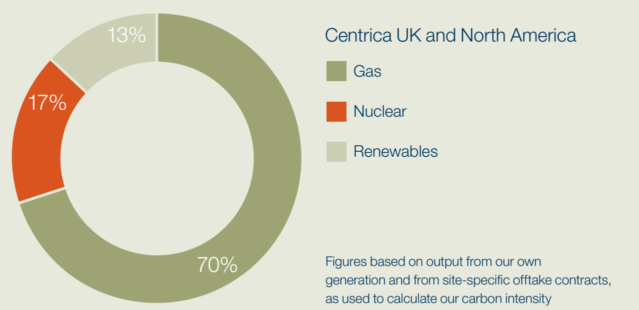
Lower carbon power generation

For the UK to achieve its 80% greenhouse gas reduction target by 2050, the power sector needs to be largely decarbonised, with minimal output of emissions within the next three decades. This is achievable through investment in nuclear and wind assets – and new, cleaner gas generation – that could cut emissions by 20% in a decade.

We are working to reduce the 'carbon intensity' – the amount of carbon emitted for each kilowatt hour of energy generated – of our power generation fleet. In 2010, the average carbon intensity of our UK power generation was 275g CO_2/kWh[ii], a significant reduction on 2009 which was 371g CO_2/kWh. The reduction was primarily due to the introduction of nuclear power into our portfolio. We have set a target to reduce the average carbon intensity of our UK power generation to 270g CO_2/kWh by 2012, and we aim to bring our global carbon intensity down to that level in the same period. Our 2020 target for the average carbon intensity of our UK power generation is 260g CO_2/kWh.

The Group's overall responsibility is to secure energy for its customers' needs. Energy security is enhanced by diversity in the technologies and geographic regions that supply us.

Proportion of power generation by source



Figures based on output from our own generation and from site-specific offtake contracts, as used to calculate our carbon intensity

Reducing our internal carbon impact – offices and travel

Although the biggest environmental benefit we can have as an energy company is helping customers reduce their carbon emissions and in decarbonising electricity generation, we are also seeking to reduce the overall environmental impact of energy and fuel use in our offices, company cars, operational vehicles and business travel. This also helps to engage our own employees in understanding environmental issues.

In 2010 we achieved a 4.3% reduction year-on-year, which equates to an 11.2% reduction against our baseline 2007. Total carbon emissions from our office and travel operations were 104,000 tonnes over the year.

(i) This figure is an externally agreed target with Ofgem and subject to change, depending on our market share.
(ii) 2010 data subject to final verification.
(iii) Data includes all parts of the Group with the exception of Direct Energy.
(iv) Scope includes all assets existing during baseline year of 2007.
(v) For details on the net promoter score (NPS) and the Employee Engagement Survey see page 9.
(vi) Combination of figures calculated from London Benchmarking Group methodology and cost of voluntary programmes to support vulnerable customers in the UK. Group cash donations during the year amounted to £21.1 million (2009: £4.8 million). In line with Group policy, no donations were made for political purposes. The Group, in the normal course of its business, has paid for its management to attend events at which politicians and other opinion formers have been present, but does not consider these payments to be political donations.

Prioritising safety

In line with the priority we give to health and safety, annual remuneration of the Group's Chief Executive and all Executive Directors has a bonus element related to health and safety performance. The targets cover accurate reporting of data and success in leading the drive to continual improvement.

We are building a strong safety culture, embedding safe behaviours, and making sure each of our businesses has the right systems in place to manage and address safety risks. In 2010, we provided the necessary support and training framework for our top 200 managers to help them understand the changes expected and their leadership role in achieving them. We completed gap assessments in all businesses against the Group standard for Health, Safety and Environment management.

Initiatives across the Group led to a reduction of 16.3% in our lost time injury rate per 100,000 hours to 0.41, (0.43 including Clockwork on a pro-forma basis), down from 0.49 in 2009. We have also started reporting total recordable incidents for the number of injuries, whether or not a lost time injury occurred. Our recordable injury rate was 2.13 per 100,000 hours worked in 2010. The majority of these incidents occur among our service and repair workforce, who face particular risks from driving and from working in the unfamiliar environment of customers' homes or businesses. In 2010, we began to track road safety incidents systematically and recorded an incident rate of 11.1[iii] per one million kilometres driven, including eight high severity incidents. We aim to reduce this to 10[iii] in 2011 through enhanced focus on working practices, training and communications campaigns.

There were no fatal incidents among Centrica employees in 2010. Tragically, two contractors working on Centrica projects were killed in 2010. A subcontractor working for Heerema on Centrica Energy's F3-FA project was killed at their shipyard in The Netherlands, when scaffolding collapsed. A contractor working for Direct Energy was killed in a driving incident while doing pre-drilling survey work in Alberta. We are adopting a new measurement approach in 2011 which will incorporate contractor data for activities that are not directly controlled by Centrica.

Following the explosion on the Deepwater Horizon drilling rig in the Gulf of Mexico, we conducted a thorough review of our systems and procedures in our high hazard operations, with a particular focus on third-party operations. While Centrica is not engaged in any deepwater drilling, we have looked hard at the causes of the incident and subsequent investigations in order to understand how we can further strengthen our own operations. As a result, in 2011 we will introduce improved monitoring and in some cases control of safety performance among our contractors and continue to embed a culture where employees feel able to challenge any unsafe practices.

Our 20% stake in nuclear power generator British Energy, jointly owned with EDF Energy, involves specific safety challenges at the existing nuclear power stations. While we do not operate any of the nuclear facilities, we have a responsibility as a minority shareholder and as a member of the board of British Energy Group plc to monitor and oversee safety performance. For more detailed information on the health and safety performance of the existing fleet of nuclear power stations, please see EDF Energy's website www.edfenergy.com/sustainability.

Lost time injury rate

Aim	What we said we'd do in 2010	2010 performance	2009 performance	What we aim to do next
Put safety at the heart of all that we do	**Lost time injury rate:** Reduce lost time injury rate by 12.5% to 0.43 per 100,000 hours worked in 2010	0.41 per 100,000 hours worked 0 fatalities	0.49 per 100,000 hours worked 0 fatalities	Reduce lost time injuries to 0.20 per 100,000 hours worked by 2013
	Road safety incident rate: Implement a road safety key performance indicator	11.1[iii] per one million km driven	n/a	Reduce road safety incidents to 10[iii] per one million km driven
	Total recordable incident rate: Develop target for 2011 after establishing baseline in 2010	2.13 per 100,000 hours worked	n/a	Reduce recordable incidents to 1.97 per 100,000 hours worked

Building customer trust

We depend upon the trust of our customers to enable us to grow as a business and to launch innovative new products. We have identified three areas for gaining customers' trust – high quality customer service, transparent and competitive pricing and support for our more vulnerable customers. Together with a commitment to listen and respond to our customers, these areas underpin our approach to enhancing trust and building confidence in our business model.

Customer service

High quality customer service has always been important to our business and our increasing range of energy products and services makes this more important than ever. In previous reports, we have noted that our past performance has not always been of the quality that our customers expect and has tarnished our reputation. We believe that due to a concerted effort this is now firmly behind us, but that it will take time for our reputation to catch up with the customer service we are now delivering.

Net promoter scores (NPS), which measure our customers' willingness to recommend us, and therefore a key indicator of customer satisfaction, have continued to improve. In the UK, British Gas achieved a brand NPS score of +5, beating our target of +3 and a leading score when compared to the other top five UK energy suppliers. The proportion of complaints to the Ombudsman from British Gas residential customers remains well below market share. This performance reflects our work to fix problems first time wherever we can and to improve customer interaction through better training of our customer facing employees.

Our net promoter scores in the UK are heavily influenced by price changes and the associated media coverage. We worked hard in 2010 to provide clearer information about pricing to customers.

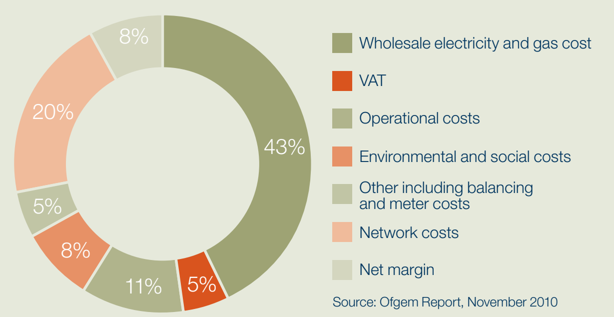
Aim	What we said we'd do in 2010	2010 performance	2009 performance	What we aim to do next
Earn and maintain trust by treating customers fairly and providing the best value in the marketplace	**Net promoter score[v]**: Achieve British Gas brand NPS of +3 in 2010	+5	-2	Achieve a British Gas brand NPS of +10 by 2012
	Improve Direct Energy's brand NPS score	+21	+9.5	Achieve a Direct Energy brand NPS of +28 in 2011
	Continued focus on targeting the most appropriate support and resources to individual vulnerable customers	1.6 million households helped	2.2 million households helped	Implement the Government's Warm Home Discount scheme

Direct Energy's overall brand NPS has increased to +21, up significantly on last year's score of +9.5. This is as a result of a much sharper focus on customer satisfaction and better training for employees to recognise and understand customer needs. For example, in Texas, Direct Energy launched a programme to follow up directly with dissatisfied customers. This was an opportunity to resolve their frustrations and also to learn from them and improve future service for other customers. While the definitions of NPS used in our different markets are the same, it is not possible to make a direct comparison between them because different nationalities are more or less likely to make a recommendation. NPS is used to compare our performance to direct competitors in each market and to indicate trends over time.

Energy prices

The price that consumers pay for energy in general, and gas in particular, is an emotive issue in the UK. We are working hard to communicate more effectively with stakeholders and dispel common myths by creating a greater awareness of the costs contained within an energy bill, and how the energy market works. Customers – and UK industry regulator Ofgem – continue to express concerns over the perceived disconnect between wholesale and retail energy prices. The link remains complex because current retail energy prices reflect the prices we must pay for future gas contracts, not just today's requirements. Also, the commodity cost is only about half of the customer's bill, with the rest relating to less volatile costs such as transport, distribution, Government environmental contributions and customer service.

Illustrative breakdown of a typical dual fuel customer bill



Source: Ofgem Report, November 2010

Support for vulnerable customers

Although we are a commercial organisation in a competitive market, we accept a responsibility for our vulnerable customers who are at risk of being unable to afford the energy they need to live safely and in reasonable comfort. We define vulnerable customers as those who are unable to safeguard their personal welfare or the personal welfare of other members of the household, for reasons of age, health, disability or severe financial insecurity.

The 2010 UK Energy Act introduced a Mandatory Social Price Support Scheme (the Warm Home Discount scheme) which comes into force later in 2011. The Warm Home Discount is primarily focused on financial assistance with energy bills. During 2010 British Gas helped 340,000 vulnerable customers save money through Essentials, our social discounted tariff. British Gas will increase its commitment to approximately £105 million by 2014/15, enabling more than double this number of vulnerable customers to receive financial assistance through a rebate on their electricity bill.

The introduction of the Warm Home Discount scheme will fundamentally change how we manage fuel poverty in the UK, requiring us to work more closely with the Government and other suppliers. The new scheme will match customers to data held by the Department for Work and Pensions (DWP) in order to identify those eligible for the support. British Gas supports the Government's approach to targeting the support to customers who most need help through data sharing. We were involved in a pilot project over the year with DWP that successfully identified 57,000 customers in receipt of pension credit and enabled us to give them an £80 credit on their energy bill.

We support increased assistance to vulnerable households and aim not only to respond to their immediate needs, but also to address the long-term root causes of vulnerability and fuel poverty. In 2010, we spent £80 million supporting vulnerable households. A substantial part of this was for our Essentials programme, which is the single largest support programme for vulnerable customers in the energy market.

We will continue to help our more vulnerable customers through financial support and energy efficiency to reduce costs whilst providing warm comfortable homes.

Investing in our employees

Our business is complex and includes many highly technical functions. To undertake our activities safely and deliver a quality of service that matches and exceeds the expectations of our customers requires a highly skilled, motivated and diligent team. In 2010 we employed 34,969 skilled people who carry these responsibilities. Our retention rate was 89.9% compared with 92% in 2009. Retention is slightly down on last year although the improving economy was expected to make more of an impact on our ability to retain employees than it did.

Our 2010 annual employee survey, administered by an independent third party, had a high response rate of 81%. Due to specific changes occurring in British Gas Services to deliver greater flexibility to our customers, our British Gas engineers completed a separate survey. However we identified common themes and completed feedback and action planning process in the same way as for the main survey. The overall engagement score from the 2010 survey dropped two points from 66% to 64%. Given the scale of changes to the business experienced in 2010, this was expected. This score can be compared to an independent external benchmark which indicates that organisations with engagement scores above 60% consistently deliver better business results. We will be moving our engagement survey to a two-year cycle to provide sufficient time to respond to the findings and allow action plans to be better implemented and embedded. Our next full survey will take place in 2012.

We continue to invest in the skills and development of our employees. In 2010, we commenced a strategic review of our capability across the organisation aligned to our long-term strategic priorities. This has provided us with a picture of our future resource and capability needs and enabled us to shape our plans to ensure we have the right people, leadership and capabilities in place at the right time to deliver our business strategy.

For example we opened our British Gas Green Skills academy in Tredegar, Wales, an area of high unemployment. The academy aims to provide over 1,300 training days each year, including training for local long-term unemployed people and people employed by local small and medium enterprises.

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

As part of our performance cycle, employee progress is assessed and discussed with the employee throughout the year and in annual review meetings. Employees each have their own objectives that are aligned to our business strategy. Review meetings provide an opportunity to discuss development, training needs and career planning.

Employees receive regular communication and consultation through a wide variety of media. We increasingly use the intranet for training and communications but also invest in face-to-face events such as vision and values seminars. Company business and financial performance is communicated to all employees using online media, printed materials and face-to-face briefings with members of the Executive Committee.

We aim to have an inclusive and diverse workplace. We are committed to providing equal opportunities for all people. We will not tolerate discrimination against people with disabilities or any other group in recruitment, promotion, training, working conditions or dismissal, subject to health and safety considerations. If employees become disabled while in our employment we offer appropriate support, retraining, equipment and facilities to enable their employment to continue wherever possible.

We encourage greater representation of women and ethnic minorities. For the last eight years, we have undertaken an annual equal pay audit. As in previous years, the 2010 review found that Centrica's performance management and reward practices are not subject to gender bias and confirmed that our approach is aligned to FTSE 100 best practice.

Centrica continues to operate a 24/7 'Speak Up' programme that provides an opportunity for any employee to raise concerns regarding non-compliance with our business principles to an independent third party. In the period October 2009 to September 2010, 16 contacts were handled via the Speak Up programme and in a small number of cases, investigation has highlighted areas where further action has been initiated. We continue to promote awareness of the helpline throughout the year.

Our employees are at the heart of our business. During the year, we were pleased to be recognised for a number of employer awards, more details of which can be found at **www.centrica.com/awards**.

Aim	What we said we'd do in 2010	2010 performance	2009 performance	What we aim to do next
Foster a skilled, productive, motivated and diverse workforce	**Employee engagement[v]:** Achieve 67% employee engagement in the annual survey	64%	66%	Achieve a score of 67% and remain in the high performance category in 2012
	Diversity: Promote diversity and equal opportunities	29.4% female / 70.6% male	30% female / 70% male	Promote diversity in leadership roles and recruitment
		16% from ethnic minority groups	15.5% from ethnic minority groups	
	Attrition and retention: Retain 89% of our workforce in 2010	89.9% retention	92% retention	Retain 90% of our workforce in 2011
	Absence: Reduce absence to 7.5 days per full time employee (FTE)	6.8 days per FTE	7.7 days per FTE	Reduce absence to 6.6 days per FTE

CR Report on centrica.com

Other significant CR issues managed by our businesses and reported in our corporate responsibility report include supply chain risk, environmental management (water, waste, biodiversity) and community engagement and investment. Please see our online CR Report for more information: **www.centrica.com/responsibility**.

Aim	What we said we'd do in 2010	2010 performance	2009 performance	What we aim to do next
Make a positive contribution through the way we operate and by investing in, and engaging with, communities where we work in the UK, North America and other parts of the world	**Community contributions[vi]:** Invest in communities where we work	£105 million community contributions	£77 million community contributions	Continue to invest in communities where we work
	Employee volunteering: Provide our employees with opportunities for community involvement	58,531 volunteering hours	37,062 volunteering hours	Promote volunteering opportunities across the Group
Ensure awareness of Group business principles	**Business principles:** Achieve 95% completion by management of business principles declaration	99.1%	n/a	Achieve 95% completion by management of annual business principles declaration

(i) This figure is an externally agreed target with Ofgem and subject to change, depending on our market share.
(ii) 2010 data subject to final verification.
(iii) Data includes all parts of the Group with the exception of Direct Energy.
(iv) Scope includes all assets existing during baseline year of 2007.
(v) For details on the net promoter score (NPS) and the Employee Engagement Survey see page 9.
(vi) Combination of figures calculated from London Benchmarking Group methodology and cost of voluntary programmes to support vulnerable customers in the UK. Group cash donations during the year amounted to £21.1 million (2009: £4.8 million). In line with Group policy, no donations were made for political purposes. The Group, in the normal course of its business, has paid for its management to attend events at which politicians and other opinion formers have been present, but does not consider these payments to be political donations.

Risks and Uncertainties

Understanding and managing our risks

Nick Luff on the importance of strong risk management in achieving our strategic priorities

As we position our business to meet the emerging requirements of a new low carbon world, we face a wide range of risks representing both opportunities and challenges.

We have to consider the state of the global economy, the impact of climate change, energy security, the regulatory environment, new technologies, increasingly competitive markets, movements in commodity prices and the need for enormous infrastructure investment.

It is vital that we remain well positioned to capture the most value from opportunities in the rapidly changing and complex markets within which we operate, for example through the introduction of new products and services, the pursuit of new investments or the development of new skills. Our processes are designed to ensure that risks are identified and assessed in a timely manner and that we have plans in place to manage them.

Understanding risk is vital if we are to deliver superior returns.

Frontera power plant in Texas

Introduction

In the rapidly changing and complex markets within which we operate, it is important that risks are identified and assessed in a timely manner and that the controls designed to manage such risks are operating effectively.

Our risk processes are designed to make our day-to-day operations more sustainable and successful by ensuring that line managers have a clear understanding of:

- the opportunities and risks faced in delivering their business objectives; and
- the status of the key controls in place to manage these risks.

Each business unit has a 'risk champion' who coordinates regular line management assessment and reporting of that business unit's risk profile. These reports are reviewed and challenged by the Group risk team who provide the Group Risk Management Committee, the Centrica Executive and the Audit Committee with regular updates on cross group trends and material changes in our business risk profile. The operational assessments are supplemented by regular contact with the Group strategy team to ensure that our assessments also reflect the latest risks attaching to the delivery of our strategic priorities.

Material risks are also subject to review and challenge by expert groups, whilst regular meetings are also held with Internal Audit to ensure that risk reports reflect the latest findings from audit activity.

During 2010 we reviewed our processes to ensure that they remained appropriate to provide the necessary insight and challenge. Key improvements included:

- the introduction of strategic, operational and compliance risk themes to provide a more consistent challenge of risk assessments; and
- enhanced coverage of the risks attaching to high impact, low probability events.

Whilst not intended to be exhaustive, a summary of the Group's key risks is provided on the following pages.

Contents

External market factors

Legal and regulatory environment

The Group is subject to regulation and political oversight

Description: The UK Government has embarked on an Electricity Market Reform programme which will continue into 2011. As part of this review, the Government is looking to provide a floor on carbon price to provide greater certainty for investors.

There has been a renewed focus in the winter of 2010 on retail sector competitiveness, as higher wholesale commodity prices feed through to customer bills while the impact of the recession continues to be felt. The regulator launched a review into the market, only shortly after the completion of its earlier probe, which will report its findings in early 2011. The regulatory cycle of reviews of network price controls and transmission charging has also continued throughout 2010.

In the residential and business markets a positive regulatory environment still remains for encouraging products and services such as energy efficiency, microgeneration and smart meters. The UK Government introduced an Energy Bill creating the framework for their flagship energy efficiency programme: the 'Green Deal'.

In Europe, the Commission continues to consider stricter regulation of over-the-counter (OTC) derivatives, whilst in North America the Commodity Futures Trading Commission is currently implementing similar legislation following the passing of the Dodd-Frank financial regulatory reform act in July 2010.

In North America, the prospects for any federal climate legislation have largely disappeared with the changed make-up of Congress following the mid-term elections. Climate change momentum has slowed at the state and provincial level as well. Moves towards market liberalisation continue, with those states and provinces that have already begun to open their markets continuing to do so, but many others remain cautious.

The picture varies on a state or provincial level; in some, such as Ontario, the regulatory environment remains uncertain, whereas in others, such as Texas, it remains positive.

Impact: A number of policy and regulatory factors will impact on the Group's future investment decisions and the Group's ability to meet its long-term growth aspirations.

In the UK, the Electricity Market Reform programme, including a minimum price for carbon, is likely to impact on all our power generation investment decisions. An appropriate enabling environment for energy efficiency, microgeneration and smart metering will impact on the scale and speed at which we are able to grow this element of our residential energy services business. Regulatory interventions in the retail market have the potential to restrict our ability to offer innovative customer propositions.

Network and transmission charges continue to be a significant cost for Centrica (second only to commodities) so we need to support the right balance between delivering secure, low carbon energy and maintaining cost efficiency, in the best interests of customers.

In North America, trends towards liberalisation will shape which markets we can grow in, and to what extent. And the degree to which regulators positively encourage energy efficiency will impact our energy services propositions.

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

Internally, an executive level Policy Group meets monthly to discuss and agree Group-wide positions on each key issue. Externally, we have been continuing to engage with governments, the regulators and parliaments, and our media relations are designed to build knowledge and trust in the business among wider stakeholder audiences.

A notable example of this broader contribution to the debate was through the Chief Executive's speech to the Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA) on 'Transforming the energy sector'. This was intended to build a wider, deeper understanding of Centrica's positioning in a low carbon world, to put forward our views for tackling the challenges facing the sector and to demonstrate our commitment to greater energy efficiency by announcing that we would 'go early' on the Green Deal.

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

UK security of supply

The Group's UK businesses rely on the maintenance of secure and reliable gas supply and transportation infrastructure

Description: As UK gas reserves have declined, the UK energy market has become increasingly reliant on gas supplies from Norway and other parts of mainland Europe, together with LNG supplies from other parts of the world. Accordingly, key elements of security of supply are access to these reserves and the reliability of the storage, pipeline and gas processing infrastructure operated by the Group and third parties both in the UK and abroad.

Impact: Any break in this supply chain could jeopardise the supply to customers and impact our earnings. We own a variety of gas and power assets in the UK and overseas and our profitability would be adversely impacted if there were to be long-term outages associated with those assets.

We depend on third-party supply and cannot guarantee the security of the supply chains. There is a risk of terrorist activity, including threats to the energy sector which may include sabotage of power stations or pipelines, which could in turn affect security of supply or cause a break in supply of gas to our customers. Any failure to supply gas to customers could have a material adverse impact on our business, results of operations and overall financial condition.

Mitigation: We continue to invest in a range of options to ensure flexible and reliable supply. These include the potential development of additional storage facilities and securing additional pipeline transportation capacity. We have underpinned investment in LNG importation infrastructure by negotiating contracts with the Isle of Grain terminal. We have also signed a three-year contract with Qatargas, securing gas volumes sufficient to meet approximately 10% of UK residential demand.

External market factors continued

Energy demand reduction

The Group is exposed to falling energy consumption

Description: The UK Government sees both domestic and commercial energy efficiency as a key part of meeting its carbon targets. UK energy consumption has been falling since 2005, driven by improved energy efficiency and changing customer behaviour as a result of greater environmental awareness, reaction to price changes and the general economic downturn.

Continuing reduction in energy demand will, on a per customer basis, significantly reduce the profitability from British Gas' energy business. Reductions are driven by a number of factors, the most significant of which are energy efficiency measures, new boiler installations and behavioural changes. Underlying average gas consumption amongst our customers has reduced by 22% over the past five years.

Long-term UK gas demand will ultimately be driven by industry decisions around generation mix and the impact of Government climate change initiatives, as well as general economic activity.

The decline in consumption in North America is more gradual than seen in the UK and varies across our chosen markets due to weather and market factors.

Impact: Continuing reduction in consumption of gas and electricity by residential and business customers could have a significant impact on the Group's revenues and profits over the next decade.

New profit streams may prove to be insufficient to offset the reduction in profits, whilst our ability to recover any reduction in profits may be restricted by government, regulators, public opinion or competitor activity.

Mitigation: The Group is closely monitoring its forecasts for gas and electricity demand. The growth in demand for energy efficiency is in turn creating demand for such products as microgeneration, insulation and smart metering. We are well placed to grow in these markets over the next few years and are taking a number of steps to capitalise on these new opportunities.

To ensure sufficient capability to deliver energy efficient measures in the UK our 10,000 engineers are working in partnership with local authorities, as well as integrating the delivery of energy efficiency packages. These include the national roll-out of smart meters, and the development of innovative schemes such as 'pay as you save' which allows customers to pay for energy efficiency measures through their bills under long-term payment plans.

In North America, we continue to seek acquisition opportunities such as Clockwork completed in July 2010, in order to create a platform for sales of more integrated services offerings.

Commodity prices

The Group is exposed to unexpected movements in wholesale commodity markets and prices

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

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

In addition, strategic investment decisions, particularly in respect of upstream assets such as gas fields or power stations, are based on evaluations underpinned by forecasts of longer-term commodity price development. These reflect prevailing market prices and are supplemented by assessments of underlying industry fundamentals.

Impact: There is a risk that surplus commodity positions cannot be sold to the wholesale markets profitably and that any commodity shortages cannot be covered at a cost lower than end sales price. In particular, we offer a number of fixed-price products, which are fully hedged at the start of the contract. These products are competitive when prices increase but when prices fall we experience customer losses, and could be exposed to surplus commodity positions.

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

The Group may also suffer significant loss of value in the event that commodity prices fall significantly from levels prevailing at the time of asset acquisition, leading to lower profits and lower than expected returns.

Mitigation: We hedge a proportion of our exposures for a number of years ahead, linked to the underlying profiles of our customers' energy requirements. This is achieved through the purchase and development of upstream assets such as gas fields, power stations and wind farms, bilateral agreements for gas and power, purchases of commodities on recognised exchanges and the use of financial instruments such as oil and gas swaps.

We regularly review our forecasts of commodity prices and customer demand to provide senior management with a clear perspective on our profit position and pricing requirements.

Investment decisions are made within a capital allocation framework designed to ensure that proposals are rigorously evaluated prior to acquisition and that they meet Board approved financial criteria over the life of the project. Recent acquisitions of gas assets in Trinidad and Tobago, Wildcat Hills and the North Sea are examples of how we continue to develop our asset portfolio.

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External market factors continued

Competitive environment

The Group operates in competitive retail markets

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

The retail energy environment is highly competitive across residential and business energy as well as energy services. In residential energy, the limited scope for differentiation, consequent price competition, high and growing rates of customer switching, and diverse hedging strategies means there is always a risk of substantial customer losses if we lose our competitiveness.

Competitive pressures have also increased since many energy and other service providers have entered the services market and are seeking to strengthen their positions. In North America the economic environment is making trading more difficult, particularly in the new home construction business.

Impact: As a result of competitor activities the Group could lose market share which could affect profitability and the ability of the Group to meet its growth aspirations. Uncompetitive pricing could lead to customer losses and could have an adverse impact on profitability.

Mitigation: To retain our competitive position, we aim to be competitive on price and combine attractive products and propositions with high quality customer service. We continue to review and refine our hedging approaches to ensure that we continue to source energy competitively.

In the UK, British Gas has recently launched the 'Customer Promise' to further differentiate Homecare as a premium product, and have now appointed a Customer Board to build on the very successful 'We're Listening' panel.

We monitor customer satisfaction and have increased competitor intelligence activity. We are now able to respond to changing circumstances by developing new customer offerings more effectively, whilst maintaining tight operational cost control.

Delivering the future business model

The Group's future profitability may be affected by the emergence of new markets and competitors supported by new technologies

Description: The retail energy business is about to enter the digital age, increasing the value of customer data and making possible a far wider range of virtual interactions with customers.

The emergence of new technologies in the form of smart meters and smart grids creates new ways of reaching the customer. In addition, new markets are opening up in relation to the provision of energy related services to homes and businesses in areas such as energy efficiency, microgeneration and energy management/automation.

Whilst representing new opportunities these developments also create threats to the future profitability of the Group.

The UK Government has announced that every home will have gas and electricity smart meters by 2020. Centrica, and other leading energy suppliers, will have the responsibility for the installation and maintenance, at an estimated cost of £38 billion.

In North America, the business remains well placed to build on the 2010 acquisition of Clockwork and we aim to achieve a leading position in energy and related services provision.

Impact: The future profitability of the Group will be dependent on its success in continuing to play a leading role in the introduction of new technologies and in implementing the necessary operational and organisational changes to meet the requirements of the new markets.

Mitigation: Although new smart technologies represent a threat to the current business model, they also represent a substantial opportunity from servicing, appliance and home automation sales and customised tariff pricing. British Gas remains committed to leading the industry in driving energy efficiency and enabling new technologies.

In the UK, we have continued to build our capabilities in new technologies both through acquisition of businesses such as AlertMe (a provider of homes services), through the creation of an insulation business, and the installation of smart meters in homes and businesses. To date we have installed over 250,000 smart meters toward our target of installing two million smart meters by 2012.

Our existing interests in solar, biomass heating and fuel cell boilers support our position in microgeneration, with the opening of the UK's first plant to inject biomethane into the Grid in October 2010. We are also working with local authorities and the governments of Scotland and Wales to deliver energy efficiency in the social housing sector.

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

Business specific factors

Health, safety and environment

The Group's operations are subject to extensive environmental, health and safety risks and regulations

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

There are four principal health, safety and environment risks:

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

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

Actual incidents, precautionary closures of plant or a suspension of activities on HS&E grounds may lead to loss of production or service and impact our profits. The operations of the Group have many inherent hazards, particularly related to the exploration and production of gas, power generation and offshore activities.

The public and regulatory focus on offshore activities increased significantly following the high profile Deepwater Horizon incident in 2010; the potential risk to brand and reputation has therefore been heightened.

Mitigation: Activities involving such risks are heavily regulated and strict control regimes are in place throughout the Group.

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

We also target HS&E risk reduction in all our operations through local plans, many of which have been externally recognised. Further details of our 2010 activity are provided on page 27. In addition, we performed a detailed review of our upstream operations in light of the Deepwater Horizon incident.

Regarding British Energy, our role as a joint venture partner provides access to all information produced by EDF Energy in support of Board governance and oversight for both the existing operations and new nuclear projects. However, ultimate responsibility for the safe operation of the nuclear plants remains with EDF Energy.

Outsourcing and offshoring

The Group depends on third parties for certain aspects of its operations

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

In addition, a number of our North Sea assets are reliant on third-party infrastructure such as pipelines, operational support and platforms.

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

- loss of service or inadequate service from the offshore service provider;
- insufficient skilled resources to manage the relationship;
- inadequate levels of retained knowledge to drive process improvements;
- loss of service and risk to the Group's employees as a result of terrorist, and/or social or political events in offshore locations; or
- ineffective exit strategy, limiting our ability to move to alternative service providers either at the end of a contract or because of a breach situation.

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

Mitigation: New outsourcing and offshoring initiatives are challenged and reviewed by senior management in business performance reviews. We have robust project governance policies for all new and existing outsourcing and offshoring initiatives. We have been recognised as thought leaders in the development of outsourcing/offshoring best practice for the last two years by the National Outsourcing Association, which demonstrates our maturity in this area. We have also developed Group contract management processes and tools designed to ensure robust day-to-day management of outsourced relationships, as well as encouraging the capture of lessons learned and the promotion of best practice transfer.

We regularly review country risk and have business contingency plans in place in the event of terrorist or social/political events in offshore locations.

In addition, we have also developed a Group approach to managing key supplier risk and, in light of the continuing global economic conditions, have performed a risk-based review of the financial health of our key outsourcing partners.

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

Business specific factors continued

Nuclear

The Group is exposed to the performance of existing ageing nuclear plant and the risk of developing new nuclear facilities

Description: We have a 20% equity interest in British Energy, the operator of eight existing nuclear power stations in the UK. The existing fleet is ageing with the majority of nuclear reactors of the Advanced Gas Reactor (AGR) design. All of the AGR reactors have already been granted life extensions (most recently in December 2010 when it was decided to extend the lives of Hartlepool and Heysham 1 power stations).

We are exposed to potential losses of production as a consequence of emergent technical issues, component failure, outage over-runs or other operational considerations. In addition, stations may close earlier than expected due to technical problems.

The joint venture with EDF Energy also provides us with the option to participate in EDF Energy's UK new nuclear build (NNB) programme. We currently hold a 20% interest in a joint venture with EDF Energy (NNB Holding Company Limited) to undertake the pre-development activities for a planned nuclear new build programme, with the intention of constructing, operating and decommissioning four European Pressurised Reactors. We have committed to fund the project pre-development costs up to a maximum of £200 million. Centrica will not operate any of the nuclear facilities – this remains the responsibility of EDF which is a world leader in nuclear generation.

A number of key planning and consenting issues, consultations and environmental impact assessments could either significantly delay or even prevent the construction of new nuclear facilities. Whilst we welcome the recent publication of the Electricity Market Reform, and carbon floor for consultation, there remains a risk that the Electricity Market Reform will not deliver the required support to enable new build.

We have the right to opt out or reduce our interest in the new-build joint venture once consents have been obtained. If we elect to maintain our interest in the joint venture, this would involve substantial financial commitments without any guarantee that the power stations would be completed or become operational. We would only begin to realise returns on these investments when the reactors become operational. The returns would also be dependent on the future price of electricity and commodities.

The developers of new nuclear facilities will also be responsible for the cost of decommissioning such facilities and must set aside sufficient funds to cover waste disposal costs incurred by the government.

Impact: Operational problems with the existing fleet of British Energy nuclear power stations may result in reduced dividends from the joint venture and imbalance charges for Centrica.

In addition, should the business case for new nuclear not support investment, withdrawal from the joint venture would result in the loss of any funds invested to date as well as the write off of any value attributed to new build on our balance sheet.

Mitigation: We have a minority interest in Lake Acquisitions Limited and NNB Holding Company Limited and board representation. Although we will enjoy veto rights over certain decisions to be taken by Lake Acquisitions Limited or NNB Holding Company Limited (or their respective affiliates) and the nuclear new build joint venture, EDF Energy will have majority management control of such entities. In 2010, we continued to strengthen our relationships with EDF Energy, but ultimately, if we disagree with its management, we will have limited rights to dispute and seek compensation in relation to such decisions.

Information systems security

The Group's reputation and operations are critically dependent on the maintenance of robust and secure information systems

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

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

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

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

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

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

Business specific factors continued

Our reputation with key stakeholders

The Group's operations are dependent on the maintenance of its reputation and brands

Description: Our brand and reputation are vital assets for the future success and prosperity of our businesses. Recent high profile cases in the media such as the Deepwater Horizon incident show how reputation and brand can be quickly and fundamentally damaged. As a diverse group of businesses we have a number of different stakeholders. Maintaining a positive reputation for the Group is of vital importance to ensure the smooth operation of the existing business and to protect profitability.

Customers expect high levels of service and a positive consumer experience from leading brands. As a leading integrated energy company our corporate responsibility strategy aims to show leadership in response to pressing environmental and social challenges. We are also a major contributor to policy debates in the markets in which we operate.

It is equally important to actively manage the Group's reputation with our other stakeholders including opinion formers in the Government, the media and trade unions. There has been increased governmental and regulatory focus on our growth agenda and new business models, entering into a period of rising wholesale prices.

There has also been an increased media focus after recent UK residential price increases. At British Gas and Direct Energy we are committed to supporting all our customers. We prioritise our vulnerable customers who are unable to safeguard their personal welfare or the personal welfare of other members of their household for reasons of age, disability or severe financial insecurity.

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

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

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

We also have a programme of relationship management with stakeholders such as Government, Ofgem, Ofcom, the Advertising Standards Authority and relevant North American State and Federal regulators. We also manage the risk of non-compliance on matters which could lead to prosecutions, fines and reputational damage. Reputational management is reviewed more formally on a quarterly basis by the Executive Committee.

We monitor customer service throughout our retail operations. Continued focus in this area has resulted in service improvements and fewer customer complaints. We are constantly developing products and services to meet the needs of our customers.

British Gas held down its prices over the winter for 340,000 of the most vulnerable households. Our programmes also help vulnerable customers with lower tariffs and advice on efficiency measures, including a home energy audit, free home insulation and free energy saving products.

During 2010 we contributed a total of £80 million to provide help for those most in need, including an additional £50 reduction off the winter fuel bills of each of our most vulnerable customers and a £20 million donation to the British Gas Energy Trust (BGET), an independent charitable organisation we set up in 2004 to fight fuel poverty. The BGET makes grants to individuals and families to help them meet arrears in energy and other household bills.

Direct Energy is also committed to a range of projects, such as its Neighbor-to-Neighbor programme, providing assistance for customers in financial difficulties in our Texas market, and support for Raising the Roof, Canada's only national charity solely dedicated to finding long-term solutions for homelessness.

Board of Directors and Executive Team

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Key to membership of committees

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

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

Sir Roger Carr joined the Board as a Non-Executive Director in 2001. He was appointed Chairman of the Board in May 2004 and is Chairman of the Nominations Committee. He has been nominated to be the next president of the CBI from June 2011 and from January 2011 was appointed deputy president. He is a director on the Court of the Bank of England and he is also a senior adviser to Kohlberg Kravis Roberts. He has previously held a number of senior appointments including chief executive of Williams plc and chairman of Chubb plc, Thames Water plc, Mitchells & Butlers plc and Cadbury plc. He is a fellow of the Royal Society for the encouragement of the Arts, Manufacturers and Commerce, a visiting fellow to the Said Business School, Oxford and is a companion of the Institute of Management. Throughout his career he has served on a number of external committees including the Manufacturing Council of the CBI, Higgs Committee on Corporate Governance and Business for New Europe.

2. Sam Laidlaw
Chief Executive (55) C,D,E,N

Sam Laidlaw joined Centrica as Chief Executive in July 2006. He is Chairman of the Executive Committee and the Disclosure Committee. In January 2008, he was appointed a non-executive director of HSBC Holdings plc and in December 2010 he was appointed as the lead non-executive director on the board of the Department for Transport. He is also a member of the UK Prime Minister's Business Advisory Group. Previously he was executive vice president of the Chevron Corporation, chief executive officer at Enterprise Oil and president and chief operating officer at Amerada Hess. Until August 2007, he was a non-executive director of Hanson plc. He is a trustee of the medical charity RAFT.

3. Helen Alexander CBE
Non-Executive Director (54) A,N,R

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

4. Phil Bentley
Managing Director, British Gas (52) C,E

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

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

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

6. Mary Francis CBE
Senior Independent Director (62) A,C,N,R

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

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

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

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

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

9. Andrew Mackenzie
Non-Executive Director (54) A,C,N,R

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

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

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

11. Paul Rayner
Non-Executive Director (56) A,N,R

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

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

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

Executive Team

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

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

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

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

15. Anne Minto OBE
Group Director, Human Resources (57) E

Anne Minto was appointed Group Director, Human Resources in October 2002. Prior to that she was director, human resources for Smiths Group plc, a position which she held since early 1998. She was the Chairman of the Centrica Pension Schemes until September 2010. She is a non-executive director of Shire plc.

Corporate Governance

What good governance means to Centrica

Sir Roger Carr
Chairman

Transparency in governance is something I passionately believe in and, as Chairman, I am proud of Centrica's achievements in this area over the past year.

Chairman's letter

I am pleased to present Centrica's corporate governance report for 2010 on behalf of our Board. This report has been prepared to provide you with a clear and meaningful explanation of what governance means to us as a business and how it will guide our decision making in the future.

Good governance at all levels is taken seriously at Centrica and it is up to the Board to set the tone and show leadership. For us, good governance is more than just a set of policies and processes, it is about translating these into meaningful practice. The Board believes that good practice should flow throughout the Company and should guide the decisions taken by all our employees on a daily basis. If we achieve this, then we can be sure that we are taking the right actions for the benefit of all our stakeholders.

It is important that we continue to enhance our board structures, processes and procedures to ensure that our governance remains relevant and focused on improving our business and driving our strategic priorities. During 2010 we undertook a number of initiatives. We reviewed our core governance structures and also enhanced our risk management processes. We also refreshed our business principles and communicated them throughout the business during the year to reinforce our core values. I consider that these initiatives have helped us to maintain robust processes which both foster good governance and support the needs of our business.

I believe the drive for transparent reporting has continued to improve business conduct in recent years. Recently the Financial Reporting Council, under the leadership of Baroness Hogg, has built into the UK Corporate Governance Code an emphasis for organisations to actively consider the make up and diversity of their boards. The benefits of greater board diversity are clear and this has been a positive step forward which I not only welcome but on which Centrica has already taken action.

As I have reported in my Chairman's Statement, we have recently appointed Ian Meakins and Margherita Della Valle as Non-Executive Directors of the Company and I am proud of Centrica's efforts in reinvigorating the Board. Centrica undertook an extensive process to look at the diversity of the Board, looking not only at those who had significant experience as directors of listed companies but also those who had other experience and qualities.

I am also pleased to report that as a result of these appointments, Centrica is now in full compliance with the Combined Code on Corporate Governance.

Looking forward, next year we will be required to report against the new UK Corporate Governance Code, which replaces the Combined Code. I am pleased to report that the Board has reviewed the new UK Code and is supportive of it. We intend to observe the new UK Code to ensure ongoing good governance is maintained. I also welcome the introduction of the new UK Stewardship Code with a view to furthering constructive engagement with our major shareholders in 2011.

A more detailed report on our corporate governance arrangements is set out on the following pages.

Sir Roger Carr
Chairman
24 February 2011

Contents

The Board

Board of Directors

The Board believes that good corporate governance contributes to Centrica's performance. A clearly defined framework of roles, responsibilities and delegated authorities is in place and this supports the Board's aim to deliver sustainable growth for the benefit of customers, employees and shareholders. The Directors consider that the Board leads and controls the Group effectively.

This report explains how the Board applied the principles of the Combined Code on Corporate Governance (the Code) during 2010. All listed companies are subject to the Code, which came into effect for accounting periods beginning on or after 29 June 2008. The Company complied fully with the provisions of the Code except for a period from January 2010 to September 2010, as explained on page 46.

As reported in the Chairman's letter, the Board reviewed the new UK Corporate Governance Code (new UK Code). Following their review, the Board concluded that no material changes were required to the current governance processes. However, the Board has agreed that each Director shall be subject to annual re-election with effect from the 2011 Annual General Meeting (AGM) and that the Chairman will hold regular development reviews with each Director in 2011.

The powers of the Directors are set out in the Company's Articles of Association (Articles), which are available on the Company's website. The Articles may be amended by special resolution. The Directors also have responsibilities and duties under other legislation and in particular the Companies Act 2006.

The Board has a schedule of matters specifically reserved for its approval. A summary is shown below and the full schedule is available for inspection on the Company's website.

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

The Board is responsible for:

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

Board meetings

The Board holds regular scheduled meetings throughout the year as a key part of its governance framework. During the year, the Board had eight scheduled meetings and two unscheduled supplementary meetings. Three other committee meetings of the Board were held which considered technical aspects of financing arrangements, ongoing projects and potential acquisitions.

The Board continuously assesses and reviews key priorities and business issues for the Company over the short, medium and longer term. Comprehensive papers are presented to the Board which facilitate meaningful debate on the performance and future direction of the Company. At each scheduled meeting the Board considers the key issues affecting each part of the Group. This includes reports from the Chief Executive, the Group Finance Director and an assessment of the performance of each business unit.

All Directors are expected to attend all Board and relevant committee meetings. Details of attendance by Directors at Board and committee meetings during 2010 are set out in the table below. Where a Director was not in attendance, this was due to other prior work commitments or illness and in respect of Andrew Mackenzie, due to prolonged overseas business commitments. Directors who were unable to attend specific Board or committee meetings reviewed the relevant briefing papers and provided their comments to the Chairman of the Board or committee, as appropriate. In addition, any Director who misses a meeting will as a matter of course, receive the minutes of that meeting for future reference.

	Board	Audit Committee	Remuneration Committee	Nominations Committee	Corporate Responsibility Committee
Number of meetings	**10**	**4**	8	**3**	**4**
Sir Roger Carr	10		8	3	
Sam Laidlaw	10			3	4
Phil Bentley	10				4
Mark Hanafin	10				
Nick Luff	10				
Chris Weston	10				4
Helen Alexander	10	4	8	3	
Mary Francis	10	4	8	3	4
Andrew Mackenzie	8	3	6	3	4
Paul Rayner	10	3	7	3	
Ian Meakins[(i)]	3	1	3	1	

(i) Ian Meakins was appointed to the Board in October 2010 and attended all subsequent Board and committee meetings.

As part of its responsibilities, the Board monitors the development of the Group's strategy. In addition to the scheduled Board meetings, each year the Board holds a conference devoted specifically to strategy. In 2010, the Board conference focused on some of the key strategic issues facing Centrica over the short and long term, including:

- the current gas supply market;
- electricity market reforms;
- investments in gas storage, power generation, renewable technology and nuclear power generation; and
- options for driving further growth in North America and British Gas.

Board constitution and appointments

The Board is made up of a balance of Executive Directors and independent Non-Executive Directors which promotes high quality consideration of the key issues facing Centrica and the Company's performance. The roles of Chairman and Chief Executive are separate, formalised in writing and have been approved by the Board and are available to view on the Company's website.

The Non-Executive Directors play a key governance role and bring an external view to the Board's deliberations through their knowledge, experience and insight from other sectors. As part of its annual review of corporate governance, the Board considered the independence of each Non-Executive Director (other than the Chairman) against the criteria in the Code and determined that each Non-Executive Director remained independent. During the year the Non-Executive Directors, including the Chairman, met independently of management.

A formal, rigorous and transparent process is followed during the selection and subsequent appointment of new Directors to the Board. This process is described in the section on the Nominations Committee on page 45.

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

The Companies Act 2006 and the Company's Articles require the Board to consider any potential conflicts of interests. The Board considers and, if appropriate, authorises each Director's reported actual and potential conflicts of interest regularly and at least annually. Each Director abstained from approval of their own reported conflicts.

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

Details of the Directors of the Company, including their biographies and their Board committee memberships, are set out on pages 38 and 39. Details of Directors' service contracts, emoluments and share interests are set out in the Remuneration Report on pages 50 to 63.

Directors' indemnities and insurance

In accordance with the Articles, the Company has granted a deed of indemnity, to the extent permitted by law, to Directors and the General Counsel & Company Secretary. Deeds were in place throughout the year and up to the date of this report and revised deeds were granted during 2010 to reflect changes introduced by the Companies Act 2006. The Company also maintains directors' and officers' liability insurance for its Directors and Officers.

