centrica

Helping people today, securing energy for tomorrow

ANNUAL REPORT AND ACCOUNTS 2013

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Integrated energy is what we do

Our vision remains to be the leading integrated energy company with customers at our core.

Our scale is of great benefit to the UK as we secure the future energy needs of our customers. In an increasingly international gas market, our interests and those of our customers remain inextricably linked.

RICK HAYTHORNTHWAITE
Chairman

Our strategic priorities

We refreshed our strategic priorities in 2013. This puts us in a strong position to realise the next step of our strategic direction.

Innovate to drive growth and service excellence

By leading with great service and efficient operations, enabling our customers to control their energy use in a simpler, smarter, more efficient way and growing in selected markets, building on our leading capabilities.

Integrate our natural gas business, linked to our core markets

By growing and diversifying our exploration and production portfolio for value, developing our midstream business to integrate along the gas value chain, maintaining a low carbon power hedge and investing where we see value.

Increase our returns through efficiency and continued capital discipline

By further developing organisational capability, continuously focusing on safety and delivering value to shareholders.

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Introduction

Performance Overview

The business delivered solid performance in 2013 in difficult market conditions. We are well positioned for the future as we maintain our focus on securing and supplying energy for our customers.

Adjusted earnings
£m

2013	1,370
2012	1,378
2011	1,297
2010	1,256

Group revenue‡
£bn

2013	26.6
2012	23.9
2011	22.8
2010	22.4

‡ From continuing operations

Dividend per share
pence

2013	17.0
2012	16.4
2011	15.4
2010	14.3

- Adjusted earnings, £1,370 million; adjusted basic earnings per share (EPS) flat at 26.6 pence
- British Gas Residential operating profit for the year down 6%, 18% down in the second half of 2013, reflecting higher commodity and non-commodity costs
- £420 million share repurchase programme in 2014 following sale of Texas power stations
- Full-year dividend up 4% to 17 pence per share
- Statutory profit for the year £950 million, including post-tax exceptional items of £667 million; statutory basic EPS 18.4 pence

Profit measure reconciliation

Unless otherwise stated, all references to operating profit or loss, taxation and earnings numbers throughout the report are adjusted figures, as reconciled to their statutory equivalents in the Group Financial Review on page 35

Financial highlights	**2013**	2012
Revenue	**£26.6bn**	£23.9bn
Total adjusted operating profit	**£2,695m**	£2,743m
Total adjusted taxation charge	**£1,022m**	£1,112m
Total adjusted effective tax rate	**43%**	45%
Adjusted earnings	**£1,370m**	£1,378m
Adjusted basic earnings per share (EPS)	**26.6p**	26.6p
Full-year dividend per share	**17.0p**	16.4p
Group capital and acquisition expenditure	**£2,565m**	£2,727m
Statutory results		
Operating profit	**£1,892m**	£2,625m
Profit before taxation	**£1,649m**	£2,416m
Profit for the year	**£950m**	£1,245m
Basic earnings per ordinary share	**18.4p**	24.0p

Profit for the year includes £667 million of post-tax exceptional charges relating to an onerous contract charge on Rijnmond, E&P impairment charges and UK gas storage impairment and provision charges.

The Group has applied IAS19 (revised) pensions accounting. As a result, 2012 net finance cost, taxation, earnings and earnings per share have been restated. Adjusted earnings have also been restated for 2010 and 2011.

Introduction

Operational Overview

We have made good strategic progress which will benefit our customers and the business in the long term. New targets have been set across the Group, creating a platform for long-term sustainable growth.

- Completed a Group-wide £500 million cost reduction programme
- Engaging with all stakeholders to improve understanding and rebuild trust
- Signed £14 billion of new gas supply agreements
- £2.6 billion invested in the year including:
  - Over £1.5 billion of organic investments, predominantly in North Sea E&P, including in major projects such as Cygnus
  - Canadian upstream gas acquisition completed, in partnership with Qatar Petroleum International (QPI)
  - Acquired a 25% stake in Bowland shale exploration licence in the UK
  - Business to business acquisition delivers step-change in North America
  - Realised value through divestment of selected exploration and production assets, UK wind assets and US power stations
- Adding value through organic reserve additions, principally in Norway; recognised £699 million pre-tax (£318 million post-tax) exceptional impairments of UK Southern North Sea projects and existing Canadian gas assets

Shaping ourselves for the future

INNOVATE

We have completed strategic reviews in both British Gas and Direct Energy and new organisational structures are in place. We are focusing on delivering further operational efficiencies and targeting industry leading high-quality service for all our customers. We are also targeting a return to account growth in the UK following a 2% decline in 2013. We are developing innovative, differentiated products in both British Gas and Direct Energy, in part enabled by our leadership in digital, smart and connected homes.

International Downstream Operating Review on page 18

INTEGRATE

Our international upstream E&P business has been reorganised to help realise the full potential of our larger international gas and oil resources, concentrating on the most attractive opportunities. An increasing proportion of investment is likely to be directed towards North America, where we are well placed to benefit from an increase in gas prices, while we are targeting cost savings over the next three years.