Board performance

Board evaluation

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

The evaluation process involved the use of a comprehensive questionnaire, which was considered and completed by each of the Directors. A consolidated report of the output from the detailed evaluation exercise was prepared for review and consideration by the Board.

Key evaluation themes were identified in the review in 2009, including:

- Board composition;
- Board expertise and knowledge;
- strategic oversight and delegation of powers;
- efficiency and effectiveness;
- Board support;
- risk management and internal control governance;
- succession planning; and
- improving Board performance.

The 2010 process used the same key themes from 2009 so that performance could be measured on a consistent basis. In addition in 2010, the Board was asked to specifically assess how well the Board had addressed the key areas for improvement identified in the 2009 evaluation and how well the Board had progressed against the key strategic areas highlighted for action in 2010.

The Board believes that this evaluation process leads to a thorough and meaningful assessment of how well the Board is equipped to lead the Company. It also clarifies what actions need to be taken to maintain and improve the Board's performance.

The evaluation report for 2010 concluded that the Board and its committees continue to operate effectively. A small number of actions and improvements were identified. In particular, the following enhancements were identified, which will be incorporated into the future programme for the Board and its committees:

- a greater focus on the North American market;
- a deeper understanding of the markets, in particular the competitive landscape and the political and regulatory environment, within which the Group operates;
- additional in-depth discussions on selected key risks and internal control issues;
- additional briefings on developments in financial reporting and associated issues; and
- a greater focus on succession planning.

In addition to the above process, during the year the Senior Independent Director chaired a meeting of the independent Non-Executive Directors in the absence of the Chairman to appraise the Chairman's performance. The conclusion of the appraisal was that the Chairman continued to provide effective leadership of the Board.

The Chief Executive's performance is reviewed regularly by the Chairman and the Chief Executive reviews the performance of the other Executive Directors and the other members of the Executive Team.

In accordance with the provisions of the new UK Code, the Board intends that the evaluation of the Board will be externally facilitated at least every three years. The Board evaluation in 2008 was conducted using an external consultant. In 2009 and 2010 the evaluations were conducted internally and hence the Board intends to conduct an externally facilitated review in 2011.

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

Board development

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

Ian Meakins was appointed to the Board in October 2010 and following his appointment he discussed with the General Counsel & Company Secretary what briefings and meetings would most be of benefit to him to ensure an effective induction. Further to these discussions, an induction programme was devised for Ian Meakins which included:

- briefings from members of the Executive Team;
- briefings on key areas of the business;
- an overview of the Group's risk management processes, the key risks facing the business and the internal audit function;
- a comprehensive briefing in respect of corporate governance in Centrica; and
- follow up on any actions arising from these sessions.

A similar process was undertaken following the appointment of Margherita Della Valle as a Non-Executive Director with effect from 1 January 2011.

Ongoing development and training is also provided to all Directors at Board and committee meetings. During the year, Directors received regular updates and presentations on changes and developments to the business and to the legislative and regulatory environments in which the Group operates.

In particular, the Board was briefed on the following key issues during 2010:

- an overview of the North American business environment;
- the competitive landscape and market conditions for oil and gas prices;
- health, safety and environmental issues. In particular the Board received a briefing on issues relating to nuclear power generation;
- the power generation market;
- a review of the conclusions and the legal, regulatory and operational impact on the industry following the Deepwater Horizon incident;
- customer loyalty;
- corporate responsibility strategy;
- acquisitions and investments;
- the impact of the Bribery Act 2010; and
- corporate governance developments.

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

Board committees

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

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

A chart setting out the Company's Board and Executive committees' structure is set out below. Details of each Board committee, including membership, are set out in the following committee reports.

Board governance structure

Audit Committee

Audit Committee members:

- Paul Rayner (Chairman)
- Helen Alexander
- Mary Francis
- Andrew Mackenzie
- Ian Meakins (from 1 October 2010)
- Margherita Della Valle (from 1 January 2011)

In accordance with the Code, Paul Rayner and Margherita Della Valle are identified as having recent and relevant financial experience. The Board has determined that each member of the Committee is independent and that the membership meets the requirements of the Code.

Audit Committee responsibilities

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

- monitor the integrity and audit of the Company's Financial Statements;
- review the Company's internal financial controls, internal control and risk management systems;
- monitor and review the effectiveness of the Company's internal audit function;
- establish and oversee the Company's relationship with the external auditors, including monitoring their independent status; and
- establish and oversee appropriate whistleblowing and fraud prevention arrangements within the Company.

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

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

Paul Rayner
Audit Committee Chairman

Key issues reviewed by the Audit Committee

The Committee considered a number of key issues during the year, including:

- considerations in respect of reporting throughout the year;
- governance structures, in particular the links between the Group's Audit Committee, business unit level governance and governance of the Group's legal entities;
- information technology general controls and management framework;
- internal audit strategy;
- security, data protection and identity and access management; and
- ongoing compliance with the undertakings in respect of Centrica Storage Limited and compliance reporting in general.

The Committee members also participated in two training sessions during the year, one of which was facilitated by PwC and the other conducted by Centrica Energy senior management. The training sessions focused on bespoke issues on risk management in the Group.

PwC has been the external auditor of the Group since the demerger of Centrica in 1997. The Audit Committee makes recommendations through the Board to the shareholders to consider at the AGM, or at any time during the year, on the appointment, reappointment or removal of the external auditor. There are no contractual obligations restricting the Group's choice of external auditor. Accordingly, following consideration, the Audit Committee has recommended to the Board that a resolution to reappoint PwC be proposed at the 2011 AGM and the Board has accepted and endorsed this recommendation.

The Board has approved policies that restrict the types of non-audit work that can be undertaken by the external auditors and restrict the employment by the Group of former employees of the external auditors. The award of non-audit work, within categories that the external auditors are permitted to carry out under the Board approved policies, is subject to pre-clearance by the Audit Committee if the fee exceeds specified thresholds. The Group's policy to seek competitive tenders for all major consultancies and advisory projects is set out in note 13 to the Financial Statements on page 98. In addition, the Committee was provided with reports of all non-audit assignments awarded to the external auditors and, on a regular basis, a full breakdown of non-audit fees incurred during the year.

In accordance with International Standards on Auditing (UK & Ireland) 260 and Ethical Statement 1 issued by the Accounting Practices Board, and as a matter of best practice, the external auditors have confirmed their independence as auditors of the Company, in a letter addressed to the Directors.

Nominations Committee

Nominations Committee members:

- Sir Roger Carr (Chairman)
- Helen Alexander
- Mary Francis
- Sam Laidlaw
- Andrew Mackenzie
- Paul Rayner
- Ian Meakins (from 1 October 2010)
- Margherita Della Valle (from 1 January 2011)

Nominations Committee responsibilities

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

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

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

Sir Roger Carr
Nominations Committee Chairman

Key issues reviewed by the Nominations Committee

The Committee met on three occasions during the year and considered the proposed appointments of Ian Meakins and Margherita Della Valle. In addition to these appointments, the Committee considered:

- the reappointment of Directors retiring by rotation at the 2010 AGM;
- Board committee memberships; and
- that Directors' appointments outside of Centrica would still allow sufficient time for those Directors to devote to their duties at Centrica. In particular, the Committee considered Sam Laidlaw being appointed the lead non-executive board member for the Department of Transport and Sir Roger Carr's appointment as deputy president of the CBI and his nomination as president of the CBI from June 2011.

Remuneration Committee

A report detailing the composition, responsibilities and work carried out by the Remuneration Committee during the year, including an explanation of how it applies the principles of the Code in setting Executive Directors' remuneration, is included within the Remuneration Report on pages 50 to 63.

Corporate Responsibility Committee

Corporate Responsibility Committee members:

- Mary Francis (Chairman)
- Phil Bentley
- Sam Laidlaw
- Andrew Mackenzie
- Catherine May
- Chris Weston

A report detailing the work carried out by the Corporate Responsibility Committee during the year is included within the Corporate Responsibility Review on pages 24 to 29.

Executive Committee

Executive Committee members:

- Sam Laidlaw (Chairman)
- Phil Bentley
- Grant Dawson
- Mark Hanafin
- Nick Luff
- Catherine May
- Anne Minto OBE
- Chris Weston

The members of the Executive Committee are those shown above and their biographical details are set out on pages 38 and 39.

Executive Committee responsibilities

The Committee is responsible for the day-to-day management of the Group's operations within the limits set out in the Group's delegation of authority. The Committee also has a schedule of matters specifically reserved for its approval.

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

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

Disclosure Committee

Disclosure Committee members:

- Sam Laidlaw (Chairman)
- Grant Dawson
- Nick Luff

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

Compliance statement

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

Throughout the year ended 31 December 2010, the Company complied fully with the provisions set out in Section 1 of the Code, with the exception of provision A.3.2 which states that at least half of the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. Following Paul Walsh's retirement as a Non-Executive Director in 2009 and Chris Weston's appointment as an Executive Director also in 2009, the constitution of the Board did not meet provision A.3.2. However in October 2010, Ian Meakins was appointed as a Non-Executive Director of the Company. As a result of this appointment, the membership of the Board has been fully compliant with provision A.3.2 of the Code since October 2010. Whilst the Board recognises the balance of Executive and Non-Executive Directors was not in line with the Code throughout the year, it believes that it still had a robust governance structure during the period of non-compliance and that no individual or small group of individuals dominated the Board's decision making.

Relations with shareholders

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

The Chief Executive and Group Finance Director held regular meetings with the Company's major shareholders during the year. The Chairman and the Senior Independent Director attended the meetings at which the annual and interim results were presented to major investors and analysts. The Chairman also met a number of major institutional shareholders during the year in order to gain a first-hand understanding of their concerns and key issues.

The Company's AGM provides all shareholders with the opportunity to develop further their understanding of the Company and to ask questions of the full Board on the matters put to the meeting, including the Annual Report. The Company intends to send to shareholders the Notice of AGM and any related papers at least 20 working days before the meeting. All Directors are invited to attend each AGM. At the AGM, the Chairman and the Chief Executive present a review of the Group's business. A poll is conducted on each resolution at all Company general meetings. All shareholders also have the opportunity to cast their votes in respect of proposed resolutions by proxy, either electronically or by post. Following the AGM, the voting results for each resolution are published and are available on the Company's website.

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

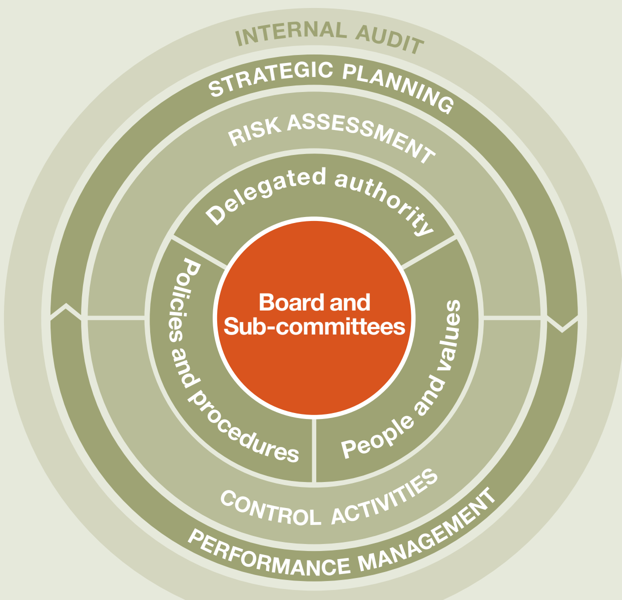
Centrica's website contains up-to-date information for shareholders and other interested parties including Annual Reports, shareholder circulars, share price information, news releases, presentations to the investment community and information on shareholder services.

Centrica hosted a Capital Markets Day in March 2010, comprising a series of presentations to institutional investors and analysts on the Company's strategic priorities. The presentations were also made available on the Company's website. Centrica also took the opportunity in 2010 to meet with the UK Shareholders' Association (UKSA), which is a leading independent organisation representing the interests of private shareholders. Members of the UKSA who attended, received a summary presentation on the Company and had the opportunity to ask questions directly to members of Centrica's management team.

Risk management and internal control

The Board is responsible for the Group's system of internal control and risk management, and considers this to be fundamental to the achievement of the Group's strategic objectives.

Governance, risk and control framework



The above diagram shows some of the key elements in the governance, risk and control framework by which Centrica's operations are conducted. The work of the Board and its sub-committees are at the heart of the process. The Board and its committees set objectives, performance targets and policies designed to achieve a balanced and transparent assessment of the risks facing the Group's operations and to measure the effectiveness of the key controls in place to manage them. The work of the Board is underpinned by clear delegations of authority, effective policies and procedures covering key areas of Group operation together with a set of business principles and human resource processes which are communicated to Centrica's staff.

In addition, mechanisms are in place to ensure that both strategic and operational risks are identified and assessed and that the controls designed to manage such risks are operating effectively. These mechanisms are reinforced through regular performance management and business reviews.

Lastly, it is important that the effectiveness of the framework is assessed impartially. There is therefore a programme of independent reviews by the internal audit function which is designed to cover the key processes and risks.

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

Details of the Group's principal risks and uncertainties are set out in pages 30 to 36 of the Business Review.

2010 developments

Centrica undertook a number of activities designed to ensure that its governance arrangements remained appropriate to its business risk profile. These included the following:

- a review of the core governance committee structure and enhancements to the risk management reporting processes;
- reinforced understanding of Centrica's business principles through the introduction of a process for extended self-certification so that more than 3,000 managers throughout the Group have affirmed that they have a full understanding of the principles we believe underpin good governance at Centrica;
- implementation of a comprehensive training programme in respect of controls awareness across the Group; and
- introduction of a group policy portal on the Company's corporate intranet which allows all employees to easily find the key policies they must follow to ensure Centrica operates professionally, fairly and with integrity.

Centrica believes that the above steps will help maintain good governance for the business going forward.

Group risk governance structure

The above diagram shows some of the key elements of Centrica's risk governance structure, which is explained in further details below.

Group Risk Management Committee

The Group Risk Management Committee (GRMC) plays a pivotal role in the governance of risks. Each of Centrica's business units has a Business Risk Management Committee whose role is to evaluate, report and advise on material risks, and to consider the adequacy of controls and the actions planned to mitigate those risks. The most material risks are then reported to the GRMC so that it has a clear understanding of Centrica's aggregate risk profile, and that control processes are in place to ensure monitoring and management of significant risks. The GRMC is chaired by Nick Luff, the Group Finance Director, and membership includes senior management from both business units and corporate functions.

Group Financial Risk Management Committee

A separate specialised process to manage financial risks is also required to achieve adequate levels of control. The role of the Group Financial Risk Management Committee (GFRMC) is therefore to focus specifically on financial risks as part of the overall risk management profile.

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

The GFRMC is chaired by Nick Luff and membership comprises senior finance and risk personnel. Further details of the Group's Financial Risk Management are provided in note 4 to the Financial Statements on page 83.

Centrica Controls Board

The Centrica Controls Board, whose members are Nick Luff, the Director of Financial Control, the Head of Audit & Risk and Finance Directors for each business unit, is responsible for ensuring that appropriate internal controls are in place over key operational and financial reporting processes and related IT systems.

The responsibilities of the Centrica Controls Board are discharged through the Centrica Controls Steering Group (CCSG) and the Information Risk Steering Group (IRSG).

The CCSG monitors the risks and associated controls over financial reporting processes, including the process by which Centrica's Group Financial Statements are prepared for publication (the consolidation process). The financial reporting controls are monitored and maintained through the use of internal control frameworks which address key financial reporting risks, including risks arising from changes in the business or accounting standards. Effectiveness is assessed through quarterly self-certification and independent testing of the controls.

The IRSG monitors the Group's information systems control environment, providing robust challenge to the business units to ensure that information systems risk management remains effective and appropriate for the Group. It is also responsible for monitoring the progress of key information security projects.

Executive Committee and Audit Committee

The Group's material risks are also reported to each meeting of the Executive Committee which regularly undertakes in depth reviews of specific risks as appropriate.

At each of its meetings in 2010 the Audit Committee received a Group risk report, which provided an assessment of the key risks facing the Company and the adequacy of the associated controls. In addition, the Audit Committee assessed the activity of the Group internal audit function including details of findings from reviews conducted against a plan which is approved annually by the Committee. These reports, supplemented by management presentations, enable the Audit Committee to track issues, monitor performance and ensure that necessary actions are taken to remedy any significant failings or weaknesses identified.

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

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

Centrica Storage and other Group companies

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

The Board's review of the system of internal control

A more inclusive process of hierarchical self-certification has been established throughout the Group whereby the effectiveness of internal controls and compliance with Group business principles and policies, are assessed. In 2010 the self-certification process was completed at year end. The results of the annual process, together with the conclusions of the internal reviews by Internal Audit, inform the annual assessment performed by the Audit Committee.

The Board, with the advice of the Audit Committee, has reviewed the effectiveness of the system of internal control, for the period from 1 January 2010 to the date of this report, and is satisfied that the Group complies with the Turnbull Guidance. The Board will continue routinely to challenge management in order to ensure that the system of internal control is constantly improving.

Going concern

After making enquiries, the Board has a reasonable expectation that the parent company and the Group as a whole has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the Financial Statements. Further details of the Group's liquidity position and going concern review are provided in note 4 of the Financial Statements on page 83.

Directors' responsibility statement

The Directors, who are named on pages 38 and 39, are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names and functions are listed in pages 38 and 39 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 contained in pages 4 to 63 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.

Disclosure of information to Auditors

Each of the Directors who held office at the date of approval of this Directors' Report confirm that: so far as they are aware, there is no relevant audit information of which the Company's Auditors are unaware; and they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

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

Other Statutory Information

Management Report

The Directors' Report for the year can be found on pages 4 to 63. The management report for the year, as required by the Disclosure and Transparency Rules, is incorporated by reference within the Directors' Report.

Major acquisitions and disposals

Full details of acquisitions and disposals are disclosed in the Business Review on pages 4 to 36 and notes 37 and 38 to the Financial Statements on pages 131 to 136.

Events after the balance sheet date

Events after the balance sheet date are disclosed in note 42 to the Financial Statements on page 140.

Related party transactions

Related party transactions are set out in note 40 to the Financial Statements on pages 138 and 139.

Creditor payment policy

It is the Group's policy to:

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

The number of days' purchases outstanding as at 31 December 2010 was 34 (2009: 33) for the Group (excluding Centrica Energy Limited (formerly known as Accord Energy Limited)) and 28 (2009: 20) for the Company.

Essential contractual arrangements

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

Significant agreements – change of control

The following are significant agreements to which the Company is party which take effect, alter or terminate upon the change of control in the Company following a takeover bid:

- as part of the demerger in 1997, BG Group plc (which is a separately listed company and not a part of Centrica) assigned ownership of the British Gas trade marks and related logos to Centrica for use in Great Britain. BG Group plc has the right to call for a re-assignment of this intellectual property if control of Centrica is acquired by a third party; and
- in 2009, Centrica entered into certain transactions with EDF Group in relation to an investment in British Energy, an owner and operator of nuclear power stations in the UK. The transactions include rights for EDF Group and Centrica to offtake power from existing and new build British Energy nuclear power stations and to invest in new build nuclear power stations. As part of these arrangements, on a change of control of Centrica, Centrica loses its rights to participate on the Boards of the companies in which it has invested and on Technical Committees for new nuclear development. Furthermore, on a change of control of Centrica, where the acquirer is not located in certain specified countries, EDF Group is able to require Centrica to sell out its investments.

Charitable and political donations

During the year, the Group made cash charitable donations to support the community of £21.1 million (2009: £4.8 million). Total community contributions and related activities on community support are described in the Corporate Responsibility Review on pages 24 to 29. In line with Group policy, no donations were made for political purposes during the year (2009: nil).

Share capital

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the Articles of Association as approved and adopted by the Company's shareholders at the 2010 AGM reflect this. The Company was also authorised at the 2010 AGM to allot shares within certain limits and as permitted by the Companies Act. A renewal of this authority will be proposed at the 2011 AGM. The Company's issued share capital as at 31 December 2010, together with details of shares issued during the year, is set out in note 30 to the Financial Statements on pages 119 and 120.

Each ordinary share of the Company carries one vote. Further information on the voting and other rights of shareholders are set out in the Articles of Association (the Articles) and in the explanatory notes which accompany notices of general meetings, all of which are available on the Company's website at www.centrica.com.

Authority to purchase shares

The Company was authorised at the 2010 AGM to purchase its own shares, within certain limits and as permitted by the Articles. A renewal of this authority will be proposed at the 2011 AGM. Shares repurchased may be cancelled or retained as treasury shares to accommodate requirements for shares under the Group's share incentive schemes. No shares were purchased under this authority during 2010.

Material shareholdings

At 24 February 2011, Centrica had received notification of the following material shareholdings pursuant to the Disclosure and Transparency Rules:

	Ordinary shares	% of share capital	Nature of holding
Invesco Limited	259,495,719	5.03	Indirect
Legal & General Group	201,705,927	3.91	Direct
Petronas	199,375,000	3.87	Direct

Independent Auditors

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

This Directors' Report comprising pages 4 to 63 has been approved by the Board and signed on its behalf by:

Grant Dawson
General Counsel & Company Secretary
24 February 2011

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire SL4 5GD

Company registered in England and Wales No. 3033654

Remuneration Report

Aligning rewards with results

Helen Alexander
Chairman, Remuneration Committee

During 2010 the Remuneration Committee kept the Group's reward strategies under review.

Letter to shareholders

On behalf of the Board, I am pleased to present the Remuneration Committee's Report for 2010 for which we will be seeking approval from shareholders at our Annual General Meeting in May 2011.

The management team has made a great deal of progress towards achieving our strategic goals in what has been a very challenging year, as highlighted in the Chairman's statement on pages 2 and 3. The strong financial and operational performance achieved in 2010 and the measurable progress made towards the strategic priorities were achieved by meeting demanding performance objectives. The Remuneration Committee is satisfied that the overall remuneration for the Executive Directors, as set out in the following pages, is appropriate given the performance of the business for the year.

The performance targets for 2011 are similarly challenging and aligned with the delivery of value to shareholders. Taking into account external economic conditions, the Committee has agreed that none of the Executive Directors will receive a salary increase in the 2011 calendar year.

Remuneration principles

In considering remuneration for our senior executives, the Remuneration Committee has used the framework of principles established last year in its review of executive remuneration:

- Incentives will reinforce key business objectives, promote an ownership culture, and align executive and shareholder interests.
- Senior executive remuneration levels will be benchmarked and structured to ensure that Centrica's total remuneration (i.e. including all fixed and variable pay) is competitive.
- The Remuneration Committee will take into account both best practice and employment conditions throughout Centrica when determining the appropriate structure of executive remuneration.
- A significant proportion of senior executive remuneration will be delivered through long-term share-based pay.
- Incentive structures will be simple, transparent and robust, and structured to avoid encouraging excessive risk-taking.
- Annual incentives will be based on Group, business unit, Health, Safety & Environment and individual performance.
- Long-term incentives will be aligned with the wider interests of shareholders.
- Incentive targets may be adjusted at the discretion of the Remuneration Committee to take account of 'non-performance items' outside management control that would otherwise distort the measurement of management performance.

Background and themes

Review of executive remuneration

During the year the Committee reviewed our executive remuneration arrangements and considered their alignment with the Group's strategic priorities. In light of the prevailing economic climate, the Committee concluded that no changes would be made at the present time, but that we would continue to keep the situation under review.

Managing the balance of amount and risk

The Committee asked the Head of Audit & Risk to consider links between risk and remuneration within Centrica. We do not believe the remuneration arrangements encourage excessive risk-taking. We will continue to monitor the situation.

Talent and reward

We have a strong senior management team in place and we are keen to attract and retain high calibre individuals to lead the Group. We will continue to benchmark the remuneration of our senior executives against a UK cross-industry comparator group. We will also take into account international comparators within our industry and the reward structures in place throughout the Group.

Committee membership

Two Non-Executive Directors have been appointed to the Committee since the last Report. Ian Meakins joined during 2010 and Margherita Della Valle joined in January 2011, each following their appointment to the Board.

The Remuneration Committee continues to be committed to ensuring executive remuneration is structured so that it supports the future direction of the business, is aligned to our values and is in the best interests of shareholders.

Helen Alexander
Chairman of the Remuneration Committee
24 February 2011

Contents

Introduction to the Report

This Report details the Company's executive remuneration policy and includes information on the remuneration of the Directors for the financial year ended 31 December 2010.

The Remuneration Committee

The role of the Committee

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

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

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

Members of the Committee during 2010

Throughout 2010 Helen Alexander was Chairman of the Committee and Sir Roger Carr, Mary Francis, Andrew Mackenzie and Paul Rayner were members of the Committee. Ian Meakins became a member of the Committee when he joined the Board on 1 October 2010. The Board has determined that each of the Non-Executive Directors who are members of the Committee is independent.

Advice provided to the Committee

During 2010, the Committee had access to the advice and views of:

- the Group Director, Human Resources;
- the Group Director, Reward;
- the Chief Executive;
- the Head of Audit & Risk;
- the General Counsel & Company Secretary;
- Kepler Associates (Kepler), who acted as independent external adviser to the Committee during the year;
- Deloitte & Touche LLP (Deloitte) who were consulted during the year and were formally appointed as the Committee's independent external adviser with effect from 1 January 2011; and
- Towers Watson who were consulted but not formally appointed as advisers to the Committee.

Kepler did not provide any other advice to the Company. Deloitte was consulted as part of the review of senior executive remuneration, ahead of their appointment as external adviser to the Committee and also provide a number of consulting services throughout the Group. Towers Watson provided actuarial services to the Company. The Committee took into account the Remuneration Consultants Group's Code of Conduct when appointing Deloitte as adviser to the Committee.

The Committee's activities during 2010

Key issues reviewed by the Remuneration Committee

In 2010 the Committee met eight times and considered a number of key issues. In particular it reviewed:

- total remuneration, including base salaries for 2010;
- the link between risk and remuneration;
- amendments to the rules of the Long Term Incentive Scheme (LTIS) and Deferred and Matching Share Scheme (DMSS) to enable awards to be delivered as nil cost options;
- senior executive remuneration (in conjunction with advisers); and
- appointment of Deloitte as external adviser to the Committee with effect from 1 January 2011.

Regular items reviewed by the Remuneration Committee

The Committee regularly considers a number of items which, for 2010, included:

- 2009 Annual Incentive Scheme (AIS) payments;
- Executive Directors' AIS objectives for 2010;
- 2009 Remuneration Report;
- vesting for 2007 LTIS and DMSS awards;
- allocation of 2010 LTIS and DMSS awards;
- annual valuation of the Centrica Unapproved Pension Scheme (CUPS); and
- draft Executive Directors' AIS objectives for 2011.

Executive Directors' remuneration

The following sections outline the policy and framework surrounding the Executive Directors' remuneration.

How reward is aligned to our strategic priorities

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

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

Remuneration policy

The remuneration policy aims to deliver a remuneration package:

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

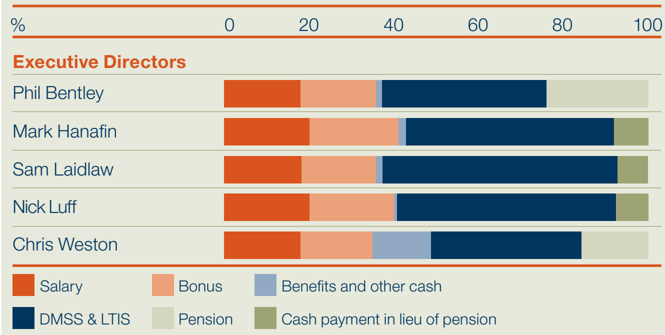
Remuneration framework

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

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

Remuneration mix

In 2010, the total remuneration package of the Executive Directors comprised elements in the following proportions:



Note: Bonus is before the compulsory deferral into DMSS. DMSS and LTIS is the accounting cost to the Company, calculated in accordance with IFRS 2.

Shareholding guidelines

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

- Chief Executive – 2 times base salary;
- other Executive Directors – 1.25 times base salary; and
- other Executive Committee members – 1 times base salary.

The Executive Directors and Executive Committee members have achieved, and in some cases materially exceeded, their minimum shareholding requirements.

Pension and other benefits

Mark Hanafin and Sam Laidlaw are entitled under the terms of their contracts of employment to receive a salary supplement in lieu of pension of 40% of base salary. Nick Luff's entitlement was increased from 30% to 40% of base salary, with effect from April 2010.

The salary supplements are paid in cash, with the exception of part of the supplement for Sam Laidlaw which is paid directly into his personal pension plan. The cash amounts paid in the year directly to individuals are disclosed within the Directors' emoluments table on page 58.

Phil Bentley and Chris Weston participate in the Centrica Pension Plan (CPP) (a contributory final salary arrangement) and in the Centrica Unapproved Pension Scheme (CUPS). Full disclosure of the pension arrangements for the Executive Directors is given on page 63.

Emoluments of senior executives below Board level

The total emoluments of the three remaining members of the Executive Committee during 2010, calculated on the same basis as the emoluments of the Executive Directors detailed on page 58, fell into the following bands:

Bands £000	Number of senior executives
700 – 799	1
600 – 699	1
500 – 599	1

The total remuneration package

Summary of remuneration elements for Executive Directors for 2010

Element	Objective	Performance period	Performance measure
Base salary (see below)	Reflects the role and the sustained value of the individual in terms of skills, experience and contribution	Not applicable	Delivery against key personal objectives
Annual Incentive Scheme (AIS) (see below and page 54)	The AIS provides a focus on delivery of the financial targets set out in the operating plan. It rewards the achievement of strategic priorities for the year that position the Group well for strong future performance, and the delivery of Health Safety & Environment (HS&E) and personal objectives	One year Part of the amount earned under AIS is deferred for three years and satisfied in shares under DMSS at the end of the three-year period	In 2010 awards were subject to the achievement of annual targets for: • Group economic profit (EP) • Group/business unit performance • HS&E • personal objectives
Deferred and Matching Share Scheme (DMSS) (see pages 54 and 55)	Assists with employee retention and incentivises the creation of long-term value for shareholders and delivery of sustained high performance	Three years	Three-year growth in EP, measured by comparing the EP before the start of the performance period with that at the end of the performance period ('point-to-point' EP growth)
Long Term Incentive Scheme (LTIS) (see pages 55 and 56)	Rewards long-term value creation via longer-term earnings, share price and dividend growth Rewards the delivery of total returns to shareholders	Three years	One half on earnings per share (EPS) growth compared with RPI growth One half on relative total shareholder return (TSR) compared with FTSE 100
Retirement benefits (see pages 52 and 63)	Positioned to ensure broad competitiveness with market practice	Not applicable	Not applicable

Pay and conditions across the Group

How pay and employment conditions across the Group are taken into account when setting the remuneration of the Executive Directors

The Group operates in a number of different environments and has many employees who carry out diverse jobs across a number of countries.

- All employees, including directors, are paid by reference to the market rate.
- Performance is measured and rewarded through a number of performance-related bonus schemes across the Group.
- Business unit performance measures are cascaded down through the organisation.
- The Group offers employment conditions which are commensurate with a large listed company, including high standards of health and safety and equal opportunities.
- The Group operates all-employee share plans which are open to all employees and Executive Directors alike.
- The Group offers a range of benefits which are available to everyone.

The Committee establishes base salaries for the Executive Directors and other senior executives, determined by individual performance and having regard to market salary levels for similar positions in comparable companies and wider pay awards across the Group. Base salaries are reviewed annually.

Base salary

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

In 2010, the Chief Executive was awarded a base salary increase of 3.8%. All other Executive Directors were awarded increases averaging between 2.0% and 8.9%.

No base salary increases will be awarded to the Executive Directors in the calendar year 2011, reflecting the current economic conditions.

Annual Incentive Scheme (AIS)

The AIS provides a focus on the delivery of the financial targets set out in the operating plan. It rewards the achievement of strategic priorities for the year that position the Group well for strong future performance and the delivery of HS&E and personal objectives.

Annual performance measures in 2010

The annual performance metrics used in the AIS in 2010 were designed to reward the delivery of our key strategic priorities for that year.

Architecture of annual incentives

Primary measure	**Group economic profit**
	+
Group/business unit	**Group/business unit economic profit** **Cost reduction** **Operating reliability** **Customer satisfaction**
	+
Health Safety & Environment	**Health Safety & Environment metric**
	+
Personal	**Personal objectives**

In 2010, the primary financial measure was EP growth and each business unit had a number of metrics focusing on their key strategic priorities for the year: cost reduction targets, operating reliability and customer satisfaction levels.

Further, each business unit head, Phil Bentley, Mark Hanafin, Chris Weston and the General Counsel & Company Secretary had an individual business unit target based on business unit EP growth. A separate HS&E metric for 2010 was applied to each of the above, as well as to the Chief Executive and a number of the executives immediately below Board level.

HS&E performance was assessed against a corporate responsibility scorecard that includes HS&E performance indicators and incident rates. If overall business performance, including HS&E performance is not deemed satisfactory, the individual's bonus for the year may be reduced or forfeited, at the discretion of the Committee.

Annual incentive opportunities in 2010

At the beginning of each year, the Committee reviews the AIS to ensure that the incentive opportunity remains competitive in the marketplace. There was no change to the target and maximum bonus opportunity for 2010. These, as well as the relative proportions of the components that made up the target bonus opportunity, were as follows:

Percentage bonus opportunities at target and maximum

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

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

Performance for 2010

The annual bonus outcomes of the 2010 AIS were determined by performance against each of the metrics used. Annual bonus outcomes in respect of 2010 performance, before the compulsory deferral into Centrica shares outlined below, ranged from 135% to 158% of base salary and between 181% and 195% of on-target performance, for the Executive Directors and Chief Executive. For 2011, the bonus opportunity for on-target performance will remain unchanged at 90% of base salary for the Chief Executive, and 75% of base salary for the other Executive Directors.

Deferral of annual incentives

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

Deferred and Matching Share Scheme (DMSS)

Assists with employee retention and incentivises the creation of long-term value for shareholders and delivery of sustained high performance.

Compulsory deferral

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

Voluntary deferral

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

Structure of deferrals

Compulsory deferral Part of AIS earned is automatically deferred into Centrica shares **Deferred shares**	**Voluntary deferral** Additional AIS may be deferred (up to 50% of the maximum AIS opportunity, including the compulsory deferral) **Investment shares**

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

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

Matching shares

Performance measures attaching to the DMSS awards

The performance conditions attaching to DMSS awards made for 2008, 2009 and 2010 are shown in the table below.

Vesting criteria 2009 and 2010	Performance condition over three-year period
Level at which shares are matched depends on growth in point-to-point EP performance	• 2 for 1 match for point-to-point EP growth of 25% or more • Zero match for no point-to-point EP growth • Vesting of matching shares will increase on a straight-line basis between these points
Vesting criteria 2008	
Level at which shares are matched depends on growth in cumulative EP performance	• 2 for 1 match for cumulative EP growth of 25% or more • Zero match for no cumulative EP growth • Vesting of matching shares will increase on a straight-line basis between these points

Share matching

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

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

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

For awards made in 2010 matched shares were structured as nil-cost options for all UK resident participants.

Long Term Incentive Scheme (LTIS)

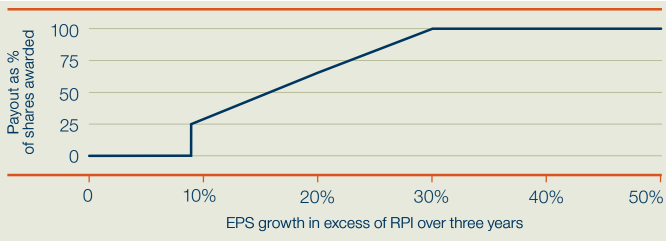
Rewards long-term value creation via longer-term earnings, share price and dividend growth, and the delivery of total returns to shareholders.

Under the LTIS conditional allocations of shares up to a maximum of 200% of base salary may be made to Executive Directors and other senior executives. In 2010, LTIS allocations equal to 200% of base salary were awarded to Executive Directors and, at lower levels, to other senior executives. The performance measures attaching to the LTIS awards made for 2008, 2009 and 2010 are shown in the table below.

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

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

EPS payout

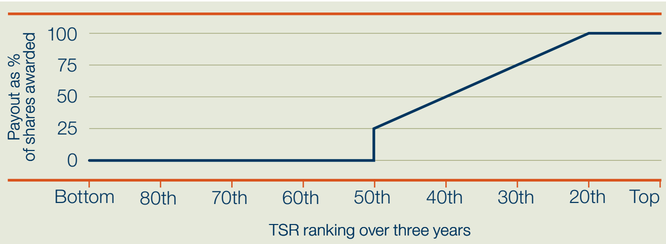


The maximum number of shares that could be transferred to each Executive Director upon satisfaction of the performance conditions appears on page 59.

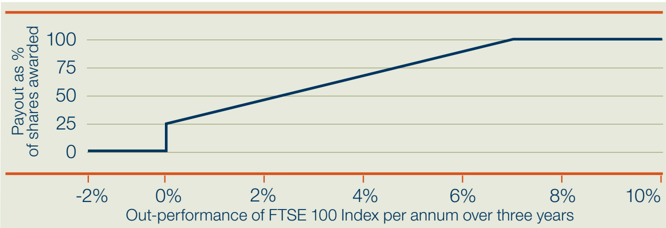
In assessing the extent to which the performance conditions have been met, the Committee uses data provided by Alithos Limited (an independent third party) for comparative TSR performance and audited results for EPS performance. The TSR graph for the LTIS award that vested in April 2010 is shown on page 61.

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

TSR payout 2008 and 2009



TSR payout 2010



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

Details of the vesting for LTIS awards made in 2007 are included on page 61.

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

The measurement of TSR was amended in 2010 so that the Group's TSR would be measured as a percentage out-performance of the FTSE 100 Index. Vesting will increase on a straight-line basis between 25% and 100% for out-performance of between 0.1% and 7% per annum.

In respect of LTIS awards in 2010 these were structured as nil-cost options for all UK resident participants.

Executive Share Option Scheme (ESOS)

No grants of options under the ESOS were made during 2010. Details of options granted prior to 2010 and still held by Executive Directors are shown on page 62.

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

Funding of share schemes

It is the Company's intention to satisfy the requirements of its share schemes by a method best suited to the interests of the Company, either by acquiring shares in the market or, subject to institutional guidelines, issuing new shares or using shares held in treasury. To satisfy the release of shares under the DMSS and LTIS and to meet the requirements of the ESOS in 2010, newly-issued shares were used. Shares previously bought in the market are held in trust to satisfy outstanding allocations made under the DMSS (deferred and investment shares) and the Special Executive Share Option Scheme (SESOS).

Other employment benefits

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

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

All taxable benefits arising from employment by the Company have been included in the 'Benefits and other cash' column of the table shown on page 58.

Service contracts

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

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

In the case of new external appointments to the Board, the Committee retains a level of flexibility, as permitted by the Code, in order to attract and retain suitable candidates. It therefore reserves the right to offer contracts which contain an initial notice period in excess of one year, provided that at the end of the first such period the notice period reduces to one year. The Committee exercised this discretion in respect of the appointment of Mark Hanafin on 14 July 2008. His service contract contained a notice period of two years, which reduced to one year on the second anniversary of his date of appointment in 2010.

External appointments of Executive Directors

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

It is therefore the Company's policy to allow each Executive Director to accept one non-executive directorship of another company, although the Board retains the discretion to vary this policy. Fees received in respect of external appointments are retained by the individual Director.

In 2010, Phil Bentley received £15,083 as a non-executive director of Kingfisher plc until March 2010 and Nick Luff received £47,000 as a non-executive director of QinetiQ Group plc until 31 December 2010. Sam Laidlaw received £85,000 as a non-executive director of HSBC Holdings plc and from December 2010 was also appointed as lead non-executive director of the Department of Transport and has waived his right to receive a fee.

Non-Executive Directors

Remuneration policy for Non-Executive Directors

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

Fees

The fee levels for the Chairman and Non-Executive Directors, which had remained unchanged since 2007, were reviewed and increased in May 2010. The increases reflected the growing demands on Non-Executive Directors' time.

The annual fees payable to the Chairman and Non-Executive Directors are in the table below.

Base fees	2009	2010
Chairman	£450,000	£490,000
Non-Executive Directors	£60,000	£65,000
Additional fees		
Chairman of Audit Committee	£18,000	£23,000
Chairman of Remuneration Committee	£12,000	£20,000
Chairman of Corporate Responsibility Committee	£12,000	£20,000
Senior Independent Director	£20,000	£20,000

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

Terms of appointment

Non-Executive Directors (including the Chairman) do not have service contracts. Their appointment is subject to the Articles of Association and the dates they joined the Board are shown in the table on page 58. Sir Roger Carr's letter of appointment contains a six-month notice period. The Chairman's fees are reviewed and approved by the Remuneration Committee. The fees of the Non-Executive Directors are approved by the Executive Committee, whose current members are: the Executive Directors (Sam Laidlaw, Phil Bentley, Mark Hanafin, Nick Luff and Chris Weston) and three other senior executives (Grant Dawson, Catherine May and Anne Minto) all of whose biographies are included on pages 38 and 39.

Matters of reference from previous years

Recruitment to the Board in 2008

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

A one-off allocation was made to him under the Special Long Term Incentive Scheme (SLTIS) to replace awards from his previous employer, in accordance with the terms of his engagement. The SLTIS rules were based on the existing LTIS rules, subject only to continued employment. An allocation of shares was made to vest in two equal tranches which vested on 28 February 2009 and 2010 respectively.

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

Enlargement of roles in 2009

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

Statutory disclosures

Audit requirements

The Remuneration Report from page 50 to page 57 up to this statement has not been audited. From this point until the end of the Report on page 63, the disclosures, with the exception of the graphs on page 61, have been audited by the Company's auditors, PricewaterhouseCoopers LLP.

Directors' emoluments

	Date of appointment	Base salary/fees £000	Annual Incentive Scheme (AIS) £000 (i)	Cash payments in lieu of pension £000	Benefits and other cash £000 (ii)	**Total emoluments 2010 £000 (iii)**	Total emoluments 2009 £000 (iii) (iv)
Executive Directors							
Phil Bentley	13 September 2000	630	621	–	48	**1,299**	1,249
Mark Hanafin	14 July 2008	564	589	226	48	**1,427**	1,294
Sam Laidlaw	1 July 2006	941	900	124	80	**2,045**	2,011
Nick Luff	1 March 2007	598	590	225	20	**1,433**	1,267
Chris Weston (2009 six-month period)	1 July 2009	508	483	–	389	**1,380**	589
		3,241	3,183	575	585	**7,584**	6,410
Chairman							
Sir Roger Carr	1 January 2001	470	–	–	–	**470**	450
Non-Executive Directors							
Helen Alexander	1 January 2003	79	–	–	–	**79**	72
Mary Francis	22 June 2004	99	–	–	–	**99**	92
Andrew Mackenzie	1 September 2005	63	–	–	–	**63**	60
Ian Meakins (v)	1 October 2010	16	–	–	–	**16**	–
Paul Rayner	23 September 2004	83	–	–	–	**83**	78
Past Director	Date of leaving the Board						
Paul Walsh	11 May 2009	–	–	–	–	**–**	22
		810	–	–	–	**810**	774
Total emoluments		4,051	3,183	575	585	**8,394**	7,184

Notes on information shown in the table

(i) Of the AIS bonus agreed by the Committee in respect of Sam Laidlaw and the other Executive Directors, 60% and 70% respectively is paid in cash and is included above. 40% of the agreed bonus for Sam Laidlaw (£600,000) and 30% of the agreed bonus for each Executive Director (ranging between £207,116 and £266,090) is deferred automatically and will be invested as deferred shares in the DMSS – see pages 54 and 55.

(ii) Benefits and other cash include:
- benefits and expenses for Chris Weston made in respect of his relocation to Canada; and
- employee discounts received by directors of up to 25% in respect of British Gas services received during the year (in aggregate not more than £1,100 for any one individual).

(iii) The following are excluded from the table above
- £252,500 was paid directly by the Company in 2010 into a personal pension plan for Sam Laidlaw and is referred to on page 52.
- Pensions – see page 63.
- Share options – see page 62. The only Executive Director to exercise executive options during 2010 was Phil Bentley. The theoretical aggregate gain made was £2,692,697. Sam Laidlaw and Phil Bentley exercised Sharesave options during 2010. The theoretical aggregate gains made were £808 and £553 and the price of a Centrica share at the dates of exercise were 281.50 pence and 274.50 pence, respectively. During 2009, no executive options were exercised by Executive Directors. The theoretical aggregate gain made by Chris Weston in respect of the exercise of Sharesave options in 2009 was £2,004 and the price of a Centrica share at the date of exercise was 257.30 pence.
- LTIS and SLTIS – see page 61. The aggregate value of shares vested to Executive Directors under LTIS and SLTIS was £2,435,828 (2009: £2,000,486).
- DMSS – see page 60. The aggregate value of shares vested to Executive Directors under the DMSS was £2,852,299 (2009: £nil)

(iv) The 2009 total emoluments figure in respect of Chris Weston is for the period from 1 July 2009 (being his date of appointment to the Board) to 31 December 2009. Total emoluments for 2010 reflect a full year of service.

(v) The 2010 total emoluments figure in respect of Ian Meakins is for the period from 1 October 2010 (being his date of appointment to the Board) to 31 December 2010.

Directors' interests in shares (number of shares)

The following table and the tables on pages 60, 61 and 62 show the interests of the Directors who held office at the end of the year in the ordinary shares of the Company and, for the Executive Directors who served during the year, their interests in the Company's share schemes.

Directors as at 31 December 2010	**Shareholdings as at 31 December 2010**	Shareholdings as at 1 January 2010 or on later appointment (i)	**DMSS total matching shares as at 31 December 2010**	DMSS total matching shares as at 1 January 2010	**LTIS total allocations of shares as at 31 December 2010**	LTIS and SLTIS total allocations of shares as at 1 January 2010
Executive Directors						
Phil Bentley (ii) (iii)	**2,184,946**	1,279,084	**588,285**	482,190	**1,408,432**	1,310,632
Mark Hanafin (ii) (iii)	**319,259**	150,909	**599,594**	332,245	**1,229,137**	933,780
Sam Laidlaw (ii) (iii)	**1,859,419**	1,210,438	**1,707,182**	1,459,334	**2,129,974**	2,002,611
Nick Luff (ii) (iii)	**624,534**	509,604	**865,804**	774,139	**1,322,949**	1,220,397
Chris Weston (ii) (iii)	**552,344**	421,680	**652,367**	470,692	**1,043,752**	828,338
Chairman						
Sir Roger Carr	**26,441**	26,441	**–**	–	**–**	–
Non-Executive Directors						
Helen Alexander	**3,465**	3,465	**–**	–	**–**	–
Mary Francis	**3,500**	3,500	**–**	–	**–**	–
Andrew Mackenzie	**28,875**	28,875	**–**	–	**–**	–
Ian Meakins	**–**	–	**–**	–	**–**	–
Paul Rayner	**56,875**	26,875	**–**	–	**–**	–

Notes on information shown in the table

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

(ii) Executive Directors' shareholdings shown above include those held in the Share Incentive Plan and the deferred and investment shares held in the DMSS. Due to local tax laws in Canada, shareholdings for Chris Weston include 54,898 notional deferred shares allocated for 2010 under the DMSS. These shares will remain notional until the end of the three-year deferral period.

(iii) Matching shares held in the DMSS and shares held under the LTIS are provided separately in the table above and in more detail in their respective tables on pages 60 and 61. From 2010, matching shares awarded under the DMSS and shares awarded under the LTIS have been structured as nil-cost options for all UK resident participants.

From 1 January 2010 to 24 February 2011, none of the Directors had any interests in the securities of the Company's subsidiary or associated undertakings.

Changes since 1 January 2011

During the period from 1 January to 24 February 2011, the only changes to the Directors' interests in shares were in respect of shares acquired through the Share Incentive Plan: 113 shares in respect of Phil Bentley, Mark Hanafin, Nick Luff and Chris Weston and 114 shares in respect of Sam Laidlaw.

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

	Deferred and investment shares held as at 1 January 2010 (i)	Deferred and investment shares acquired during the year	Deferred shares released and investment shares transferred during the year	**Deferred and investment shares held as at 31 December 2010**	Conditional matching shares held as at 1 January 2010 (ii)	Conditional matching shares awarded during the year (ii)	Conditional matching shares vested during the year (iii)	**Conditional matching shares held as at 31 December 2010**
Phil Bentley								
2007	71,334	–	71,334	**–**	204,133	–	204,133	**–**
2008	51,312	–	–	**51,312**	105,859	–	–	**105,859**
2009	86,099	–	–	**86,099**	172,198	–	–	**172,198**
2010	–	126,745	–	**126,745**	–	310,228	–	**310,228**
	208,745	126,745	71,334	**264,156**	482,190	310,228	204,133	**588,285**
Mark Hanafin								
2009	113,519	–	–	**113,519**	332,245	–	–	**332,245**
2010	–	107,644	–	**107,644**	–	267,349	–	**267,349**
	113,519	107,644	–	**221,163**	332,245	267,349	–	**599,594**
Sam Laidlaw								
2007	115,980	–	115,980	**–**	306,021	–	306,021	**–**
2008	182,209	–	–	**182,209**	451,674	–	–	**451,674**
2009	282,574	–	–	**282,574**	701,639	–	–	**701,639**
2010	–	246,859	–	**246,859**	–	553,869	–	**553,869**
	580,763	246,859	115,980	**711,642**	1,459,334	553,869	306,021	**1,707,182**
Nick Luff								
2007	68,904	–	68,904	**–**	190,816	–	190,816	**–**
2008	91,926	–	–	**91,926**	226,536	–	–	**226,536**
2009	140,352	–	–	**140,352**	356,787	–	–	**356,787**
2010	–	114,084	–	**114,084**	–	282,481	–	**282,481**
	301,182	114,084	68,904	**346,362**	774,139	282,481	190,816	**865,804**
Chris Weston								
2007	34,192	–	34,192	**–**	70,541	–	70,541	**–**
2008	49,927	–	–	**49,927**	120,111	–	–	**120,111**
2009	109,241	–	–	**109,241**	280,040	–	–	**280,040**
2010	–	96,912	–	**96,912**	–	252,216	–	**252,216**
	193,360	96,912	34,192	**256,080**	470,692	252,216	70,541	**652,367**

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

	Date of allocation of deferred shares	Market price at date of allocation of deferred shares (pence)	Date of allocation of investment shares	Market price at date of allocation of investment shares (pence)	End of performance period
2008 (iv)	13 Oct 08	255.50	13 Oct 08	255.50	Apr 11
2009 (v)	03 Apr 09	221.75	26 May 09	248.25	Apr 12
2010 (vi)	06 Apr 10	296.89	06 Apr 10	296.89	Apr 13

Notes on information shown in the DMSS tables

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

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

(iii) DMSS conditional matching shares granted in April 2007 were subject to cumulative EP growth. As at 31 December 2009, the Company's cumulative EP growth over the three-year performance period was 44% and as a result the conditional matching shares vested in full on a two for one basis. Additional shares (26,933 for Phil Bentley, 40,376 for Sam Laidlaw, 25,176 for Nick Luff and 9,307 for Chris Weston) were released to reflect the value of dividends that would have been paid on the matching shares during the three-year performance period. On release, the deferred and matching shares were subject to income tax at the individual's marginal rate and employee's NICs at the rate of 1%, based on the market value of the shares on 6 April 2010 (296.89 pence) being the lower of the two dealing days immediately prior to and after the date of vesting which was not a dealing day. The income tax and NICs liability was satisfied by the sale of sufficient shares and accordingly, the Executive Directors only received the net number of shares following the sale along with the transfer of their investment shares, which to the extent retained, is reflected in the shareholdings as at 31 December 2010 on page 59.

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

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

(vi) In 2010 the award of matching shares were structured as nil-cost options for all UK resident participants. In respect of Chris Weston, who is based in Toronto, no deferred shares were acquired. Due to local tax laws, these must only be held as a notional entitlement. In this respect, 54,898 shares are included above.

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

	Vested during 2010		In performance period				
Date of allocation	4 Apr 07 (i) (ii)	26 Sep 08 (iii)	3 Apr 08 (iv)	1 Sep 08 (iv)	3 Apr 09 (iv)	9 Sep 09 (iv)	6 Apr 10 (iv) (v)
Phil Bentley	186,395	–	436,095	–	542,208	–	430,129
Mark Hanafin	–	101,602	–	372,382	467,268	–	389,487
Sam Laidlaw	289,489	–	679,774	–	806,700	–	643,500
Nick Luff	174,232	–	416,036	–	493,718	–	413,195
Chris Weston	73,601	–	269,680	–	330,614	98,000	345,458
Market price at allocation date	348.53p	290.88p	271.08p	292.00p	221.75p	257.40p	296.89p
End of performance period	3 Apr 10	28 Feb 10	2 Apr 11	31 Aug 11	2 Apr 12	8 Sep 12	5 Apr 13
Market price at vesting date	296.89p	279.70p					

Notes on information shown in the table

(i) LTIS awards made in April 2007 were subject to EPS and TSR performance conditions. As at 31 December 2009, the Company's EPS growth had exceeded RPI by 39% and as a result 99.1% of the EPS shares allocated vested for the Executive Directors in post at the time of allocation (Phil Bentley, Sam Laidlaw and Nick Luff) as a more stretching EPS target was set in respect of one quarter of the EPS shares. For Chris Weston, 100% of EPS shares vested. At the end of the performance period to 3 April 2010, the Company ranked 52nd against the FTSE 100 comparator group as constituted at the start of the performance period and as a result zero TSR shares vested. Consequently, overall 49.5% and 50% respectively of the original allocations were released on 4 April 2010.

(ii) Additional shares were released to reflect the value of the dividends that would have been paid over the respective three-year period. The total shares released were subject to income tax at the individual's marginal rate and employee's National Insurance contributions (NICs) at the rate of 1%, based on the market value of the shares at the date of vesting. The income tax and NICs liability was satisfied by the sale of sufficient shares and, accordingly, the Executive Directors only received the net number of shares following the sale, which, to the extent retained, is reflected in the shareholdings as at 31 December 2010 on page 59.

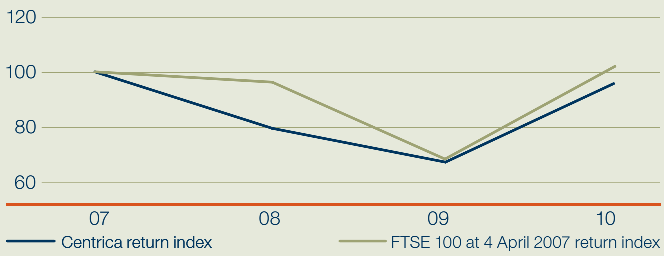
(iii) 188,260 shares (made in two equal tranches) were awarded to Mark Hanafin under SLTIS as part of the terms of his appointment in 2008. In accordance with the rules of the SLTIS there were no performance conditions attaching to the award other than continued employment with the Company. The second tranche of 94,130 shares were released on 1 March 2010 and were subject to the same income tax, NICs and dividend treatment as set out in note (ii) above.

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

(v) In respect of LTIS awards made in 2010, these were structured as nil-cost options for all UK resident participants.

TSR – three year comparator group

Centrica and FTSE 100 comparator companies at 4 April 2007



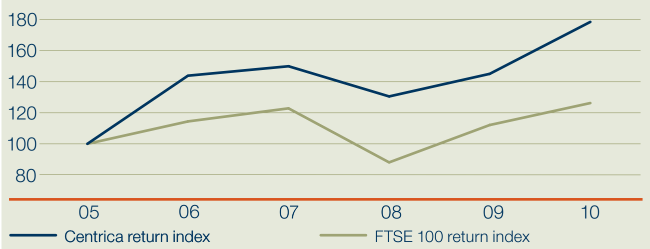
Source: Alithos Limited, 4 April 2007 = 100

This graph compares the Company's TSR performance with that of the relevant LTIS comparator group for the three-year period from 4 April 2007 to 3 April 2010 and relates to the April 2007 LTIS allocations which vested in 2010.

These graphs have been provided by Alithos Limited (an independent third party) and have not been audited by the Company's auditors, PricewaterhouseCoopers LLP.

TSR – five year FTSE 100 Index

Centrica and FTSE 100 Index



Source: Alithos Limited, 31 December 2005 = 100

This graph compares the Company's TSR performance with that of the FTSE 100 Index for the five years ended 31 December 2010 as required by Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. A rolling definition of the FTSE 100 has been used. This is not the same as the definition used for the purposes of the LTIS.

Directors' interests in share options

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

	Options held as at 1 January 2010	Options granted during the year	Options exercised during the year	Options lapsed during the year	**Options held as at 31 December 2010**	Exercise price (i)	Date from which exercisable	Expiry date
Phil Bentley								
ESOS	346,277	–	346,277	–	**–**	213.70	Jun 04	–
ESOS	409,744	–	409,744	–	**–**	200.12	Apr 05	–
ESOS	628,312	–	628,312	–	**–**	130.50	Mar 06	–
ESOS	451,426	–	451,426	–	**–**	199.36	Mar 07	–
ESOS	496,187	–	496,187	–	**–**	203.55	Apr 08	–
ESOS	417,642	–	417,642	–	**–**	253.80	Apr 09	–
Sharesave	3,643	–	3,643	–	**–**	259.32	Jun 10	–
Sharesave	–	3,977	–	–	**3,977**	228.16	Jun 13	Nov 13
	2,753,231	3,977	2,753,231	–	**3,977**			
Mark Hanafin								
SESOS	336,012	–	–	–	**336,012**	255.94	Sep 08	Sep 18
Sharesave	4,727	–	–	–	**4,727**	193.54	Jun 12	Nov 12
	340,739	–	–	–	**340,739**			
Sam Laidlaw								
Sharesave	3,643	–	3,643	–	**–**	259.32	Jun 10	–
Sharesave	–	3,977	–	–	**3,977**	228.16	Jun 13	Nov 13
	3,643	3,977	3,643	–	**3,977**			
Nick Luff								
Sharesave	7,392	–	–	–	**7,392**	227.24	Jun 13	Nov 13
Chris Weston								
ESOS	112,330	–	–	–	**112,330**	130.50	Mar 06	Mar 13
ESOS	120,379	–	–	–	**120,379**	199.36	Mar 07	Mar 14
ESOS	130,187	–	–	–	**130,187**	203.55	Apr 08	Mar 15
ESOS	267,920	–	–	–	**267,920**	253.80	Apr 09	Apr 16
Sharesave	4,727	–	–	–	**4,727**	193.54	Jun 12	Nov 12
	635,543	–	–	–	**635,543**			

(i) Where appropriate, exercise prices were adjusted to take account of the dilutive effect of the Rights Issue in 2008.

Executive Share Option Scheme (ESOS)

- Options were granted to the Executive Directors under the terms of the ESOS on 31 May 2001, 2 April 2002, 24 March 2003, 18 March 2004, 1 April 2005 and 3 April 2006.
- No options were granted under the ESOS in 2007, 2008, 2009 and 2010.
- The performance criteria have now been met in respect of all of the outstanding grants under ESOS, and the Executive Directors have a 10 year period from each date of grant during which they can exercise their options.

Special Executive Share Option Scheme (SESOS)

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

Sharesave Scheme

- Options were granted to the Executive Directors under the terms of the Sharesave Scheme on 4 April 2007, 3 April 2008, 7 April 2009 and 6 April 2010.

The closing price of a Centrica ordinary share on the last trading day of 2010, which was 31 December 2010, was 331.60 pence. The range during the year was 263.90 pence (low) and 346.10 pence (high).

Directors' pensions

Of the five Executive Directors who served during 2010, Phil Bentley and Chris Weston are members of the Centrica Pension Plan (CPP). Mark Hanafin, Sam Laidlaw and Nick Luff, who all joined the Company in recent years, are not members of any of Centrica's pension schemes.

Centrica Pension Plan (CPP)

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

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

Centrica Unfunded Pension Scheme (CUPS)

All registered scheme benefits are subject to HMRC guidelines. As a result of the changes introduced by Centrica following the 2004 Finance Act, benefits at 6 April 2006 from the registered scheme, the CPP, could not exceed the Lifetime Allowance (£1.8 million for the 2010/11 tax year) after taking account of retained benefits from all other sources notified to Centrica at this time. The CUPS provides any additional benefits in excess of the maximum amount that could be provided through the CPP on the members' uncapped pensionable earnings. The benefits that arise under CUPS are treated as being subject to the same rules that apply in respect of the registered portion of members' benefits. No individuals will receive benefits from Centrica which, when added to their retained benefits elsewhere at 6 April 2006, exceed two-thirds of their final pensionable earnings. CUPS is unfunded but the benefits are secured by a charge over certain Centrica assets. An appropriate provision in respect of the accrued value of these benefits has been made in the Company's Balance Sheet.

Pension benefits earned by Directors in the CPP and CUPS

	Accrued pension as at 31 December 2010 £	Accrued pension as at 31 December 2009 £	Increase in accrued pension less inflation £	**Transfer value as at 31 December 2010 £**	Transfer value as at 31 December 2009 £	**Contributions paid in 2010 £**	Difference in transfer value less contributions £	Transfer value of increase in accrued pension excluding inflation £
Phil Bentley	**191,500**	168,800	14,935	**3,124,600**	2,246,800	**37,800**	840,000	199,200
Chris Weston	**102,500**	87,300	11,184	**1,352,500**	876,600	**30,450**	445,450	116,700

Notes on information shown in the table

(i) The accrued pension is that which would be paid annually on retirement at age 62, based on eligible service to, and pensionable earnings at, 31 December 2010. The pension accrual rates for 2010 for Phil Bentley and Chris Weston were 2.65% and 2.22% of final pensionable earnings respectively.

(ii) The increase in accrued pension has been adjusted to exclude inflation by revaluing the accrued pension as at 31 December 2009 by the rate of inflation (4.6%) and deducting this from the accrued pension as at 31 December 2010. The rate of inflation used was 4.6%, the annual rate to 30 September 2010, the date used for pension increases under both the CPP and CUPS.

(iii) The change in the transfer value calculation basis was also introduced in August 2010. Had the transfer value been calculated on the accrued pension at 31 December 2010 but using the calculation basis in force at 31 December 2009, the transfer value of the accrued pension would have amounted to £2,709,700 for Phil Bentley and £1,118,600 for Chris Weston. The difference in the transfer value less contributions would have amounted to £425,100 for Phil Bentley and £211,550 for Chris Weston.

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

Grant Dawson
General Counsel & Company Secretary
24 February 2011

Independent Auditors' Report to the members of Centrica plc

We have audited the Group Financial Statements of Centrica plc for the year ended 31 December 2010 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 48, the Directors are responsible for the preparation of the Group Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements.

Opinion on Financial Statements

In our opinion the Group Financial Statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 48, in relation to going concern;
- the part of the Corporate Governance Report relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent Company Financial Statements of Centrica plc for the year ended 31 December 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

John Maitland
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 February 2011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Year ended 31 December	Notes	2010 Business performance £m	2010 Exceptional items and certain re-measurements £m	2010 Results for the year £m	2009 Business performance £m	2009 Exceptional items and certain re-measurements £m	2009 Results for the year £m
Group revenue	6	**22,423**	**–**	**22,423**	21,963	–	21,963
Cost of sales before exceptional items and certain re-measurements	7	**(17,595)**	**–**	**(17,595)**	(17,663)	–	(17,663)
Exceptional items	9	**–**	**(102)**	**(102)**	–	(393)	(393)
Re-measurement of energy contracts	9	**–**	**1,177**	**1,177**	–	(62)	(62)
Cost of sales	7	**(17,595)**	**1,075**	**(16,520)**	(17,663)	(455)	(18,118)
Gross profit		**4,828**	**1,075**	**5,903**	4,300	(455)	3,845
Operating costs before exceptional items	7	**(2,641)**	**–**	**(2,641)**	(2,496)	–	(2,496)
Exceptional items	9	**–**	**(181)**	**(181)**	–	(175)	(175)
Operating costs		**(2,641)**	**(181)**	**(2,822)**	(2,496)	(175)	(2,671)
Share of profits/(losses) in joint ventures and associates, net of interest and taxation	9, 19	**7**	**(14)**	**(7)**	10	(9)	1
Group operating profit	6	**2,194**	**880**	**3,074**	1,814	(639)	1,175
Interest income	10	**214**	**–**	**214**	307	–	307
Interest expense	10	**(479)**	**–**	**(479)**	(486)	–	(486)
Net interest expense	10	**(265)**	**–**	**(265)**	(179)	–	(179)
Profit/(loss) from continuing operations before taxation		**1,929**	**880**	**2,809**	1,635	(639)	996
Taxation on profit/(loss) from continuing operations	11	**(708)**	**(221)**	**(929)**	(531)	185	(346)
Profit/(loss) from continuing operations after taxation		**1,221**	**659**	**1,880**	1,104	(454)	650
Profit/(loss) from discontinued operations	9, 38	**(8)**	**67**	**59**	40	(131)	(91)
Gain on disposal of discontinued operations	9, 38	**3**	**–**	**3**	–	297	297
Discontinued operations	38	**(5)**	**67**	**62**	40	166	206
Profit/(loss) for the year		**1,216**	**726**	**1,942**	1,144	(288)	856
Attributable to:							
Equity holders of the parent		**1,209**	**726**	**1,935**	1,094	(250)	844
Non-controlling interests	33	**7**	**–**	**7**	50	(38)	12
		1,216	**726**	**1,942**	1,144	(288)	856

Earnings per ordinary share	Notes	2010 Pence	2009 Pence
From continuing and discontinued operations:			
Basic	14	**37.6**	16.5
Diluted	14	**37.3**	16.4
From continuing operations:			
Basic	14	**36.4**	12.7
Diluted	14	**36.1**	12.6
Interim dividend paid per ordinary share	12	**3.84**	3.66
Final dividend proposed per ordinary share	12	**10.46**	9.14

The notes on pages 71 to 141 form part of these Financial Statements.

Year ended 31 December	Notes	2010 £m	2009 £m
Profit for the year		**1,942**	856
Other comprehensive (losses)/income:			
(Losses)/gains on revaluation of available-for-sale securities	31	**(4)**	11
Taxation on revaluation of available-for-sale securities	31	**(1)**	(2)
		(5)	9
Unrealised gains/(losses) on cash flow hedges	31	**10**	(253)
Transferred to income and expense on cash flow hedges	31	**236**	234
Transferred to assets and liabilities on cash flow hedges	31	**19**	(4)
Recycling of foreign exchange gains on cash flow hedges on disposal of business	31	**9**	10
Exchange differences on cash flow hedges	31	**(8)**	–
Taxation on cash flow hedges	31	**(79)**	(12)
		187	(25)
Exchange differences on translation of foreign operations	31	**70**	83
Recycling of foreign exchange loss on disposal of business	31	**(1)**	(10)
Taxation on related exchange differences	31	**14**	(41)
		83	32
Actuarial losses on defined benefit pension schemes	31	**(9)**	(805)
Actuarial gain on defined benefit schemes of discontinued operations	31	**–**	2
Exchange loss on translation of actuarial reserve	31	**(1)**	–
Taxation on actuarial losses on defined benefit pension schemes	31	**(2)**	241
		(12)	(562)
Share of joint ventures/associates actuarial gain (post tax)	19	**14**	–
Share of joint ventures/associates cash flow hedge reserve gain (post tax)	19	**1**	–
		15	–
Other comprehensive income/(loss), net of taxation		**268**	(546)
Total comprehensive income for the year		**2,210**	310
Attributable to:			
Equity holders of the parent		**2,203**	297
Non-controlling interests	33	**7**	13
		2,210	310

The notes on pages 71 to 141 form part of these Financial Statements.

31 December	Notes	2010 £m	2009 £m
Non-current assets			
Goodwill	15	**2,370**	2,088
Other intangible assets	16	**1,084**	734
Property, plant and equipment	18	**6,398**	6,059
Interests in joint ventures and associates	19	**2,507**	2,422
Deferred tax assets	27	**238**	534
Trade and other receivables	21	**97**	143
Derivative financial instruments	22	**341**	316
Securities	29	**234**	176
		13,269	12,472
Current assets			
Inventories	20	**344**	382
Current tax assets	27	**81**	69
Trade and other receivables	21	**4,187**	4,181
Derivative financial instruments	22	**449**	492
Securities	29	**23**	74
Cash and cash equivalents	24	**467**	1,294
		5,551	6,492
Assets of disposal groups classified as held for sale	38	**455**	478
Total assets		**19,275**	19,442
Current liabilities			
Trade and other payables	25	**(4,059)**	(3,955)
Current tax liabilities		**(182)**	(184)
Bank overdrafts, loans and other borrowings	26	**(77)**	(86)
Derivative financial instruments	22	**(755)**	(1,744)
Provisions for other liabilities and charges	28	**(195)**	(193)
		(5,268)	(6,162)
Net current assets		**283**	330
Non-current liabilities			
Trade and other payables	25	**(56)**	(82)
Bank overdrafts, loans and other borrowings	26	**(3,959)**	(4,594)
Derivative financial instruments	22	**(648)**	(1,006)
Deferred tax liabilities	27	**(1,367)**	(1,179)
Retirement benefit obligations	36	**(239)**	(565)
Provisions for other liabilities and charges	28	**(1,551)**	(1,249)
		(7,820)	(8,675)
Liabilities of disposal groups classified as held for sale	38	**(368)**	(350)
Net assets		**5,819**	4,255
Equity			
Called up share capital	30	**318**	317
Share premium account		**833**	778
Retained earnings		**4,386**	3,103
Accumulated other comprehensive loss	31	**(319)**	(587)
Other equity	32	**601**	581
Total shareholders' equity		**5,819**	4,192
Non-controlling interests in equity	33	**–**	63
Total non-controlling interests and shareholders' equity		**5,819**	4,255

The Financial Statements on pages 66 to 141 were approved and authorised for issue by the Board of Directors on 24 February 2011 and were signed below on its behalf by:

Sam Laidlaw
Chief Executive

Nick Luff
Group Finance Director

The notes on pages 71 to 141 form part of these Financial Statements.

Year ended 31 December 2010	Share capital (note 30) £m	Share premium £m	Retained earnings £m	Accumulated other comprehensive (loss)/income (note 31) £m	Other equity (note 32) £m	**Total £m**	Non-controlling interests (note 33) £m	**Total equity £m**
	Attributable to equity holders of the parent							
1 January 2010	317	778	3,103	(587)	581	**4,192**	63	**4,255**
Profit for the year	–	–	1,935	–	–	**1,935**	7	**1,942**
Other comprehensive income	–	–	–	268	–	**268**	–	**268**
Total comprehensive income	–	–	1,935	268	–	**2,203**	7	**2,210**
	317	778	5,038	(319)	581	**6,395**	70	**6,465**
Employee share schemes	1	55	16	–	(3)	**69**	–	**69**
Liquidation of subsidiaries (i)	–	–	–	–	–	**–**	(70)	**(70)**
Dividends	–	–	(668)	–	–	**(668)**	–	**(668)**
Taxation	–	–	–	–	20	**20**	–	**20**
Exchange adjustments	–	–	–	–	3	**3**	–	**3**
31 December 2010	**318**	**833**	**4,386**	**(319)**	**601**	**5,819**	**–**	**5,819**

Year ended 31 December 2009	Share capital (note 30) £m	Share premium £m	Retained earnings £m	Accumulated other comprehensive (loss)/income (note 31) £m	Other equity (note 32) £m	Total £m	Non-controlling interests (note 33) £m	Total equity £m
	Attributable to equity holders of the parent							
1 January 2009	315	729	2,759	(40)	549	4,312	60	4,372
Profit for the year	–	–	844	–	–	844	12	856
Other comprehensive (loss)/income	–	–	–	(547)	–	(547)	1	(546)
Total comprehensive income	–	–	844	(547)	–	297	13	310
	315	729	3,603	(587)	549	4,609	73	4,682
Employee share schemes	2	49	9	–	3	63	–	63
Amounts arising on consolidation (ii)	–	–	–	–	144	144	802	946
Repurchase of non-controlling interests	–	–	–	–	–	–	(201)	(201)
Disposal of Segebel S.A. (iii)	–	–	126	–	(126)	–	(589)	(589)
Dividends paid by subsidiaries	–	–	–	–	–	–	(11)	(11)
Dividends	–	–	(635)	–	–	(635)	–	(635)
Taxation	–	–	–	–	12	12	–	12
Exchange adjustments	–	–	–	–	(1)	(1)	(11)	(12)
31 December 2009	317	778	3,103	(587)	581	4,192	63	4,255

(i) On 14 May 2010 GF Two Limited (formerly Goldfish Holdings Limited) and its subsidiary, GF One Limited (formerly Goldfish Bank Limited), both non-trading entities were put into liquidation.
(ii) Gains on revaluation of previously held investments, as revalued on full consolidation, and recognition of non-controlling interests.
(iii) Transfer of revaluation gain on Segebel S.A. to retained earnings and de-recognition of non-controlling interests following the disposal.

The notes on pages 71 to 141 form part of these Financial Statements.

Year ended 31 December	Notes	2010 £m	2009 £m
Cash generated from continuing operations	34	**3,445**	3,082
Income taxes paid		**(412)**	(329)
Net petroleum revenue tax paid		**(128)**	(174)
Interest received		**5**	13
Interest paid		**(11)**	(3)
Payments relating to exceptional charges		**(223)**	(203)
Net cash flow from continuing operating activities	34	**2,676**	2,386
Net cash flow from discontinued operating activities	34	**7**	261
Net cash flow from operating activities		**2,683**	2,647
Purchase of Venture Production plc net of cash and cash equivalents acquired		**–**	(1,115)
Purchase of other businesses net of cash and cash equivalents acquired	37	**(606)**	(438)
Sale of businesses net of cash and cash equivalents disposed of		**9**	870
Purchase of intangible assets	6,34	**(661)**	(604)
Disposal and surrender of intangible assets		**15**	43
Purchase of property, plant and equipment	6	**(547)**	(594)
Disposal of property, plant and equipment		**32**	–
Investments in joint ventures and associates		**(149)**	(2,291)
Dividends received from joint ventures and associates	19	**83**	–
Repayments of loans to, and disposal of investments in, joint ventures and associates	19	**26**	18
Interest received		**19**	31
Net purchase of securities		**(56)**	(128)
Net cash flow from continuing investing activities		**(1,835)**	(4,208)
Net cash flow from discontinued investing activities		**(4)**	(312)
Net cash flow from investing activities		**(1,839)**	(4,520)
Issue of ordinary share capital	30	**31**	30
Purchase of treasury shares		**(9)**	(5)
Financing interest paid		**(292)**	(238)
Cash inflow from additional debt		**267**	1,887
Cash outflow from payment of capital element of finance leases		**(23)**	(22)
Cash outflow from repayment of other debt		**(928)**	(872)
Net cash flow from (reduction)/increase in debt	34	**(684)**	993
Realised net foreign exchange loss on cash settlement of derivative contracts		**(55)**	(2)
Equity dividends paid	12	**(668)**	(635)
Net cash flow from continuing financing activities		**(1,677)**	143
Net cash flow from discontinued financing activities		**–**	161
Net cash flow from financing activities		**(1,677)**	304
Net decrease in cash and cash equivalents		**(833)**	(1,569)
Cash and cash equivalents at 1 January		**1,285**	2,904
Effect of foreign exchange rate changes		**(1)**	(50)
Cash and cash equivalents at 31 December		**451**	1,285
Included in the following lines of the Balance Sheet:			
Cash and cash equivalents	24	**467**	1,294
Bank overdrafts, loans and other borrowings		**(19)**	(28)
Assets of disposal groups classified as held for sale	38	**3**	19
		451	1,285

The notes on pages 71 to 141 form part of these Financial Statements.

1. General information

Centrica plc is a Company domiciled and incorporated in the UK. The address of the registered office is given on page 49. The nature of the Group's operations and principal activities are set out in note 6 and in the Directors' Report – Business Review on pages 4 to 36.

The consolidated Financial Statements of Centrica plc are presented in pounds sterling. Operations and transactions conducted in currencies other than pounds sterling are included in the consolidated Financial Statements in accordance with the foreign currencies accounting policy set out in note 2.

2. Summary of significant accounting policies

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

Basis of preparation

The consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation and the Companies Act 2006.

The consolidated Financial Statements have been prepared on the historical cost basis, except for derivative financial instruments, available-for-sale financial assets, financial instruments designated as at fair value through profit or loss on initial recognition, and the assets and liabilities of the Group pension schemes that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged. The principal accounting policies adopted are set out below.

The preparation of Financial Statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It requires management to exercise its judgement in the processes of applying the Group's accounting policies. The areas involving a higher degree of judgement, complexity or areas where assumptions and estimates are significant to the consolidated Financial Statements are described in note 3.

(a) Standards, amendments and interpretations effective in 2010

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

- IFRS 3 (revised), Business Combinations. The revised standard applies to business combinations completing on or after 1 January 2010 with no requirement to restate previous business combinations. The revised standard continues to apply the acquisition method to business combinations with some significant changes. For example, all payments to purchase a business are recorded at fair value at acquisition date, with contingent consideration payments classified as a liability and subsequently re-measured through the Group Income Statement. All acquisition related costs are expensed. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at either fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The Group's business combinations executed during the year are set out in note 37. There has been no material impact to the Group's Financial Statements on adopting IFRS 3 (revised).
- IAS 27 (revised), Consolidated and Separate Financial Statements. As the Group has adopted IFRS 3 (revised) it is required to adopt IAS 27 (revised) at the same time, which applies prospectively for transactions occurring after 1 January 2010. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control, and such transactions no longer result in goodwill or gains and losses arising. The revised standard also specifies the accounting when control is lost. In such instances any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. During the year the Group disposed of a 50% interest in Lincs Windfarm Limited, formerly known as Centrica (Lincs) Limited, as set out in note 38, such that the Group no longer has a controlling interest.

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

- IFRIC 17, Distributions of Non-cash Assets to Owners;
- IAS 39 (amendment), Financial Instruments: Recognition and Measurement – Eligible Hedged Items;
- IFRS 2 (amendment), Share-based Payment – Group Cash-settled Share-based Payment Transactions; and
- Improvements to IFRSs (2009).

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

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

- IFRS 9, Financial Instruments, effective for annual periods beginning on or after 1 January 2013, subject to EU endorsement. The standard is part of a wider project to replace IAS 39, Financial Instruments: Recognition and Measurement. The impact of adopting this standard is under assessment.

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

- IAS 32 (Amendment), Classification of Rights Issues, effective for annual periods commencing on or after 1 February 2010;
- IFRIC 14 (Amendment), Prepayments of a Minimum Funding Requirement, effective for annual periods beginning on or after 1 January 2011;
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments, effective for annual periods beginning on or after 1 July 2010;
- IAS 24 (Revised), Related Party Disclosures, effective for annual periods beginning on or after 1 January 2011;
- Amendments to IFRS 7 Financial Instruments: Disclosures, effective for annual periods beginning on or after 1 July 2011, subject to EU endorsement;
- Amendment to IAS 12 Income Taxes, effective for annual periods beginning on or after 1 January 2012, subject to EU endorsement; and
- Improvements to IFRSs 2010, effective for annual periods beginning on or after 1 January 2011, subject to EU endorsement.

2. Summary of significant accounting policies continued

(c) Income Statement presentation

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

(i) Certain re-measurements

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

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

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

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

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

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

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

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

(ii) Exceptional items

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

(d) Use of adjusted profit measures

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

The measure of operating profit used by management to evaluate segment performance is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements and before depreciation resulting from fair value uplifts to property, plant and equipment on the acquisition of Strategic Investments, as described below. Additionally, adjusted operating profit includes the Group's share of the results from joint ventures and associates before interest and taxation. Note 6 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 earnings before exceptional items net of taxation, certain re-measurements net of taxation and depreciation of fair value uplifts to property, plant and equipment on the acquisition of Strategic Investments net of taxation. A reconciliation of earnings to adjusted earnings is provided in note 14.

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

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

2. Summary of significant accounting policies continued

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

The Group has two Strategic Investments for which reported profits before certain re-measurements and exceptional items have been adjusted in arriving at adjusted profit and adjusted earnings per share. These Strategic Investments relate to the acquisition of Venture Production plc ('Venture'), the operating results of which are included within the Upstream UK – Upstream gas and oil segment, and the acquisition of the 20% interest in Lake Acquisitions Limited ('British Energy'), which owns the British Energy Group, the results (net of taxation and interest) of which are included within the Upstream UK – Power generation segment.

(i) Venture

The Group acquired a controlling interest in Venture in 2009. Significant adjustments have been made to the acquired property, plant and equipment 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 property, plant and equipment at their acquisition-date fair values is included in overall reported profit for the year, the Directors have reversed the earnings impact of the increased depreciation and related taxation resulting from fair value uplifts to the acquired oil and gas interests in order to arrive at adjusted profit from continuing operations after taxation.

(ii) British Energy

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

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

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

Basis of consolidation

The Group Financial Statements consolidate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries) up to 31 December each year, and incorporate the results of its share of jointly controlled entities and associates using the equity method of accounting.

Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the Financial Statements of subsidiaries, associates and jointly-controlled entities to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated upon consolidation.

A change in the ownership interest of a subsidiary, without loss of control is accounted for as an equity transaction. For purchases of non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals of non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as a joint venture, associate or financial asset.

Interests in joint ventures

A jointly controlled entity is a joint venture which involves the establishment of an entity to engage in economic activity, which the Group controls jointly with its fellow venturers. Under the equity method, investments in jointly controlled entities are carried at cost plus post-acquisition changes in the Group's share of net assets of the jointly controlled entity, less any impairment in value in individual investments. The Income Statement reflects the Group's share of the results of operations after tax of the jointly controlled entity.

Certain exploration and production activity is conducted through joint ventures, where the venturers have a direct interest in and jointly control the assets of the venture. The results, assets, liabilities and cash flows of these jointly controlled assets are included in the consolidated Financial Statements in proportion to the Group's interest.

Interests in associates

An associate is an entity in which the Group has an equity interest and over which it has the ability to exercise significant influence. Under the equity method, investments in associates are carried at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in value in individual investments. The Income Statement reflects the Group's share of the results of the associate, which is net of interest and taxation and presents this as a single line item in arriving at Group operating profit on the face of the Income Statement.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably. Revenue includes amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates, VAT and other sales-related taxes.

Energy supply: Revenue is recognised on the basis of energy supplied during the year. Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity is estimated using historical consumption patterns, taking into account the industry reconciliation process for

2. Summary of significant accounting policies continued

total gas and total electricity usage by supplier, and is included in accrued energy income within trade and other receivables.

Proprietary energy trading: Revenue comprises both realised (settled) and unrealised (fair value changes) net gains and losses from trading in physical and financial energy contracts.

Home services and fixed-fee service contracts: Revenue from fixed-fee service contracts is recognised in the Income Statement with regard to the incidence of risk over the life of the contract, reflecting the seasonal propensity of claims to be made under the contracts and the benefits receivable by the customer, which span the life of the contract as a result of emergency maintenance being available throughout the contract term.

Amounts paid in advance greater than recognised revenue are treated as deferred income, with any paid in arrears recognised as accrued income. For one-off services, such as installations, revenue is recognised at the date of service provision.

Storage services: Storage capacity revenues are recognised evenly over the contract period, whilst commodity revenues for the injection and withdrawal of gas are recognised at the point of gas flowing into or out of the storage facilities. Gas purchases and gas sales transactions entered into to optimise the performance of the gas storage facilities are presented net within revenue.

Gas production: Revenue associated with exploration and production sales (of natural gas, crude oil and condensates) is recognised when title passes to the customer. Revenue from the production of natural gas, oil and condensates in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production-sharing arrangements (the entitlement method). Where differences arise between production sold and the Group's share of production, this is accounted for as an overlift or underlift (see separate accounting policy). Gas purchases and gas sales entered into to optimise the performance of gas production facilities are presented net within revenue.

Power generation: Revenue is recognised on the basis of power supplied during the period. Power purchases and sales entered into to optimise the performance of power generation facilities are presented net within revenue.

Interest income: Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

Cost of sales

Energy supply includes the cost of gas and electricity produced and purchased during the year taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and related transportation, distribution, royalty costs and bought-in materials and services.

Home services' and fixed-fee service contracts' cost of sales includes direct labour and related overheads on installation work, repairs and service contracts in the year.

Segmental reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to and regularly reviewed by the Group's Executive Committee for the purposes of evaluating segment performance and allocating resources.

Borrowing costs

Borrowing costs that arise in connection with the acquisition, construction or production of a qualifying asset are capitalised and subsequently amortised in line with the depreciation of the related asset. Borrowing costs are capitalised from the time of acquisition or from the beginning of construction or production until the point at which the qualifying asset is ready for use. Where a specific financing arrangement is in place, the specific borrowing rate for that arrangement is applied. For non-specific financing arrangements, a Group financing rate representative of the weighted average borrowing rate of the Group is used. Borrowing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

Carbon Emissions Reduction Target programme (CERT)

UK-licensed energy suppliers are set a carbon emission reduction target by the Government which is proportional to the size of their customer base. The current CERT programme runs from April 2008 to March 2011. The target is subject to an annual adjustment throughout the programme period to take account of changes to a UK-licensed energy supplier's customer base. Energy suppliers can meet the target through expenditure on qualifying projects which give rise to carbon savings. The carbon savings can be transferred between energy suppliers. The Group charges the costs of the programme to cost of sales and capitalises costs incurred in deriving carbon savings in excess of the annual target as inventory, which is valued at the lower of cost and net realisable value and which may be used to meet the carbon emissions reduction target in subsequent periods or sold to third parties. The inventory is carried on a first-in, first-out basis. The carbon emission reduction target for the programme period is allocated to reporting periods on a straight-line basis as adjusted by the annual determination process.

Employee share schemes

The Group operates a number of employee share schemes, detailed in the Remuneration Report on pages 50 to 63 and in note 35, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured using methods appropriate to each of the different schemes as follows:

LTIS: EPS awards after 2005	Market value on the date of grant
LTIS: TSR awards after 2005	A Monte Carlo simulation to predict the total shareholder return performance
Sharesave	Black-Scholes
ESOS	Black-Scholes using an adjusted option life assumption to reflect the possibility of early exercise
SAS, SIP, DMSS, RSS, ESPP and DBP	Market value on the date of grant

Foreign currencies

The consolidated Financial Statements are presented in pounds sterling, which is the functional currency of the Company and the Group's presentational currency. Each entity in the Group determines its own functional currency and items included in the Financial Statements of each entity are measured using that functional currency. Transactions in foreign currencies are, on initial recognition, recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are included in the Income Statement for the period, with the exception of exchange differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal or partial disposal of the net investment, at which time they are recognised in the Income Statement. Non-monetary items that are measured in terms of historical cost in a currency other than the functional currency

2. Summary of significant accounting policies continued

of the entity concerned are translated using the exchange rates as at the dates of the initial transactions.

For the purpose of presenting consolidated Financial Statements, the assets and liabilities of the Group's foreign subsidiary undertakings, jointly controlled entities and associates are translated into pounds sterling at exchange rates prevailing on the balance sheet date. The results of foreign subsidiary undertakings, jointly controlled entities and associates are translated into pounds sterling at average rates of exchange for the relevant period. Exchange differences arising from the retranslation of the opening net assets and results for the year are transferred to the Group's foreign currency translation reserve, a separate component of equity, and are reported in the Statement of Comprehensive Income. In the event of the disposal of an undertaking with assets and liabilities denominated in a foreign currency, the cumulative translation difference arising in the foreign currency translation reserve is charged or credited to the Income Statement on disposal.

Exchange differences on foreign currency borrowings, foreign currency swaps and forward exchange contracts used to hedge foreign currency net investments in foreign subsidiary undertakings, jointly controlled entities and associates are taken directly to reserves and are reported in the Statement of Comprehensive Income. All other exchange movements are recognised in the Income Statement for the year.

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the cash paid and the aggregate of the fair values, at the date of exchange, of other assets transferred, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (revised), Business Combinations, are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on a business combination represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, jointly controlled entity or associate at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the Income Statement.

On an acquisition by acquisition basis, the interest of non-controlling shareholders in the acquiree is measured initially either at the non-controlling shareholders' proportion of the net fair value of the assets, liabilities and contingent liabilities recognised or at fair value.

Goodwill, which is recognised as an asset, is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Any impairment is recognised immediately in the Income Statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units that expect to benefit from the business combination in which the goodwill arose. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit or groups of cash-generating units is less than the carrying amount of the unit, the impairment loss is recognised immediately in the Income Statement and allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment is not subsequently reversed.

On disposal of a subsidiary, associate or joint venture entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include emissions trading schemes, renewable obligation certificates, certain exploration and evaluation expenditures, brands and application software, the accounting policies for which are dealt with separately below. For purchased application software, for example investments in customer relationship management and billing systems, cost includes contractors' charges, materials, directly-attributable labour and directly-attributable overheads.

Capitalisation begins when expenditure for the asset is being incurred and activities necessary to prepare the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Amortisation commences at the point of commercial deployment. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for on a prospective basis by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from their use.

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the intangible asset may be impaired, either individually or at the cash-generating unit level, such intangibles are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The amortisation period for the principal categories of intangible assets are as follows:

Application software	up to 10 years
Licences	up to 20 years
Consents	up to 25 years
Contractual customer relationships	up to 20 years
Identifiable acquired brand	Indefinite

EU Emissions Trading Scheme and renewable obligations certificates

Granted carbon dioxide emissions allowances received in a period are recognised initially at nominal value (nil value). Purchased carbon dioxide emissions allowances are recognised initially at cost (purchase price) within intangible assets. A liability is recognised when the level of emissions exceeds the level of allowances granted. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then

2. Summary of significant accounting policies continued

at the market price of allowances ruling at the balance sheet date, with movements in the liability recognised in operating profit.

Forward contracts for the purchase or sale of carbon dioxide emissions allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the Income Statement. The intangible asset is surrendered and the liability is utilised at the end of the compliance period to reflect the consumption of economic benefits.

Purchased renewable obligation certificates are recognised initially at cost within intangible assets. A liability for the renewables obligation is recognised based on the level of electricity supplied to customers, and is calculated in accordance with percentages set by the UK Government and the renewable obligation certificate buyout price for that period. The intangible asset is surrendered and the liability is utilised at the end of the compliance period to reflect the consumption of economic benefits.

Property, plant and equipment

Property, plant and equipment is included in the Balance Sheet at cost, less accumulated depreciation and any provisions for impairment.

The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Subsequent expenditure in respect of items of property, plant and equipment such as the replacement of major parts, major inspections or overhauls, are capitalised as part of the cost of the related asset where it is probable that future economic benefits will arise as a result of the expenditure and the cost can be reliably measured. All other subsequent expenditure, including the costs of day-to-day servicing, repairs and maintenance, is expensed as incurred.

Freehold land is not depreciated. Other property, plant and equipment, with the exception of upstream production assets (see below), are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives. The depreciation periods for the principal categories of assets are as follows:

Freehold and leasehold buildings	up to 50 years
Plant	5 to 20 years
Power stations and wind farms	up to 30 years
Equipment and vehicles	3 to 10 years
Storage	up to 40 years

Assets held under finance leases are depreciated over their expected useful economic lives on the same basis as for owned assets, or where shorter, the lease term.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Residual values and useful lives are reassessed annually and if necessary changes are accounted for prospectively.

Exploration, evaluation and production assets

Centrica uses the successful efforts method of accounting for exploration and evaluation expenditure. Exploration and evaluation expenditure associated with an exploration well, including acquisition costs related to exploration and evaluation activities, are capitalised initially as intangible assets. Certain expenditures such as geological and geophysical exploration costs are expensed. If the prospects are subsequently determined to be successful on completion of evaluation, the relevant expenditure, including licence acquisition costs, is transferred to property, plant and equipment and is subsequently depreciated on a unit of production basis. If the prospects are subsequently determined to be unsuccessful on completion of evaluation, the associated costs are expensed in the period in which that determination is made.

All field development costs are capitalised as property, plant and equipment. Such costs relate to the acquisition and installation of production facilities and include development drilling costs, project-related engineering and other technical services costs. Property, plant and equipment, including rights and concessions related to production activities, are depreciated from the commencement of production in the fields concerned, using the unit of production method, based on all of the proven and probable reserves of those fields. Changes in these estimates are dealt with prospectively.

The net carrying value of fields in production and development is compared on a field-by-field basis with the likely discounted future net revenues to be derived from the remaining commercial reserves. An impairment loss is recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues. Exploration and production assets are reviewed annually for indicators of impairment.

Overlift and underlift

Offtake arrangements for oil and gas produced from jointly owned operations are often such that it is not practical for each participant to receive or sell its precise share of the overall production during the period. This results in short-term imbalances between cumulative production entitlement and cumulative sales, referred to as overlift and underlift.

An overlift payable, or underlift receivable, is recognised at the balance sheet date within trade and other payables, or trade and other receivables, respectively, and measured at market value, with movements in the period recognised within cost of sales.

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning gas production facilities at the end of the producing lives of fields, and storage facilities and power stations at the end of the useful life of the facilities, based on price levels and technology at the balance sheet date.

When this provision gives access to future economic benefits, a decommissioning asset is recognised and included within property, plant and equipment. Changes in these estimates and changes to the discount rates are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset included within property, plant and equipment. For gas production facilities and offshore storage facilities the decommissioning asset is amortised using the unit of production method, based on proven and probable reserves. For power stations the decommissioning asset is amortised on a straight-line basis over the useful life of the facility. The unwinding of the discount on the provision is included in the Income Statement within interest expense.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are capitalised and included in property, plant and equipment at their fair value, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within bank loans and other borrowings, with the amount payable within 12 months included in bank overdrafts and loans within current liabilities.