International Upstream Operating Review on page 26

INCREASE

We have a strong balance sheet, providing flexibility for targeted investments for value. However, we expect our 2014 EPS to be lower than 2013, recognising the impact of the extreme weather in North America at the start of 2014. Maintaining capital discipline is a core priority and we will be undertaking a £420 million extension of our share repurchase programme in 2014, following the completion of our £500 million programme in 2013. We are also maintaining our commitment to real dividend growth.

Group Financial Review on page 34

Introduction

Chairman's Statement

Centrica has an important role to play in the resolution of some of the most pressing issues for the industry – energy security, climate change and affordability.

I regard the opportunity to chair Centrica as a great privilege. It is a company with a strong heritage and deep relevance to the UK, serving over 11 million UK households, employing over 30,000 people in the UK and contributing around £1 billion of tax across the Group each year.

With approximately 700,000 individual shareholders and numerous pension fund investors, Centrica also forms an important part of the savings and pension plans of millions of people across the country. In other words, Centrica is essential to the quality of life and competitiveness of the UK.

However, beyond the statistics, Centrica also has an important role to play in the resolution of some of the most pressing issues for the industry – energy security, climate change and affordability. It has the know-how, balance sheet and assets to play a leading role in helping to deliver a solution to these issues. Yet the Company is sometimes regarded as part of the problem rather than the solution. Levels of trust between energy companies and wider society have come under severe pressure. I therefore believe that it will be essential to establish common ground between the participants in the debate, to enable us to meet the energy challenges which the country faces.

Centrica recognises the need to reaffirm and demonstrate its commitments to treating customers well, working constructively with policy makers and conducting its business in the most transparent manner possible. I have found such a response to be instinctive within the Company and very much the focus of attention – as evidenced by the pace at which savings from recent UK Government policy changes were passed on to customers.

This alone is unlikely, however, to be sufficient to completely turn the tide. So, in parallel, I have been using my early independence to explore some of the issues to find a way to accelerate the restoration of trust and collaboration.

First, I have been looking into the various criticisms that have been directed towards the industry and am conducting my own independent fact-finding review of some of the issues that are most important to our customers and seeing for myself whether we are truly living by the Business Principles we espouse.

Secondly, I have been meeting our customers to discuss what they need from their energy supplier, the trade-offs involved in fulfilling these needs and what it will take to re-establish a sense of mutual partnership. My early impression is that, while there are issues around customer trust and service levels, the reputation of British Gas in the eyes of our customers is vastly better than one would be led to believe from the media and political commentary, particularly when it comes to our service engineers helping customers in their homes.

At the same time, the growth and performance of the wider Centrica Group should not be forgotten. While our UK downstream businesses still contribute the largest proportion of the Group's post-tax earnings, we have substantially increased the scale of our North American operations and now serve over six million residential and business customers. We have also delivered good strategic progress upstream, despite some setbacks in the UK North Sea, adding reserves organically and through acquisition. We continue to play a critical role in bringing supplies of gas to the UK as North Sea resources decline. Last year we signed new deals with both Qatari and US exporters, taking our supply commitments to over £60 billion.

In summary, our interests and those of customers are inextricably linked. Our financial future and corporate capability depend on forward momentum, both in and outside the UK. In an increasingly international gas market, Centrica has a clear strategic direction and strong management, positioning itself for long-term, sustainable growth.

None of this can be achieved without the outstanding commitment of our employees which is deeply appreciated.

Since 2004, the Group has been led by Sir Roger Carr who stepped down as Chairman at the end of 2013 and I am joined by all of the Board in thanking him for his outstanding leadership, professionalism and integrity throughout his time at Centrica. His support and clarity of vision during his term of office is acknowledged and I know that I am joined by many in wishing Sir Roger every success in his new appointment.

RICK HAYTHORNTHWAITE
Chairman
20 February 2014

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**

“Centrica recognises the need to reaffirm and demonstrate its commitments to treating customers well.

Strategic Report

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Chief Executive's Review

Operating Environment

2013 has been marked by challenges in UK energy markets and by continued developments in the global gas markets.

IN THE UK, PUBLIC TRUST IN OUR SECTOR HAS BEEN DAMAGED AND STEPS ARE BEING TAKEN TO BEGIN TO HELP RESTORE IT

Three forces continue to shape UK energy policy: growing dependence on volatile global commodity markets; commitments to make serious cuts in carbon emissions; and an obligation as a society to ensure that energy remains affordable at a time of huge pressure on household and business incomes.

Affordability has been a key concern for both residential and business customers, amplified by the political debate ahead of the 2015 UK election. As a result, 2013 saw a sharp focus on the energy sector and at a time of rising prices a steep fall in public trust. This also led, in a highly competitive market, to increased levels of switching between traditional participants and new entrants. Steps have been taken to improve transparency, increase simplification, reduce the cost of energy efficiency measures and lower bills. These are helping foster a more balanced debate about energy but to build consumer and investor confidence all stakeholders must continue to work together to rebuild trust in the sector.

ENERGY SECURITY: NATURAL GAS CONTINUES TO PLAY A VITAL ROLE

Natural gas currently provides around one third of the UK's primary energy and 80% of the UK's homes use gas for heating. Looking to the future, it plays a central role in nearly every scenario for a cost-effective transition to a low carbon energy supply.