2. Summary of significant accounting policies continued

Lease payments are apportioned between finance charges and reduction of the finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Payments under operating leases are charged to the Income Statement on a straight-line basis over the term of the relevant lease.

Impairment of property, plant and equipment and intangible assets (excluding goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its intangible assets and property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss or experienced an impairment reversal. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss or impairment reversal. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Discount rates are based on the estimated cost of capital of each cash-generating unit. Additionally risks specific to the cash flows of the cash-generating units are reflected within cash flow forecasts.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense.

An impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately. After such a reversal the depreciation or amortisation charge, where relevant, is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. No depreciation is charged in respect of non-current assets classified as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The profits or losses and cash flows that relate to a major component of the Group or geographical region that has been sold or is classified as held for sale are presented separately from continuing operations as discontinued operations within the Income Statement and Cash Flow Statement.

Inventories

Inventories are valued on a weighted-average cost basis at the lower of cost and estimated net realisable value after allowance for redundant and slow-moving items, where applicable.

Take-or-pay contracts

Where payments are made to external suppliers under take-or-pay obligations for gas not taken, they are treated as prepayments and included within other receivables, as they generate future economic benefits.

Pensions and other post-retirement benefits

The Group operates a number of defined benefit pension schemes. The cost of providing benefits under the defined benefit schemes is determined separately for each scheme using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised in the Statement of Comprehensive Income.

The cost of providing retirement pensions and other benefits is charged to the Income Statement over the periods benefiting from employees' service. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. The difference between the expected return on scheme assets and the change in present value of scheme obligations resulting from the passage of time is recognised in the Income Statement within interest income or interest expense.

The retirement benefit obligation or asset recognised in the Balance Sheet represents the present value of the defined benefit obligation of the schemes as adjusted for unrecognised past service cost, and the fair value of the schemes' assets. The present value of the defined benefit obligation or asset is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits are paid, and that have terms of maturity approximating to the terms of the related pension liability.

Payments to defined contribution retirement benefit schemes are charged as an operating expense as they fall due.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material. Where discounting is used, the increase in the provision due to the passage of time is recognised in the Income Statement within interest expense. Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. Given the fungible nature of energy, contracts to purchase or sell energy are reviewed on a portfolio basis whereby it is assumed that the highest priced purchase contract supplies the highest priced sales contract and the lowest priced sales contract is supplied by the lowest priced purchase contract.

2. Summary of significant accounting policies continued

Taxation

Current tax, including UK corporation tax, UK petroleum revenue tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill (if amortisation of goodwill is not deductible for tax purposes) or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Group's assets and liabilities and their tax base.

Deferred tax liabilities may be offset against deferred tax assets within the same taxable entity or qualifying local tax group. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future, against which the deductible temporary difference can be utilised.

Deferred tax is provided on temporary differences arising on subsidiaries, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected from the manner in which the asset or liability is recovered or settled.

Financial instruments

Financial assets and financial liabilities are recognised in the Group Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Group no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires.

(a) Trade receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group may not be able to collect the trade receivable. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less they are classified as current assets. If not they are presented as non-current assets.

(b) Trade payables

Trade payables are recognised at original invoice amount. If payment is due within one year or less they are classified as current liabilities. If not, they are presented as non-current liabilities.

(c) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in the Income Statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

For the purpose of the Group Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(e) Interest-bearing loans and other borrowings

All interest-bearing loans and other borrowings are initially recognised at fair value net of directly attributable transaction costs. After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost using the effective interest method, except when they are the hedged item in an effective fair value hedge relationship, where the carrying value is also adjusted to reflect the fair value movements associated with the hedged risks. Such fair value movements are recognised in the Income Statement. Amortised cost is calculated by taking into account any issue costs, discount or premium.

(f) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, which are recognised initially at fair value within the Balance Sheet. Available-for-sale financial assets are re-measured subsequently at fair value with gains and losses arising from changes in fair value recognised directly in equity and presented in the Statement of Comprehensive Income, until the asset is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the Income Statement for the period. Accrued interest or dividends arising on available-for-sale financial assets are recognised in the Income Statement.

At each balance sheet date the Group assesses whether there is objective evidence that available-for-sale financial assets are impaired. If any such evidence exists, cumulative losses recognised in equity are removed from equity and recognised in profit and loss. The cumulative loss removed from equity represents the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in the Income Statement for equity investments classified as available-for-sale are not subsequently reversed through the Income Statement. Impairment losses recognised in the Income Statement for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(g) Financial assets at fair value through profit or loss

The Group holds investments in gilts which it designates as fair value through profit or loss in order to reduce significantly a measurement inconsistency that would otherwise arise. Investments are measured at fair value on initial recognition and are re-measured to fair value in each subsequent reporting period. Gains and losses arising from changes in fair value are recognised in the Income Statement within interest income or interest expense.

(h) Derivative financial instruments

The Group routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. A number of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the physical commodity in accordance with the Group's expected sale, purchase or usage requirements, and are not within the scope of IAS 39.

2. Summary of significant accounting policies continued

Certain purchase and sales contracts for the physical delivery of gas, power and oil are within the scope of IAS 39 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IAS 39 and are recognised in the Balance Sheet at fair value. Gains and losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the Income Statement for the year.

The Group uses a range of derivatives for both trading and to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies approved by the Board of Directors. Further detail on the Group's risk management policies is included within the Directors' Report – Governance on pages 46 to 48 and in note 4 to the Financial Statements.

The accounting treatment for derivatives is dependent on whether they are entered into for trading or hedging purposes. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Group in line with the Group's risk management policies and is in accordance with established guidelines, which require the hedging relationship to be documented at its inception, ensure that the derivative is highly effective in achieving its objective, and require that its effectiveness can be reliably measured. The Group also holds derivatives which are not designated as hedges and are held for trading.

All derivatives are recognised at fair value on the date on which the derivative is entered into and are re-measured to fair value at each reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and derivative liabilities are offset and presented on a net basis only when both a legal right of set-off exists and the intention to net settle the derivative contracts is present.

The Group enters into certain energy derivative contracts covering periods for which observable market data does not exist. The fair value of such derivatives is estimated by reference in part to published price quotations from active markets, to the extent that such observable market data exists, and in part by using valuation techniques, whose inputs include data which is not based on or derived from observable markets. Where the fair value at initial recognition for such contracts differs from the transaction price, a fair value gain or fair value loss will arise. This is referred to as a day-one gain or day-one loss. Such gains and losses are deferred and amortised to the Income Statement based on volumes purchased or delivered over the contractual period until such time observable market data becomes available. When observable market data becomes available, any remaining deferred day-one gains or losses are recognised within the Income Statement. Recognition of the gains or losses resulting from changes in fair value depends on the purpose for issuing or holding the derivative. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the Income Statement and are included within gross profit or interest income and interest expense. Gains and losses arising on derivatives entered into for speculative energy trading purposes are presented on a net basis within revenue.

Embedded derivatives: Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in the Income Statement. The closely-related nature of embedded derivatives is reassessed when there is a change in the terms of the contract which significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives, and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in the Income Statement.

(i) Hedge accounting

For the purposes of hedge accounting, hedges are classified either as fair value hedges, cash flow hedges or hedges of net investments in foreign operations.

Fair value hedges: A derivative is classified as a fair value hedge when it hedges the exposure to changes in the fair value of a recognised asset or liability. Any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the Income Statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Income Statement. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer qualifies for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the Income Statement. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash flow hedges: A derivative is classified as a cash flow hedge when it hedges exposure to variability in cash flows that is attributable to a particular risk either associated with a recognised asset, liability or a highly probable forecast transaction. The portion of the gain or loss on the hedging instrument which is effective is recognised directly in equity while any ineffectiveness is recognised in the Income Statement. The gains or losses that are recognised directly in equity are transferred to the Income Statement in the same period in which the highly probable forecast transaction affects income, for example when the future sale of physical gas or physical power actually occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability on its recognition. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, no longer qualifies for hedge accounting or the Group revokes the designation.

At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the highly probable forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the Income Statement.

Net investment hedges: Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity, any gain or loss on the ineffective portion of the hedge is recognised in the Income Statement. On disposal of the foreign operation, the cumulative value of any gains or losses recognised directly in equity is transferred to the Income Statement.

2. Summary of significant accounting policies continued

Nuclear activity

The Group's investments in Lake Acquisitions Limited and NNB Holding Company Limited are accounted for as associates. The following accounting policies are specific to the accounting for the nuclear activity of these associates.

(a) Fuel costs – nuclear front end

Front end fuel costs consist of the costs of procurement of uranium, conversion and enrichment services and fuel element fabrication. All costs are capitalised into inventory and charged to the Income Statement in proportion to the amount of fuel burnt.

(b) Fuel costs – nuclear back end

Advanced Gas-cooled Reactors (AGR)
Spent fuel extracted from the reactors is sent for reprocessing and/or long-term storage and eventual disposal of resulting waste products. Back end fuel costs comprise a loading related cost per tonne of uranium and a rebate/surcharge to this cost dependent on the out-turn market electricity price in the year and are capitalised into inventory and charged to the Income Statement in proportion to the amount of fuel burnt.

Pressurised Water Reactor (PWR)
Back end fuel costs are based on wet storage in station ponds followed by dry storage and subsequent direct disposal of fuel. Back end fuel costs are capitalised into inventory on loading and charged to the income statement in proportion to the amount of fuel burnt.

(c) Nuclear property, plant and equipment and depreciation

The depreciation period for the principal categories of nuclear assets, which are depreciated on a straight-line basis from the date of the Group acquiring its share in British Energy, are as follows:

AGR power stations	Up to 13 years
PWR power station	25 years

Expenditure on major inspection and overhauls of production plant is depreciated over the period until the next outage which for AGR power stations is two to three years and for the PWR power station is 18 months.

(d) Nuclear Liabilities Fund (NLF) funding arrangements

Under the arrangements in place with the Secretary of State, the NLF will fund, subject to certain exceptions, British Energy's qualifying uncontracted nuclear liabilities and qualifying decommissioning costs.

In part-consideration for the assumption of these liabilities by the Secretary of State and the NLF, British Energy agreed to pay fixed decommissioning contributions each year and £150,000 (indexed to RPI) for every tonne of uranium in PWR fuel loaded into the Sizewell B reactor after the date of these arrangements.

(e) NLF and nuclear liabilities receivables

The Government indemnity is provided to indemnify any future shortfall on NLF funding of qualifying uncontracted nuclear liabilities (including PWR back end fuel services) and qualifying nuclear decommissioning costs such that the receivable equals the present value of the associated qualifying nuclear liabilities.

(f) Nuclear liabilities

Nuclear liabilities represent provision for British Energy's liabilities in respect of the costs of waste management of spent fuel and nuclear decommissioning.

(g) Unburnt fuels at shutdown

Due to the nature of the nuclear fuel process there will be quantities of unburnt fuel in the reactors at station closure. The costs relating to this unburnt fuel (final core) are estimated by applying a long-term inflation index to the projected costs, which are then discounted.

3. Critical accounting judgements and key sources of estimation uncertainty

(a) Critical judgements in applying the Group's accounting policies

The Group's accounting policies as set out in note 2 and Notes to the Financial Statements include descriptions of key judgements management has made in applying the Group's accounting policies. Areas of judgement that have the most significant effect on the amounts recognised in the Financial Statements (apart from those involving estimations which are dealt with below) include the following:

- the presentation of certain items as exceptional – notes 2 and 9;
- the use of adjusted profit and adjusted earnings per share measures – notes 2 and 14; and
- the classification of energy procurement contracts as derivative financial instruments and presentation as certain re-measurements – notes 2, 4, 9 and 22.

In addition to those described above, management has made the following key judgements in applying the Group's accounting policies that have the most significant effect on the Group's Financial Statements.

Wind farm partial disposal

On 5 February 2010 the Group disposed of 50% of the equity voting share capital and 50% of the existing shareholder loan of Lincs Windfarm Limited (formerly Centrica (Lincs) Limited) ('Lincs'), the owner of the proposed wind farm (see note 38).

As part of this disposal, the Group contracted to purchase 75% of the power output and levy exemption certificates and 50% of the renewable obligation certificates produced by the wind farm under a 15-year offtake agreement. The pricing of this arrangement was on an arm's length basis. The Group also contracted to provide management, operational and transitional support services to Lincs as directed by their board (and shareholders). A shareholders' agreement was put in place which included a number of reserved matters and provides for joint management of the major decisions of the company.

The Directors have judged that the disposal of equity voting share capital is a loss of control over the financial and operating policies of Lincs. The offtake agreement pricing together with the other arrangements in place mean that the majority of the benefits and residual risks of owning the windfarms reside with Lincs and not Centrica. Accordingly, the remaining investment in Lincs is equity accounted as an investment in a joint venture (see note 19). The Directors have judged that the 15-year offtake agreement is not a leasing arrangement. This is because the Group is not purchasing substantially all of the economic output of the wind farm. This contract is considered to be outside the scope of IAS 39 apart from the embedded derivative arising from the pricing terms which is marked to market separately.

In the previous year, the Group disposed of 50% of the equity voting share capital of GLID Wind Farms TopCo Limited ('GLID'), the owner of Glens of Foudland and Lynn and Inner Dowsing wind farms on 11 December 2009. This transaction was also deemed to be a loss of control and the remaining investment in GLID is equity accounted as an investment in a joint venture (see note 19). The Directors have judged that the 15-year offtake agreement is not a leasing arrangement. The contract is assessed as falling outside the scope of IAS 39 with respect to the own-use exemption, however the embedded derivative in the pricing mechanism is being marked to market separately.

3. Critical accounting judgements and key sources of estimation uncertainty continued

Finance lease – third-party power station tolling arrangement

The Group has a long-term tolling arrangement with the Spalding power station. The contract provides Centrica with the right to nominate 100% of the plant output until 2021 in return for a mix of capacity payments and operating payments based on plant availability. Centrica holds an option to extend the tolling arrangement for a further eight years, exercisable by 30 September 2020. If extended, Centrica is granted an option to purchase the station at the end of this further period. The Directors have judged that the arrangement should be accounted for as a finance lease as the lease term is judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at inception date of the arrangement amounted to substantially all of the fair value of the power station at that time. Details of the finance lease asset, finance lease creditor and interest charges are included in notes 18, 26 and 10 respectively.

Provision for onerous gas contract

On 1 October 2009 an onerous contract provision was established for a gas purchase contract for which a two-year notice had been served to terminate (see notes 9 and 28). This contract provided the Group with the option to purchase gas for which a significant capacity charge was incurred regardless of the offtake. The capacity charges are unavoidable costs of the contract. The economic benefits expected to be received under the contract have been estimated using the Group's standard contract valuation methodology. Management has judged that, following serving notice to terminate, this contract no longer forms part of the Group's gas supply and that any gas delivered under the contract is delivered to minimise the overall cost of the contract during the notice period rather than to satisfy the Group's overall demand for gas. Therefore the expected economic benefits have been estimated based on market prices rather than being valued on a portfolio basis as explained in note 2.

Operating Lease – third party power station tolling arrangement

The Group has a long-term tolling arrangement with the newly built Rijnmond power station in The Netherlands. The Rijnmond power station commenced operation in May 2010. The contract provides Centrica with the right to nominate 100% of the plant output until 2029 in return for a mix of capacity payments and operating payments based on plant availability. Centrica does not have the right to extend the agreement or any option to purchase the plant. The Directors have judged that the arrangement should be accounted for as an operating lease as the lease term is not judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at inception date of the arrangement did not amount to substantially all of the fair value of the power station at that time. Details of the operating lease disclosures are included in note 39.

Business combinations and acquisitions – purchase price allocations

For business combinations and acquisitions of associates and joint ventures, IFRS requires that a fair value exercise is undertaken allocating the purchase price (cost) of acquiring controlling interests and interests in associates and joint ventures to the fair value of the acquired identifiable assets, liabilities and contingent liabilities.

Any difference between the cost of acquiring the interest and the fair value of the acquired net assets, which includes identified contingent liabilities, is recognised as acquired goodwill. The fair value exercise is performed at the date of acquisition. As a result of the nature of fair value assessments in the energy industry the purchase price allocation exercise and acquisition-date fair value determinations require subjective judgements based on a wide range of complex variables at a point in time. Management uses all available information to make the fair value determinations. Business combinations are set out in note 37.

EU Emissions Trading Scheme

The Group has been subject to the EU Emissions Trading Scheme (EU ETS) since 1 January 2005. IFRIC 3, Emissions Rights, was withdrawn by the IASB in June 2005, and has not been replaced by definitive guidance. The Group has adopted an accounting policy which recognises carbon dioxide emissions liabilities when the level of emissions exceeds the level of allowances granted by the Government in the period. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at market price of allowances ruling at the balance sheet date. Movements in the liability are reflected within operating profit. Forward contracts for sales and purchases of allowances are measured at fair value.

Petroleum revenue tax (PRT)

The definition of an income tax in IAS 12, Income Taxes, has led management to judge that PRT should be treated consistently with other income taxes. The charge for the year is presented within taxation on profit from continuing operations in the Income Statement. Deferred amounts are included within deferred tax assets and liabilities in the Balance Sheet.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Revenue recognition – unread gas and electricity meters

Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity comprises both billed and unbilled revenue. It is estimated through the billing systems, using historical consumption patterns, on a customer by customer basis, taking into account weather patterns, load forecasts and the differences between actual meter reads being returned and system estimates. Actual meter reads continue to be compared to system estimates between the balance sheet date and the finalisation of the accounts. An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits which will flow to the Group, including bill cancellation and re-bill rates. To the extent that the economic benefits are not expected to flow to the Group, the value of that revenue is not recognised. The judgements applied, and the assumptions underpinning these judgements, are considered to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognised.

Industry reconciliation process – cost of sales

Industry reconciliation procedures are required as differences arise between the estimated quantity of gas and electricity the Group deems to have supplied and billed customers, and the estimated quantity industry system operators deem the individual suppliers, including the Group, to have supplied to customers. Difference in deemed supply is referred to as imbalance. The reconciliation procedures can result in either a higher or lower value of industry deemed supply than has been estimated as being supplied to customers by the Group, but in practice tends to result in a higher value of deemed supply. The Group then reviews the difference to ascertain whether there is evidence that its estimate of amounts supplied to customers is inaccurate or whether the difference arises from other causes. The Group's share of the resulting imbalance is included within commodity costs charged to cost of sales. Management estimates the level of recovery of imbalance which will be achieved either through subsequent customer billing or through developing industry settlement procedures.

Determination of fair values – energy derivatives

Derivative contracts are carried in the Balance Sheet at fair value, with changes in fair value recorded in either the Income Statement or the Statement of Comprehensive Income. Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation

3. Critical accounting judgements and key sources of estimation uncertainty continued

techniques. More detail on the assumptions used in determining fair valuations is provided in note 29.

Gas and liquids reserves

The volume of proven and probable gas and liquids reserves is an estimate that affects the unit of production depreciation of producing gas and liquids property, plant and equipment, as well as being a significant estimate affecting decommissioning estimates and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition are described on page 149.

The impact of a change in estimated proven and probable reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If proven and probable reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value.

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on proven and probable reserves, price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be between 2011 and 2055, with the substantial majority of the costs expected to be paid between 2020 and 2030.

Provisions are determined for the estimated costs of decommissioning British Energy's nuclear power stations and the costs of waste management and spent fuel. Various arrangements and indemnities are in place with the Secretary of State with respect to these costs, as explained in note 2.

Impairment of goodwill and indefinite-lived intangible assets

The Group determines whether goodwill and indefinite-lived intangible assets are impaired at least on an annual basis in accordance with the Group's accounting policy, as described in note 2. This requires the determination of the recoverable amount of the cash-generating units to which goodwill and indefinite-lived intangibles are allocated. The recoverable amounts are determined by either estimating the value in use of those cash-generating units or, in the case of the Upstream UK – Upstream gas and oil cash-generating unit, determining the fair value less costs to sell of the cash-generating unit. Value in use calculations require the Group to make an estimate of the expected future cash flows to be derived from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows. The fair value less costs to sell methodology is deemed more appropriate for the Upstream UK – Upstream gas and oil cash-generating unit as it is based on post-tax cash flows arising from each field within the cash-generating unit, which is consistent with the approach taken by management in determining the economic value of the underlying assets. Fair value less costs to sell is determined by discounting the post-tax cash flows expected to be generated by the gas and oil production and development assets within the Upstream UK – Upstream gas and oil cash-generating unit, net of associated selling costs, and takes into account assumptions market participants would use in estimating fair value. Further detail on impairments arising and the assumptions used in determining the value in use and fair value less costs to sell calculations is provided in note 17.

Impairment of power generation and upstream gas assets

Power generation and upstream gas assets are assessed for indicators of impairment at each reporting date in accordance with the Group's accounting policies as described in note 2. If an indicator of impairment exists, an assessment of the recoverable amount of the asset is required to be made. Indicators of impairment for these assets may include, but are not limited to, the following:

- reductions in reserve estimates or profiles of production;
- declines in long-term commodity prices;
- increases in capital expenditure or acceleration of known capital expenditure;
- significant unplanned outages or problems with operational performance; and
- changes in regulatory or tax environments.

The recoverable amount of power generation and upstream gas assets is assessed with reference to either each individual asset's value in use or fair value less costs to sell. The value in use is based on the pre-tax cash flows expected to be generated by the asset and is dependent on views of forecast generation/production, forecast commodity prices (using market prices where available and internal estimates for the remainder of the period) and the timing and extent of capital expenditure. The fair value less costs to sell is determined by using evidence from recent acquisitions for similar assets in the local oil and gas market, or by discounting the post-tax cash flows expected to be generated, net of associated selling costs, taking into account assumptions market participants would use in estimating fair value.

For gas fired power stations, which have a high degree of production flexibility, the value in use calculation also includes a scenario-based statistical assessment of the additional value which can be generated from optimising production to take advantage of volatile forward prices. Pre-tax cash flows for the first three years are based on the Group's internal Board-approved three-year business plans and thereafter are estimated on a consistent basis to reflect cash flows up to the date of cessation of operation of the asset. Pre-tax cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money. Discount rates are based on the estimated cost of capital of each cash-generating unit. Additionally, risks specific to the cash flows of the cash-generating units are reflected within cash flow forecasts. Further details of impairments arising and the carrying values of the Group's power generation and upstream gas assets are included within note 18.

Trade and other receivables – provisions for credit losses

The methodology for determining provisions for credit losses on trade and other receivables and the level of such provisions are set out in note 21. The estimates and assumptions used to determine the level of provisions are reviewed periodically. Although the provisions recognised are considered appropriate, the use of different assumptions or changes in economic conditions could lead to changes in the provisions and therefore impact profit or loss.

3. Critical accounting judgements and key sources of estimation uncertainty continued

Pensions and other post–retirement benefits

The Group operates a number of defined benefit pension schemes. The cost of providing benefits under the defined benefit schemes is determined separately for each scheme under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in note 36.

North America – Wind farm onerous contract provision

In 2009 an onerous contract provision amounting to £55 million was recognised within the North America – Upstream and wholesale energy segment relating to certain wind farm power purchase agreements to reflect the fair value of the obligation to purchase power which was above the net realisable value obtained from selling the power. The profitability of the wind farm power purchase agreements is measured taking into account the expected revenue and cost streams relating to each agreement. This measurement involves the use of estimates relating to expected wind forecasts, forward curves for energy prices and renewable energy certificates prices for which there is not a liquid market for the full term of all the contracts. In 2010 the position has deteriorated further, driven predominantly by falling forward power prices, and the provision has been increased by £67 million in the period resulting, after utilisation of part of the provision in 2010, in a provision of £101 million at the balance sheet date. Although the provision recognised is considered appropriate, it is reasonably possible that changes in economic conditions or the use of different assumptions could lead to further changes in the provision and therefore impact profit or loss in the future.

4. Financial risk management

The Group's normal operating, investing and financing activities expose it to a variety of financial risks: market risk (including commodity price risk, volumetric risk, currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall risk management process is designed to identify, manage and mitigate business risk, which includes, among others, financial risk. Further detail on the Group's overall risk management process is included within the Directors' Report – Governance on pages 46 to 48.

2010 was marked by a continuing shortage of available credit in European energy markets due to the continuing impact from the financial crisis, emerging European Sovereign debt concerns and general economic conditions. Credit markets in North America have started to improve, although consolidation in the energy industry and the implications of the 'Deepwater Horizon' incident impacted overall market activity. The Group continues to be vigilant and manage credit risk in accordance with its risk management policy.

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

Market risk management

Market risk is the risk of loss that results from changes in market prices (commodity prices, foreign exchange rates, interest rates and equity prices). The level of market risk to which the Group is exposed at a point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the Group's physical asset and contract portfolios.

(a) Commodity price risk management

The Group is exposed to commodity price risk in its upstream assets, energy procurement contracts, downstream and proprietary energy trading activities and uses specific limits to manage the exposure to commodity prices associated with the Group's activities to an acceptable level. Volumetric limits are supported by Profit at Risk (PaR) and Value at Risk (VaR) methodologies in the UK and in North America and a VaR methodology in Europe to measure the Group's exposure to commodity price risk. Limits are also set on PaR and VaR measurements as a further control over exposure to market prices.

(i) Energy procurement, upstream and downstream activities

The Group's energy procurement, upstream and downstream activities consist of equity gas and liquids production, equity power generation, bilateral procurement and sales contracts, market-traded purchase and sales contracts and derivative positions taken on with the intent of securing gas and power for the Group's downstream customers in the UK, Europe and North America from a variety of sources at an optimal cost. The Group actively manages commodity price risk by optimising its asset and contract portfolios and making use of volume flexibility.

The Group is exposed to commodity price risk in its energy procurement, upstream and downstream activities because the cost of procuring gas and electricity to serve its downstream customers varies with wholesale commodity prices. The risk is primarily that market prices for commodities will fluctuate between the time that sales prices are fixed or tariffs are set and the time at which the corresponding procurement cost is fixed, thereby potentially reducing expected margins or making sales unprofitable.

The Group is also exposed to volumetric risk in the form of an uncertain consumption profile arising from a range of factors, including weather, energy consumption changes, customer attrition and economic climate.

In order to manage the exposure to market prices associated with the Group's energy procurement, upstream and downstream activities the Group uses a specific set of limits (including position, volumetric, VaR/PaR) established and governed by GFRMC oversight, along with business unit market risk policies.

Volumetric limits are supported by PaR and VaR methodologies in the UK and in North America and a VaR methodology in Europe to measure the Group's exposure to commodity price risk. Limits are also set on PaR and VaR measurements as a further control over exposure to market prices. PaR measures the estimated potential loss in a position or portfolio of positions associated with the movement of a commodity price for a given confidence level, over the remaining term of the position or contract portfolio. VaR measures the estimated potential loss for a given confidence level over a predetermined holding period. The standard confidence level used is 95%. In addition, stress tests are regularly performed to evaluate the impact of substantial movements in commodity prices.

4. Financial risk management continued

The Group measures and manages the commodity price risk associated with the Group's entire energy procurement, upstream and downstream portfolio. Only certain of the Group's energy procurement, upstream and downstream contracts constitute financial instruments under IAS 39 (note 2). As a result, while the Group manages the commodity price risk associated with both financial and non-financial energy procurement, upstream and downstream contracts, it is the notional value of energy contracts being carried at fair value that represents the exposure of the Group's energy procurement, upstream and downstream activities to commodity price risk according to IFRS 7, Financial Instruments: Disclosures. This is because energy contracts that are financial instruments under IAS 39 are accounted for on a fair value basis and changes in fair value immediately impact profit or equity. Conversely, energy contracts that are not financial instruments under IAS 39 are accounted for as executory contracts and changes in fair value do not immediately impact profit or equity, and as such, are not exposed to commodity price risk as defined by IFRS 7. So whilst the PaR or VaR associated with energy procurement and downstream contracts outside the scope of IAS 39 is monitored for internal risk management purposes, only those energy contracts within the scope of IAS 39 are within the scope of the IFRS 7 disclosure requirements.

The net gain within operating profit of £1,163 million (2009: £71 million loss) on the re-measurement of energy contracts largely represents net gains on settlements or delivery of contracts. As gas and power were delivered under these contracts, net out of the money positions from 2009 unwound, generating a net credit to the income statement. There were also unrealised mark-to-market gains created by gas and power purchase contracts which are priced below the current wholesale market value of energy. These gains are calculated with reference to forward energy prices and therefore the extent of the economic gain or loss arising over the life of these contracts is uncertain, and entirely dependent upon the level of future wholesale energy prices. Generally, subject to short-term balancing, the ultimate net charge to cost of sales will be consistent with the price of energy agreed in these contracts and the fair value adjustments will reverse as the energy is supplied over the life of the contract.

The carrying value of energy contracts used in energy procurement, upstream and downstream activities at 31 December 2010 is disclosed in note 22. A sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in the fair value or future cash flows of financial instruments associated with the Group's energy procurement, upstream and downstream activities as a result of changes in commodity prices is provided below in section (e).

(ii) Proprietary energy trading

The Group's proprietary energy trading activities consist of physical and financial commodity purchases and sales contracts taken on with the intent of benefiting in the short term from changes in market prices or differences between buying and selling prices. The Group conducts its trading activities in the over-the-counter market and through exchanges in the UK, North America and continental Europe. The Group is exposed to commodity price risk as a result of its proprietary energy trading activities because the value of its trading assets and liabilities will fluctuate with changes in market prices for commodities.

The Group sets volumetric and VaR limits to manage the commodity price risk exposure associated with the Group's proprietary energy trading activities. The VaR used measures the estimated potential loss for a 95% confidence level over a one-day holding period. The holding period used is based on market liquidity and the number of days the Group would expect it to take to close out a trading position.

As with any modelled risk measure, there are certain limitations that arise from the assumptions used in the VaR analysis. VaR assumes that the future will behave like the past and that the Group's trading positions can be unwound or hedged within the predetermined holding period. Furthermore, the use of a 95% confidence level, by definition, does not take into account changes in value that might occur beyond this confidence level.

The VaR, before taxation, associated with the Group's proprietary energy trading activities at 31 December 2010 was £0.2 million (2009: £1.6 million). The carrying value of energy contracts used in proprietary energy trading activities at 31 December 2010 is disclosed in note 22.

(b) Currency risk management

The Group is exposed to currency risk on foreign currency denominated forecast transactions, firm commitments, monetary assets and liabilities (transactional exposure) and on its net investments in foreign operations (translational exposure).

(i) Transactional currency risk

The Group is exposed to transactional currency risk on transactions denominated in currencies other than the underlying functional currency of the commercial operation transacting. The Group's primary functional currencies are pounds sterling in the UK, Canadian dollars in Canada, US dollars in the US, Norwegian krone in Norway and euros in The Netherlands. The risk is that the functional currency value of cash flows will vary as a result of movements in exchange rates. Transactional exposure arises from the Group's energy procurement activities in the UK and in Canada, where a number of transactions are denominated in euros or US dollars and on certain capital commitments denominated in foreign currencies. In addition, in order to optimise the cost of funding, the Group has, in certain cases, issued foreign currency denominated debt, primarily in US dollars, New Zealand dollars, euros or Japanese yen.

It is the Group's policy to hedge all material transactional exposures using forward contracts to fix the functional currency value of non-functional currency cash flows. At 31 December 2010, there were no material unhedged non-functional currency monetary assets or liabilities, firm commitments or probable forecast transactions (2009: £nil), other than foreign currency borrowings used to hedge translational exposures.

(ii) Translational currency risk

The Group is exposed to translational currency risk as a result of its net investments in North America and Europe. The risk is that the pounds sterling value of the net assets of foreign operations will decrease with changes in foreign exchange rates. The Group's policy is to protect the pounds sterling book value of its net investments in foreign operations, subject to certain parameters monitored by the GFRMC, by holding foreign currency debt, entering into foreign currency derivatives, or a mixture of both.

The Group manages translational currency risk taking into consideration the cash impact of any hedging activity as well as the risk to the net asset numbers in the Group's Financial Statements. The translation hedging programme including the potential cash impact is monitored by the GFRMC.

4. Financial risk management continued

The Group measures and manages the currency risk associated with all transactional and translational exposures. In contrast, IFRS 7 only requires disclosure of currency risk arising on financial instruments denominated in a currency other than the functional currency of the commercial operation transacting. As a result, for the purposes of IFRS 7, currency risk excludes the Group's net investments in North America and Europe as well as foreign currency denominated forecast transactions and firm commitments. A sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in the fair value or future cash flows of foreign currency denominated financial instruments as a result of changes in foreign exchange rates is provided below in section (e).

(c) Interest rate risk management

In the normal course of business the Group borrows to finance its operations. The Group is exposed to interest rate risk because the fair value of fixed rate borrowings and the cash flows associated with floating rate borrowings will fluctuate with changes in interest rates. The Group's policy is to manage the interest rate risk on long-term borrowings by ensuring the exposure to floating interest rates remains within a 30% to 70% range, including the impact of interest rate derivatives. A sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in interest rates is provided below in section (e).

(d) Equity price risk management

The Group is exposed to equity price risk because certain available-for-sale financial assets, held by the Law Debenture Trust on behalf of the Company as security in respect of the Centrica Unapproved Pension Scheme, are linked to equity indices (note 36). Investments in equity indices are inherently exposed to less risk than individual equity investments because they represent a naturally diverse portfolio. Note 36 details the Group's other retirement benefit assets and liabilities.

(e) Sensitivity analysis

IFRS 7 requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables (commodity prices, foreign exchange rates and interest rates) as a result of changes in the fair value or cash flows associated with the Group's financial instruments. The sensitivity analysis provided discloses the effect on profit or loss and equity at 31 December 2010 assuming that a reasonably possible change in the relevant risk variable had occurred at 31 December 2010 and been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in price on profit or loss and equity to the next annual reporting date. Reasonably possible changes in market variables used in the sensitivity analysis are based on implied volatilities, where available, or historical data for energy prices and foreign exchange rates. Reasonably possible changes in interest rates are based on management judgement and historical experience.

The sensitivity analysis has been prepared based on 31 December 2010 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and derivatives, the proportion of energy contracts that are financial instruments, the proportion of financial instruments in foreign currencies and the hedge designations in place at 31 December 2010 are all constant. Excluded from this analysis are all non-financial assets and liabilities and energy contracts that are not financial instruments under IAS 39. The sensitivity to foreign exchange rates relates only to monetary assets and liabilities denominated in a currency other than the functional currency of the commercial operation transacting, and excludes the translation of the net assets of foreign operations to pounds sterling, but includes the corresponding impact of financial instruments used in net investment hedges.

The sensitivity analysis provided is hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates is changing constantly as the Group's portfolio of commodity, debt and foreign currency contracts changes. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group. The sensitivity analysis provided below excludes the impact of proprietary energy trading assets and liabilities because the VaR associated with the Group's proprietary energy trading activities has already been provided above in section (a).

4. Financial risk management continued

The impacts of reasonably possible changes in commodity prices on profit and equity, both after taxation, based on the assumptions provided above are as follows:

Energy prices	2010 Base price (i)	2010 Reasonably possible change in variable	2009 Base price (i)	2009 Reasonably possible change in variable
UK gas (p/therm)	**59**	**+/–11**	41	+/–10
UK power (£/MWh)	**51**	**+/–5**	41	+/–5
UK coal (US$/tonne)	**121**	**+/–21**	99	+/–20
UK emissions (€/tonne)	**14**	**+/–2**	13	+/–3
UK oil (US$/bbl)	**95**	**+/–18**	86	+/–19
North American gas (USc/therm)	**52**	**+/–9**	65	+/–11
North American power (US$/MWh)	**48**	**+/–4**	61	+/–5
European power (€/MWh)	**55**	**+/–8**	53	+/–5

(i) The base price represents the average forward market price over the duration of the active market curve used in the sensitivity analysis provided.

Incremental profit/(loss)	2010 Impact on profit £m	2010 Impact on equity £m	2009 Impact on profit £m	2009 Impact on equity £m
UK energy prices (combined) – increase/(decrease)	**98/(79)**	**32/(32)**	38/(38)	30/(30)
North American energy prices (combined) – increase/(decrease)	**25/(25)**	**7/(7)**	46/(46)	21/(21)
European energy prices (combined) – increase/(decrease)	**10/(10)**	**–/–**	14/(14)	–/–

The impacts of reasonably possible changes in interest rates on profit and equity, both after taxation, based on the assumptions provided above are as follows:

Interest rates and incremental profit/(loss)	2010 Reasonably possible change in variable %	2010 Impact on profit £m	2010 Impact on equity £m	2009 Reasonably possible change in variable %	2009 Impact on profit £m	2009 Impact on equity £m
UK interest rates	**+/–1.0**	**14/(12)**	**14/(18)**	+/–1.0	5/(9)	16/(19)
US interest rates	**+/–1.0**	**2/(6)**	**–/–**	+/–1.0	6/(7)	(7)/9
Canadian interest rates	**+/–1.0**	**2/(3)**	**–/–**	+/–1.0	4/(4)	–/–
Euro interest rates	**+/–1.0**	**(7)/5**	**–/–**	+/–1.0	(12)/12	–/–
Japanese interest rates	**+/–1.0**	**–/–**	**(16)/21**	+/–1.0	–/–	(13)/17

The impacts of reasonably possible changes in foreign currency rates relative to pounds sterling on profit and equity, both after taxation, based on the assumptions provided above are as follows:

Foreign exchange rates and incremental profit/(loss)	2010 Reasonably possible change in variable %	2010 Impact on profit £m	2010 Impact on equity £m	2009 Reasonably possible change in variable %	2009 Impact on profit £m	2009 Impact on equity £m
US dollar	**+/–10**	**(75)/94**	**20/(18)**	+/–10	(43)/51	4/(2)
Canadian dollar	**+/–10**	**(20)/20**	**52/(43)**	+/–10	–/3	10/(10)
Euro	**+/–10**	**(28)/33**	**(5)/7**	+/–10	(3)/(8)	14/(9)
Danish krone	**+/–10**	**–/–**	**–/–**	+/–10	–/–	27/(33)
Norwegian krone	**+/–10**	**–/1**	**13/(11)**	+/–10	(1)/1	5/(6)

4. Financial risk management continued

Credit risk management

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Group is exposed to credit risk in its treasury, trading, energy procurement and downstream activities. The Group continues to take steps to tighten downstream credit policies, including the tightening of credit scores in customer management processes, whilst continuing to manage credit risk in accordance with financial risk management processes.

Note 22 provides further detail of the Group's exposure to credit risk on derivative financial instruments, note 21 provides detail of the Group's exposure to credit risk on trade and other receivables, note 24 provides detail of the Group's exposure to credit risk on cash and cash equivalents and note 29 provides the carrying value of all financial assets representing the Group's maximum exposure to credit risk.

(a) Treasury, trading and energy procurement activities

Wholesale counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. The majority of significant exposures are with counterparties rated A–/A3 or better. The Group uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist. In addition, the Group employs a variety of other methods to mitigate credit risk: margining, various forms of bank and parent company guarantees and letters of credit.

100% of the Group's credit risk associated with its treasury, trading and energy procurement activities is with counterparties in related energy industries or with financial institutions. The Group measures and manages the credit risk associated with the Group's entire treasury, trading and energy procurement portfolio. In contrast, IFRS 7 defines credit risk as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation and requires disclosure of information about the exposure to credit risk arising from financial instruments only. Only certain of the Group's energy procurement contracts constitute financial instruments under IAS 39 (note 2). As a result, whilst the Group manages the credit risk associated with both financial and non-financial energy procurement contracts, it is the carrying value of financial assets within the scope of IAS 39 (note 29) that represents the maximum exposure to credit risk in accordance with IFRS 7.

(b) Downstream activities

In the case of business customers, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing trade and during the business relationship. For residential customers, creditworthiness is ascertained normally before commencing trade by reviewing an appropriate mix of internal and external information to determine the payment mechanism required to reduce credit risk to an acceptable level. Certain customers will only be accepted on a prepayment basis or with a security deposit.

In some cases, an ageing of receivables is monitored and used to manage the exposure to credit risk associated with both business and residential customers. In other cases, credit risk is monitored and managed by grouping customers according to the method of payment or profile.

Liquidity risk management and going concern

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. The Group experiences significant movements in its liquidity position due primarily to the seasonal nature of its business and margin cash arrangements associated with certain wholesale commodity contracts. To mitigate this risk the Group maintains significant committed facilities and holds cash on deposit. The Group's liquidity position has remained strong throughout 2010.

Year ended 31 December	2010 £m	2009 £m
Cash pledged as collateral at 1 January	**631**	626
Net cash (inflow)/outflow	**(466)**	79
Transferred to discontinued operations	**–**	(15)
Foreign exchange gains/(losses)	**8**	(59)
Cash pledged as collateral at 31 December (i)	**173**	631

(i) Within discontinued operations there was also a net £25 million cash outflow of collateral in the period (2009: £26 million inflow). The closing balance of cash pledged within discontinued operations was £11 million (2009: £6 million) and cash held was £nil (2009: £18 million).

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, to raise at least 75% of its net debt (excluding non-recourse debt) in the long-term debt market and to maintain an average term to maturity in the recourse long-term debt portfolio greater than five years.

At 31 December 2010, the Group had undrawn committed credit facilities of £2,873 million (2009: £2,083 million) and £467 million (2009: £1,294 million) of cash and cash equivalents. 121% (2009: 148%) 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 10.5 years (2009: 9.6 years).

The relatively high level of undrawn committed bank borrowing facilities and available cash resources has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern. The statement of going concern is included in the Directors' Report – Governance, on page 48.

Maturities of derivative financial liabilities, trade and other payables, bank borrowings and provisions are provided in notes 22, 25, 26 and 28, respectively. Details of commitments and contingencies are provided in note 39.

5. Capital management

The Group funds its business using a combination of debt and shareholders' equity. The Group's capital employed was financed as follows:

31 December	2010 £m	2009 £m
Current and non-current borrowings	**4,036**	4,680
Deduct:		
Cash and cash equivalents	**(467)**	(1,294)
Current and non-current securities	**(257)**	(250)
Net debt (note 34b)	**3,312**	3,136
Shareholders' equity	**5,819**	4,192
Capital	**9,131**	7,328

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 and hedging, and in ensuring the Group is an attractive counterparty to gas and power producers and to customers for longer term energy contracts. At 31 December 2010, the Group's long-term credit rating was A3 stable outlook for Moody's Investor Services Inc. and A– stable outlook for Standard & Poor's Rating Services. These ratings did not change during 2010.

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 EBITDA [(i)] to gross interest expense. At 31 December 2010, the ratio of the Group's net debt to EBITDA was 1.0 (2009: 1.2). EBITDA to gross interest expense for the year ended 31 December 2010 was 6.7 (2009: 5.3).

The Group is not subject to externally-imposed capital requirements but, as is common for most companies, the level of debt that can be raised is restricted by the Company's Articles of Association. Net debt is limited to the greater of £5.0 billion and a gearing ratio of three times adjusted capital and reserves. This restriction can be amended or removed by the shareholders of the Company passing a special resolution. Based on adjusted capital and reserves as at 31 December 2010 of £5.8 billion, the limit for net debt was £17.4 billion.

The Group funds its debt principally through issuing bonds, denominated in pounds sterling, euros and US dollars. The Group also maintains substantial committed facilities from banks, but generally uses these to provide back up liquidity and does not typically draw on them.

(i) EBITDA is defined as earnings before interest, tax, depreciation, amortisation, and exceptional items and certain re-measurements from continuing operations.

6. Segmental analysis

Centrica's operating segments are those used internally by management to run the business and make decisions. Centrica's operating segments are based on products and services provided in each geographical area. The operating segments are also the Group's reportable segments. The types of products and services from which each reportable segment derives its revenues are:

Segment	Description
Downstream UK:	
Residential energy supply	The supply of gas and electricity to residential customers in the UK
Residential services	Installation, repair and maintenance of domestic central heating, plumbing and drains, gas appliances and kitchen appliances, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in the UK
Business energy supply and services	The supply of gas and electricity and provision of energy-related services to business customers in the UK
Upstream UK:	
Upstream gas and oil	Production and processing of gas and oil and the development of new fields to grow reserves
Power generation	Generation and optimisation of power from gas, nuclear and wind sources
Industrial and commercial	Management, optimisation and scheduling of wholesale and industrial commodity sales, procurement and tolling contracts
Proprietary energy trading	Trading in physical and financial energy contracts
Storage UK	Gas storage in the UK
North America:	
Residential energy supply	The supply of gas and electricity to residential customers in North America
Business energy supply	The supply of gas, electricity and energy-related services to business customers in North America
Residential and business services	Installation and maintenance of Heating, Ventilation and Air Conditioning (HVAC) equipment, water heaters and the provision of breakdown services in North America
Upstream and wholesale energy	Gas production, power generation and procurement and trading activities in the North American wholesale energy markets

6. Segmental analysis continued

The measure of profit used by the Centrica Executive Committee is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements (refer to note 9), before additional depreciation resulting from any fair value uplifts on Strategic Investments (refer to notes 2 and 14) and including the results from joint ventures and associates which are included before interest and tax. All transactions between segments are on an arm's length basis.

Year ended 31 December		2010			2009 (restated) (ii)	
(a) Revenue	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)	**8,359**	**(4)**	**8,355**	7,911	–	7,911
Residential services (ii)	**1,464**	**–**	**1,464**	1,338	–	1,338
Business energy supply and services	**2,907**	**(1)**	**2,906**	3,316	–	3,316
Downstream UK	**12,730**	**(5)**	**12,725**	12,565	–	12,565
Upstream gas and oil	**1,637**	**(773)**	**864**	1,240	(689)	551
Power generation	**1,112**	**(7)**	**1,105**	1,317	(167)	1,150
Industrial and commercial	**2,017**	**(423)**	**1,594**	1,907	(555)	1,352
Proprietary energy trading (iii)	**17**	**(15)**	**2**	52	(11)	41
Upstream UK	**4,783**	**(1,218)**	**3,565**	4,516	(1,422)	3,094
Storage UK	**267**	**(35)**	**232**	266	(70)	196
Residential energy supply	**2,502**	**–**	**2,502**	2,644	–	2,644
Business energy supply	**2,682**	**–**	**2,682**	2,491	–	2,491
Residential and business services	**485**	**–**	**485**	406	–	406
Upstream and wholesale energy	**328**	**(96)**	**232**	656	(89)	567
North America	**5,997**	**(96)**	**5,901**	6,197	(89)	6,108
	23,777	**(1,354)**	**22,423**	23,544	(1,581)	21,963
Discontinued operations:						
European Energy (note 38)	**590**	**–**	**590**	2,357	–	2,357

(i) Inter-segment revenue is subject to year on year fluctuations due to the change in the mix of internal and external energy sales by Upstream UK.
(ii) To align with management responsibilities, the British Gas Community Energy business has been reallocated from the Residential services segment to Residential energy supply. The 2009 comparatives have been adjusted accordingly.
(iii) The external revenue presented for Proprietary energy trading comprises both realised (settled) and unrealised (fair value changes) from trading in physical and financial energy contracts. Inter-segment revenue arising in Proprietary energy trading represents the recharge of brokerage fees to other Group segments.

The Group operates in the following geographical areas:

Year ended 31 December	Revenue (based on location of customer) 2010 £m	2009 (i) £m
Continuing operations:		
UK	**15,811**	15,216
USA	**3,984**	3,946
Canada	**1,918**	2,162
Germany	**514**	563
Netherlands	**99**	23
Norway	**58**	53
Denmark	**24**	–
Trinidad and Tobago	**15**	–
	22,423	21,963

(i) Following the acquisition of a number of assets outside of the UK, including Trinidad and Tobago and Wildcat Hills (note 37), the Group has reviewed the allocation and presentation of geographic locations of revenue and re-presented the 2009 allocation accordingly.

6. Segmental analysis continued

Year ended 31 December

(b) Operating profit	2010 £m	2009 (restated) (i) £m
Continuing operations:		
Residential energy supply (i)	**742**	598
Residential services (i)	**241**	230
Business energy supply and services	**233**	183
Downstream UK	**1,216**	1,011
Upstream gas and oil (ii)	**581**	444
Power generation (ii)	**226**	147
Industrial and commercial	**(36)**	(93)
Proprietary energy trading	**–**	27
Upstream UK	**771**	525
Storage UK	**169**	168
Residential energy supply	**177**	94
Business energy supply	**88**	34
Residential and business services	**15**	18
Upstream and wholesale energy	**(46)**	7
North America	**234**	153
Adjusted operating profit – segment operating profit before exceptional items, certain re-measurements and impact of fair value uplifts from Strategic Investments (iii)	**2,390**	1,857
Share of joint ventures/associates' interest and taxation	**(78)**	(11)
Other (iv)	**–**	(5)
Depreciation of fair value uplifts to property, plant and equipment – Venture (ii)	**(60)**	(20)
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) – associates – British Energy (ii)	**(58)**	(7)
	2,194	1,814
Exceptional items (note 9)	**(283)**	(568)
Certain re-measurements included within gross profit (note 9)	**1,177**	(62)
Certain re-measurements of associates' energy contracts (net of taxation) (note 9)	**(14)**	(9)
Operating profit after exceptional items and certain re-measurements	**3,074**	1,175
Discontinued operations:		
European Energy (note 38) (v)	**(5)**	(8)

(i) To align with management responsibilities, the British Gas Community Energy business has been reallocated from the Residential services segment to Residential energy supply. The 2009 comparatives have been adjusted accordingly.
(ii) See note 2 and note 14 for explanation of the depreciation on fair value uplifts to property, plant and equipment on acquiring Strategic Investments.
(iii) Includes results of equity-accounted interests before interest, taxation, certain re-measurements and depreciation on fair value uplifts to property, plant and equipment on Strategic Investments.
(iv) In 2009 Other comprised a £1 million loss relating to Corporate centre costs not recharged to segments and a £4 million loss relating to an inter-segment transaction between a Proprietary trading operation and a non-proprietary energy trading operation.
(v) Represents loss after taxation and before exceptional items and certain re-measurements attributable to equity holders of the parent. This is the measure of results of discontinued operations that is reported regularly to the Group's Executive Committee.

6. Segmental analysis continued

Year ended 31 December	Share of results of joint ventures and associates before interest and taxation		Depreciation and Impairments of property, plant and equipment (i)		Amortisation, write-downs and impairments of intangibles (restated) (v)	
(c) Included within adjusted operating profit	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Continuing operations:						
Residential energy supply (ii), (v)	–	–	6	8	38	54
Residential services	–	–	9	12	1	10
Business energy supply and services	–	–	2	2	7	7
Downstream UK	–	–	17	22	46	71
Upstream gas and oil (i), (ii)	3	–	487	353	81	16
Power generation (i), (iii), (v)	140	28	120	112	1	4
Industrial and commercial	–	–	–	1	10	6
Proprietary energy trading	–	–	–	–	–	–
Upstream UK	143	28	607	466	92	26
Storage UK	–	–	26	23	–	–
Residential energy supply	–	–	–	2	5	6
Business energy supply	–	–	1	1	4	3
Residential and business services	–	–	2	2	5	2
Upstream and wholesale energy (ii)	–	–	88	71	3	2
North America	–	–	91	76	17	13
Other (iv)	–	–	15	12	19	15
	143	28	756	599	174	125
Discontinued operations:						
European Energy (note 38) (ii)	–	2	–	25	–	17

(i) Depreciation of property, plant and equipment is stated before depreciation of fair value uplifts for Strategic Investments.
(ii) During 2010, impairment charges of £15 million (2009: £35 million) were incurred within business performance in the Downstream UK – Residential energy supply segment relating to emissions allowances and write-downs of £81 million (2009: £16 million) in the Upstream – UK Upstream gas and oil segment and £2 million (2009: £nil) in the North America – Upstream and wholesale energy segment relating to exploration and evaluation assets, as described in note 16.
(iii) Share of results of joint ventures and associates is before interest, certain re-measurements, depreciation of fair value uplifts to property, plant and equipment on Strategic Investments and taxation.
(iv) Other comprises depreciation of property, plant and equipment and amortisation and write-downs of intangibles on Corporate centre assets which are charged out to other Group segments.
(v) Gas and power contract positions related to UK customers have been reallocated from the Upstream UK – Power generation segment to the Downstream UK – Residential energy supply segment (see note 6(d)). The associated impairments of emissions certificates have been restated.

6. Segmental analysis continued

31 December	Net segment assets/(liabilities) (restated) (ii), (iii), (vi), (vii)		Average capital employed Year ended 31 December (restated) (iv)	
(d) Assets and liabilities	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Residential energy supply (ii), (vi)	**27**	(28)	**195**	187
Residential services (vi)	**225**	21	**95**	42
Business energy supply and services (ii)	**516**	445	**552**	502
Downstream UK	**768**	438	**842**	731
Upstream gas and oil (iii)	**2,691**	2,355	**1,245**	499
Power generation (ii), (iii), (vii)	**3,633**	3,629	**3,506**	1,879
Industrial and commercial (ii), (iii)	**128**	–	**(49)**	285
Proprietary energy trading (iii), (iv)	**119**	573	**(16)**	(68)
Upstream UK	**6,571**	6,557	**4,686**	2,595
Storage UK	**347**	359	**206**	191
Residential energy supply (iv)	**731**	790	**709**	808
Business energy supply (iv)	**441**	377	**288**	277
Residential and business services	**400**	268	**323**	270
Upstream and wholesale energy (vii)	**784**	638	**659**	594
North America	**2,356**	2,073	**1,979**	1,949
	10,042	9,427	**7,713**	5,466
Unallocated deferred tax assets (i)	**233**	723		
Derivative financial instruments held for energy procurement including balances held by joint ventures and associates	**(715)**	(2,076)		
Treasury derivatives	**63**	55		
Current tax liabilities (i)	**(16)**	(81)		
Securities (viii)	**257**	250		
Assets of discontinued operations (v), (vii)	**87**	60		
Bank overdrafts and loans	**(4,036)**	(4,680)		
Retirement benefit obligations	**(239)**	(565)		
Corporate centre assets (viii)	**143**	1,142		
Non-operating liabilities	**(4,223)**	(5,172)		
	5,819	4,255		

(i) Segment assets and liabilities include allocated current and deferred tax balances.
(ii) Restated to align comparatives with the 2010 presentation of gas and power contract positions related to UK customers within Downstream UK.
(iii) During 2010 Upstream UK changed its allocation process for inter-company funding and operating balances. The 2009 comparative has been restated to reflect this change.
(iv) Average capital employed calculation for 2010 has been calculated in line with the latest management reporting of average capital employed. Average capital employed excludes balances related to margin call debtors and now includes balances related to proprietary energy trading derivatives so the comparatives have been restated.
(v) Assets and liabilities of discontinued operations are classified as held for sale, as explained in note 38.
(vi) To align with management responsibilities, the British Gas Community Energy business has been reallocated from the Residential services segment to Residential energy supply. The 2009 comparatives have been adjusted accordingly.
(vii) To align with average capital employed, net segment assets/liabilities have been restated to include assets held for sale.
(viii) Corporate short-term deposits are considered to be a Corporate centre asset. The 2009 comparatives have been reallocated accordingly.

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:

	2010 £m	2009 (restated) (i) £m
Net segment assets at 31 December	**10,042**	9,427
Deduct:		
Intra-Group balances	**26**	46
Pre-productive assets	**(1,659)**	(1,729)
Margin call debtor (i)	**(161)**	(626)
Cash at bank, in transit and in hand excluding certain restricted cash	**(117)**	(92)
Effect of averaging month-end balances	**(418)**	(1,560)
Average capital employed for year ended 31 December	**7,713**	5,466

(i) Average capital employed calculation for 2010 has been calculated in line with latest management reporting of average capital employed. Average capital employed excludes balances related to margin call debtors and now includes balances related to proprietary energy trading derivatives. The 2009 comparative has been restated to reflect this change.

6. Segmental analysis continued

(e) Capital expenditure

Year ended 31 December	Capital expenditure on property, plant and equipment (note 18) 2010 £m	Capital expenditure on property, plant and equipment (note 18) 2009 £m	Capital expenditure on intangible assets other than goodwill (note 16) 2010 £m	Capital expenditure on intangible assets other than goodwill (note 16) 2009 (restated) (i) £m
Continuing operations:				
Residential energy supply (i)	**15**	1	**256**	236
Residential services	**6**	34	**15**	6
Business energy supply and services (i)	**1**	1	**68**	59
Downstream UK	**22**	36	**339**	301
Upstream gas and oil	**383**	358	**224**	50
Power generation (i)	**78**	139	**19**	45
Industrial and commercial	**4**	4	**15**	16
Proprietary energy trading	**–**	–	**–**	–
Upstream UK	**465**	501	**258**	111
Storage UK	**33**	60	**–**	–
Residential energy supply	**–**	–	**2**	6
Business energy supply	**–**	1	**10**	6
Residential and business services	**2**	1	**5**	–
Upstream and wholesale energy	**20**	52	**10**	2
North America	**22**	54	**27**	14
Other	**16**	3	**29**	38
Capital expenditure on continuing operations	**558**	654	**653**	464
Increase/(decrease) in prepayments related to capital expenditure	**18**	(2)	**6**	–
Unrealised gains on cash flow hedges transferred from reserves	**–**	4	**–**	–
Capitalised borrowing costs	**(37)**	(34)	**–**	–
Decrease/(increase) in trade payables related to capital expenditure	**8**	(28)	**2**	140
Net cash outflow	**547**	594	**661**	604

The Group operates in the following geographical areas:

31 December	Non-current assets (based on location of assets) (ii) 2010 £m	Non-current assets (based on location of assets) (ii) 2009 (iii) £m
Continuing operations:		
UK	**8,248**	8,236
Canada	**1,381**	1,126
USA	**820**	686
Netherlands	**839**	822
Norway	**752**	428
Trinidad and Tobago	**319**	5
	12,359	11,303

(i) Gas and power contract positions related to UK customers have been reallocated from the Upstream UK – Power generation segment to the Downstream UK – Residential energy supply segment (see note 6(d)). The associated Renewable Obligation Certificates (ROCs) purchases and emissions certificates purchases have been reallocated and the 2009 comparative restated.
(ii) Non-current assets exclude financial instruments, deferred tax assets and post-employment benefit assets.
(iii) Following the acquisition of a number of assets outside of the UK, including Trinidad and Tobago and Wildcat Hills (note 37), the Group has reviewed the allocation and presentation of geographic locations of its non-current assets and re-presented the 2009 allocation accordingly. Revenue has also been re-presented on the same basis (note 6a).

7. Costs of continuing operations

Analysis of costs by nature	2010 £m	2009 £m
Transportation, distribution and metering costs	**(3,627)**	(3,503)
Commodity costs (i)	**(11,295)**	(12,036)
Depreciation, amortisation and write-downs	**(770)**	(590)
Employee costs	**(565)**	(492)
Other direct costs relating to the upstream businesses	**(273)**	(289)
Other direct costs relating to the downstream businesses	**(1,065)**	(753)
Total cost of sales before exceptional items and certain re-measurements	**(17,595)**	(17,663)
Exceptional items and certain re-measurements (note 9)	**1,075**	(455)
Total cost of sales	**(16,520)**	(18,118)
Depreciation, amortisation and write-downs	**(224)**	(155)
Employee costs	**(1,068)**	(942)
Exploration costs expensed	**(7)**	(28)
Impairment of trade receivables (note 21)	**(269)**	(354)
Foreign exchange gains/(losses)	**1**	(2)
Other costs associated with upstream businesses	**(137)**	(151)
Other costs associated with downstream businesses	**(937)**	(864)
Total operating costs before exceptional items and certain re-measurements	**(2,641)**	(2,496)
Exceptional items and certain re-measurements (note 9)	**(181)**	(175)
Total operating costs	**(2,822)**	(2,671)

(i) Includes £167 million relating to the closing out of some out-of-the-money contracts for delivery of gas during 2011 and 2012.

8. Directors and employees

(a) Employee costs (i)	2010 £m	2009 £m
Wages and salaries	**(1,345)**	(1,223)
Social security costs	**(115)**	(103)
Other pension and retirement benefits costs	**(134)**	(77)
Share scheme costs	**(48)**	(38)
	(1,642)	(1,441)
Capitalised employee costs	**9**	7
Employee costs recognised in the Group Income Statement	**(1,633)**	(1,434)

(i) Details of Directors' remuneration, share-based payments and pension entitlements in the Remuneration Report on pages 58 to 63 form part of these Financial Statements. Details of employee share-based payments are given in note 35. Details of the remuneration of key management personnel are given in note 40.

(b) Average number of employees during the year	2010 Number	2009 Number
Downstream UK	**27,298**	26,216
Upstream UK	**1,556**	1,341
Storage UK	**255**	224
North America	**5,534**	5,042
Other operations (i), (ii)	**327**	1,302
	34,970	34,125
UK	**28,994**	27,674
USA	**3,146**	2,706
Canada	**2,388**	2,336
Netherlands (iii)	**260**	237
Spain (iv)	**126**	134
Norway	**30**	25
Germany	**18**	19
Rest of World (ii)	**8**	994
	34,970	34,125

(i) Includes 327 employees (2009: 1,302 employees) of European businesses which are classified as discontinued operations (note 38).
(ii) 2009 number includes average employee numbers of Segebel S.A. from the date of consolidation (20 January 2009) up to the date of disposal (26 November 2009).
(iii) Includes 201 employees (2009: 186 employees) of Oxxio B.V. which is classified as a discontinued operation (note 38).
(iv) Represents employees of Centrica Energía which is classified as a discontinued operation up to the date of disposal (4 November 2010).

9. Exceptional items and certain re-measurements

(a) Exceptional items for the year ended 31 December	2010 £m	2009 £m
Continuing operations:		
Provision for UK onerous gas procurement contract	**(35)**	(199)
Termination of a UK energy sales contract	**–**	(139)
Provision for North American wind power purchase agreements	**(67)**	(55)
Exceptional items from continuing operations included within gross profit	**(102)**	(393)
Impairments:		
Impairment of UK generation, exploration and production assets (i)	**(96)**	(79)
Impairment of North American assets	**(67)**	(70)
	(163)	(149)
UK contract re-negotiation and restructuring costs (ii)	**(43)**	(75)
Profit on disposal of investments (iii)	**25**	49
	(181)	(175)
Exceptional items from continuing operations included within Group operating profit	**(283)**	(568)
Taxation on exceptional items (note 11)	**118**	186
Net exceptional items from continuing operations after taxation	**(165)**	(382)
Discontinued operations:		
Impairment of Oxxio B.V. goodwill and other assets, provisions and write-offs after taxation	**–**	(24)
Profit on disposal of Segebel S.A. after taxation	**–**	297
Total exceptional items after taxation	**(165)**	(109)

(b) Certain re-measurements for the year ended 31 December	2010 £m	2009 £m
Continuing operations:		
Certain re-measurements recognised in relation to energy contracts:		
Net gains arising on delivery of contracts (iv)	**1,023**	928
Net gains/(losses) arising on market price movements and new contracts (v)	**130**	(1,097)
Net gains/(losses) arising on positions in relation to cross-border transportation or capacity contracts (vi)	**24**	(28)
Reversal of certain re-measurements in relation to the termination of energy sales contracts	**–**	135
Net re-measurements from continuing operations included within gross profit	**1,177**	(62)
Net losses arising on re-measurement of associates' energy contracts (net of taxation) (vii)	**(14)**	(9)
Net re-measurements included within Group operating profit	**1,163**	(71)
Taxation on certain re-measurements (note 11)	**(339)**	(1)
Net re-measurements from continuing operations after taxation	**824**	(72)
Discontinued operations:		
Net re-measurements on energy contracts of discontinued operations after taxation (note 38)	**67**	(107)
Total re-measurements after taxation	**891**	(179)

(i) Impairment charges have been recognised on certain UK generation, exploration and production assets as a result of low spark spreads, updated reserve data and changes in infrastructure development expectations. Of the total impairment, £68 million was recorded against UK power generation assets (property, plant and equipment and inventories) and £58 million against exploration and production assets, net of write-backs of £30 million. See note 18.

(ii) Exceptional restructuring charges have been recorded following the termination and migration of a significant supplier contract as a result of the British Gas integration plan. These have been recorded across the segments within Downstream UK.

(iii) During the year the Group disposed of investments in certain non-core assets acquired as part of the Venture acquisition in 2009.

(iv) 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.

(v) Represents fair value gains/(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).

(vi) Comprises movements in fair value arising on proprietary trades in relation to cross-border transportation or storage capacity, on which economic value has been created which is not wholly accounted for under the provisions of IAS 39.

(vii) Includes fair value unwinds relating to the recognition of energy procurement contracts and energy sales contracts at their acquisition-date fair values.

10. Net interest

	2010 Interest expense £m	2010 Interest income £m	2010 Total £m	2009 Interest expense £m	2009 Interest income £m	2009 Total £m
Continuing operations:						
Cost of servicing net debt						
Interest income	–	30	30	–	48	48
Interest expense on bonds, bank loans and overdrafts (i)	(284)	–	(284)	(253)	–	(253)
Interest expense on finance leases	(21)	–	(21)	(22)	–	(22)
	(305)	30	(275)	(275)	48	(227)
(Losses)/gains on revaluation						
(Losses)/gains on fair value hedges	(47)	47	–	(41)	43	2
Fair value (losses)/gains on other derivatives (i),(ii)	(121)	9	(112)	(52)	175	123
Fair value gains on other securities measured at fair value	–	10	10	–	3	3
Net foreign exchange translation of monetary assets and liabilities (iii)	–	85	85	(128)	–	(128)
	(168)	151	(17)	(221)	221	–
Other interest						
Notional interest arising on discounted items	(43)	30	(13)	(24)	29	5
Interest on cash collateral balances	–	1	1	–	4	4
Interest on supplier early payment arrangements	–	2	2	–	5	5
	(43)	33	(10)	(24)	38	14
	(516)	214	(302)	(520)	307	(213)
Capitalised borrowing costs (iv)	37	–	37	34	–	34
Interest (expense)/income	(479)	214	(265)	(486)	307	(179)

(i) On 6 December Centrica reduced its outstanding bond debt principal by £151 million and €353 million, and on 23 December by a further €30 million. The cost of repaying this debt before maturity was £60 million. As part of the same debt reduction and as a result of consequent changes in its currency hedging position, Centrica also cancelled certain outstanding bond-related derivative contracts for a net gain of £9 million.
(ii) Primarily reflects changes in the fair value of derivatives used to hedge the foreign exchange exposure associated with inter-company loans denominated in foreign currencies.
(iii) Primarily reflects foreign exchange gains/(losses) on inter-company loans denominated in foreign currencies.
(iv) Borrowing costs have been capitalised using an average rate of 4.78% (2009: 5.37%).

11. Taxation

(a) Analysis of tax charge for the year	2010 Business performance £m	2010 Exceptional items and certain re-measurements £m	2010 Results for the year £m	2009 Business performance £m	2009 Exceptional items and certain re-measurements £m	2009 Results for the year £m
The tax charge comprises:						
Current tax						
UK corporation tax	(464)	23	(441)	(333)	62	(271)
UK petroleum revenue tax	(223)	–	(223)	(112)	–	(112)
Foreign tax	(15)	(6)	(21)	(30)	4	(26)
Adjustments in respect of prior years	171	–	171	135	4	139
Total current tax	(531)	17	(514)	(340)	70	(270)
Deferred tax						
Current year	(81)	(235)	(316)	(147)	113	(34)
UK petroleum revenue tax	7	–	7	25	–	25
Foreign deferred tax	(39)	7	(32)	11	9	20
Change in tax rates (i)	15	(1)	14	–	–	–
Adjustments in respect of prior years	(79)	(9)	(88)	(80)	(7)	(87)
Total deferred tax	(177)	(238)	(415)	(191)	115	(76)
Total tax on profit from continuing operations (ii)	(708)	(221)	(929)	(531)	185	(346)

(i) The effect of the enacted decrease of 1% to the standard rate of UK corporation tax from 1 April 2011 on the relevant temporary differences at 31 December 2010 was a credit of £14 million.
(ii) Total tax on profit from continuing operations excludes taxation on the Group's share of profits in joint ventures and associates.

Tax on items taken directly to equity is disclosed in notes 31 and 32.

The Group earns its profits primarily in the UK, therefore the tax rate used for tax on profit from ordinary activities is the standard rate for UK corporation tax, which was 28% for 2010 (2009: 28%), with the exception of upstream profits, which were taxed at a UK corporation tax rate of 30% (2009: 30%) plus a supplementary charge at 20% (2009: 20%). Certain upstream assets also bear petroleum revenue tax at 50% (2009: 50%). Taxation for other jurisdictions is calculated at the rates prevailing in those respective jurisdictions.

11. Taxation continued

During June 2010 the UK government announced its intention to propose that Parliament reduce the main rate of UK corporation tax from 28% to 24% by 1 April 2014. The reduction in the corporation tax rate is being phased in over the period to April 2014. At 31 December 2010 the first reduction in the tax rate had been enacted by Parliament and the UK corporation tax rate will be 27% from 1 April 2011. No changes have been made to the rates applicable to UK gas and oil production activities. The current and deferred tax charges, assets and liabilities included within these Financial Statements have been based on the enacted UK corporation tax rates.

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 £26 million.

(b) Factors affecting the tax charge for the year

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2010			2009		
	Business performance £m	**Exceptional items and certain re-measurements £m**	**Results for the year £m**	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m
Profit from continuing operations before tax	**1,929**	**880**	**2,809**	1,635	(639)	996
Less: share of profits in joint ventures and associates, net of interest and taxation	**(7)**	**14**	**7**	(10)	9	(1)
Group profit from continuing operations before tax	**1,922**	**894**	**2,816**	1,625	(630)	995
Tax on profit from continuing operations at standard UK corporation tax rate of 28% (2009: 28%)	**(538)**	**(250)**	**(788)**	(455)	176	(279)
Effects of:						
Net expenses not deductible for tax purposes	**(42)**	**15**	**(27)**	(32)	9	(23)
Movement in unrecognised deferred tax assets	**(8)**	**1**	**(7)**	(3)	–	(3)
UK petroleum revenue tax rates	**(152)**	**–**	**(152)**	(60)	–	(60)
Overseas tax rates	**(2)**	**(4)**	**(6)**	1	(8)	(7)
Additional charges applicable to upstream profits	**(73)**	**27**	**(46)**	(37)	11	(26)
Changes to tax rates	**15**	**(1)**	**14**	–	–	–
Adjustments in respect of prior years	**92**	**(9)**	**83**	55	(3)	52
Taxation on profit from continuing operations	**(708)**	**(221)**	**(929)**	(531)	185	(346)

(c) Factors that may affect future tax charges

Production of gas and oil within the UK continental shelf is subject to several taxes: corporation tax at 30% (2009: 30%) on profits of gas and oil production; a supplementary charge at 20% (2009: 20%) on profits of gas and oil production (adjusted for financing costs) and petroleum revenue tax (PRT) at 50% (2009: 50%) on income generated from certain gas and oil production (net of certain costs).

PRT is a deductible expense for the purposes of corporation tax and the supplementary charge. The effective rate of tax suffered on profits of UK gas production therefore falls between 50% and 75%. To the extent that the Group's profits are earned from UK gas and oil production, its effective tax rate will remain above the current UK statutory rate of 28% (2009: 28%).

Income earned in North America and other territories outside the UK is generally subject to higher effective rates of tax than the current UK statutory rate. In the medium term, the Group's effective tax rate is expected to remain above the UK statutory rate.

12. Dividends

	2010 £m	2009 £m
Prior year final dividend of 9.14 pence (2009: 8.73 pence) per ordinary share	**470**	447
Interim dividend of 3.84 pence (2009: 3.66 pence) per ordinary share	**198**	188
	668	635

The prior year final dividend was paid on 16 June 2010 (2009: 10 June). The interim dividend was paid on 17 November 2010 (2009: 11 November).

The Directors propose a final dividend of 10.46 pence per ordinary share (totalling £539 million) for the year ended 31 December 2010. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 9 May 2011 and, subject to approval, will be paid on 15 June 2011 to those shareholders registered on 3 May 2011.

13. Auditors' remuneration

	2010 £m	2009 (restated) (i) £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts and Group consolidation	**3.6**	4.2
The auditing of other accounts within the Group pursuant to legislation (including that of countries and territories outside the UK)	**1.5**	1.9
Total fees related to audit of parent and subsidiary entities	**5.1**	6.1
Fees payable to the Company's auditors and its associates for other services:		
Other services pursuant to legislation (ii)	**0.5**	0.7
Services related to taxation	**0.1**	0.1
Services related to information technology	**0.1**	0.1
Services related to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its associates	**1.2**	0.3
All other services	**1.6**	1.5
	8.6	8.8
Fees in respect of pension schemes:		
Audit	**0.1**	0.1

(i) The Group has reanalysed its total audit fees and considers that fees in respect of the IFRS audit of the North American business should be included within the Group consolidation audit fee. The 2009 fees have been reanalysed accordingly.
(ii) Includes fees in respect of review performed on the Interim Financial Statements.

It is the Group's policy to seek competitive tenders for all major consultancy and advisory projects. Appointments are made taking into account factors including expertise, experience and cost. In addition, the Board has approved a detailed policy defining the types of work for which the auditors can tender and the approvals required. In the past, the auditors have been engaged on assignments in addition to their statutory audit duties where their expertise and experience with the Group are particularly important, including due diligence reporting and reporting accountant services on acquisitions.

14. Earnings per ordinary share

Basic earnings per ordinary share has been calculated by dividing the earnings attributable to equity holders of the Company for the year of £1,935 million (2009: £844 million) by the weighted average number of ordinary shares in issue during the year of 5,146 million (2009: 5,121 million). The Directors believe that the presentation of adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for certain re-measurements, exceptional items and the impact of Strategic Investments, assists with understanding the underlying performance of the Group, as explained in note 2. The reconciliation of basic to adjusted basic earnings per ordinary share is as follows:

	2010		2009	
(a) Continuing and discontinued operations	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	1,935	37.6	844	16.5
Net exceptional items after taxation (notes 2 and 9)	165	3.2	109	2.1
Certain re-measurement (gains)/losses after taxation (notes 2 and 9) (i)	(891)	(17.3)	141	2.8
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation	88	1.7	17	0.3
Earnings – adjusted basic	1,297	25.2	1,111	21.7
Earnings – diluted	1,935	37.3	844	16.4
Earnings – adjusted diluted	1,297	25.0	1,111	21.6

(i) Excludes non-controlling interests of £nil (2009: £38 million). Refer to note 33.

Venture

The Group acquired the Venture Group during 2009. As explained in note 2, the depreciation relating to fair value uplifts relating to the acquired property, plant and equipment and related taxation is excluded in arriving at adjusted earnings for the year, which amounted to £60 million (2009: £20 million) depreciation and a taxation credit of £30 million (2009: £10 million) in the period.

British Energy

The Group acquired a 20% interest in British Energy during 2009 and accounts for its interest as an investment in associate as set out in note 19. As explained in note 2, the impact of depreciation arising on fair value uplifts attributed to the nuclear power stations and related taxation included within the Group's share of the post-taxation results of the associate is excluded in arriving at adjusted earnings for the period, which amounted to £58 million (2009: £7 million) net of taxation.

	2010		2009	
(b) Continuing operations	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	1,873	36.4	648	12.7
Net exceptional items after taxation (notes 2 and 9)	165	3.2	382	7.5
Certain re-measurement (gains)/losses after taxation (notes 2 and 9)	(824)	(16.0)	72	1.4
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation	88	1.7	17	0.3
Earnings – adjusted basic	1,302	25.3	1,119	21.9
Earnings – diluted	1,873	36.1	648	12.6
Earnings – adjusted diluted	1,302	25.1	1,119	21.8

	2010		2009	
(c) Discontinued operations	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	62	1.2	196	3.8
Earnings – diluted	62	1.2	196	3.8

14. Earnings per ordinary share continued

Certain re-measurements (notes 2 and 9) included within operating profit and discontinued operations comprise re-measurements arising on energy procurement activities and re-measurements of proprietary trades in relation to cross-border transportation or capacity contracts. All other re-measurements are included within results before exceptional items and certain re-measurements.

In addition to basic and adjusted basic earnings per ordinary share, information is presented for diluted and adjusted diluted earnings per ordinary share. Under this presentation, no adjustments are made to the reported earnings for either 2010 or 2009, however the weighted average number of shares used as the denominator is adjusted for potentially dilutive ordinary shares.

(d) Weighted average number of shares	2010 Million shares	2009 Million shares
Weighted average number of shares used in the calculation of basic earnings per ordinary share	5,146	5,121
Dilutive impact of share-based payment schemes	45	24
Weighted average number of shares used in the calculation of diluted earnings per ordinary share	5,191	5,145

15. Goodwill

	2010 £m	2009 £m
Cost		
1 January	2,094	1,559
Acquisitions (note 37)	169	916
Adjustments to provisional fair values of acquisitions completed in previous year (note 37)	50	–
Disposals	–	(3)
Transfer to assets held for sale	–	(367)
Exchange adjustments	65	(11)
31 December	2,378	2,094
Aggregate impairment		
1 January	(6)	(49)
Impairments (note 17)	(2)	(5)
Transfer to assets held for sale	–	43
Exchange adjustments	–	5
31 December	(8)	(6)
Net book value at 31 December	2,370	2,088

Analysis of goodwill at 31 December by acquisition	2010 £m	2009 £m
Direct Energy	424	389
Energy America	29	28
Enron Direct/Electricity Direct	133	133
Enbridge Services	100	91
CPL/WTU	237	228
ATCO	59	54
Residential Services Group	84	81
Strategic Energy	98	94
Clockwork	84	–
Dyno-Rod	17	17
Newfield	57	57
Caythorpe	33	33
Heimdal	168	165
Venture	704	654
Trinidad and Tobago	70	–
Other	73	64
	2,370	2,088

16. Other intangible assets

	Application software (iii) £m	Emissions allowances and renewable obligation certificates £m	Brands (i) £m	Customer relationships £m	Consents £m	Exploration and evaluation expenditure £m	Other £m	Total £m
Cost								
1 January 2010	633	188	59	80	12	193	37	**1,202**
Additions – acquired from a third party	166	242	–	–	–	225	–	**633**
Additions – internally generated	11	–	–	–	–	–	–	**11**
Acquisitions (note 37)	4	–	9	16	–	42	18	**89**
Disposals	(31)	–	–	(1)	–	(6)	–	**(38)**
Surrenders	–	(245)	–	–	–	–	–	**(245)**
Write-downs recognised in Income Statement	–	–	–	–	–	(83)	–	**(83)**
Transfer from assets held for sale	2	1	–	–	–	–	–	**3**
Exchange adjustments	11	–	–	1	–	5	–	**17**
31 December 2010	**796**	**186**	**68**	**96**	**12**	**376**	**55**	**1,589**
Aggregate amortisation and impairment								
1 January 2010	352	37	–	45	–	–	34	**468**
Amortisation	64	–	–	7	–	–	–	**71**
Impairments recognised in Income Statement (ii)	4	15	1	–	–	–	–	**20**
Disposals	(29)	–	–	(1)	–	–	–	**(30)**
Surrenders	–	(36)	–	–	–	–	–	**(36)**
Exchange adjustments	10	–	–	2	–	–	–	**12**
31 December 2010	**401**	**16**	**1**	**53**	**–**	**–**	**34**	**505**
Net book value at 31 December 2010	**395**	**170**	**67**	**43**	**12**	**376**	**21**	**1,084**

	Application software (iii) £m	Emissions allowances and renewable obligation certificates £m	Brands (i) £m	Customer relationships £m	Consents £m	Exploration and evaluation expenditure £m	Other £m	Total £m
Cost								
1 January 2009	521	193	59	108	29	97	46	1,053
Additions – acquired from a third party	111	278	–	5	–	46	2	442
Additions – internally generated	29	1	–	–	–	1	–	31
Acquisitions	15	8	15	202	–	100	263	603
Disposal of subsidiaries	–	–	–	–	(17)	–	–	(17)
Transfer to assets held for sale	(43)	(5)	(15)	(218)	–	–	(260)	(541)
Surrenders	–	(286)	–	–	–	–	–	(286)
Write-downs recognised in Income Statement	–	–	–	–	–	(55)	–	(55)
Exchange adjustments	–	(1)	–	(17)	–	4	(14)	(28)
31 December 2009	633	188	59	80	12	193	37	1,202
Aggregate amortisation and impairment								
1 January 2009	278	31	–	37	2	–	34	382
Amortisation	70	–	–	10	–	–	10	90
Impairments recognised in Income Statement (ii)	21	35	–	20	–	–	–	76
Disposal of subsidiaries	–	–	–	–	(2)	–	–	(2)
Surrenders	–	(29)	–	–	–	–	–	(29)
Transfer to assets held for sale	(18)	–	–	(18)	–	–	(10)	(46)
Exchange adjustments	1	–	–	(4)	–	–	–	(3)
31 December 2009	352	37	–	45	–	–	34	468
Net book value at 31 December 2009	281	151	59	35	12	193	3	734

(i) Brands include £57 million (2009: £57 million) associated with the Dyno-Rod brand, acquired on the acquisition of the Dyno group of companies during 2004. The 2010 brands additions relate to Mr Sparky and Benjamin Franklin, acquired as part of the Clockwork business combination (note 37). Management has ascribed the brands an indefinite useful life because there is no foreseeable limit to the period over which these brands are expected to generate net cash inflows. In reaching this determination, management has reviewed potential threats from competition, the risks of technological obsolescence and the expected usage of the brand by management.

(ii) A £15 million (2009: £35 million) impairment of emissions allowances was recognised within cost of sales, to reflect a reduction in fair value (less costs to sell) as a result of a decrease in market prices, that was offset by a reduction in the obligation related to emissions allowances of £15 million (2009: £35 million).

(iii) Application software includes assets under construction with a cost of £221 million (2009: £113 million). During the year a review of asset classifications identified a number of assets more appropriately classified as under construction, as a result 2009 software assets under construction have increased by £73 million.

17. Impairment testing of goodwill and intangibles with indefinite useful lives

(a) Carrying amount of goodwill and intangible assets with indefinite useful lives allocated to cash-generating units

Goodwill acquired through business combinations and indefinite-lived intangible assets have been allocated for impairment testing purposes to individual or groups of cash-generating units each representing the lowest level within the Group at which the goodwill or indefinite-lived intangible asset is monitored for internal management purposes as follows:

		2010			2009		
Cash-generating unit	**Principal acquisitions to which goodwill and intangibles with indefinite useful lives relates**	**Carrying amount of goodwill £m**	**Carrying amount of indefinite-lived intangible asset £m**	**Total £m**	Carrying amount of goodwill £m	Carrying amount of indefinite-lived intangible asset £m	Total £m
Downstream UK – Business energy supply and services	Enron Direct/Electricity Direct	**133**	**–**	**133**	133	–	133
Downstream UK – Residential services – Dyno-Rod	Dyno-Rod	**17**	**57**	**74**	17	57	74
Upstream UK – Upstream gas and oil	Newfield/Heimdal/Venture/ Trinidad and Tobago (i)	**999**	**–**	**999**	876	–	876
North America – Residential energy supply	Direct Energy/ATCO/CPL/WTU (ii)	**643**	**–**	**643**	602	–	602
North America – Business energy supply	Direct Energy/ATCO/Strategic Energy	**203**	**–**	**203**	191	–	191
North America – Residential and business services	Enbridge Services/Residential Services Group/Clockwork (ii)	**286**	**9**	**295**	192	–	192
Other	Various (iii)	**89**	**1**	**90**	77	–	77
		2,370	**67**	**2,437**	2,088	57	2,145

(i) Goodwill associated with the Trinidad and Tobago acquisition (see note 37) is still being assessed as to which group of cash-generating units will benefit from the synergies of the combination. A conclusion will be reached on this issue before the end of the first year after the acquisition date (5 August 2011).

(ii) Carrying amount of goodwill also contains goodwill from other Direct Energy acquisitions which are not significant compared with the aggregate carrying value of goodwill reported within the cash-generating unit.

(iii) Goodwill balances allocated across multiple cash-generating units. The amount of goodwill allocated to each cash-generating unit is not significant compared with the aggregate carrying value of goodwill reported within the Group. Included in this amount is a £2 million impairment of goodwill attributable to Quintana Mineral Canada Investments Corporation (North America – Upstream and wholesale energy).

(b) Basis on which recoverable amount has been determined

Value in use calculations have been used to determine recoverable amounts for all of the goodwill and indefinite-lived intangible asset balances noted above, with the exception of the impairment test for the Upstream UK – Upstream gas and oil cash-generating unit, where fair value less costs to sell has been used as the basis for determining recoverable amount.

(i) Value in use

The value in use calculations use pre-tax cash flow projections based on the Group's internal Board-approved three-year business plans. The Group's business plans are based on past experience, and adjusted to reflect market trends, economic conditions, key risks, the implementation of strategic objectives and changes in commodity prices, as appropriate. Commodity prices used in the planning process are based in part on observable market data and in part on internal estimates. The extent to which the commodity prices used in the business plans are based on observable market data is determined by the extent to which the market for the underlying commodity is judged to be active. Note 29 provides additional detail on the active period of each of the commodity markets in which the Group operates.

Cash flows beyond the three-year plan period have been extrapolated using growth rates in line with historic long-term growth rates in the market where the cash-generating unit operates.

Cash flows are discounted using a discount rate specific to each cash-generating unit to determine the cash-generating unit's value in use, which is then deemed to be its recoverable amount. The recoverable amount is compared to the carrying value of each cash-generating unit's net assets to determine whether the carrying values of any of the Group's goodwill or indefinite-lived intangible asset balances are greater than their corresponding recoverable amounts.

(ii) Fair value less costs to sell

Fair value less costs to sell is used as the basis for determining the recoverable amount of goodwill allocated to Upstream UK – Upstream gas and oil. This methodology is deemed to be more appropriate as it is based on the post-tax cash flows arising from Upstream UK – Upstream gas and oil as a whole. This is consistent with the approach taken by management to evaluate the economic value of the underlying assets.

Fair value less costs to sell is determined by discounting the post-tax cash flows expected to be generated by the gas production and development assets within Upstream UK – Upstream gas and oil, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows are derived from projected production profiles of each field within Upstream UK – Upstream gas and oil, taking into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on internal model inputs. Note 29 provides additional detail on the active period of each of the commodity markets in which the Group operates.

17. Impairment testing of goodwill and intangibles with indefinite useful lives continued

The date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, production costs, the contractual duration of the licence area and the selling price of the gas and liquids produced. As each field has specific reservoir characteristics and economic circumstances, the post-tax cash flows for each field are computed using individual economic models and key assumptions as determined by management. Post-tax cash flows used in the fair value less costs to sell calculation for the first three years are based on the Group's internal Board-approved three-year business plans and, thereafter, are based on long-term production and cash flow forecasts. Where necessary, the business plan and long-term forecasts are updated in the economic models to reflect the latest view of each field as at the balance sheet date. The future post-tax cash flows are discounted using a post-tax nominal discount rate of 8.5% to determine the fair value less costs to sell of Upstream UK – Upstream gas and oil. Fair value less costs to sell is compared to the carrying value of the Upstream UK – Upstream gas and oil cash-generating unit to determine whether goodwill is impaired. The discount rate used in the fair value less costs to sell calculation is determined in the same manner as the discount rates used in the value in use calculations described below, with the exception of the adjustment required to determine an equivalent pre-tax discount rate that is not required for the fair value less costs to sell calculation.

(c) Key rates used in value in use calculations

(i) Growth rate to perpetuity

Long-term growth rates are determined using a blend of publicly available historical data and long-term growth rate forecasts published by external analysts.

(ii) Discount rates

Discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital of each cash-generating unit. Additionally, risks specific to the cash flows of the cash-generating units are reflected within cash flow forecasts. Each cash-generating unit's weighted average cost of capital is then adjusted to reflect the impact of tax in order to calculate an equivalent pre-tax discount rate.

Long-term growth rates used in the value in use calculations for each of the Group's cash-generating units are provided in the table below together with pre-tax discount rates.

	Downstream UK – Business energy supply and services	Downstream UK – Residential services	North America – Residential energy supply	North America – Business energy supply	North America – Residential and business services
Growth rate to perpetuity	1.9%	1.9%	2.0%	2.0%	1.9%
Pre-tax discount rate	7.6%	7.6%	8.1%	8.1%	8.1%

(iii) Inflation rates

Inflation rates used in the three-year business plan were based on a blend of a number of publicly available inflation forecasts available in the UK, Canada and the US. Inflation rates used for the value in use calculations were as follows: UK: 1.9%, Canada: 2.0% and the US: 2.0%.

(d) Key assumptions used and summary of results

(i) Downstream UK – Business energy supply and services

Key assumptions

- Gross margin percentage: based on the contractual terms for customers on existing contracts and gross margin percentages achieved in the period leading up to approval of the business plan for new and renewal customers, adjusted to reflect current market conditions and transportation cost inflation.
- Revenues: based on the average market share achieved immediately prior to the approval of the business plan, adjusted for growth forecasts based on sales and marketing activity and recent customer acquisitions, with prices based on forward market curves for both gas and electricity.
- Operating costs: based on a projection of headcount in line with expected activity and salary increases based on inflation expectations, with updated provisions for credit losses experienced historically to reflect the current UK economic environment.

Summary of results

The recoverable amount of the Downstream UK – Business energy supply and services cash-generating unit exceeded its carrying value at the impairment test date. Reasonably possible changes in the key assumptions listed above would not cause the recoverable amount of the goodwill to be equal to or less than the carrying amount.

(ii) Downstream UK – Residential services – Dyno-Rod

Key assumptions

- Gross margin percentage: based on gross margins achieved in the period leading up to the approval of the business plan.
- Revenues: based on revenue levels achieved in the period leading up to the approval of the business plan adjusted for the impact of increased marketing spend and the targeting of key accounts with individual sales staff, with a slight reduction in growth rates to reflect the current economic environment in the UK.
- Operating costs: based on a projection of headcount in line with expected activity and salary increases based on inflation expectations.

Summary of results

The recoverable amount of the Downstream UK – Residential services – Dyno-Rod cash-generating unit exceeded its carrying value at the impairment test date. Reasonably possible changes in the key assumptions listed above would not cause the recoverable amount of the goodwill or indefinite-lived intangible asset to be equal to or less than their carrying amounts.

17. Impairment testing of goodwill and intangibles with indefinite useful lives continued

(iii) Upstream UK – Upstream gas and oil

Key assumptions

Fair value less costs to sell amounts are determined with reference to forecast cash inflows and outflows generated by Upstream UK – Upstream gas and oil assets, net of associated selling costs. Cash inflows and outflows are estimated as follows:

- Cash inflows: based on forward market prices for gas and oil for the active period of the market and internal model inputs thereafter, with reserve volumes and production profiles based on internal management or operator estimates.
- Cash outflows: based on forecast capital and operating expenditure and the estimated future costs of abandonment.
- Taxation: based on tax rates expected to be in effect at the point of the forecast cash flow.

Summary of results

The recoverable amount of the Upstream UK – Upstream gas and oil cash-generating unit exceeded its carrying value at the impairment test date. Reasonably possible changes in the key assumptions listed above would not cause the recoverable amount of the goodwill to be equal to or less than the carrying amount.

(iv) North America – Residential energy supply

Key assumptions

- Gross margin percentage: based on contractual terms for customers on existing contracts and gross margin percentages achieved in the period leading up to the approval of the business plan for new and renewal customers, adjusted to reflect competitor data, where available. Where applicable, regulated gross margin percentages are based on the gross margin percentages included in regulatory applications submitted to the Alberta Utilities Commission in Canada.
- Revenues: based on average market share by individual market sector achieved in the period immediately prior to the approval of the business plan, adjusted for expectations of growth or decline based on individual jurisdictions to reflect regulatory or competitive differences, including customer propensity to switch, and contractual prices, with non-contractual prices based on forward market gas and power curves in Canada and the US.
- Operating costs: based on a projection of headcount in line with expected activity and salary increases based on inflation expectations, with slight decreases in costs to reflect planned business process efficiencies and experience of costs required to support customer acquisition, renewal, retention and other servicing activities.

Summary of results

The recoverable amount of the North America – Residential energy supply cash-generating unit exceeded its carrying value at the impairment test date. Reasonably possible changes in the key assumptions listed above would not cause the recoverable amount of the goodwill to be equal to or less than the carrying amount.

(v) North America – Business energy supply

Key assumptions

- Gross margin percentage: based on contractual terms for gross margin under contract and historical experience for planned renewals and new sales. Unit margins were planned to achieve an acceptable return on risk adjusted capital.
- Revenues: based on historical growth trends and planned sales activities by individual market sector. Prices are based on forward market curves for gas and electricity in Canada and the US.
- Operating costs: based on historical trends adjusted to reflect expected cost optimisations, as well as projection of headcount in line with activity.

Summary of results

The recoverable amount of the North America – Business energy supply cash-generating unit exceeded its carrying value at the impairment test date. Reasonably possible changes in the key assumptions listed above would not cause the recoverable amount of the goodwill to be equal to or less than the carrying amount.

(vi) North America – Residential and business services

Key assumptions

- Gross margin percentage: based on gross margin percentages achieved in the period leading up to the approval of the business plan, adjusted to reflect the current economic conditions and weak condition of the North American housing market.
- Revenues: based on historical growth trends by individual market sector, adjusted for new product offerings and continued penetration into new markets.
- Operating costs: based on projected headcount and inflationary increases.

Summary of results

The recoverable amount of the North America – Residential and business services cash-generating unit exceeded its carrying value at the impairment test date. Reasonably possible changes in the key assumptions listed above would not cause the recoverable amount of the goodwill to be equal to or less than the carrying amount.

18. Property, plant and equipment

	Land and buildings (i) £m	Plant, equipment and vehicles (ii), (iii) £m	Power generation (ii), (iii), (iv) £m	Gas storage and production (ii), (iii), (iv) £m	Total £m
Cost					
1 January 2010	23	389	2,144	8,649	**11,205**
Additions	2	27	87	401	**517**
Capitalised borrowing costs (note 10)	–	–	–	37	**37**
Acquisitions (note 37)	1	5	–	458	**464**
Capitalisation of unwind of fair value adjustment (v)	–	–	–	(5)	**(5)**
Adjustment to fair value of prior year acquisitions (note 37)	–	–	–	(61)	**(61)**
Disposals	–	(67)	(14)	(13)	**(94)**
Transfer from inventory	–	–	–	14	**14**
Transfer from assets held for sale	–	4	–	–	**4**
Revisions and additions to decommissioning liability (note 28)	–	–	1	261	**262**
Exchange adjustments	–	11	11	111	**133**
31 December 2010	**26**	**369**	**2,229**	**9,852**	**12,476**
Aggregate depreciation and impairment					
1 January 2010	11	203	545	4,387	**5,146**
Charge for the year	1	34	143	638	**816**
Impairments	–	–	64	93	**157**
Disposals	–	(66)	(11)	(11)	**(88)**
Exchange adjustments	–	7	2	38	**47**
31 December 2010	**12**	**178**	**743**	**5,145**	**6,078**
Net book value at 31 December 2010	**14**	**191**	**1,486**	**4,707**	**6,398**

	Land and buildings (i) £m	Plant, equipment and vehicles (ii), (iii) £m	Power generation (ii),(iii) £m	Gas storage and production (ii),(iii),(iv),(v) £m	Total £m
Cost					
1 January 2009	22	424	2,483	6,234	9,163
Additions	60	5	316	469	850
Capitalised borrowing costs (note 10)	–	–	–	34	34
Acquisitions	13	14	903	1,796	2,726
Capitalisation of unwind of fair value adjustment (v)	–	–	–	(18)	(18)
Disposals	–	(5)	(9)	(4)	(18)
Reclassification as joint venture	–	–	(370)	–	(370)
Transfer to assets held for sale	(71)	(47)	(1,094)	–	(1,212)
Revisions and additions to decommissioning liability	–	–	(6)	74	68
Exchange adjustments	(1)	(2)	(79)	64	(18)
31 December 2009	23	389	2,144	8,649	11,205
Aggregate depreciation and impairment					
1 January 2009	10	167	434	3,863	4,474
Charge for the year	2	43	144	455	644
Impairments	–	2	35	52	89
Disposals	–	(5)	(9)	(4)	(18)
Reclassification as joint venture	–	–	(27)	–	(27)
Transfer to assets held for sale	(1)	(7)	(24)	–	(32)
Exchange adjustments	–	3	(8)	21	16
31 December 2009	11	203	545	4,387	5,146
Net book value at 31 December 2009	12	186	1,599	4,262	6,059

During 2010, impairment charges have been recorded as follows; all within exceptional items (note 9):

Upstream UK – Power generation: £64 million charge as a result of low spark spreads. The recoverable amount has been determined using value in use calculations, with future cash flows discounted using a pre-tax discount rate of 7.6% (2009: 7.6%). Cash inflows are based on forward market prices for power for the active period of the market and internal models thereafter, with production profiles based on the best economic running decision. Cash outflows are based on planned operating and capital expenditure.

18. Property, plant and equipment continued

Upstream UK – Upstream gas and oil: £28 million charge as a result of updated reserves data and new infrastructure expectations. The charge is net of write backs of previous impairments of £30 million. The recoverable amount has been determined using fair value less cost to sell. Note 17 provides more detail on the general approach to impairment calculations and provides the assumptions used to assess Upstream UK – Upstream gas and oil for impairment.

North America – Upstream and wholesale energy: £65 million charge as a result of declining commodity prices and changing market conditions. The recoverable amount has been determined using fair value less cost to sell, based on evidence from recent acquisition transactions for similar assets in the local oil and gas market, net of estimated selling costs.

(i) The net book value of land and buildings comprises the following:	2010 £m	2009 £m
Freeholds	8	6
Long leaseholds	1	1
Short leaseholds	5	5
	14	12

(ii) Assets in the course of construction are included within the following categories of property, plant and equipment:	2010 £m	2009 (restated) £m
Plant, equipment and vehicles	75	95
Power generation	30	310
Gas storage and production	894	762
	999	1,167

During the year a review of asset classifications identified a number of assets more appropriately classified as under construction. As a result, 2009 assets under construction have increased by £35 million.

(iii) Assets held under finance leases included in totals above:				2010				2009
	Plant, equipment and vehicles £m	Power generation £m	Gas storage and production £m	Total £m	Plant, equipment and vehicles £m	Power generation £m	Gas storage and production £m	Total £m
Cost at 1 January	2	469	415	886	–	469	415	884
Additions	–	–	–	–	2	–	–	2
Cost at 31 December	2	469	415	886	2	469	415	886
Aggregate depreciation at 1 January	1	146	365	512	–	118	360	478
Charge for the year	–	27	10	37	1	28	5	34
Aggregate depreciation at 31 December	1	173	375	549	1	146	365	512
Net book value at 31 December	1	296	40	337	1	323	50	374

(iv) The net book value of decommissioning costs included within power generation and gas storage and production assets was £804 million (2009: £565 million).
(v) Relates to the consumption of a rig contract which was out-of-the-money on acquisition. As the contract is utilised, the fair value is added to the cost of the associated fixed assets.

The net book value of assets to which title was restricted at 31 December 2010 was £337 million (2009: £374 million), of which £296 million (2009: £323 million) relate to the Spalding power station finance lease asset. The value of assets pledged as security for liabilities as at 31 December 2010 was £300 million (2009: £157 million).

19. Interests in joint ventures and associates

			2010			2009
(a) Interest in joint ventures and associates	Investments in joint ventures and associates (i) £m	Shareholder loans £m	Total £m	Investments in joint ventures and associates £m	Shareholder loans £m	Total £m
1 January	2,356	66	2,422	286	44	330
Additions (i)	66	124	190	2,303	39	2,342
Reclassification as a subsidiary	–	–	–	(216)	–	(216)
Decrease in shareholder loans	–	(26)	(26)	–	(17)	(17)
Impairment of interest in joint venture	(4)	–	(4)	–	–	–
Disposals of investments	–	–	–	(1)	–	(1)
Share of (losses)/profits for the year	(7)	–	(7)	1	–	1
Share of reserve movements	15	–	15	–	–	–
Dividends	(83)	–	(83)	–	–	–
Exchange adjustments	–	–	–	(17)	–	(17)
31 December	2,343	164	2,507	2,356	66	2,422

(i) Additions include the reclassification of interests in Lincs Wind Farms Limited (note 38) and the acquisition of Alertme.com Limited.

19. Interests in joint ventures and associates continued

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

The Group's share of joint ventures' and associates' gross assets and gross liabilities at 31 December 2010 principally comprised of its interests in Braes of Doune Wind Farm (Scotland) Limited, Barrow Offshore Wind Limited, GLID Wind Farms TopCo Limited, Lincs Wind Farm Limited, Lake Acquisitions Limited (British Energy) and NNB Holding Company Limited.

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

								2010	2009
	Joint ventures				Associates				
	Braes of Doune Wind Farm (Scotland) Limited £m	Barrow Offshore Wind Limited £m	GLID Wind Farms TopCo Limited (i) £m	Lincs Wind Farm Limited £m	Lake Acquisitions Limited (British Energy) £m	NNB Holding Company Limited £m	Other (ii) £m	**Total £m**	Total £m
Share of non-current assets	34	59	170	136	3,639	72	59	**4,169**	4,078
Share of current assets	3	7	28	21	592	34	13	**698**	702
	37	66	198	157	4,231	106	72	**4,867**	4,780
Share of current liabilities	(5)	(2)	(37)	(39)	(166)	(21)	–	**(270)**	(243)
Share of non-current liabilities	(15)	(15)	(178)	(112)	(1,909)	–	(21)	**(2,250)**	(2,181)
	(20)	(17)	(215)	(151)	(2,075)	(21)	(21)	**(2,520)**	(2,424)
Restricted interest on shareholder loan (iii)	–	–	–	(4)	–	–	–	**(4)**	–
Share of net assets of joint ventures and associates	17	49	(17)	2	2,156	85	51	**2,343**	2,356
Shareholder loans	15	–	22	112	–	–	15	**164**	66
Interests in joint ventures and associates	**32**	**49**	**5**	**114**	**2,156**	**85**	**66**	**2,507**	2,422
Net (debt)/cash included in share of net assets	(13)	4	(171)	(97)	57	33	(18)	**(205)**	237

(i) As part of a finance arrangement entered into by GLID Wind Farms TopCo Limited, the Group's shares in GLID Wind Farms TopCo Limited are pledged to a third party. The pledge will only come into force should GLID Wind Farms TopCo Limited default on any of its obligations under the finance arrangement.
(ii) Other includes joint ventures of North Sea Infrastructure Partners Limited, Bacton Storage Company Limited and Secure Electrans Limited and associates of Ten Degrees North Energy Limited and Alertme.com Limited.
(iii) The Group restricts the amount of interest receivable on the shareholder loan from Lincs Wind Farm Limited to 50% of the interest capitalised by the joint venture.

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

								2010	2009
	Joint ventures				Associates				
	Braes of Doune Wind Farm (Scotland) Limited £m	Barrow Offshore Wind Limited £m	GLID Wind Farms TopCo Limited £m	Lincs Wind Farm Limited £m	Lake Acquisitions Limited (British Energy) (i) £m	NNB Holding Company Limited £m	Other (ii) £m	**Total £m**	Total £m
Income	6	9	29	–	421	–	3	**468**	76
Expenses excluding certain re-measurements (i)	(2)	(8)	(17)	(2)	(391)	(2)	–	**(422)**	(58)
Certain re-measurements	–	–	–	–	(31)	–	–	**(31)**	(12)
	4	1	12	(2)	(1)	(2)	3	**15**	6
Interest	–	–	(17)	–	(38)	–	–	**(55)**	(4)
Taxation excluding certain re-measurements (i)	(1)	–	2	–	15	–	–	**16**	(4)
Taxation on certain re-measurements	–	–	–	–	17	–	–	**17**	3
Share of post-taxation results of joint ventures and associates	3	1	(3)	(2)	(7)	(2)	3	**(7)**	1

(i) Includes £97 million (2009: £10 million) relating to depreciation of fair value uplifts to property, plant and equipment on acquiring the British Energy investments. The associated tax impact is £39 million credit (2009: £3 million).
(ii) Other includes joint ventures of North Sea Infrastructure Partners Limited, Bacton Storage Company Limited and Secure Electrans Limited and associates of Ten Degrees North Energy Limited and Alertme.com Limited.

19. Interests in joint ventures and associates continued

British Energy

The Group acquired a 20% interest in British Energy for £2,255 million and NNB Holding Company Limited for £32 million on 26 November 2009. The fair value exercise was completed during the year. The Group's share of profit arising from its investment in British Energy for the year to 31 December 2010 as set out in the table above includes the effect of unwinding the fair value adjustments. As explained in note 2 the depreciation, net of taxation, arising on fair value uplifts attributed to the nuclear power stations is reversed in arriving at adjusted profit for the period as shown in the reconciliation table below and as set out in notes 6 and 14.

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

	2010				2009
	Joint ventures	Associates			
	Wind Farms £m	Nuclear £m	Other (ii) £m	**Total £m**	Total £m
Share of post-taxation results of joint ventures and associates	(1)	(9)	3	**(7)**	1
Certain re-measurements (net of taxation)	–	14	–	**14**	9
Depreciation – British Energy (net of taxation) (i)	–	58	–	**58**	7
Interest	17	38	–	**55**	4
Taxation (excluding certain re-measurements and British Energy depreciation)	(1)	24	–	**23**	7
Share of adjusted results of joint ventures and associates	15	125	3	**143**	28

(i) Relates to depreciation of fair value uplifts to property, plant and equipment on acquiring the British Energy investments.
(ii) Other includes joint ventures of North Sea Infrastructure Partners Limited, Bacton Storage Company Limited and Secure Electrons Limited and associates of Ten Degrees North Energy Limited and Alertme.com Limited.

20. Inventories

	2010 £m	2009 £m
Gas in storage and transportation	**120**	140
Other raw materials and consumables	**106**	108
Finished goods and goods for resale	**118**	134
	344	382

The Group consumed £1,117 million of inventories (2009: £786 million) during the year. Inventory write-downs of £20 million (2009: £3 million) were recognised in gross profit during the year. £16 million of the write-downs in the year relate to Power Station and Gas Production spare parts. The remainder was recognised in exceptional items as a write-down of spare parts relating to assets impaired in the year.

21. Trade and other receivables

	2010		2009	
	Current £m	**Non-current £m**	Current £m	Non-current £m
Financial assets:				
Trade receivables	**1,995**	**8**	1,711	14
Accrued energy income	**1,813**	**–**	1,876	–
Other accrued income	**202**	**–**	173	–
Cash collateral pledged	**173**	**–**	631	–
Other receivables	**307**	**12**	158	11
	4,490	**20**	4,549	25
Less: Provision for credit losses	**(641)**	**–**	(554)	–
	3,849	**20**	3,995	25
Non-financial assets:				
Prepayments and other receivables	**338**	**77**	186	118
	4,187	**97**	4,181	143

21. Trade and other receivables continued

Trade and other receivables include financial assets representing the contractual right to receive cash or other financial assets from residential customers, business customers and treasury, trading and energy procurement counterparties as follows:

	2010 Current £m	2010 Non-current £m	2009 Current £m	2009 Non-current £m
Financial assets by class:				
Residential customers	**2,001**	**9**	1,883	14
Business customers	**1,643**	**11**	1,495	11
Treasury, trading and energy procurement counterparties	**846**	**–**	1,171	–
	4,490	**20**	4,549	25
Less: Provision for credit losses	**(641)**	**–**	(554)	–
	3,849	**20**	3,995	25

Receivables from residential and business customers are generally considered to be fully performing until such time as the payment that is due remains outstanding past the contractual due date. Contractual due dates range from being due upon receipt to due in 30 days. An ageing of the carrying value of trade and other receivables that are past due but not considered to be individually impaired by class is as follows:

Days past due	2010 Residential customers £m	2010 Business customers £m	2010 Treasury, trading and energy procurement counterparties £m	2009 Residential customers £m	2009 Business customers £m	2009 Treasury, trading and energy procurement counterparties £m
Less than 30 days	**194**	**168**	**3**	199	124	119
30-89 days	**138**	**189**	**1**	75	163	–
Less than 90 days	**332**	**357**	**4**	274	287	119
90-182 days	**64**	**77**	**1**	63	49	2
183-365 days	**99**	**82**	**1**	98	76	2
Greater than 365 days	**37**	**26**	**1**	41	16	1
	532	**542**	**7**	476	428	124

At 31 December 2010, there were £25 million (2009: £34 million) of receivables, net of provisions for credit losses, from residential customers and £22 million (2009: £8 million) from treasury, trading and energy procurement counterparties that were considered to be individually impaired. Receivables from residential customers are generally reviewed for impairment on an individual basis once a customer discontinues their relationship with the Group.

The provision for credit losses is based on an incurred loss model and is determined by application of expected default and loss factors, determined by historical loss experience and current sampling to the various balances receivable from residential and business customers on a portfolio basis, in addition to provisions taken against individual accounts. Balances are written off when recoverability is assessed as being remote. Movements in the provision for credit losses by class are as follows:

	2010 Residential customers £m	2010 Business customers £m	2010 Treasury, trading and energy procurement counterparties £m	2010 Total £m	2009 Residential customers £m	2009 Business customers £m	2009 Treasury, trading and energy procurement counterparties £m	2009 Total £m
1 January	(362)	(180)	(12)	**(554)**	(399)	(131)	(11)	(541)
Impairment of trade receivables	(142)	(124)	(1)	**(267)**	(240)	(116)	(1)	(357)
Transfer to assets held for sale	–	–	–	**–**	24	4	–	28
Receivables written off	132	53	1	**186**	247	62	–	309
Acquisitions	(1)	(1)	–	**(2)**	–	–	–	–
Exchange adjustments	(2)	(1)	(1)	**(4)**	6	1	–	7
31 December	**(375)**	**(253)**	**(13)**	**(641)**	(362)	(180)	(12)	(554)

21. Trade and other receivables continued

The impairment charge in trade receivables is stated net of credits for the release of specific provisions made in previous years, which are no longer required. These relate primarily to residential customers in the UK. At 31 December 2010 the Group held £56 million (2009: £17 million) of customer deposits for the purposes of mitigating the credit risk associated with receivables from residential and business customers and £3 million (2009: £nil) from treasury, trading and energy procurement customers. Exposure to credit risk associated with receivables from treasury, trading and energy procurement counterparties is monitored by counterparty credit rating as follows:

Receivables from treasury, trading and energy procurement counterparties by credit rating	Carrying value £m	AAA to AA £m	AA– to A– £m	BBB+ to BBB– £m	BB+ to BB– £m	B or lower £m	Unrated £m
2010	**846**	**12**	**334**	**175**	**14**	**–**	**311**
2009	1,171	12	703	237	13	12	194

The unrated counterparty receivables are comprised primarily of amounts due from subsidiaries of rated entities, exchanges or clearing houses. Receivables from treasury, trading and energy procurement counterparties are managed in accordance with the Group's counterparty credit policy as described in note 4.

22. Derivative financial instruments

Derivative financial instruments are generally held for the purpose of proprietary energy trading, treasury management or energy procurement. Derivatives held for the purpose of proprietary energy trading are carried at fair value, with changes in fair value recognised in the Group's results for the year before exceptional items and certain re-measurements, with the exception of certain derivatives related to cross-border transportation and capacity contracts (note 2). Derivative financial instruments held for the purposes of treasury management or energy procurement are also carried at fair value, with changes in the fair value of derivatives relating to treasury management reflected in the results for the year before exceptional items and certain re-measurements, and those relating to energy procurement reflected in certain re-measurements. In cases where a derivative qualifies for hedge accounting, derivatives are classified as fair value hedges, cash flow hedges or hedges of a net investment in a foreign operation. Notes 2 and 23 provide further detail on the Group's hedge accounting.

Energy contracts designated at fair value through profit and loss include certain energy contracts that the Group has, at its option, designated at fair value through profit and loss under IAS 39 because the energy contract contains one or more embedded derivatives that significantly modify the cash flows under the contract (note 2).

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

	2010		2009	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Derivative financial instruments – held for proprietary energy trading:				
Energy derivatives – held for trading under IAS 39	**47**	**(31)**	68	(3)
Derivative financial instruments – held for the purpose of treasury management or energy procurement:				
Derivative financial instruments – held for trading under IAS 39				
Energy derivatives	**538**	**(1,022)**	590	(2,134)
Interest rate derivatives	**3**	**(16)**	3	(5)
Foreign exchange derivatives	**53**	**(100)**	45	(79)
Energy derivative contracts designated at fair value through profit and loss	**1**	**(143)**	–	(177)
Derivative financial instruments in hedge accounting relationships:				
Energy derivatives	**25**	**(86)**	2	(328)
Interest rate derivatives	**105**	**–**	69	(10)
Foreign exchange derivatives	**18**	**(5)**	31	(14)
Total derivative financial instruments	**790**	**(1,403)**	808	(2,750)
Included within:				
Derivative financial instruments – current	**449**	**(755)**	492	(1,744)
Derivative financial instruments – non-current	**341**	**(648)**	316	(1,006)

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

	2010 £m	2009 £m
Short-term forward market purchases and sales of gas and electricity:		
UK and Europe	**24**	(1,091)
North America	**(451)**	(583)
Structured gas purchase contracts	**89**	(34)
Structured gas sales contracts	**(176)**	(135)
Other	**(157)**	(139)
Net total	**(671)**	(1,982)

22. Derivative financial instruments continued

Net gains/(losses) on derivative financial instruments due to re-measurement	2010 Income Statement £m	2010 Equity £m	2009 Income Statement £m	2009 Equity £m
Financial assets and liabilities measured at fair value:				
Derivative financial instruments – held for proprietary energy trading	(51)	–	(48)	–
Derivative financial instruments – held for trading under IAS 39	1,099	–	153	–
Energy contracts designated at fair value through profit and loss	36	–	(36)	–
Derivative financial instruments in hedge accounting relationships	39	260	(15)	43
	1,123	260	54	43

Derivative-related credit risk – assets

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

Fair value of derivative financial instruments with a positive fair value by counterparty credit rating	Carrying value £m	AAA to AA £m	AA– to A– £m	BBB+ to BBB– £m	BB+ to BB– £m	B or lower £m	Unrated £m
2010	790	26	647	42	2	–	73
2009	808	35	567	44	3	–	159

To manage derivative-related counterparty credit exposure, the Group employs the use of margining and set-off rights in some agreements. Under margining agreements, the Group has the right to request that the counterparty pay down or collateralise the current fair value of its derivatives position when the position passes a specified threshold.

Maturity profiles of derivative financial instruments – liabilities

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

Derivatives that will be settled on a net basis	2010 Energy £m	2010 Interest £m	2009 Energy £m	2009 Interest £m
Less than one year	(415)	(3)	(325)	1
One to five years	(144)	2	(185)	–
More than five years	–	(14)	–	(29)
	(559)	(15)	(510)	(28)

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

Energy procurement contracts that are carried at fair value	2010 £m	2009 £m
Less than one year	(12,814)	(15,314)
One to five years	(15,199)	(17,865)
More than five years	(2,184)	(4,877)
	(30,197)	(38,056)

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

Foreign exchange derivatives that will be settled on a gross basis	2010 Outflow £m	2010 Inflow £m	2009 Outflow £m	2009 Inflow £m
Less than one year	(2,350)	2,335	(1,925)	1,899
One to five years	(1,154)	1,136	(1,444)	1,426
More than five years	(244)	158	(232)	242
	(3,748)	3,629	(3,601)	3,567

23. Hedge accounting

For the purposes of hedge accounting, hedges are classified as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Note 2 details the Group's accounting policies in relation to derivatives qualifying for hedge accounting under IAS 39. The fair values of derivative and primary financial instruments in hedge accounting relationships at 31 December were as follows:

	2010		2009	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fair value hedges	105	–	70	(5)
Cash flow hedges	43	(91)	32	(347)

Fair value hedges

The Group's fair value hedges consist of interest rate swaps, cross-currency interest rate swaps and forward rate agreements used to protect against changes in the fair value of fixed-rate, long-term debt due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the hedging instrument and in the fair value of the hedged item in relation to the risk being hedged are recognised as income within net interest expense.

Gains or losses arising on fair value hedges at 31 December were as follows:

Gains/(losses)	2010 £m	2009 £m
On hedging instruments	41	(12)
On hedged items attributable to the hedged risk	(41)	14
	–	2

Cash flow hedges

The Group's cash flow hedges consist primarily of:

- physical and financial gas and power purchase contracts used to protect against the variability in future cash flows associated with highly probable forecast purchases of gas and power due to movements in market commodity prices;
- forward foreign exchange contracts used to protect against the variability of functional currency denominated cash flows associated with non-functional currency denominated highly probable forecast transactions; and
- interest rate swaps, cross-currency interest rate swaps and forward rate agreements used to protect against the variability in cash flows associated with floating-rate borrowings due to movements in market interest rates.

Gains and losses are initially recognised in the cash flow hedging reserve in other comprehensive income and are transferred to the Income Statement when the forecast cash flows affect the Income Statement. Note 31 details movements in the cash flow hedging reserve. The ineffective portion of gains and losses on cash flow hedging are recognised immediately in the Income Statement. During 2010, the Group recognised a £2 million loss (2009: £2 million loss) due to cash flow hedge ineffectiveness.

Net investment hedges

The Group's net investment hedges consist of foreign currency debt issued in the same currency as the net investment, foreign exchange forwards and cross-currency interest rate swaps used to protect against the variability in the pounds sterling value of the Group's net investments in foreign operations due to movements in the relative strength of foreign currencies to pounds sterling.

Gains and losses on the effective portion of the hedge are recognised in equity and transferred to the Income Statement on disposal of the foreign operation. Gains and losses on the ineffective portion of the hedge are recognised immediately in the Income Statement. During 2010, the Group recognised losses of £nil due to net investment hedge ineffectiveness (2009: £4 million).

24. Cash and cash equivalents

	2010 £m	2009 £m
Cash at bank, in transit and in hand	114	121
Short-term deposits	353	1,173
Cash and cash equivalents	467	1,294

Cash and cash equivalents includes £206 million (2009: £64 million) held by the Group's insurance subsidiary undertakings that is not readily available to be used for other purposes within the Group.

Cash and cash equivalents by counterparty credit rating	Carrying value £m	AAA £m	AA £m	A £m
2010	467	304	59	104
2009	1,294	818	172	304

Credit risk associated with cash and cash equivalents is managed in accordance with the Group's counterparty credit policy as described in note 4.

25. Trade and other payables

	2010 Current £m	2010 Non-current £m	2009 Current £m	2009 Non-current £m
Financial liabilities:				
Trade payables	**1,063**	**–**	784	–
Deferred income	**293**	**–**	485	–
Capital creditors	**169**	**–**	174	–
Other payables	**368**	**–**	381	45
Accruals				
Commodity costs	**846**	**–**	1,032	–
Transportation, distribution and metering costs	**163**	**–**	146	–
Operating and other accruals	**676**	**–**	528	–
	1,685	**–**	1,706	–
	3,578	**–**	3,530	45
Non-financial liabilities:				
Other payables and accruals	**329**	**29**	327	31
Deferred income	**152**	**27**	98	6
	4,059	**56**	3,955	82

Maturity analysis of financial liabilities within trade and other payables on an undiscounted basis	2010 £m	2009 £m
Less than 90 days	**3,214**	3,046
90-182 days	**160**	249
183-365 days	**204**	235
	3,578	3,530
Greater than 365 days	**–**	45
	3,578	3,575

26. Bank overdrafts, loans and other borrowings

	Interest rate %	Principal m	2010 Current £m	2010 Non-current £m	2010 Total £m	2009 Current £m	2009 Non-current £m	2009 Total £m
Bank overdrafts and loans			**52**	**225**	**277**	63	384	447
Bonds (by maturity date)								
2 November 2012 (i)	6.103	£284	**–**	**296**	**296**	–	415	415
27 February 2013	1.045	¥3,000	**–**	**25**	**25**	–	21	21
9 December 2013 (ii)	7.307	€367	**–**	**326**	**326**	–	678	678
4 November 2014	Floating	$100	**–**	**64**	**64**	–	62	62
10 December 2014 (iii)	5.297	£315	**–**	**329**	**329**	–	353	353
31 March 2015 (iv)	Floating	$70	**–**	**45**	**45**	–	–	–
24 October 2016	5.706	£300	**–**	**320**	**320**	–	311	311
19 September 2018	7.038	£400	**–**	**444**	**444**	–	428	428
10 March 2022 (v)	6.362	£500	**–**	**527**	**527**	–	414	414
4 September 2026 (vi)	6.265	£200	**–**	**209**	**209**	–	149	149
16 April 2027 (vii)	6.083	$70	**–**	**45**	**45**	–	–	–
19 September 2033	7.100	£770	**–**	**777**	**777**	–	777	777
			–	**3,407**	**3,407**	–	3,608	3,608
Other borrowings								
12 December 2011 (viii)	Floating	£250	**–**	**–**	**–**	–	250	250
Obligations under finance leases			**25**	**327**	**352**	23	352	375
			77	**3,959**	**4,036**	86	4,594	4,680

(i) Principal amount of £116 million was redeemed on 6 December 2010.
(ii) Principal amount of €353 million was redeemed on 6 December 2010 and a further €30 million on 23 December 2010.
(iii) Principal amount of £35 million was redeemed on 6 December 2010.
(iv) Issued on 31 March 2010.
(v) Principal amount was increased by £40 million on 12 March 2010 and by an additional £60 million on 15 March 2010.
(vi) Principal amount was increased by £50 million on 24 March 2010.
(vii) Issued on 16 April 2010.
(viii) Redeemed on 12 February 2010.

26. Bank overdrafts, loans and other borrowings continued

Future finance lease commitments:	2010 Minimum lease payments £m	2010 Capital element of lease payments £m	2009 Minimum lease payments £m	2009 Capital element of lease payments £m
Amounts payable:				
Within one year	**45**	**25**	44	23
Between one and five years	**187**	**125**	183	115
After five years	**235**	**202**	283	237
	467	**352**	510	375
Less future finance charges	**(115)**		(135)	
Present value of lease obligations	**352**		375	

Maturity profile of the Group's borrowings including interest and principal:	2010 £m	2009 £m
Within one year (i)	**284**	326
Between one and five years	**2,072**	3,080
After five years	**4,070**	4,038
	6,426	7,444
Interest payments	**(2,390)**	(2,764)
	4,036	4,680

(i) Borrowings include amounts repayable on demand of £19 million (2009: £28 million).

27. Deferred and current corporation tax liabilities and assets

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation (petroleum revenue tax) £m	Deferred corporation tax effect thereon £m	Decommissioning (petroleum revenue tax) £m	Deferred corporation tax effect thereon £m	Retirement benefit obligation and other provisions £m	Accelerated tax depreciation (corporation tax) £m	Other timing differences including losses carried forward £m	Marked-to-market £m	Total £m
1 January 2009	(209)	105	180	(90)	30	(1,036)	193	690	**(137)**
(Charge)/credit to income:									
Continuing operations	28	(14)	(4)	2	(113)	(63)	92	(4)	**(76)**
Discontinued operations	–	–	–	–	–	(32)	–	21	**(11)**
(Charge)/credit to equity	–	–	–	–	241	–	10	(12)	**239**
Transfer to assets held for sale	–	–	–	–	–	(3)	–	–	**(3)**
Acquisition of subsidiary	–	–	–	–	–	(1,070)	120	(18)	**(968)**
Disposal of subsidiaries	–	–	–	–	–	383	–	(41)	**342**
Exchange and other adjustments	–	–	–	–	–	(8)	2	(25)	**(31)**
31 December 2009	(181)	91	176	(88)	158	(1,829)	417	611	**(645)**
Change to tax rates	–	–	–	–	3	8	4	(1)	**14**
(Charge)/credit to income	(18)	5	25	(13)	(92)	179	(184)	(331)	**(429)**
(Charge)/credit to equity	–	–	–	–	(2)	–	33	(79)	**(48)**
Acquisition of subsidiaries	–	–	–	–	–	(55)	–	–	**(55)**
Adjustments to fair value of prior year acquisitions	–	–	2	–	–	16	4	–	**22**
Exchange and other adjustments	7	–	–	–	–	(12)	2	15	**12**
31 December 2010	**(192)**	**96**	**203**	**(101)**	**67**	**(1,693)**	**276**	**215**	**(1,129)**

27. Deferred and current corporation tax liabilities and assets continued

Certain deferred tax assets and liabilities have been offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2010 £m	2009 £m
Deferred tax liabilities	**(1,367)**	(1,179)
Deferred tax assets	**238**	534
	(1,129)	(645)

The following is an analysis of the deferred tax balances before offset:

	2010 £m	2009 £m
Deferred tax assets crystallising within one year	**100**	329
Deferred tax assets crystallising after one year	**973**	1,058
	1,073	1,387
Offset against deferred tax liabilities	**(835)**	(853)
Net deferred tax assets	**238**	534
Deferred tax liabilities crystallising within one year	**(325)**	(107)
Deferred tax liabilities crystallising after one year	**(1,877)**	(1,925)
	(2,202)	(2,032)
Offset against deferred tax assets	**835**	853
Net deferred tax liabilities	**(1,367)**	(1,179)

At the balance sheet date the Group had certain deductible temporary differences of £191 million (2009: £148 million) available for utilisation against future profits. No deferred tax asset has been recognised in respect of these temporary differences, due to the unpredictability of future profit streams. Substantially all of these assets may be carried forward indefinitely. At the balance sheet date, temporary differences of £87 million (2009: £76 million) existed in respect of the Group's overseas investments. The deferred tax liability arising on these temporary differences is estimated to be £3 million (2009: £3 million), which has been provided for.

Current tax assets of £81 million (2009: £69 million) include £nil (2009: £36 million) of recoverable petroleum revenue tax.

28. Provisions for other liabilities and charges

Current provisions for other liabilities and charges	1 January 2010 £m	Acquisitions and disposals £m	Charged in the year £m	Unused and reversed in the year £m	Transferred from non-current £m	Utilised £m	**31 December 2010 £m**
Restructuring costs (i), (ii)	56	–	51	(1)	8	(79)	**35**
Decommissioning costs (iii)	–	–	2	–	6	(6)	**2**
Purchase contract loss provision (iv)	106	–	38	(1)	132	(151)	**124**
Other (v)	31	(8)	26	(2)	5	(18)	**34**
	193	**(8)**	**117**	**(4)**	**151**	**(254)**	**195**

Non-current provisions for other liabilities and charges	1 January 2010 £m	Acquisitions and disposals £m	Charged in the year £m	Unused and reversed in the year £m	Revisions and additions £m	Transferred to current £m	Exchange adjustments £m	**31 December 2010 £m**
Restructuring costs (i), (ii)	22	–	5	–	–	(8)	–	**19**
Decommissioning costs (iii)	1,052	55	23	(1)	262	(6)	16	**1,401**
Purchase contract loss provision (iv)	108	–	93	–	–	(132)	2	**71**
Renegotiation provisions (vi)	27	–	–	–	–	–	–	**27**
Other (v)	40	–	4	(6)	–	(5)	–	**33**
	1,249	**55**	**125**	**(7)**	**262**	**(151)**	**18**	**1,551**

28. Provisions for other liabilities and charges continued

Financial and non-financial liabilities within provisions for other liabilities and charges	2010 Current £m	2010 Non-current £m	2009 Current £m	2009 Non-current £m
Financial liabilities:				
Restructuring costs (i), (ii)	**34**	**17**	55	19
Renegotiation provisions (vi)	**–**	**27**	–	27
Other (v)	**34**	**18**	31	25
	68	**62**	86	71
Non-financial liabilities:				
Restructuring costs (i)	**1**	**2**	1	3
Decommissioning costs (iii)	**2**	**1,401**	–	1,052
Purchase contract loss provision (iv)	**124**	**71**	106	108
Other (v)	**–**	**15**	–	15
	127	**1,489**	107	1,178
	195	**1,551**	193	1,249

Maturity analysis for financial liabilities within provisions for other liabilities and charges on an undiscounted basis	2010 £m	2009 £m
Within one year	**68**	86
Between one and two years	**41**	7
Between two and five years	**14**	54
After five years	**7**	10
	130	157

(i) The brought forward restructuring provisions relate to significant restructuring programmes undertaken to achieve the Group's stated cost reduction targets. Included within the provision are costs related to surplus properties of £28 million (2009: £39 million) estimated with reference to the expected cost to be incurred to the point of lease termination, including costs for dilapidations and sub-letting. The provisions are expected to be utilised between 2011 and 2022.

(ii) The amounts charged in the year mainly relate to the exceptional UK restructuring costs recognised in 2010, as explained in note 9 and will be substantially utilised in 2011.

(iii) Provision has been made for the estimated net present cost of decommissioning gas production and storage facilities at the end of their useful lives. The estimate has been based on proven and probable reserves, price levels and technology at the balance sheet date. The timing of decommissioning payments is dependent on the lives of the facilities but is anticipated to occur between 2011 and 2055, with the substantial majority of the provision being utilised between 2020 and 2030. The charge to income includes £25 million of notional interest (2009: £18 million).

(iv) The purchase contract loss provision relates to a UK onerous gas procurement contract and North American wind farm power purchase agreements, as explained in note 9. The provision will be utilised between 2011 and 2015.

(v) Other provisions include outstanding litigation for a number of items (none of which are individually significant) and provision for National Insurance payable in respect of Long Term Incentive Scheme liabilities. The National Insurance provision was based on a share price of 331.60 pence at 31 December 2010 (2009: 281.10 pence) and is expected to be utilised between 2011 and 2015.

(vi) In previous years, the Group renegotiated certain long-term take-or-pay contracts which would have resulted in commitments to pay for gas that would be in excess of requirements and/or at prices above likely market rates. The provision represents the net present cost of estimated payments due to suppliers as consideration for the renegotiations, most of which was settled in 2008, based on the reserves in a group of third–party fields.

29. Fair value of financial instruments

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act. The Group has documented internal policies for determining fair value, including methodologies used to establish valuation adjustments required for credit risk.

The fair values of the Group's financial instruments, together with the carrying amounts included in the Balance Sheet are analysed as follows:

Financial assets	Notes	2010 Carrying value £m	2010 Fair value £m	2009 Carrying value £m	2009 Fair value £m
Loans and receivables:					
Trade and other receivables, net of provisions	21	**3,869**	**3,869**	4,020	4,020
Cash and cash equivalents	24	**467**	**467**	1,294	1,294
		4,336	**4,336**	5,314	5,314
Financial assets measured at fair value:					
Derivative financial instruments	22	**790**	**790**	808	808
Securities:					
Treasury gilts designated at fair value through profit and loss		**164**	**164**	104	104
Available-for-sale financial assets:					
Debt instruments		**65**	**65**	118	118
Equity instruments		**28**	**28**	28	28
		257	**257**	250	250

29. Fair value of financial instruments continued

Financial liabilities	Notes	2010 Carrying value £m	2010 Fair value £m	2009 Carrying value £m	2009 Fair value £m
Financial liabilities measured at amortised cost:					
Trade and other payables	25	**(3,578)**	**(3,578)**	(3,575)	(3,575)
Bank overdrafts, loans and other borrowings:					
Bank overdrafts and loans	26	**(277)**	**(241)**	(447)	(422)
Bonds	26	**(3,407)**	**(3,693)**	(3,608)	(3,879)
Other borrowings	26	**–**	**–**	(250)	(252)
Obligations under finance leases	26	**(352)**	**(364)**	(375)	(375)
Provisions	28	**(130)**	**(130)**	(157)	(157)
		(7,744)	**(8,006)**	(8,412)	(8,660)
Financial liabilities at fair value:					
Derivative financial instruments	22	**(1,403)**	**(1,403)**	(2,750)	(2,750)

Securities

Securities comprise Treasury gilts designated at fair value through profit or loss on initial recognition and available-for-sale financial assets.

The fair values of securities are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using observable market data.

£23 million of the amounts held as available-for-sale financial assets is ring-fenced within the regulated insurance entity, Centrica Insurance Company Limited, and is not available for use by the rest of the Group (2009: £3 million).

Bank overdrafts, loans and other borrowings

The fair values of bonds are based on quoted market prices. The fair values of bank loans have been determined by discounting cash flows with reference to relevant market rates of interest. The fair values of overdrafts and commercial paper are assumed to equal their book values due to the short-term nature of these amounts. The fair values of obligations under finance leases have been determined by discounting contractual cash flows with reference to the Group's cost of borrowing.

Other financial instruments

Due to their nature and/or short-term maturity, the fair values of trade and other receivables, cash and cash equivalents, trade and other payables and provisions are estimated to approximate their carrying values.

Derivative financial instruments and energy contracts designated at fair value through profit and loss

The fair values of foreign exchange and interest rate derivatives are determined by reference to closing market rates at the Balance Sheet date. The fair values of energy derivatives are determined using valuation techniques based in part on observable market data and in part on internal estimates not currently supported by observable market data. The extent to which fair values of energy derivatives are based on observable market data is determined by the extent to which the market for the underlying commodity is judged to be active. The Group has judged each of the markets in which it operates as active for the purposes of accounting as follows:

Active period of markets (years)	Gas	Power	Coal	Emissions	Oil
UK	2	2	3	2	3
North America	5	Up to 5	n/a	Up to 5	n/a
Europe	n/a	Up to 5	n/a	n/a	n/a

The fair values of energy contracts within the scope of IAS 39 that settle inside the active period of the market are based on quoted market prices and expected volumes, discounted at an average rate of 1% per annum (2009: 1%). The fair values of derivative financial instruments in North America and Europe are based primarily on quoted market prices. In the UK, however, certain energy contracts extend beyond the active period of the market. The fair values of energy contracts that extend beyond the active period of the market are determined by reference in part to published price quotations in active markets and in part by using valuation techniques based on commodity prices derived using assumptions that are based on internal market expectations and expected volumes, discounted using an average discount rate of 3% per annum for 2010.

Where the fair value at initial recognition for such contracts differs from the transaction price, a day-one gain or loss will arise. Such gains and losses are deferred and amortised to the Income Statement based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available (see note 2 for further detail). The amount that has yet to be recognised in the Income Statement relating to the difference between the fair value at initial recognition (the transaction price) and the amount that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is as follows:

Net deferred (gains)/losses	2010 £m	2009 £m
1 January	**(86)**	51
Net gains deferred on new transactions	**(2)**	(74)
Recognised in the Income Statement during the year	**(21)**	(63)
31 December	**(109)**	(86)

29. Fair value of financial instruments continued

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are classified into one of three categories:

Level 1

Fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities, for example exchange-traded commodity contracts valued using close-of-day settlement prices. The adjusted market price used for financial assets held by the Group is the current bid price.

Level 2

Fair value is determined using significant inputs that may be either directly observable inputs or unobservable inputs that are corroborated by market data, for example over-the-counter energy contracts within the active period valued using broker-quotes or third-party pricing services and foreign exchange or interest rate derivatives valued using quotes corroborated with market data.

Level 3

Fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value, for example energy contracts within the inactive period valued using in-house valuation techniques.

The fair value hierarchy of financial assets and liabilities measured at fair value as at 31 December was as follows:

				2010				2009
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	–	492	119	**611**	46	550	64	660
Interest rate derivatives	–	108	–	**108**	–	72	–	72
Foreign exchange derivatives	–	71	–	**71**	2	74	–	76
Treasury gilts designated at fair value through profit and loss	164	–	–	**164**	104	–	–	104
Debt instruments	64	–	1	**65**	62	56	–	118
Equity instruments	17	–	11	**28**	17	–	11	28
Total financial assets	**245**	**671**	**131**	**1,047**	231	752	75	1,058
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	(113)	(849)	(320)	**(1,282)**	(198)	(1,954)	(490)	(2,642)
Interest rate derivatives	–	(16)	–	**(16)**	–	(15)	–	(15)
Foreign exchange derivatives	–	(105)	–	**(105)**	–	(93)	–	(93)
Total financial liabilities	**(113)**	**(970)**	**(320)**	**(1,403)**	(198)	(2,062)	(490)	(2,750)

There were no significant transfers out of Level 1 into Level 2 and out of Level 2 into Level 1 during 2010 and 2009.

The reconciliation of the Level 3 fair value measurements during the year is as follows:

	Equity/debt instruments £m	**Energy derivatives £m**	**2010 £m**	Equity/debt instruments £m	Energy derivatives £m	2009 £m
Level 3 financial assets						
1 January	11	64	**75**	3	399	402
Total realised and unrealised losses:						
Gains/(losses) recognised in Income Statement	–	60	**60**	–	(247)	(247)
Gains recognised in Other Comprehensive Income	–	2	**2**	–	–	–
Purchases, sales, issuances and settlements (net)	1	37	**38**	–	–	–
Transfers from Level 3 to Level 2	–	(44)	**(44)**	–	(88)	(88)
Acquisitions	–	–	**–**	8	–	8
31 December	12	119	**131**	11	64	75
Total gains/(losses) for the year for Level 3 financial assets held at the end of the reporting period[(i)]	**–**	**74**	**74**	–	(258)	(258)

(i) £72 million gains (2009: £258 million losses) for the year for Level 3 financial assets held at the end of the reporting year were recognised within certain re-measurements and £2 million gains (2009: £nil) were recognised in Other Comprehensive Income. The 2009 figures have been restated for comparative purposes.

29. Fair value of financial instruments continued

Energy derivatives	2010 £m	2009 £m
Level 3 financial liabilities		
1 January	**(490)**	(568)
Total realised and unrealised losses:		
Recognised in Income Statement	**(72)**	(54)
Recognised in Other Comprehensive Income	**–**	(9)
Purchases, sales, issuances and settlements (net)	**77**	–
Transfers from Level 3 to Level 2	**165**	141
31 December	**(320)**	(490)
Total losses for the year for Level 3 financial liabilities held at the end of the reporting period(i)	**(86)**	(112)

(i) £86 million losses (2009: £103 million losses) for the year for Level 3 financial liabilities held at the end of the reporting year were recognised within certain re-measurements and £nil (2009: £9 million) were recognised in Other Comprehensive Income. The 2009 figures have been restated for comparative purposes.

The impacts of reasonably possible changes to assumed gas, power, coal, emissions and oil prices on the net fair value of the Group's fair value measurements categorised as Level 3 are as follows:

Energy price	2010 Reasonably possible change in variable	2009 Reasonably possible change in variable
UK gas (p/therm)	**+/–11**	+/–10
UK power (£/MWh)	**+/–5**	+/–5
UK coal (US$/tonne)	**+/–21**	+/–20
UK emissions (€/tonne)	**+/–2**	+/–3
UK oil (US$/bbl)	**+/–18**	+/–19

Increase/(decrease) in fair value	2010 £m	2009 £m
UK energy prices – increase/(decrease)	**9/12**	(17)/17

The impacts disclosed above result from changing the assumptions used for fair valuing energy contracts in relation to gas, power, emissions, coal and oil prices to reasonably possible alternative assumptions at the Balance Sheet date. The fair value impacts only concern those contracts entered into which are within the scope of IAS 39 and are marked-to-market based on valuation models using assumptions that are not currently observable in an active market. The sensitivity analysis provided is hypothetical only and should be used with caution, as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates is constantly changing as the Group's portfolio of energy contracts changes. Changes in fair values based on a variation in a market variable cannot be extrapolated as the relationship between the change in market variable and the change in fair value will not always be linear. This can be seen in the results from the above 2010 sensitivity analysis. Due to the interaction of various contract price floors and ceilings and optionality in purchase/sales volumes, both scenarios lead to an increase in the total fair value of the Level 3 assets and liabilities.

30. Share capital

Share capital of the Company

Until 10 May 2010, the authorised share capital of the Company was 9,000,000,000 ordinary shares of $6^{14}/_{81}$p each (2009: 9,000,000,000 ordinary shares of $6^{14}/_{81}$p each) and 100,000 cumulative redeemable preference shares of £1 each (2009: 100,000 shares of £1 each). At the Annual General Meeting of the Company held on 10 May 2010, a Special Resolution was passed to delete all provisions of the Company's Memorandum of Association and adopt new Articles of Association in accordance with the Companies Act 2006. The passing of the Special Resolution enabled the removal of the requirement to have an authorised share capital and the removal of the reference to preference shares as no such class of share capital was in issue. Disclosure of authorised share capital is therefore no longer required.

	2010 £m	2009 £m
Allotted and fully paid share capital of the Company		
5,154,005,553 ordinary shares of $6^{14}/_{81}$p each (2009: 5,132,054,073 ordinary shares of $6^{14}/_{81}$p each)	**318**	317

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

	2010 Number	2009 Number
1 January	**5,132,054,073**	5,107,658,569
Issued under employee share schemes (i)	**21,951,480**	24,395,504
31 December	**5,154,005,553**	5,132,054,073

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

30. Share capital continued

	2010	2009
Number	**21,951,480**	24,395,504
Nominal value (£m)	**1.4**	1.5
Consideration (£m) (net of issue costs of £nil (2009: £nil))	**31**	30

The closing price of one Centrica ordinary share on 31 December 2010 was 331.60 pence (2009: 281.10 pence).

Centrica employee share ownership trusts purchase Centrica ordinary shares from the open market and receive newly issued shares to satisfy future obligations of certain employee share schemes. During the year, the trusts purchased 2.5 million shares (2009: 1.9 million), received 4.2 million newly allotted shares (2009: 7.2 million) and released 4.1 million shares (2009: 6.8 million shares) to employees on vesting. At 31 December 2010, the trusts held 8.5 million shares (2009: 5.9 million shares) at a carrying amount of £22 million (2009: £15 million). Until such time as the Company's own shares held by these trusts vest unconditionally, the amount paid for those shares, or the value they were issued at, are held as treasury shares and are deducted from shareholders' equity.

31. Accumulated other comprehensive (loss)/income

	Available-for-sale revaluation reserve £m	**Cash flow hedging reserve £m**	**Foreign currency translation reserve £m**	**Actuarial gains and losses reserve £m**	**Total £m**
1 January 2010	(6)	(244)	8	(345)	**(587)**
Exchange differences on translation of foreign operations	–	(8)	70	(1)	**61**
Recycling of foreign exchange on disposal of business	–	9	(1)	–	**8**
Actuarial losses on retirement benefit obligations (note 36)	–	–	–	(9)	**(9)**
Net losses on revaluation of available-for-sale securities	(4)	–	–	–	**(4)**
Cash flow hedges:					
Net fair value gains	–	10	–	–	**10**
Transferred to income and expense	–	236	–	–	**236**
Transferred to assets and liabilities	–	19	–	–	**19**
Share of other comprehensive income of joint ventures and associates	–	1	–	14	**15**
Taxation on above items	(1)	(79)	14	(2)	**(68)**
31 December 2010	**(11)**	**(56)**	**91**	**(343)**	**(319)**

	Available-for-sale revaluation reserve £m	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Actuarial gains and losses reserve £m	Total £m
1 January 2009	(15)	(219)	(24)	218	(40)
Exchange differences on translation of foreign operations	–	–	83	–	83
Recycling of foreign exchange on disposal of business	–	10	(10)	–	–
Actuarial losses on retirement benefit obligations (note 36)	–	–	–	(804)	(804)
Net gains on revaluation of available-for-sale securities	11	–	–	–	11
Cash flow hedges:					
Net fair value losses	–	(253)	–	–	(253)
Transferred to income and expense	–	234	–	–	234
Transferred to assets and liabilities	–	(4)	–	–	(4)
Taxation on above items	(2)	(12)	(41)	241	186
31 December 2009	(6)	(244)	8	(345)	(587)

Foreign currency translation reserve

The foreign currency translation reserve comprises exchange translation differences on foreign currency net investments, offset by exchange translation differences on borrowings and derivatives classified as net investment hedges under the requirements of IAS 39. Exchange gains of £70 million (2009: losses of £22 million) on net investments in overseas undertakings have been offset in reserves against exchange losses of £nil (2009: gains of £105 million) on foreign currency borrowings and other instruments used for hedging purposes.

Cash flow hedging reserve

The cash flow hedging reserve comprises fair value movements on instruments designated as cash flow hedges under the requirements of IAS 39. Note 23 provides further detail on cash flow hedging.

Analysis of transfers from cash flow hedging reserve to Income Statement by line item	**2010 £m**	2009 £m
Gross profit	**236**	235
Net interest income	**–**	(1)
	236	234

31. Accumulated other comprehensive income/(loss) continued

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

	2010 £m	2009 £m
Within one year	(38)	(173)
Between one and five years	(6)	(75)
After five years	(12)	4
	(56)	(244)

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

32. Other equity

	Revaluation reserve £m	Treasury shares reserve £m	Share-based payments reserve £m	Merger reserve £m	Capital redemption reserve £m	Total £m
1 January 2010	26	(15)	87	467	16	581
Employee share schemes:						
Increase in treasury shares	–	(20)	–	–	–	(20)
Exercise of awards	–	13	(44)	–	–	(31)
Value of services provided	–	–	48	–	–	48
Taxation on above items	–	–	20	–	–	20
Exchange adjustments	1	–	2	–	–	3
31 December 2010	**27**	**(22)**	**113**	**467**	**16**	**601**

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

Merger reserve

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

Capital redemption reserve

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

Revaluation reserve

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

Treasury shares reserve

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

32. Other equity continued

Share-based payments reserve

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

33. Non-controlling interests

	2010 £m	2009 £m
1 January	**63**	60
Acquisition of new business	**–**	802
Profit on ordinary activities after taxation	**7**	12
Accumulated other comprehensive income	**–**	1
Purchase of non-controlling interests	**–**	(201)
Dividends paid	**–**	(11)
Disposal of business	**–**	(589)
Liquidation of business (i)	**(70)**	–
Exchange adjustments	**–**	(11)
31 December	**–**	63

(i) On 14 May 2010 GF Two Limited (formerly Goldfish Holdings Limited) and its subsidiary, GF One Limited (formerly Goldfish Bank Limited), both non-trading entities were put into liquidation. Lloyds Banking Group plc held a 30% economic interest in these entities until liquidation.

Non-controlling interests' share of profit from operations after taxation can be analysed as follows:

	2010			2009		
	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m
Continuing operations	**7**	**–**	**7**	2	–	2
Discontinued operations	**–**	**–**	**–**	48	(38)	10
	7	**–**	**7**	50	(38)	12

34. Notes to the Group Cash Flow Statement

(a) Reconciliation of Group operating profit to net cash flow from operating activities

	2010 £m	2009 £m
Continuing operations		
Group operating profit including share of result of joint ventures and associates	**3,074**	1,175
Less share of loss/(profits) of joint ventures and associates	**7**	(1)
Group operating profit before share of results of joint ventures and associates	**3,081**	1,174
Add back/(deduct):		
Amortisation and write-down of intangible assets	**176**	209
Depreciation and write-down of property, plant and equipment	**973**	708
Impairments of joint ventures and associates	**4**	–
Profit on sale of businesses	**(26)**	(54)
Profit on sale of property, plant and equipment and other intangible assets	**4**	–
Movement in provisions	**159**	301
Pension service cost	**129**	74
Pension contributions	**(441)**	(403)
Employee share scheme costs	**48**	38
Re-measurement of energy contracts (i)	**(1,097)**	135
Unrealised foreign exchange gains on operating cash and cash equivalents	**–**	1
Operating cash flows before movements in working capital	**3,010**	2,183
Decrease in inventories	**31**	35
Decrease in trade and other receivables (ii)	**162**	781
Increase in trade and other payables (ii)	**242**	83
Cash generated from continuing operations	**3,445**	3,082
Income taxes paid	**(412)**	(329)
Net petroleum revenue tax paid	**(128)**	(174)
Interest received	**5**	13
Interest paid	**(11)**	(3)
Payments relating to exceptional charges	**(223)**	(203)
Net cash flow from continuing operating activities	**2,676**	2,386

34. Notes to the Group Cash Flow Statement continued

	2010 £m	2009 £m
Discontinued operations		
Operating profit/(loss) including share of result of joint ventures and associates	67	(46)
Less share of loss of joint ventures and associates	–	2
Operating profit/(loss) before share of joint ventures and associates	67	(44)
(Deduct)/add back:		
Amortisation and write-down of intangible assets	–	41
Depreciation and write-down of property, plant and equipment	–	25
Movement in provisions	4	25
Re-measurement of energy contracts	(42)	49
Operating cash flows before movements in working capital	29	96
Decrease in inventories	–	7
(Increase)/decrease in receivables	(151)	337
Increase/(decrease) in payables	136	(168)
Income taxes paid	(6)	(10)
Interest paid	(1)	(1)
Net cash flow from discontinued operating activities	7	261
Net cash flow from operating activities	2,683	2,647

(i) Adds back unrealised losses arising from re-measurement of energy contracts, including those related to proprietary trading activities.
(ii) Includes net inflow of £466 million of cash collateral in 2010 (2009: net outflow of £79 million).

(b) Net debt

	2010 £m	2009 £m
Current borrowings (note 26)	(77)	(86)
Non-current borrowings (note 26)	(3,959)	(4,594)
Less:		
Cash and cash equivalents	467	1,294
Securities – current	23	74
Securities – non-current	234	176
	(3,312)	(3,136)

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

	2010 £m	2009 £m
Net decrease in cash and cash equivalents	(833)	(1,569)
Cash and cash equivalents of disposal groups classified as held for sale	16	(19)
	(817)	(1,588)
Add back/(deduct):		
Net purchase of securities	56	128
Cash inflow from additional debt	(267)	(1,887)
Cash outflow from payment of capital element of finance leases	23	22
Cash outflow from repayment of other debt	928	872
	(77)	(2,453)
Revaluation of:		
Securities	7	14
Loans and other borrowings	(40)	15
	(110)	(2,424)
Increase in interest payable on loans and other borrowings	(2)	(25)
Acquisitions	–	(477)
Disposals	(56)	298
Exchange adjustments	(8)	4
Other non-cash movements	–	(1)
Movement in net debt	(176)	(2,625)
Net debt at 1 January	(3,136)	(511)
Net debt at the end of the year	(3,312)	(3,136)

(d) Exploration and evaluation cash flows

Included within the £661 million (2009: £604 million) purchase of intangible assets in investing activities is £224m (2009: £46 million) relating to exploration and evaluation of oil and gas assets.

34. Notes to the Group Cash Flow Statement continued

(e) Relationship between current tax charge and taxes paid	UK £m	North America £m	Other £m	2010 £m	2009 £m
Current tax charge:					
Corporation tax	289	28	(26)	**291**	158
Petroleum revenue tax	223	–	–	**223**	112
	512	**28**	**(26)**	**514**	270
Taxes paid:					
Corporation tax	368	44	–	**412**	329
Petroleum revenue tax	128	–	–	**128**	174
	496	**44**	**–**	**540**	503

Differences between current tax charged and taxes paid arose principally due to the following factors:

- UK corporation tax is paid, based on estimated profits, partly during the year and partly in the following year. Fluctuations in profits from year to year may therefore give rise to divergence between the charge for the current year and taxes paid; and
- Petroleum revenue tax payments are based on income realised in the preceding period, with subsequent adjustments to reflect actual profits. Variations in production from period to period may therefore lead to temporary differences between tax charged and tax paid.

35. Share-based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders. Centrica operates nine employee share schemes.

(a) Summary of principal share-based payment plans and movements in the number of shares and options outstanding

Deferred and Matching Share Scheme (DMSS)

Awards under the DMSS are generally reserved for employees within the senior executive group. Under normal conditions the grant date of the scheme is the first day of each bonus year. This is followed by a vesting period of four years, being the bonus year plus a three-year performance period. The fair value of the award reflects the market value of the shares at the grant date. The scheme comprises three separate elements:

(i) Deferred shares

The scheme requires participants to defer between 20% and 40% of their annual pre-tax bonus into the scheme. The shares are held in trust over the three-year performance period, during which time they cannot be withdrawn. An employee who leaves prior to the vesting date will forfeit their right to the shares (except where permitted by the rules of the scheme). All shares held in trust will be eligible to receive dividends. The number of shares deferred is estimated from the participant's maximum bonus and the likelihood of bonus payout in the bonus year. Subsequent revisions are made based on the actual bonus paid in the year.

(ii) Investment shares

The scheme allows participants to elect to invest an additional amount of their annual bonus into the scheme up to a maximum of 50% of their total potential after-tax bonus for the year. This 50% limit includes the pre-tax amount automatically deferred each year. The shares may be funded directly from the employee (or through a release of the employee's Long Term Incentive Scheme (LTIS) shares at the Company's discretion), and thus the shares do not attract an IFRS 2 charge.

(iii) Matching shares

Deferred and investment shares will be matched with conditional matching shares, which will be released upon the achievement, over a three-year performance period, of three-year Group economic profit performance targets. Group economic profit is calculated by taking adjusted Group operating profit (as defined in note 6) after tax and subtracting a charge for capital employed based on the Group's weighted average cost of capital. Further information on the operation of the DMSS and related performance conditions can be found on pages 54 to 55. The likelihood of achieving the performance conditions is taken into account in calculating the number of awards expected to vest. Estimates are made in year one and revised in subsequent years. An employee who leaves prior to the vesting date will forfeit their right to the shares (except where permitted by the rules of the scheme).

The number of shares originally granted and fair value allocated are estimated on the grant date and then adjusted following the announcement of the actual annual performance bonus and subsequent investment by participants. A reconciliation of movements in allocations of deferred and matching shares actually made is shown in the table at the bottom of this section. Details of the fair values of awards granted and related assumptions are included in section (c) below.

35. Share-based payments continued

Executive Share Option Scheme (ESOS)

Under the ESOS, the Board may grant options over shares in Centrica plc to employees of the Group. Options are granted with a fixed exercise price equal to the market price of the shares at the legal date of grant which approximates, or is the same as, the grant date for accounting purposes, and are generally reserved for employees within the senior executive group. Options granted under the ESOS have all vested and became exercisable in full on the third anniversary of the last date of grant in 2006. The exercise of options is subject to continued employment within the Group (except where permitted by the rules of the scheme). Performance conditions are non-market based and therefore not included in the fair value calculations. Early exercise has been taken into account by estimating the expected life of the options. A reconciliation of option movements is as follows:

	2010		2009	
	Number in thousands	**Weighted average exercise price**	Number in thousands	Weighted average exercise price
Outstanding at start of the year	**11,180**	**£2.15**	17,986	£2.09
Granted	**–**	**–**	–	–
Exercised	**(6,148)**	**£2.09**	(6,242)	£1.95
Forfeited	**(20)**	**£2.18**	(564)	£2.33
Outstanding at end of the year	**5,012**	**£2.24**	11,180	£2.15
Exercisable at end of the year	**5,012**	**£2.24**	11,180	£2.15

For options outstanding at the end of the period, the range of exercise prices and average remaining life was as follows:

2010				2009			
Range of exercise prices	**Weighted average exercise price**	**Number of shares in thousands**	**Average remaining contractual life years**	Range of exercise prices	Weighted average exercise price	Number of shares in thousands	Average remaining contractual life years
£1.30-£1.39	**£1.31**	**306**	**2.2**	£1.30–£1.39	£1.31	1,256	3.2
£1.90-£1.99	**£1.99**	**594**	**3.2**	£1.90–£1.99	£1.99	1,239	4.2
£2.00-£2.09	**£2.03**	**1,562**	**3.4**	£2.00–£2.09	£2.03	3,298	4.5
£2.10-£2.19	**–**	**–**	**–**	£2.10–£2.19	£2.14	823	1.7
£2.20-£2.29	**£2.24**	**61**	**4.7**	£2.20–£2.29	£2.24	184	5.7
£2.50-£2.59	**£2.54**	**2,489**	**5.6**	£2.50–£2.59	£2.54	4,380	6.4
	£2.24	**5,012**	**4.4**		£2.15	11,180	4.9

For options exercised during the period, the weighted average share price at the date of exercise was £2.98 (2009: £2.57).

Long Term Incentive Scheme (LTIS)

Under the LTIS, allocations of shares in Centrica plc are generally reserved for employees at senior management level. The number of shares to be released to participants is calculated subject to the Company's total shareholder return (TSR) and earnings per share (EPS) growth during the three years following the grant date. Shares are released to participants immediately following the end of the period in which performance is assessed, however release of shares is subject to continued employment within the Group at the date of release (except where permitted by the rules of the scheme). The vesting of half of each award is made on the basis of TSR performance and is valued using a Monte Carlo simulation model. The vesting of the remaining half of awards is dependent on EPS growth. This is deemed to be a non-market condition under IFRS 2 and therefore the fair value of these awards is considered to be the market value at the grant date. The likelihood of achieving the performance conditions is taken into account in calculating the number of awards expected to vest. Further details on the operation of LTIS including related performance conditions are provided on pages 55 and 56.

For shares released during the period, the weighted average share price was £2.98 (2009: £2.32). The number of shares vested at the end of the year was 50,346 (2009: 82,632). A reconciliation of movements in allocations is shown in the table at the bottom of this section. Details of the fair values of awards granted and related assumptions are included in section (c) below.

Sharesave

Under Sharesave, the Board may grant options over shares in Centrica plc to all UK-based employees of the Group. To date, the Board has approved the grant of options with a fixed exercise price equal to 80% of the average market price of the shares for the three days prior to invitation which is three to four weeks prior to the grant date. Employees pay a fixed amount from salary into a savings account each month, and may elect to save over three and/or five years. At the end of the savings period, employees have six months in which to exercise their options using the funds saved. If employees decide not to exercise their options, they may withdraw the funds saved, and the options expire six months after maturity. Exercise of options is subject to continued employment within the Group (except where permitted by the rules of the scheme). Details of the fair values of awards granted and related assumptions are included in section (b) below.

35. Share-based payments continued

A reconciliation of movements in allocations is as follows:

	2010 Number in thousands	2010 Weighted average exercise price	2009 Number in thousands	2009 Weighted average exercise price
Outstanding at start of the year	**45,653**	**£2.09**	38,186	£2.20
Granted	**12,195**	**£2.28**	25,103	£1.94
Exercised	**(7,060)**	**£2.16**	(8,882)	£1.98
Forfeited	**(3,666)**	**£2.11**	(8,376)	£2.27
Expired	**(239)**	**£2.54**	(378)	£2.03
Outstanding at end of the year	**46,883**	**£2.12**	45,653	£2.09
Exercisable at end of the year	**11**	**£2.41**	16	£2.05

For options outstanding at the end of the year, the range of exercise prices and the average remaining life was as follows:

2010 Range of exercise prices	2010 Weighted average exercise price	2010 Number of shares in thousands	2010 Average remaining contractual life years	2009 Range of exercise prices	2009 Weighted average exercise price	2009 Number of shares in thousands	2009 Average remaining contractual life years
£1.60–£1.69	**–**	**–**	**–**	£1.60–£1.69	£1.67	3,181	0.3
£1.90–£1.99	**£1.94**	**21,790**	**2.3**	£1.90–£1.99	£1.94	23,817	3.3
£2.10–£2.19	**£2.12**	**2,515**	**0.4**	£2.10–£2.19	£2.12	2,670	1.4
£2.20–£2.29	**£2.28**	**20,791**	**2.3**	£2.20–£2.29	£2.27	10,214	2.3
£2.50–£2.59	**£2.59**	**1,787**	**1.4**	£2.50–£2.59	£2.59	5,771	1.1
	£2.12	**46,883**	**2.2**		£2.09	45,653	2.5

For options exercised during the year, the weighted average share price at the date of exercise was £2.90 (2009: £2.36).

Share Award Scheme (SAS)

Under the SAS, allocations of shares in Centrica plc are made to selected employees at middle management levels, based on recommendation by the Chief Executive and the Group Director, Human Resources. There is no contractual eligibility for SAS and each year's award is made independently from previous awards. Allocations are subject to no performance conditions and vest unconditionally subject to continued employment within the Group (except where permitted by the rules of the scheme) in two stages – half of the award vesting after two years, the other half vesting after three years. On vesting, additional shares are awarded or a cash payment is made to reflect dividends that would have been paid on the allocations during the vesting period. The fair value is therefore considered to be the market value at the date of grant.

For shares released during the year, the weighted average share price at the date of release was £2.97 (2009: £2.31). A reconciliation of movements in allocations is shown in the table at the bottom of this section. Details of the fair values of awards granted and related assumptions are included in section (c) below.

Deferred Bonus Plan (DBP)

Awards under the DBP are generally reserved for a select group of employees. Under normal conditions the grant date of the plan is the first day of each bonus year. This is followed by a vesting period of three years, being the bonus year plus a two-year employment period (for awards made in 2010), and the bonus year plus a two-year performance period (for awards made in 2011).

The plan was first operated in 2010, in respect of the bonus period from the acquisition of the Venture business until the end of the 2009 financial year. The plan allowed participants to elect to defer up to 100% of their bonus into the plan. Deferred shares were matched with one and a half matching shares which will vest unconditionally for employees after being held for two years.

From 2011 onwards, the plan will require participants to defer 20% of their annual bonus into the plan (as deferred shares) and allow participants to elect to invest up to a further 30% of their annual bonus (as investment shares). Deferred and investment shares will be matched with conditional matching shares, ranging between one for one and two for one shares, dependent on an employee's grade. The vesting of matching shares will be subject to the satisfaction of company performance conditions. The likelihood of achieving the performance conditions is taken into account in calculating the number of awards expected to vest. Vesting of deferred awards and all matching awards is subject to continued employment within the Group (except where permitted by the rules of the plan). On vesting, additional shares are awarded or a cash payment is made to reflect the dividends that would have been paid on the allocations during the vesting period.

The number of shares originally granted and fair value allocated are estimated on the grant date and then adjusted following the announcement of the actual annual performance bonus and subsequent investment by participants. A reconciliation of the movement in allocations of deferred and matching shares actually made is shown in the table at the bottom of this section. Details of the fair values of awards granted under IFRS 2 and related assumptions are included in section (c) below.

35. Share-based payments continued

A reconciliation of movements in allocations for the DMSS, LTIS, SAS and DBP schemes is as follows:

				2010				2009
Number of shares (in thousands)	**DMSS**	**LTIS**	**SAS**	**DBP**	DMSS	LTIS	SAS	DBP
Balance at start of year	**11,425**	**29,968**	**5,487**	**–**	6,564	26,497	3,607	–
Granted	**4,394**	**10,366**	**3,187**	**702**	5,708	13,111	3,370	–
Released	**(2,791)**	**(3,438)**	**(1,354)**	**–**	–	(6,319)	(1,191)	–
Forfeited (i)	**(344)**	**(4,599)**	**(332)**	**(9)**	(847)	(3,321)	(299)	–
Balance at end of year	**12,684**	**32,297**	**6,988**	**693**	11,425	29,968	5,487	–

(i) LTIS forfeitures include 2,291,970 (2009: 2,236,299) shares forfeited for non-performance reasons.

(b) Fair values and associated details of options granted under Sharesave

	2010	2009
No. of options granted (in thousands)	**12,195**	25,103
Weighted average fair value at grant date	**£0.67**	£0.49
Weighted average share price at grant date	**£2.97**	£2.30
Weighted average exercise price	**£2.28**	£1.94
Expected volatility (i)	**31.4%**	29.4%
Contractual option life	**4.2 years**	4.3 years
Expected life	**3.9 years**	4.3 years
Vesting period	**3.9 years**	4.0 years
Expected dividend yield	**4.5%**	5.0%
Risk-free interest rate (ii)	**2.3%**	2.4%
Expected forfeitures	**30%**	31%

(i) The expected volatility is based on historical volatility over the last three years.
(ii) The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the expected option life.

(c) Fair values and associated details of shares granted under the principal schemes

				2010				2009
	DMSS	**LTIS**	**SAS**	**DBP**	DMSS	LTIS	SAS	DBP
No. of equity instruments granted (in thousands)	**4,855**	**10,366**	**3,187**	**1,160**	5,032	13,111	3,370	1,750
Weighted average fair value at grant date	**£3.32**	**£2.42**	**£2.97**	**£3.32**	£2.81	£1.65	£2.22	£2.81
Expected performance lapses	**0%**	**n/a**	**n/a**	**0%**	0%	n/a	n/a	n/a
Expected dividend yield	**n/a**	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a
Vesting period	**4 years**	**3 years**	**2.5 years**	**3 years**	4 years	3 years	2.5 years	3 years
Expected volatility (i)	**n/a**	**30.4%**	**n/a**	**n/a**	n/a	31.2%	n/a	n/a
Expected forfeitures	**10%**	**20%**	**18%**	**25%**	25%	25%	20%	0%
Risk-free rate (ii)	**n/a**	**1.8%**	**n/a**	**n/a**	n/a	2.2%	n/a	n/a
Average volatility of FTSE 100	**n/a**	**27.2%**	**n/a**	**n/a**	n/a	31.2%	n/a	n/a
Average cross-correlation of FTSE 100 (iii)	**n/a**	**48.3%**	**n/a**	**n/a**	n/a	39.8%	n/a	n/a

(i) The expected volatility is based on historical volatility over the last three years.
(ii) The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the expected option life.
(iii) The cross-correlation of the FTSE 100 has been obtained from a model which calculates the correlation between Centrica's historical share price and each of the remaining FTSE 100 companies over the period commensurate with the performance period of the awards.

(d) Other share schemes

Below is a brief summary of the three other schemes. These are significantly smaller than the principal share schemes discussed above and therefore no detailed disclosures have been included for these schemes.

Restricted Share Scheme (RSS)

Awards under the RSS are normally reserved for certain selected key employees at senior management levels, based on recommendation by the Chief Executive and the Group Director, Human Resources. Neither the Executive Directors nor the next tiers of executive management are eligible to participate. There is no contractual eligibility for RSS and each year's award is made independently from previous awards. Allocations are not normally subject to performance conditions and normally vest unconditionally subject to continued employment within the Group (except where permitted by the rules of the scheme) in one or more stages dependent on the individual awards. On vesting, additional shares are awarded or a cash payment is made to reflect dividends that would have been paid on the allocations during the vesting period.

35. Share-based payments continued

Share Incentive Plan (SIP) and Direct Energy Employee Share Purchase Plan (ESPP)

SIP relates to UK employees and has a three year vesting period. ESPP relates to North America employees and has a two year vesting period. Under both SIP and ESPP employees may purchase 'partnership shares' through monthly salary deductions. The Company then awards one 'matching share' for every two partnership shares purchased. Partnership shares may be withdrawn at any time; however, matching shares are forfeited if the related partnership shares are withdrawn within the vesting period. Matching shares in the SIP vest unconditionally for employees after being held for three years and in the ESPP after being held for two years. Vesting of matching shares is also subject to continued employment within the Group (except where permitted by the rules of the plans). Within the UK there is a maximum of 22 matching shares per employee per month. Both UK partnership shares and matching shares are held in trust. Matching shares are valued at the market price at the grant date.

36. Pensions

Pension schemes

The majority of the Group's UK employees at 31 December 2010 were members of one of the three main schemes: the Centrica Pension Scheme, the Centrica Engineers Pension Scheme and the Centrica Pension Plan (formerly known as the Centrica Management Pension Scheme) (together the 'registered pension schemes'). The Centrica Pension Scheme (final salary section) and the Centrica Pension Plan (a final salary scheme) were closed to new members from 1 April 2003 and 1 July 2003 respectively. On 1 January 2009 the majority of the active members of the Centrica Pension Scheme (final salary section) were transferred to the Centrica Pension Plan (2008 section). The Centrica Pension Scheme also has a career average salary section which was closed to new members with effect from 1 July 2008 and replaced by a defined contribution section which is open to new members. The Centrica Engineers Pension Scheme (final salary section) was closed to new members from 1 April 2006, and a career average salary section was added to the scheme at that date. These schemes are defined benefit schemes and are tax-approved funded arrangements. They are subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employer contributions which, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes.

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

The latest full actuarial valuations were carried out at the following dates: the registered pension schemes at 31 March 2009, the Unapproved Pension Scheme at 6 April 2010 and the Direct Energy Marketing Limited pension plan at 14 June 2008. These have been updated to 31 December 2010 for the purposes of meeting the requirements of IAS 19. Investments have been valued for this purpose at market value.

Governance

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

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

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

Major assumptions used for the actuarial valuation	**31 December 2010 %**	31 December 2009 %
Rate of increase in employee earnings	**4.7**	4.8
Rate of increase in pensions in payment and deferred pensions	**3.7**	3.8
Discount rate	**5.7**	6.0
RPI inflation assumption	**3.7**	3.8

On 8 July 2010 the Government announced that the inflation measure for minimum increases in occupational schemes was to be switched from the Retail Price Index (RPI) to the Consumer Price Index (CPI). This change only impacts the revaluation of deferred pensions in the main section of the Centrica Pension Plan. The resulting reduction in defined benefit obligation of £36 million has been treated as a change in assumption and recognised in the Statement of Comprehensive Income. The inflation assumption for CPI at 31 December 2010 is 3.0%.

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

36. Pensions continued

Life expectancy at age 65 for a member	2010 Male Years	2010 Female Years	2009 Male Years	2009 Female Years
Currently aged 65	**22.6**	**24.0**	22.5	23.9
Currently aged 45	**24.4**	**25.3**	24.3	25.2

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

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

Impact of changing material assumptions	2010 Increase/ decrease in assumption	2010 Indicative effect on scheme liabilities %	2009 Increase/ decrease in assumption	2009 Indicative effect on scheme liabilities %
Rate of increase in employee earnings	**0.25%**	**+/–1**	0.25%	+/–1
Rate of increase in pensions in payment and deferred pensions	**0.25%**	**+/–5**	0.25%	+/–5
Discount rate	**0.25%**	**–/+6**	0.25%	–/+6
Inflation assumption	**0.25%**	**+/–6**	0.25%	+/–6
Longevity assumption	**1 year**	**+/–2**	1 year	+/–2

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

	2010 Expected long term rate of return per annum %	2010 Valuation £m	2009 Expected long term rate of return per annum %	2009 Valuation £m
UK equities	**8.0**	**659**	8.3	1,101
Non-UK equities	**8.0**	**1,261**	8.3	1,106
High-yield debt	**7.5**	**229**	6.6	127
Fixed-interest bonds	**5.5**	**1,182**	6.0	524
Index-linked gilts	**4.2**	**773**	4.5	364
Property	**7.6**	**134**	8.0	55
Cash pending investment	**5.6**	**97**	6.1	256
Total fair value of plan assets	**6.6**	**4,335**	7.4	3,533
Present value of defined benefit obligation		**(4,574)**		(4,098)
Net liability recognised in the Balance Sheet		**(239)**		(565)
Associated deferred tax asset recognised in the Balance Sheet		**67**		158
Net pension liability		**(172)**		(407)
Net liability recognised in the Balance Sheet comprises:				
Surpluses		**–**		–
Deficits		**(239)**		(565)
		(239)		(565)

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

Included within the schemes' liabilities above are £33 million (2009: £31 million) relating to unfunded pension arrangements. Included within non-current securities are £52 million (2009: £48 million) of investments, held by the Law Debenture Trust on behalf of the Company, as security in respect of the Centrica Unapproved Pension Scheme.

Based on the triennial valuation at 31 March 2009, the Company and the trustees of the registered pension schemes agreed a schedule for deficit payments. An amount of £308 million has been paid in the year to 31 December 2010 and the following further deficit payments will be made: £6 million in 2011 and £57 million per annum from 2012 to 2016. In addition, a charge over the Humber power station has been provided as additional security for the trustees.

36. Pensions continued

Analysis of the amount charged to the Income Statement	2010 £m	2009 £m
Current service cost – continuing operations [i]	115	68
Loss on curtailment	14	6
Net charge to operating profit	129	74
Current service cost – discontinued operations	–	2
Net charge to the Income Statement	129	76

(i) In addition to current service cost on the Group's defined benefit pension schemes, the Group also charged £5 million (2009: £3 million) to operating profit in respect of defined contribution pension schemes.

Analysis of the amount credited to notional interest	2010 £m	2009 £m
Expected return on pension scheme assets	275	209
Interest on pension scheme liabilities	(249)	(185)
Net credit to notional interest income	26	24

Analysis of the actuarial (loss)/gain recognised in the Statement of Comprehensive Income	2010 £m	2009 £m
Actuarial gain (actual return less expected return on pension scheme assets)	154	344
Experience gains/(losses) arising on the scheme liabilities	74	(104)
Changes in assumptions underlying the present value of the schemes' liabilities	(237)	(1,044)
Actuarial loss to be recognised in accumulated other comprehensive loss, before adjustment for taxation	(9)	(804)
Cumulative actuarial (losses)/gains recognised in reserves at 1 January, before adjustment for taxation	(480)	324
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	(489)	(480)

Five-year history of surplus/(deficit)	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Plan assets	4,335	3,533	2,642	3,327	2,988
Defined benefit obligation	(4,574)	(4,098)	(2,755)	(3,230)	(3,284)
Surplus/(deficit)	(239)	(565)	(113)	97	(296)

Five-year history of experience gains and losses	2010	2009	2008	2007	2006
Difference between the expected and actual return on scheme assets:					
Amount (£m)	154	344	(1,121)	(38)	95
Percentage of scheme assets	3.6%	9.7%	42.4%	1.1%	3.2%
Experience gains and losses on scheme liabilities:					
Amount (£m)	74	(104)	–	(16)	145
Percentage of the present value of scheme liabilities	1.6%	2.5%	–	0.5%	4.4%
Total actuarial (loss)/gain recognised in the Statement of Comprehensive Income:					
Amount (£m)	(9)	(804)	(399)	284	475
Percentage of the present value of scheme liabilities	0.2%	19.6%	14.5%	8.8%	14.5%

Movement in the defined benefit obligation during the year	2010 £m	2009 £m
1 January	4,098	2,755
Current service cost	115	70
Loss on curtailment	14	6
Interest on scheme liabilities	249	185
Plan participants' contributions	33	30
Benefits paid from schemes	(104)	(97)
Benefits paid by company	(1)	(1)
Actuarial loss	163	1,148
Acquisitions of businesses	–	63
Disposals of businesses	–	(62)
Exchange adjustments	7	1
31 December	4,574	4,098

36. Pensions continued

Movement in plan assets during the year	2010 £m	2009 £m
1 January	**3,533**	2,642
Expected return on scheme assets	**275**	209
Actuarial gain	**154**	344
Employer contributions	**441**	403
Plan participants' contributions	**33**	30
Benefits paid from schemes	**(104)**	(97)
Acquisitions of businesses	**–**	46
Disposals of businesses	**–**	(45)
Exchange gains	**3**	1
31 December	**4,335**	3,533

Estimated future employer contribution rates (pensionable salary and percentage of pensionable salary) for the year ended 31 December 2011	£m	%
Centrica Pension Scheme – Final salary section	**4**	**31.9**
Centrica Pension Scheme – Career average salary section	**96**	**16.3**
Centrica Engineers Pension Scheme – Final salary section	**173**	**24.6**
Centrica Engineers Pension Scheme – Career average salary section	**74**	**14.2**
Centrica Pension Plan – Management section	**70**	**26.7**
Centrica Pension Plan – 2008 section	**120**	**25.3**

37. Business combinations

Trinidad and Tobago

On 5 August 2010, the Group acquired full control of a business constituting a portfolio of interests in a number of gas assets located off the coast of Trinidad and Tobago for total cash consideration of $375 million (£247 million). The portfolio consists of a producing gas field which supplies gas into the Atlantic LNG facility as well as areas of development and exploration. The acquisition increases the gas reserves of the Group and provides access to the Atlantic basin LNG market. The acquisition is included within the Upstream UK – Upstream gas and oil segment.

Goodwill of £68 million arose on the acquisition. This is principally attributable to deferred tax arising on the fair value adjustments but also to an element of going concern value that is expected to give access to future opportunities and benefits in the region. None of the goodwill recognised is expected to be deductible for tax purposes. The fair values disclosed in the table below are provisional due to the complicated arrangements in the production sharing agreement and the interactions with the local tax regulations. Acquisition costs were negligible.

Wildcat Hills

On 30 September 2010, the Group acquired full control of a business constituting a portfolio of interests in a number of gas assets located to the West of Calgary in Canada for total cash consideration of CAN$352 million (£218 million). The portfolio consists of 97 natural gas and producing wells and working interests in three processing facilities. The acquisition increases the natural gas reserves of the Group and provides additional gas to meet supply requirements of the North American retail customers. The acquisition is included within the North America – Upstream and wholesale energy segment.

Goodwill of £nil arose on the acquisition. The fair values disclosed in the table below are provisional pending finalisation of oil and gas reserves acquired and due to ongoing work occurring on the decommissioning provision and abandonment asset.

Acquisition costs of £1 million were incurred as part of the acquisition and expensed to the Income Statement as part of operating costs.

Clockwork

On 1 July 2010, the Group acquired the business and net assets of Clockwork Home Services Inc and 100% of the shares of Air Time Canada Inc, together known as Clockwork. The total cash consideration for the acquisition was $183 million (£122 million), which includes deferred consideration of $17 million (£11 million) payable in 2012.

Clockwork provides heating, air conditioning, ventilation, plumbing and electrical services in the US and Canada. The acquisition supports the Group's existing home services business in the US and Canada by providing increased geographical coverage, as well as expanding Direct Energy's shared expertise. The acquisition is included within the North America – Residential and business services segment.

Goodwill of £87 million arose on the acquisition. This is principally attributable to the synergies relating to procurement, location rationalisation and overhead realignment. £67 million of the goodwill recognised is expected to be deductible for tax purposes.

For acquired trade receivables, the fair value and gross amount receivable is £4 million and £5 million respectively. £1 million is the best estimate of contractual cash flows not expected to be collected. The fair value and gross amount receivable of other acquired receivables is £3 million.

37. Business combinations continued

The fair values disclosed in the table below are provisional pending finalisation of working capital and due to ongoing work on the intangible assets and deferred revenue balances at acquisition.

Acquisition costs of £1 million were incurred as part of the acquisition and were expensed to the income statement as part of operating costs.

Fair values of the identifiable assets acquired and liabilities assumed

	Trinidad and Tobago £m	Wildcat Hills £m	Clockwork £m
Intangible assets	6	35	42
Property, plant and equipment – development and producing gas and oil field assets	245	213	–
Property, plant and equipment – other	–	–	4
Cash and cash equivalents	–	–	2
Inventories	–	–	2
Trade and other receivables: current	–	1	7
Trade and other payables: current	–	–	(15)
Trade and other payables: non-current	–	–	(7)
Deferred tax liabilities	(55)	–	–
Provisions for other liabilities and charges: non-current	(17)	(31)	–
Net assets acquired	**179**	**218**	**35**
Goodwill	68	–	87
Total consideration	**247**	**218**	**122**
Consideration comprises:			
Cash consideration	247	218	111
Deferred cash consideration	–	–	11

	Trinidad and Tobago £m	Wildcat Hills £m	Clockwork £m
Revenue incurred since the acquisition date and included within the Group Income Statement	15	16	59
Profit/(loss) incurred since the acquisition date and included within the Group Income Statement	–	(1)	(1)

Pro forma information

The pro forma consolidated results of the Group, as if the acquisitions of Clockwork, Trinidad and Tobago and Wildcat Hills had been made at the beginning of the period, would include revenue from continuing operations of £22,564 million (compared to reported Group revenue of £22,423 million and profit after taxation of £1,952 million (compared to reported profit after taxation of £1,942 million).

In preparing the pro forma results, revenue and costs have been included as if the businesses were acquired on 1 January 2010 and inter-company transactions had been eliminated. This information is not necessarily indicative of the results of the combined Group that would have occurred had the purchases actually been made at the beginning of the period presented, or indicative of the future results of the combined Group.

Other acquisitions

During the year the following acquisitions occurred as described below. Collectively the acquisitions are immaterial to the Group's financial statements. The fair values are provisional unless stated otherwise.

On 1 October 2010, the Group acquired the business and net assets of the gas and electricity services businesses of Connaught Compliance for total cash consideration of £11 million. Goodwill of £8 million arose on the acquisition. The business specialises in the installation, service and maintenance of commercial gas boilers and electrical systems. The acquisition supports the Group's existing provision of business services and is included within the Downstream UK – Business energy supply and services segment.

On 12 April 2010, the Group acquired 100% of the shares in Hillserve Limited for total cash consideration of £5 million. Goodwill of £3 million arose on the acquisition. Hillserve Limited is a regional installer of insulation based in North-West England. The acquisition supports the Group's intentions to develop its own insulation business within the UK. The acquisition is included within the Downstream UK – Residential energy supply segment.

On 6 December 2010, the Group acquired 100% of the shares in ECL Contracts Limited (ECL) for total cash consideration of £4 million. Goodwill of £3 million arose on the acquisition. ECL is a specialist external-wall insulation company. The acquisition supports the Group's aim to be the leading supplier of domestic insulation, and allows the Group to diversify its own product range beyond loft and cavity wall insulation into solid wall insulation. The acquisition is included within the Downstream UK – Residential energy supply segment.

37. Business combinations continued

On 28 April 2010, the Group acquired the business and net assets of REPower for total cash consideration of $5 million (£3 million). Goodwill of £nil arose on the acquisition. REPower is engaged in the development of prepayment software, processes and systems. The acquisition supports the Group's intentions of launching and commercialising pre-paid retail electricity in the North American electricity market. The acquisition is included within the North America – Residential energy supply segment.

On 29 March 2010, the Group acquired a number of producing gas assets in Craigmyle, Canada for total cash consideration of CAN$4 million (£2 million). Goodwill of £nil arose on the acquisition. The acquisition increases the gas reserves of the Group and creates operational synergies within Canada. The acquisition is included within the North America – Upstream and wholesale energy segment.

The Group also acquired Cool Planet Technologies Limited on 17 November 2010 for £1 million, JK Environmental Services (UK) Limited on 3 December 2010 for £1 million and 12 Dyno franchisees during 2010 for total consideration of £2 million.

2009 acquisitions – fair value updates

During the prior year, the Group acquired 100% of the issued share capital of Venture Production Plc (Venture) for total consideration of £1,253 million in a series of transactions occurring between 18 March 2009 and 9 November 2009. The Group obtained a controlling interest in Venture on 27 August 2009 and Venture was consolidated as a subsidiary of the Group from this date. The fair values disclosed in the 2009 Annual Report and Accounts were provisional as the Directors had not yet reached a final determination on all aspects of the fair value exercise at that time.

During the year the Directors have reached a final determination on all aspects of the fair value exercise. A number of revisions to the fair values disclosed in the 2009 Annual Report and Accounts were made. The key factors that led to these fair value revisions are described below. The revisions resulted in an overall decrease in the fair value of net assets of Venture and associated increase in goodwill at the date of acquisition of £50 million. These revisions are immaterial and so have not been adjusted in the prior year and accordingly have been reflected in the Group Balance Sheet at 31 December 2010.

	Key factors	Increase/(decrease) in fair value of net assets of Venture at acquisition date £m
Property, plant and equipment	Updated assumptions and estimates in respect of key inputs used in the valuation models for future contractual payments	(61)
Current liabilities	Updated assumptions and expectations in respect of key inputs used in the valuation of certain tax related liability positions	(4)
Provisions for other liabilities and charges	Updated assumptions and expectations in respect of key inputs used in the valuation of decommissioning liabilities	(7)
Net deferred tax liabilities	Updated assumptions and expectations in respect of the deferred tax arising plus the deferred tax effect of the above adjustments	22

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

Wind farm assets

On 5 February 2010 the Upstream UK – Power generation segment disposed of 50% of the issued share capital and 50% of the shareholder loan of Centrica (Lincs) Limited (Lincs) to Dong Wind (UK) Limited and Siemens Project Ventures GmbH for £55 million. Centrica has retained 50% of its interests in Lincs, which owns a wind farm under construction off the Lincolnshire coast. Centrica's investment in Lincs is now being treated as a joint venture due to the joint control that arises from this transaction.

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

European businesses

The European segment was classified as a discontinued operation from 30 June 2009 following the Group's decision to dispose of its 100% interests in Segebel S.A. (Segebel), Oxxio BV (Oxxio) in the Netherlands and Centrica Energía S.L. (Centrica Energía) in Spain.

The disposal of Segebel to EDF was completed on 26 November 2009.

The sale of Centrica Energía to Villar Mir Energía S.L. (VME) was completed on 4 November 2010 for total proceeds of €35 million (£29 million). The proceeds include a dividend of €21 million (£17 million) which was paid before the business was disposed of.

The sale process for the disposal of Oxxio has taken longer than anticipated when the assets were originally classified as held for sale and was therefore on-going during the year. Completion is anticipated during 2011. Accordingly Oxxio continued to be reported within discontinued operations during 2010. The group leases a power station in Rijnmond, the Netherlands, through a tolling agreement. This power station became operational in May 2010 and the initial expectation was that the agreement would be transferred with the Oxxio disposal so the results of the power station were included within discontinued operations. During December 2010 a decision was taken not to include the lease on the power station in the current sale process and its results have been removed from discontinued operations and included within the Upstream UK – Industrial and commercial segment. The comparatives have not been restated as the power station was not operational in 2009.

(a) Discontinued operations

The results of Centrica Energía and Oxxio, which continued to be reported within discontinued operations in 2010 are analysed as follows:

Year ended 31 December	2010 Business performance £m	2010 Exceptional items and certain re-measurements £m	2010 Results for the year £m	2009 Business performance £m	2009 Exceptional items and certain re-measurements £m	2009 Results for the year £m
Revenue	**590**	**–**	**590**	2,357	–	2,357
Cost of sales before exceptional items and certain re-measurements	**(514)**	**–**	**(514)**	(2,008)	–	(2,008)
Re-measurement of energy contracts	**–**	**69**	**69**	–	(123)	(123)
Cost of sales	**(514)**	**69**	**(445)**	(2,008)	(123)	(2,131)
Gross profit	**76**	**69**	**145**	349	(123)	226
Operating costs before exceptional items	**(78)**	**–**	**(78)**	(246)	–	(246)
Exceptional items	**–**	**–**	**–**	–	(24)	(24)
Operating costs	**(78)**	**–**	**(78)**	(246)	(24)	(270)
Share of profits/(losses) in joint ventures and associates, net of interest and taxation	**–**	**–**	**–**	2	(4)	(2)
Operating (loss)/profit	**(2)**	**69**	**67**	105	(151)	(46)
Net interest expense	**(1)**	**–**	**(1)**	(12)	–	(12)
(Loss)/profit from operations before taxation	**(3)**	**69**	**66**	93	(151)	(58)
Taxation on profit from operations	**(5)**	**(2)**	**(7)**	(53)	20	(33)
(Loss)/profit after taxation from operations	**(8)**	**67**	**59**	40	(131)	(91)
Net gain on disposal of Segebel and Energía (after taxation)	**3**	**–**	**3**	–	297	297
(Loss)/profit after taxation from discontinued operations	**(5)**	**67**	**62**	40	166	206
Attributable to:						
Equity holders of the parent	**(5)**	**67**	**62**	(8)	204	196
Non-controlling interests	**–**	**–**	**–**	48	(38)	10
	(5)	**67**	**62**	40	166	206

The 2009 comparatives additionally include the results of Segebel up to its disposal date.

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

(b) Disposal groups classified as held for sale

Assets, and associated liabilities, that are expected to be recovered principally through a sale transaction rather than continuing use are classified as held for sale on the face of the Balance Sheet, and presented separately from the assets and liabilities of the Group's continuing operations.

At 31 December 2010, the sale of Oxxio in the Netherlands had not completed and consequently the related assets and liabilities have been presented as held for sale on the face of the Balance Sheet as follows:

	£m
Goodwill	62
Other intangible assets	15
Property, plant and equipment	34
Derivative financial instruments: non-current	1
Trade and other receivables: current	330
Derivative financial instruments: current	10
Cash and cash equivalents	3
Assets of disposal groups classified as held for sale	**455**
Trade and other payables: current	(344)
Provisions for other liabilities and charges: current	(4)
Derivative financial instruments: current	(17)
Derivative financial instruments: non-current	(3)
Liabilities of disposal groups classified as held for sale	**(368)**
Net assets of disposal groups classified as held for sale	**87**
Total shareholders' equity	**87**

Trade and other receivables include £269 million financial assets and £61 million non-financial assets. £218 million of financial trade and other receivables relate to residential customers, £38 million relate to business customers and £13 million relate to treasury, trading and energy procurement counterparties, net of provisions for credit losses. Trade and other payables include £56 million financial liabilities and £288 million non-financial liabilities.

The fair value of financial instruments held by disposal groups classified as held for sale are equal to their carrying values.

The derivative financial instruments included in the Balance Sheet comprise energy derivatives – held for trading under IAS 39 and relate to short-term forward market purchases and sales of electricity. Net gains of £62 million associated with these derivatives were recognised in the Income Statement during 2010.

The derivative financial instruments held by discontinued operations are classified into the following fair value hierarchies (as defined in note 29):

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Energy derivatives – held for trading under IAS 39				
Financial assets	3	8	–	**11**
Financial liabilities	(5)	(15)	–	**(20)**

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

(c) Disposals

On 4 November 2010 the disposal of Centrica Energía resulted in a loss on disposal of £6 million. On 5 February 2010 the disposal of Lincs resulted in no gain or loss on disposal. The loss on disposal arising in the period from these transactions is as follows:

	Lincs £m	Centrica Energía £m
Non-current assets	42	1
Current assets	63	71
Current liabilities	(2)	(56)
Non-current liabilities	(103)	–
Total net assets disposed	**–**	**16**
Cash consideration	5	12
Hedging reserve released upon transfer of derivatives	(9)	–
Revaluation of retained interest	6	–
Disposal costs	(2)	(2)
Loss on disposal before taxation	–	(6)
Taxation on profit on disposal	–	–
Loss on disposal after taxation	**–**	**(6)**

On 11 August 2010 the Group disposed of its 100% interest in Hummingbird Oil Pte Ltd resulting in an exceptional gain on disposal of £25 million (see note 9). Hummingbird Oil Pte Ltd was a non-core investment acquired during the 2009 acquisition of Venture plc and was held at £nil net book value.

In 2009, the disposal of the Group's 100% interest in Segebel on 26 November 2009 resulted in a profit on disposal, net of taxation, of £297 million. During 2010, a surplus provision of £9 million relating to the disposal of Segebel was released.

The disposal of 50% of the Group's interest in GLID Wind Farms TopCo Limited on 11 December 2009 resulted in an exceptional profit on disposal, net of taxation, of £49 million.

39. Commitments and contingencies

(a) Commitments

Commitments in relation to the acquisition of property, plant and equipment	2010 £m	2009 £m
Construction of a power station at Langage	**–**	43
Construction of Lincs wind farm (i)	**–**	385
Gas field developments	**119**	116
Other power station capital expenditure	**52**	16
Other	**13**	3
	184	563

(i) The Lincs wind farm was disposed of on 5 February 2010, as described in note 38.

Commitments in relation to the acquisition of intangible assets	2010 £m	2009 £m
Renewable obligation certificates to be purchased from:		
Joint ventures (i)	**1,145**	578
Other parties	**631**	868
Carbon emissions certificates	**61**	326
Certified emission reduction certificates	**105**	110
Exploration activity	**80**	205
Other	**66**	40
	2,088	2,127

(i) Renewable obligation certificates are purchased from several joint ventures which produce power from wind energy. The commitments disclosed above are the gross contractual commitments and do not take into account the Group's economic interest in the joint venture.

39. Commitments and contingencies continued

Commitments in relation to other contracts	2010 £m	2009 £m
Liquefied natural gas capacity	629	675
Transportation capacity	666	689
Outsourcing of services	444	325
Other	414	444
	2,153	2,133

Commitments in relation to commodity purchase contracts	2010 £m	2009 (restated) (i) £m
Within one year (ii)	8,517	7,431
Between one and five years (iii)	21,287	20,275
After five years	10,616	14,149
	40,420	41,855

(i) Restated to net off amounts receivable under commodity sales contracts where there is a right of set-off with the counterparty.
(ii) Includes £132 million (2009: £144 million) in relation to discontinued operations, as described in note 38.
(iii) Includes £38 million (2009: £112 million) in relation to discontinued operations, as described in note 38.

The Group procures gas and electricity through a mixture of production from owned gas fields, power stations, wind farms and procurement contracts. Procurement contracts include short-term forward market purchases of gas and electricity at fixed and floating prices. They also include gas and electricity contracts indexed to market prices and long-term gas contracts with non-gas indexation. The commitments in relation to commodity purchase contracts disclosed above 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 above are based on the minimum quantities of gas that the Group is contracted to buy at estimated future prices.

The commitments in this note differ in scope and in basis from the maturity analysis of energy derivatives disclosed in note 22. Whilst the commitments in relation to commodity purchase contracts include all purchase contracts, only certain procurement and sales contracts are within the scope of IAS 39 and included in note 22. In addition, the volumes used in calculating principal values in note 22 are estimated using valuation techniques, rather than being based on minimum contractual quantities and in note 22 there is no offset of amounts receivable under commodity sales contracts where there is a right of set-off with the counterparty.

Commitments by associates and joint ventures	2010 £m	2009 £m
Share of associates' commitments	290	302
Share of joint ventures' commitments	319	2
	609	304

(b) Operating lease commitments

At 31 December, the total of future minimum lease payments under non-cancellable operating leases for each of the following years were:

	2010 £m	2009 £m
Within one year (i)	146	109
Between one and five years (ii)	331	214
After five years	486	116
	963	439

	2010 £m	2009 £m
The total of future minimum sub-lease payments expected to be received under non-cancellable operating sub-leases at 31 December	22	19
Lease and sub-lease payments recognised as an expense in the year were as follows:		
Minimum lease payments	101	68
Contingent rents – renewables (iii)	115	113
Contingent rents – other	4	3

(i) Includes £1 million (2009: £2 million) in relation to discontinued operations, as described in note 38.
(ii) Includes £2 million (2009: £2 million) in relation to discontinued operations, as described in note 38.
(iii) The Group has entered into long-term arrangements with renewable providers to purchase physical power, renewable obligation certificates and levy exemption certificates from renewable sources. Payments made under these contracts are contingent upon actual production and therefore the commitment to a minimum lease payment included above is £nil (2009: £nil). Payments made for physical power are charged to the Income Statement as incurred and disclosed as contingent rents.

39. Commitments and contingencies continued

(c) Decommissioning costs

The Group has provided certain guarantees and indemnities in respect of decommissioning costs. The most significant is to BG Group plc in respect of the decommissioning costs of the Morecambe gas fields. The Company and its wholly owned subsidiary, Hydrocarbon Resources Limited, have agreed to provide security, in respect of such guarantees and indemnities, to BG International Limited, which, as original licence holder for the Morecambe gas fields, will have exposure to decommissioning costs relating to the Morecambe gas fields should liabilities not be fully discharged by the Group. The security is to be provided when the estimated future net revenue stream from the Morecambe gas fields falls below 150% of the estimated cost of such decommissioning. The nature of the security may take a number of different forms and will remain in force until the costs of such decommissioning have been irrevocably discharged and the relevant Department of Business, Innovation and Skills (formerly Department of Business Enterprise and Regulatory Reform) decommissioning notice in respect of the Morecambe gas fields has been revoked.

(d) Contingent liabilities

There are no material contingent liabilities.

(e) Guarantees and indemnities

In connection with the Group's energy trading, transportation and upstream activities, certain Group companies have entered into contracts under which they may be required to prepay or provide credit support or other collateral in the event of a significant deterioration in creditworthiness. The extent of credit support is contingent upon the balance owing to the third party at the point of deterioration.

40. Related party transactions

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

	2010		2009	
	Sale of goods and services £m	**Purchase of goods and services £m**	Sale of goods and services £m	Purchase of goods and services £m
Joint ventures:				
Barrow Offshore Wind Limited	**–**	**21**	–	22
Braes of Doune Wind Farm (Scotland) Limited	**–**	**13**	–	17
Glens of Foundland Wind Farm Limited	**–**	**3**	–	–
GLID Wind Farms TopCo Limited	**–**	**8**	–	9
Inner Dowsing Wind Farm Limited	**–**	**19**	–	–
Lynn Wind Farm Limited	**–**	**18**	–	–
Associates:				
Alertme.com Limited	**–**	**1**	–	–
Lake Acquisitions Limited	**278**	**284**	–	1
North Sea Infrastructure Partners Limited	**–**	**24**	–	34
Sevan Production General Partnership (i)	**–**	**13**	–	–
Other investments:				
Point Fortin LNG Exports Limited	**12**	**–**	–	–
	290	**404**	–	83

(i) Sevan Production General Partnership is an associate of Hummingbird Oil Pte Ltd, which was disposed of by the Group on 11 August 2010 (see note 38).

Investment and funding transactions for joint ventures and associates are disclosed in note 19.

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

	2010		2009	
	Amounts owed from related parties £m	**Amounts owed to related parties £m**	Amounts owed from related parties £m	Amounts owed to related parties £m
Joint ventures:				
Bacton Storage Company Limited	**14**	**–**	2	–
Barrow Offshore Wind Limited	**–**	**5**	11	5
Braes of Doune Wind Farm (Scotland) Limited	**15**	**3**	21	3
Lincs Wind Farm Limited	**128**	**–**	–	–
Glens of Foundland Wind Farm Limited	**–**	**1**	–	–
GLID Wind Farms TopCo Limited	**49**	**19**	41	26
Inner Dowsing Wind Farm Limited	**–**	**5**	–	–
Lynn Wind Farm Limited	**–**	**4**	–	–
Associates:				
Lake Acquisitions Limited	**33**	**53**	–	–
North Sea Infrastructure Partners Limited	**–**	**2**	–	3
Other investments:				
Point Fortin LNG Exports Limited	**5**	**–**	–	–
	244	**92**	75	37

40. Related party transactions continued

The terms of the outstanding balances related to trade receivables from related parties are typically 30 to 120 days. The balances are unsecured and will be settled in cash. No provision for bad or doubtful debts owed by related parties was required (2009: £nil).

Key management personnel comprise members of the Board and Executive Committee, a total of 14 individuals at 31 December 2010 (2009: 13). Key management personnel and their families purchase gas, electricity and home services products from the Group for domestic purposes on terms equal to those for other employees of the Group.

Remuneration of key management personnel	2010 £m	2009 £m
Short-term benefits	**10**	10
Post-employment benefits	**1**	1
Share-based payments	**10**	9
	21	20

41. Fixed-fee service and insurance contracts

Fixed-fee service contracts are entered into with home services customers in the UK and home and business services customers in North America. These contracts continue until cancelled by either party to the contract. These plans incorporate both an annual service element and a maintenance element.

Insurance contracts are entered into with home service customers in the UK by British Gas Insurance Limited, an entity regulated by the Financial Services Authority (FSA) since August 2009. Product offerings include central heating, boiler and controls, plumbing and drains and electrical appliance insurance cover. These contracts are normally for periods of 12 months with the option of renewal.

Fixed-fee service and insurance contracts protect purchasers of these contracts against the risk of breakdown of electrical, plumbing, heating, cooling and household appliances, resulting in the transfer of an element of risk from contract holders to Centrica. Benefits provided to customers vary in accordance with terms and conditions of the contracts entered into, however, generally include repair and/or replacement of the items affected.

The risk and level of service required within these contracts is dependent upon the occurrence of uncertain future events, in particular the number of call-outs, the cost per call-out and the nature of the fault. Accordingly, the timing and amount of future cash outflows related to the contracts is uncertain.

The key terms and conditions that affect future cash flows are as follows:

- provision of labour and parts for repairs, dependent on the agreement and associated level of service;
- one safety and maintenance inspection either annually or in every continuous two-year period, as set out in the agreement;
- no limit to the number of call-outs to carry out repair work; and
- caps on certain maintenance and repair costs within fixed-fee service and insurance contracts.

Revenue from fixed-fee service and insurance contracts is recognised with regard to the incidence of risk over the life of the contract, reflecting the seasonal propensity of claims to be made under the contracts and the benefits receivable by the customer, which span the life of the contract as a result of emergency maintenance being available throughout the contract term. Cost of sales relates directly to the engineer workforce employed by Centrica within home services, the cost of which is accounted for over a 12-month period with adjustments made to reflect the seasonality of workload over a given year. The costs of claims under the fixed-fee service and insurance contracts will be the costs of the engineer workforce employed by Centrica within home services. These costs are accounted for over a 12-month period with adjustments made to reflect the seasonality of workload over a given year.

Weather conditions and the seasonality of maintenance can affect the number of call-outs, the cost per call-out and the nature of the fault. Centrica's obligations under the terms of home services fixed-fee service and insurance contracts are based on the number of breakdowns occurring within the contract period.

Centrica actively manages the risk exposure of these uncertain events by undertaking the following risk mitigation activities:

- an initial service visit is performed for central heating care and insurance cover. If, at the initial visit, faults that cannot be rectified are identified, the fixed-fee service and insurance contract will be cancelled and no further cover provided;
- an annual or biennial safety and maintenance inspection is performed to ensure that issues are identified before they develop into significant maintenance or breakdown issues; and
- caps on certain maintenance and repair work are incorporated into fixed-fee service and insurance contracts to limit liability in areas considered to be higher risk in terms of prevalence and cost to repair.

The Group considers the adequacy of estimated future cash flows under the contracts to meet expected future costs under the contracts. Any deficiency is charged immediately to the Income Statement.

Service requests are sensitive to the reliability of appliances as well as the impact of weather conditions. Each incremental 1% increase in service and insurance requests would impact profit and equity by approximately £9 million (2009: £8 million). The contracts are not exposed to any interest rate risk or significant credit risk and do not contain any embedded derivatives.

41. Fixed-fee service and insurance contracts continued

The fixed-fee service claims and insurance claims notified during the year were £259 million (2009: £305 million) and £104 million (2009: £2 million) respectively and were exactly matched by expenses related to fixed-fee service and insurance contracts. All claims are settled immediately and in full. Due to the short lead time between claims being incurred and claims being rectified, there are £nil material provisions outstanding at the balance sheet date (2009: £nil).

	2010 £m	2009 £m
Total revenue	**1,098**	995
Expenses relating to fixed-fee service and insurance contracts	**851**	803
Deferred income (unearned premium)	**57**	55
Accrued income	**34**	21

42. Events after the balance sheet date

The Directors propose a final dividend of 10.46 pence per ordinary share (totalling £539 million) for the year ended 31 December 2010. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 9 May 2011 and, subject to approval, will be paid on 15 June 2011 to those shareholders registered on 3 May 2011.

43. Principal undertakings

31 December 2010	Country of incorporation/formation	Percentage holding in ordinary shares and net assets	Principal activity
Subsidiary undertakings [(i)]			
Bastrop Energy Partners LP	USA	100	Power generation
Brae Canada Ltd	Canada	100	Investment company
British Gas Insurance Limited	England	100	Insurance provision
British Gas Services Limited	England	100	Business energy supply and services
British Gas Trading Limited	England	100	Energy supply
Caythorpe Gas Storage Limited	England	100	Gas storage
Centrica Barry Limited	England	100	Power generation
Centrica Brigg Limited	England	100	Power generation
Centrica Energy Limited [(ii)]	England	100	Proprietary energy trading
Centrica Energy (Trading) Limited [(iii)]	England	100	Proprietary energy trading
Centrica Energy Operations Limited	England	100	Power generation
Centrica KL Limited	England	100	Power generation
Centrica KPS Limited	England	100	Power generation
Centrica Langage Limited	England	100	Power generation
Centrica Norway Limited	England	100	Gas and oil exploration and production
Centrica PB Limited	England	100	Power generation
Centrica Renewable Energy Limited	England	100	Renewable energy holding company
Centrica Resources Limited	England	100	Gas and oil production
Centrica RPS Limited	England	100	Power generation
Centrica SHB Limited	England	100	Power generation
Centrica Storage Limited	England	100	Gas storage
Clockwork Inc [(iv)]	USA	100	Home services
CPL Retail Energy LP	USA	100	Energy supply
Direct Energy LP	USA	100	Energy supply
Direct Energy Business LLC	USA	100	Energy supply
Direct Energy Marketing Inc	USA	100	Wholesale energy trading
Direct Energy Marketing Limited	Canada	100	Energy supply and home services
Direct Energy Partnership	Canada	100	Energy supply
Direct Energy Resources Partnership	Canada	100	Gas production
Direct Energy Services LLC	USA	100	Energy supply and home services
Direct Energy US Home Services Inc	USA	100	Home/commercial services
Dyno Holdings Limited	England	100	Home services
Energy America LLC	USA	100	Energy supply
Frontera Generation LP	USA	100	Power generation
GB Gas Holdings Limited	England	100	Holding company
Hydrocarbon Resources Limited	England	100	Gas production
Paris Generation LP	USA	100	Power generation
The Centrica Gas Production LP	England	100	Gas production
Venture North Sea Gas Limited	Scotland	100	Gas and oil production
Venture North Sea Gas Exploration Limited	England	100	Gas and oil production
Venture North Sea Oil Limited	Scotland	100	Gas and oil production
Venture Production (Services) Limited	Scotland	100	Employee services
Venture Production Limited [(v)]	Scotland	100	Holding company
WTU Retail Energy LP	USA	100	Energy supply
Joint ventures and associates			
Barrow Offshore Wind Limited	England	50	Power generation
Braes of Doune Wind Farm (Scotland) Limited	Scotland	50	Power generation
GLID Wind Farms TopCo Limited	England	50	Renewable energy holding company
Lincs Wind Farm Limited [(vi)]	Scotland	50	Renewable energy holding company
North Sea Infrastructure Partners Limited	Scotland	49.9	Pipeline construction/operation
Lake Acquisitions Limited	England	20	Power generation
NNB Holding Company Limited	England	20	Power generation

(i) All principal undertakings are held indirectly by the Company. The information is only given for those subsidiaries which in the Directors' opinion principally affect the figures shown in the Financial Statements.
(ii) As at 31 December 2010 the company was called Accord Energy Limited and changed its name to Centrica Energy Limited with effect from 1 February 2011.
(iii) As at 31 December 2010 the company was called Accord Energy (Trading) Limited and changed its name to Centrica Energy (Trading) Limited with effect from 1 February 2011.
(iv) Holding company for the Clockwork group of companies acquired in 2010, previously called Direct Energy (CW) Inc.
(v) During 2010, Venture Production plc was re-registered as a private limited company.
(vi) Joint venture formed in 2010.

We have audited the parent Company Financial Statements of Centrica plc for the year ended 31 December 2010 which comprise the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 48, the Directors are responsible for the preparation of the parent Company Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent Company Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements.

Opinion on Financial Statements

In our opinion the parent Company Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the parent Company Financial Statements are prepared is consistent with the parent Company Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group Financial Statements of Centrica plc for the year ended 31 December 2010.

John Maitland
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 February 2011

31 December	Notes	2010 £m	2009 £m
Fixed assets			
Tangible assets	III	**38**	39
Investments in subsidiary undertakings	IV	**2,132**	2,122
		2,170	2,161
Current assets			
Debtors	V	**10,134**	9,882
Current asset investments	VI	**266**	1,259
Cash at bank and in hand		**93**	10
		10,493	11,151
Creditors (amounts falling due within one year)			
Borrowings	VII	**(50)**	(53)
Other creditors	VIII	**(5,606)**	(4,910)
		(5,656)	(4,963)
Net current assets		**4,837**	6,188
Total assets less current liabilities		**7,007**	8,349
Creditors (amounts falling due after more than one year)			
Borrowings	VII	**(3,622)**	(3,982)
Other creditors	VIII	**(69)**	(69)
		(3,691)	(4,051)
Provisions for liabilities	IX	**(6)**	(8)
Net assets		**3,310**	4,290
Capital and reserves – equity interests			
Called up share capital		**318**	317
Share premium account	X	**833**	778
Capital redemption reserve	X	**16**	16
Profit and loss account	X	**2,143**	3,179
Shareholders' funds	XI	**3,310**	4,290

The Financial Statements on pages 143 to 148 were approved and authorised for issue by the Board of Directors on 24 February 2011 and were signed on its behalf by:

Sam Laidlaw
Chief Executive

Nick Luff
Group Finance Director

The notes on pages 144 to 148 form part of these Financial Statements, along with notes 30 and 35 to the Group Financial Statements.

I. Principal accounting policies of the Company

Accounting principles

The Company Balance Sheet has been prepared in accordance with applicable UK Accounting Standards consistently applied and under the Companies Act 2006.

Basis of preparation

The accounts have been prepared under the going concern basis. No profit and loss account is presented for the Company as permitted by section 408(3) of the Companies Act 2006. The Company loss after tax for the year ended 31 December 2010 was £361 million (2009: £132 million loss).

Presentation of derivative financial instruments

In line with the Group's accounting policy for derivative financial instruments, the Company has classified those derivatives held for the purpose of treasury management as current or non-current, based on expected settlement dates.

Employee share schemes

The Group has a number of employee share schemes, detailed in note 35, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest and adjusted for the effect of non-market-based vesting conditions. The issue of share incentives by the Company to employees of its subsidiaries represents additional capital contributions, whereby an addition to the Company's investment in subsidiary undertakings is reported with a corresponding increase in shareholders' funds. The addition to the Company's investment in subsidiary undertakings is reduced on the issue of share incentives as these are recharged to the subsidiaries.

Fair value is measured using methods appropriate to each of the different schemes as follows:

LTIS – EPS award	Market value on the date of grant
LTIS – TSR award	A Monte Carlo simulation to predict the total shareholder return performance
Sharesave	Black-Scholes
ESOS	Black-Scholes using an adjusted option life assumption to reflect the possibility of early exercise
SAS, SIP, DMSS, RSS, ESPP and DBP	Market value on the date of grant

Foreign currencies

Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at closing rates of exchange. Exchange differences on monetary assets and liabilities and transactions are taken to the Profit and Loss Account.

Tangible fixed assets

Tangible fixed assets are included in the Balance Sheet at cost, less accumulated depreciation and any provisions for impairment. Cost includes the original purchase price of the asset and the cost attributable to bringing it to its working condition for its intended use. Tangible fixed assets are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives of up to ten years.

Leases

Rentals under operating leases are charged to the Profit and Loss Account on a straight-line basis.

Investments

Fixed asset investments are held in the Balance Sheet at cost, less any provision for impairment as necessary. Current asset investments are stated at the lower of cost and net realisable value.

Pensions and other post-retirement benefits

The Company's employees participate in a number of the Group's defined benefit pension schemes as described in note 36 to the Group Financial Statements. The Company is unable to identify its share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis and therefore accounts for the schemes as if they were defined contribution schemes. The charge to the Profit and Loss Account is equal to the contributions payable to the schemes in the accounting period. Details of the defined benefit schemes of the Group (accounted for in accordance with the Group's accounting policies detailed in note 2 to the Group Financial Statements) can be found in note 36 to the Group Financial Statements.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the Financial Statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the Financial Statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

I. Principal accounting policies of the Company continued

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on an undiscounted basis.

Financial instruments and borrowings

The Company's accounting policies for financial instruments and borrowings are consistent with those of the Group, and are disclosed in note 2 to the Group Financial Statements. The Company's financial risk management policies are consistent with those of the Group and are described in the Directors' Report – Governance on pages 46 to 48 and in note 4 to the Group Financial Statements.

The Company is exempted by FRS 29 from providing detailed disclosures in respect of its financial instruments because the Company is included within the Group's consolidated accounts and its financial instruments are incorporated into the disclosures in the notes to the Group Financial Statements.

II. Directors and employees

Details of Directors' remuneration, share-based payments and pension entitlements in the Remuneration Report on pages 58 to 63 form part of these Financial Statements. Details of employee share-based payments are given in note 35. Details of the remuneration of key management personnel are given in note 40.

III. Tangible assets

	2010	2009
	Plant, equipment and vehicles £m	Plant, equipment and vehicles £m
Cost		
1 January	**101**	84
Additions	**11**	19
Disposals	**(1)**	(2)
31 December	**111**	101
Accumulated depreciation		
1 January	**62**	49
Charge for the year	**12**	13
Disposals	**(1)**	–
31 December	**73**	62
Net book value		
31 December	**38**	39

IV. Investments in subsidiary undertakings

	2010	2009
	Investments in subsidiaries' shares £m	Investments in subsidiaries' shares £m
Cost		
1 January	**2,122**	2,091
Additions and disposals (i)	**10**	31
31 December	**2,132**	2,122

(i) Additions and disposals represent the net change in shares to be issued under employee share schemes in Group undertakings. Direct investments are held in Centrica Holdings Limited, Centrica Trading Limited and Centrica Beta Holdings Limited, all of which are incorporated in England. Principal undertakings are listed in note 43 on page 141. The Directors believe that the carrying value of the investments is supported by their underlying net assets.

V. Debtors

	2010 Due within one year £m	2010 Due after more than one year £m	2010 Total £m	2009 Due within one year £m	2009 Due after more than one year £m	2009 Total £m
Amounts owed by Group undertakings	**9,947**	**–**	**9,947**	9,729	–	9,729
Derivative financial instruments (i)	**5**	**151**	**156**	6	125	131
Other debtors	**6**	**–**	**6**	14	–	14
Prepayments and other accrued income	**14**	**11**	**25**	8	–	8
	9,972	**162**	**10,134**	9,757	125	9,882

(i) Derivative financial instruments comprise foreign currency derivatives held for trading of £36 million (2009: £37 million), interest rate derivatives held for trading of £3 million (2009: £3 million), interest rate derivatives held for hedging of £105 million (2009: £70 million) and foreign currency derivatives held for hedging of £12 million (2009: £21 million). The fair value of these derivatives is equivalent to the carrying value.

VI. Current asset investments

	2010 £m	2009 £m
Short-term investments	**266**	1,259

£52 million (2009: £48 million) of investments were held by the Law Debenture Trust, on behalf of the Company, as security in respect of the Centrica Unapproved Pension Scheme (refer to note 36 to the Group Financial Statements).

VII. Borrowings

Amounts falling due	2010 Within one year £m	2010 After one year £m	2009 Within one year £m	2009 After one year £m
Bank loans and overdrafts	**50**	**215**	53	374
Bonds	**–**	**3,407**	–	3,608
	50	**3,622**	53	3,982

The Company's financial instruments and related disclosures are included within the consolidated accounts of the Group. As permitted by FRS 29, Financial Instruments: Disclosures, further detailed disclosure in respect of the Company's financial instruments is not included. Disclosures in respect of the Group's borrowings are provided in note 26 to the Group Financial Statements.

VIII. Other creditors

	2010 Due within one year £m	2010 Due after more than one year £m	2009 Due within one year £m	2009 Due after more than one year £m
Trade creditors	**13**	**–**	17	–
Amounts owed to Group undertakings	**5,502**	**4**	4,839	4
Derivative financial instruments (i)	**27**	**65**	16	60
Taxation and social security	**4**	**–**	1	–
Accruals and deferred income	**60**	**–**	37	5
	5,606	**69**	4,910	69

(i) Derivative financial instruments comprise foreign currency derivatives held for trading of £76 million (2009: £61 million), interest rate derivatives held for trading of £16 million (2009: £5 million) and interest rate derivatives held for hedging of £nil (2009: £10 million). The fair value of these derivatives is equivalent to the carrying value.

IX. Provisions for liabilities

	1 January 2010 £m	Profit and loss charge £m	Utilised in the year £m	Reserves movements £m	31 December 2010 £m
Other provisions	8	1	(3)	–	**6**
Deferred tax	–	(1)	–	1	**–**
	8	–	(3)	1	**6**

Potential unrecognised deferred corporation tax assets amounted to £3 million (2009: £9 million), primarily relating to other timing differences.

Other provisions principally represent estimated liabilities for contractual settlements and National Insurance in respect of employee share scheme liabilities. The National Insurance provision was based on a share price of 331.60 pence at 31 December 2010 (2009: 281.10 pence). The majority of the amounts are expected to be utilised between 2011 and 2015.

X. Reserves

	Share premium £m	Capital redemption reserve £m	Profit and loss account £m	**Total £m**
1 January 2010	778	16	3,179	**3,973**
Loss for the year (i)	–	–	(361)	**(361)**
Losses on revaluation of cash flow hedges	–	–	(1)	**(1)**
Dividends	–	–	(668)	**(668)**
Employee share schemes:				
Increase in treasury shares	–	–	(20)	**(20)**
Value of services provided	–	–	48	**48**
Exercise of awards	–	–	(37)	**(37)**
Gains on revaluation of available-for-sale securities	–	–	4	**4**
Deferred tax on gains on revaluation of available-for-sale securities	–	–	(1)	**(1)**
Share issue	55	–	–	**55**
31 December 2010	833	16	2,143	**2,992**

(i) As permitted by section 408(3) of the Companies Act 2006, no profit and loss account is presented. The Company's loss for the year was £361 million (2009: loss of £132 million) before dividends paid of £668 million (2009: £635 million).

The Profit and loss account can be analysed further as follows:

	Cash flow hedging reserve £m	Treasury shares £m	Share-based payments reserve £m	Other £m	**Profit and loss account £m**
1 January 2010	2	(15)	74	3,118	**3,179**
Loss for the year (i)	–	–	–	(361)	**(361)**
Losses on revaluation of cash flow hedges	(1)	–	–	–	**(1)**
Dividends	–	–	–	(668)	**(668)**
Employee share schemes:					
Increase in treasury shares	–	(20)	–	–	**(20)**
Value of services provided	–	–	48	–	**48**
Exercise of awards	–	13	(44)	(6)	**(37)**
Gains on revaluation of available-for-sale securities (net of taxation)	–	–	–	3	**3**
31 December 2010	1	(22)	78	2,086	**2,143**

(i) Includes a £nil profit on re-measurement of interest rate derivatives and bonds designated in hedges (2009: £2 million) and a £6 million loss on re-measurement of foreign currency derivatives (2009: £137 million). Further details of the Company's interest rate and foreign currency derivatives are included within the financial instrument disclosures in notes 4, 22 and 23 to the Group Financial Statements.

XI. Movements in shareholders' funds

	2010 £m	2009 £m
1 January	**4,290**	5,007
Loss attributable to the Company	**(361)**	(132)
Loss on revaluation of cash flow hedges	**(1)**	(18)
Deferred tax on revaluation gains	**–**	6
Dividends paid to shareholders	**(668)**	(635)
Employee share schemes:		
Increase in treasury shares	**(20)**	(7)
Value of services provided	**48**	38
Exercise of awards	**(37)**	(24)
Gains on revaluation of available-for-sale securities (net of taxation)	**3**	4
Share issue	**56**	51
Net movement in shareholders' funds for the financial year	**(980)**	(717)
31 December	**3,310**	4,290

The Directors propose a final dividend of 10.46 pence per share (totalling £539 million) for the year ended 31 December 2010. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 9 May 2011. These Financial Statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2011.

Details of the Company's share capital are provided in the Group Statement of Changes in Equity and note 30 to the Group Financial Statements.

XII. Commitments

(a) Other commitments

At 31 December 2010, the Company had commitments of £162 million (2009: £151 million) relating to contracts with outsource service providers.

(b) Lease commitments

At 31 December 2010, lease commitments over land and buildings included non-cancellable operating lease payments due under one year of £1 million (2009: £nil), within one to five years of £1 million (2009: £1 million) and guaranteed operating commitments of a subsidiary undertaking of £7 million (2009: £7 million).

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

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

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 proven and probable gas and liquids reserves in Europe, North America and Trinidad and Tobago.

The principal fields in Europe and Trinidad and Tobago are South Morecambe, Chiswick, Cygnus, NCMA Poinsettia, Statfjord, Ensign and York fields associated with Upstream UK, and the Rough field associated with Storage UK. The European and Trinidad and Tobago reserves estimates are consistent with the guidelines and definitions of the Society of Petroleum Engineers, Society of Petroleum Evaluation Engineers and World Petroleum Council Petroleum Resources Management System using accepted principles.

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

Estimated net proven and probable reserves of gas (billion cubic feet)	Europe	North America	Trinidad and Tobago (iv)	**Total**
1 January 2010	2,018	377	–	**2,395**
Revisions of previous estimates (i)	9	(20)	–	**(11)**
Purchases of reserves in place (ii)	72	221	169	**462**
Extensions, discoveries and other additions (iii)	181	–	–	**181**
Production (v)	(254)	(40)	(8)	**(302)**
31 December 2010	**2,026**	**538**	**161**	**2,725**

Estimated net proven and probable reserves of liquids (million barrels)	Europe	North America	Trinidad and Tobago (iv)	**Total**
1 January 2010	58	5	5	**68**
Revisions of previous estimates (i)	1	–	–	**1**
Purchases of reserves in place (ii)	16	1	–	**17**
Extensions, discoveries and other additions	1	–	–	**1**
Production (v)	(12)	–	–	**(12)**
31 December 2010	**64**	**6**	**5**	**75**

(i) Includes minor reserves revisions to a number of fields in Europe and North America.
(ii) Reflects the acquisition of additional equity in the Statfjord field in Europe, Foothills properties in North America and Suncor Trinidad properties.
(iii) Recognition of reserves associated with the Cygnus, Chiswick and Rhyl fields.
(iv) The Trinidad and Tobago reserves are subject to a production sharing contract and accordingly have been stated on an entitlement basis (including tax barrels).
(v) Represents total gas and oil produced from the Group's reserves.

Liquids reserves include oil, condensate and natural gas liquids.

Results

Year ended 31 December	2006 (restated) (i), (iii) £m	2007 (restated) (i), (iii) £m	2008 (restated) (i), (ii), (iii) £m	2009 £m	**2010 £m**
Group revenue from continuing operations (i), (iii)	16,065	15,893	20,872	21,963	**22,423**
Operating profit from continuing operations before exceptional items and certain re-measurements:					
Downstream UK	284	840	712	1,011	**1,216**
Upstream UK	686	663	881	525	**771**
Storage UK	228	240	195	168	**169**
North America	173	187	215	153	**234**
Adjusted operating profit – operating profit before exceptional items, certain re-measurements and impact from fair value uplifts from Strategic Investments	1,371	1,930	2,003	1,857	**2,390**
Share of joint ventures' and associates' interest and taxation	(1)	(2)	(3)	(11)	**(78)**
Other	13	1	(8)	(5)	**–**
Depreciation of fair value uplifts to property, plant and equipment (iv)	–	–	–	(27)	**(118)**
	1,383	1,929	1,992	1,814	**2,194**
Operating profit/(loss) from discontinued operations:					
European operations (v)	9	20	(52)	105	**(2)**
The Consumers' Waterheater Income Fund (vi)	50	39	–	–	**–**
OneTel (vii)	(11)	–	–	–	**–**
Exceptional items and certain re-measurements after taxation	(862)	383	(1,048)	(288)	**726**
Profit/(loss) attributable to equity holders of the parent	(155)	1,505	(137)	844	**1,935**
	Pence	Pence	Pence	Pence	**Pence**
Earnings/(loss) per ordinary share (ii)	(3.8)	36.5	(3.3)	16.5	**37.6**
Adjusted earnings per ordinary share (ii), (viii), (ix)	17.3	27.2	21.7	21.7	**25.2**

Assets and liabilities At 31 December	2006 (restated) (ii) £m	2007 (restated) (ii), (x) £m	2008 (restated) (ii), (x) £m	2009 £m	**2010 £m**
Goodwill and other intangible assets	1,501	1,539	2,181	2,822	**3,454**
Other non-current assets	4,171	4,942	6,341	9,650	**9,815**
Net current assets/(liabilities)	(134)	747	2,163	330	**283**
Non-current liabilities	(3,918)	(3,868)	(6,313)	(8,675)	**(7,820)**
Net assets of disposal groups held for sale	–	–	–	128	**87**
Net assets	1,620	3,360	4,372	4,255	**5,819**
Debt, net of cash, cash equivalents and securities:					
Net debt (excluding non-recourse debt)	(1,527)	(795)	(511)	(3,136)	**(3,312)**
The Consumers' Waterheater Income Fund (non-recourse) debt	(483)	–	–	–	**–**
	(2,010)	(795)	(511)	(3,136)	**(3,312)**

Cash flows Year ended 31 December	2006 £m	2007 £m	2008 £m	2009 £m	**2010 £m**
Cash flow from operating activities before exceptional payments	850	2,447	371	2,850	**2,906**
Payments relating to exceptional charges	(113)	(90)	(74)	(203)	**(223)**
Net cash flow from investing activities	(720)	(964)	(1,122)	(4,520)	**(1,839)**
Cash flow before cash flow from financing activities	17	1,393	(825)	(1,873)	**844**

(i) Group revenue and cost of sales have been restated to report gas sales revenue of Centrica Storage net of cost of sales to better reflect the nature of the transactions.
(ii) Restated to capitalise borrowing costs on the adoption of IAS 23 (Amendment) and to reflect the change in British Gas Services Limited's revenue recognition policy.
(iii) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation, as explained in note 38. The operating profit of the Group's operations in Germany is reported within the Upstream UK – Industrial and commercial segment. Also restated to present the operating profit of British Gas New Energy within Downstream UK – Residential energy supply and to include the operating profit of joint ventures and associates pre-interest and tax.
(iv) The depreciation of British Energy fair value uplifts is shown net of taxation.
(v) Discontinued in 2009.
(vi) Discontinued in 2007.
(vii) Discontinued in 2005.
(viii) Adjusted earnings per ordinary share excludes depreciation of fair value uplifts to property, plant and equipment from Strategic Investments after taxation and certain re-measurements and exceptional items.
(ix) Figures for 2006 through to 2007 have been adjusted to reflect the bonus element of a Rights Issue undertaken during 2008.
(x) Restated to classify the non-current portions of derivative financial instruments from current assets and liabilities to non-current assets and liabilities. 2006 has not been restated on this basis as it is considered impracticable to do so.

Shareholder information

Go online for more information

Electronic communications and the Centrica website

At the 2007 Annual General Meeting (AGM) the Company passed a resolution allowing the Centrica website to be used as the primary means of communication with its shareholders. Those shareholders who have positively elected for website communication (or who were deemed to have consented to electronic communication in accordance with the Companies Act 2006) will receive written notification whenever shareholder documents are available to view on the Centrica website.

The electronic arrangements provide shareholders with the opportunity to access information in a timely manner and help Centrica to reduce both its costs and its impact on the environment.

The 2010 Annual Report, Annual Review and Notice of 2011 AGM are available to view at **www.centrica.com/report2010**. The Centrica website at **www.centrica.com** also provides news and details of the Company's activities with links to its business sites.

The investors' section of the website contains up-to-date information for shareholders including:

- comprehensive share price information;
- financial results;
- dividend payment dates and amounts;
- access to shareholder documents such as the Annual Report and Annual Review; and
- Company's issued share capital.

Shareholders who have registered to receive shareholder documentation from Centrica electronically can:

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

Visit **www.centrica.com/shareholders** for more information and to register for electronic shareholder communication.

Centrica shareholder helpline

Centrica's shareholder register is maintained by Equiniti, who is responsible for making dividend payments and updating the Register.

You should contact Equiniti for any query relating to your Centrica shareholding. In particular:

- transfer of shares;
- change of name or address;
- lost share certificates;
- lost or out-of-date dividend cheques and payment of dividends into a bank or building society account; or
- death of the registered holder of shares.

Telephone: 0871 384 2985*
(overseas callers: +44 121 415 7061)

Textphone: 0871 384 2255*

Write to: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, United Kingdom

Email: centrica@equiniti.com

A range of answers to frequently asked questions is also available at **www.centrica.com/shareholders**.

Visit the Centrica website at:
www.centrica.com/report2010

FlexiShare

The Centrica FlexiShare service

FlexiShare is a 'corporate nominee', sponsored by Centrica and administered by Equiniti Financial Services Limited. It is a convenient way to manage your Centrica shares without the need for a share certificate. Your share account details will be held on a separate register and you will receive an annual confirmation statement.

By transferring your shares into FlexiShare you will benefit from:

- low cost share-dealing facilities provided by a panel of independent share-dealing providers;
- quicker settlement periods;
- no share certificates to lose; and
- a dividend reinvestment plan – your cash dividend can be used to buy more Centrica shares (for a small dealing charge) which are then credited to your FlexiShare account.

Participants will have the same rights to attend and vote at general meetings as all other shareholders. There is no charge for holding your shares in FlexiShare, nor for transferring in or out at any time.

For further details about FlexiShare, please call the Centrica shareholder helpline on 0871 384 2985* or visit **www.centrica.com/flexishare**.

Direct dividend payments

Dividends can be paid automatically into your designated bank or building society account. This service has a number of benefits:

- there is no chance of the dividend cheque going missing in the post;
- the dividend payment is received more quickly as the cash is paid directly into the account on the payment date without the need to pay in the cheque and then wait for it to clear; and
- a single consolidated tax voucher is issued at the end of each tax year, in March, in time for the preparation of your self-assessment tax return.

Direct dividend payment also helps Centrica improve its efficiency by reducing postage and cheque clearance costs. To register for this service, please call the Centrica shareholder helpline on 0871 384 2985* to request a direct dividend payment form, or download it from our website at **www.centrica.com/shareholders**.

Overseas dividend payments

A service has been established to provide shareholders in over 30 countries with the opportunity to receive Centrica dividends in their local currency. For a small fixed fee, shareholders can have their dividends automatically converted from sterling and paid into their bank account, normally within five working days of the dividend payment date. For further details, please contact the Centrica overseas shareholder helpline on +44 121 415 7061.

Buying and selling shares in the UK – share certificates

If you wish to buy or sell certificated Centrica shares, you will need to use a stockbroker or high street bank which trades on the London Stock Exchange. There are also many telephone and online share-dealing services available. If you are selling, you will need to present your share certificate at the time of sale.

Buying and selling shares – FlexiShare

Centrica has made arrangements at favourable commission rates with four independent share-dealing service providers to allow you to buy and sell Centrica shares from your FlexiShare account. To buy or sell shares, please contact one of the share-dealing providers. You will need to quote the reference number provided on your FlexiShare statement or dividend tax voucher. You should check the charges with the broker before dealing. Shares held in FlexiShare can be sold directly through the following broker services:

- Equiniti Financial Services Limited;
- Halifax Share Dealing Limited;
- NatWest Stockbrokers Limited; and
- WH Ireland Stockbrokers.

For further information, including the contact details of the share-dealing service providers, a summary of dealing charges and terms and conditions that apply, please visit **www.centrica.com/flexishare**.

Share price information

As well as using the Centrica website to view details of the current and historical Centrica share price, shareholders can find share prices listed in most national newspapers. Ceefax and Teletext pages also display share prices that are updated regularly throughout the trading day. For a real-time buying or selling price, you should contact a stockbroker.

American Depositary Receipts

Centrica has a Level 1 American Depositary Receipt (ADR) programme which trades under the symbol CPYYY. Centrica's ADR ratio is one ADR being equivalent to four UK ordinary shares.

For enquiries, please contact:

ADR Depositary
BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
Email: shrrelations@bnymellon.com
or via **www.bnymellon.com/shareowner**.

Telephone: 1 877 353 1154 toll-free in the US or +1 201 680 6825 from outside the US.

Website address: **www.adrbnymellon.com**.

ShareGift

ShareGift (registered charity No. 1052686) is an independent charity which provides a free service for shareholders wishing to dispose charitably of small parcels of shares, which would cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is possible to obtain income tax relief. Further information can be obtained at **www.sharegift.org** or from the Centrica shareholder helpline on 0871 384 2985*.

* Calls to these numbers are charged at 8 pence per minute from a BT landline. Other providers' telephony costs may vary. Lines are open from 8.30 am to 5.30 pm, Monday to Friday, UK time.

Financial calendar

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

Analysis of shareholders as at 31 December 2010

Distribution of shares by type of shareholder	Number of holdings	Shares
Nominees and institutional investors	13,316	4,805,479,692
Individuals	706,474	348,525,861
Total	719,790	5,154,005,553

Size of shareholding	Number of holdings	Shares
1–500	529,785	121,776,647
501–1,000	111,123	76,869,108
1,001–5,000	71,058	128,733,789
5,001–10,000	4,610	31,843,133
10,001– 50,000	1,938	35,387,603
50,001–100,000	245	17,812,056
100,001– 1,000,000	593	216,347,617
1,000,001 and above	438	4,525,235,600
Total	719,790	5,154,005,553

As at 31 December 2010 there were 75,809 participants in the Centrica FlexiShare service, with an aggregate shareholding of 126,837,698 shares registered in the name of Equiniti Corporate Nominees Limited.

Useful historical information

Demerger

The shares of Centrica plc were traded on the London Stock Exchange for the first time on 17 February 1997, the date of demerger from British Gas plc. Shares were acquired in Centrica plc on the basis of one Centrica share for every British Gas share held at demerger. The split between the post-demerger Centrica and BG Group plc shares was in the proportion Centrica 27.053% and BG Group plc 72.947%.

Shares in Centrica plc acquired on demerger are treated as having a base cost for capital gains tax purposes (calculated in accordance with taxation legislation) of 64.25 pence each.

Share capital consolidations and the 2008 Rights Issue

The share capital of Centrica plc was consolidated on two occasions, in 1999 and 2004, and in 2008 the Company offered shareholders the right to subscribe for additional shares as set out below:

- on 10 May 1999, the ordinary share capital was consolidated on the basis of nine new ordinary shares of 5 5⁄9 pence for every ten ordinary shares of 5 pence held on 7 May 1999. The consolidation was linked to the payment of a special dividend of 12 pence per share on 23 June 1999;
- on 25 October 2004, the ordinary share capital was consolidated on the basis of nine new ordinary shares of 6 14⁄81 pence for every ten ordinary shares of 5 5⁄9 pence held on 22 October 2004. The consolidation was linked to the payment of a special dividend of 25 pence per share on 17 November 2004; and
- on 31 October 2008, a Rights Issue was announced on the basis of three new ordinary shares for every eight existing shares held on 14 November 2008, at a subscription price of 160 pence per share. Dealing in the new fully paid ordinary shares commenced on the London Stock Exchange on 15 December 2008. Shareholders who subscribed for their rights in full should, for UK capital gains tax purposes, treat the existing and new shares as the same asset acquired at the time of acquisition of their existing shares, and the subscription monies for the new shares should be added to the base cost of their existing shareholding. Further tax information can be found in the Rights Issue prospectus on the Centrica website.

Accessibility

If you would like this Annual Report in an alternative format, such as large print, Braille or CD, you can request these in the following ways:

Telephone: 0800 111 4371 Textphone: 18001 0800 111 4371

Please note that these numbers should be used to request copies of alternative formats only. For general shareholder enquiries, please use the Centrica shareholder helpline 0871 384 2985*.

* Calls to this number are charged at 8 pence per minute from a BT landline. Other providers' telephony costs may vary. Lines are open from 8.30 am to 5.30 pm, Monday to Friday, UK time.

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