The UK's own gas resources are declining. Ten years ago the UK was a net exporter of natural gas. Today imports make up over half of gas demand. There are still attractive prospects in the North Sea but infrastructure is aging and field sizes are declining which is contributing to cost pressures. Onshore shale gas extraction could provide an additional source of UK supply. However, operators must demonstrate the benefits to local communities and reassure them that the highest safety and environmental protection is in place.

As indigenous resources decline, the need for imports increases. The price and availability of gas in the UK, therefore, will be increasingly determined by international markets. Unless importers are able to pay the international price, gas will be diverted to other markets.

In North America, shale gas has transformed the US energy market. Shale production remains at high levels and significant reserves remain to be exploited. Customers are benefiting from this, with relatively lower gas prices. However, in an environment of low and less volatile gas prices, conditions are challenging for energy retailers, who are finding it more difficult to compete with incumbent utilities.

Liquefied Natural Gas (LNG) has made natural gas economically transportable over long distances. Increasingly, it will connect the world's resources with those markets that need it.

For the UK, this represents a major source of supply. Imports of LNG have risen from zero less than ten years ago to a point where they are capable of meeting nearly a third of total gas demand. LNG export also represents an opportunity to increase demand for the US' abundant supplies.

ENERGY SECURITY: UNCERTAINTY IN UK POWER MARKETS CONTINUES

Currently there is adequate power generation capacity in the UK. The reserve margin for power generation, the amount of surplus capacity to meet plant outages, is around 6%. As a result of this and the availability of cheap coal, clean spark spreads – the margins gas-fired power plants are able to make – continue to be very low. This has impacted the returns from gas-fired power generation. Much of the UK's coal-fired power generation has closed or is closing, due to age or environmental regulations. By 2015/16 the reserve margin could fall to as low as, or even below, 2% according to the UK energy regulator. Partly to address this, far reaching reforms to the electricity market completed their legislative process in 2013. The details of these reforms are still being developed and, until they can be fully understood and given the heightened political uncertainties, new gas-fired generation investment is unlikely to be forthcoming.

Strategic Report

Chief Executive's Review

Strategic Overview

Developments over the past year have reaffirmed the strategic priorities we announced in February 2013 and validated our strategic direction.

Our strategic priorities

Innovate to drive growth and service excellence

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

What we've achieved so far

- Over 1.3 million smart meter installations for homes and businesses in the UK
- Innovative new products such as Hive, our remote heating control technology, launched in the UK
- Industry leading digital platforms; British Gas awarded best ecommerce utility supplier at 2013 ecommerce awards for excellence
- Hess Energy Marketing acquisition enhances size and capability in North American business energy supply
- Bounce Energy acquisition provides leading internet based digital platform in North American residential energy supply
- Direct Energy Services customer base increased by over 200,000

Our strategic priorities

Integrate our natural gas business, linked to our core markets

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

What we've achieved so far

- Suncor acquisition in Canada, in partnership with QPI, doubles the size of our North American E&P business
- LNG contract with Cheniere signed, to export gas from North America from 2018
- UK shale exploration position taken through Bowland licence
- 56mmboe of organic reserves additions; £318 million post-tax exceptional impairments
- Realised value through divestment of selected E&P and wind assets

Our strategic priorities

Increase our returns through efficiency and continued capital discipline

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

What we've achieved so far

- Full-year dividend up 4%
- £500 million share repurchase programme completed; further £420 million programme commencing in 2014
- Group lost time injury frequency rate (LTIFR) reduced by 45%
- £500 million Group-wide cost reduction programme completed

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Principal Risks and Uncertainties on page 42

Managing the risks and challenges

There are positive signs of economic recovery in our core markets in both the UK and North America. However, real disposable income has declined for many consumers and economic uncertainty remains.

At the same time, there is unprecedented focus on the energy sector in the UK, with intense political and media scrutiny. As a result, public trust in the sector has been damaged, with proposals for price controls and the potential for further adverse legislation, political intervention and regulation. We will continue to engage in detailed discussions with all stakeholders to help the UK move towards a transparent and affordable energy policy.

In North America, rising energy prices and a challenging competitive environment are putting pressure on downstream energy margins and creating a difficult sales environment, impacting our Direct Energy business.

To address these challenges we have put new operational structures in place in both British Gas and Direct Energy to help ensure delivery against our strategy. We are targeting industry leading service levels for our customers following a fall in levels in British Gas Residential in 2013, due in part to IT systems investment. We are also focused on continued cost-efficiency and have set new specific targets – to reduce operating costs in British Gas Business by £100 million by 2015 and to remove $100 million of cost from Direct Energy in 2014.

Building a range of innovative new products is also core to the long-term growth of our downstream businesses. Our leadership in digital, smart and connected homes in the UK enables us to offer differentiated propositions, for example Hive. In North America, innovation is also key, while our services protection plan offering is a unique differentiating factor and, over time, we see significant potential for combined energy and services propositions.

As the UK becomes increasingly reliant on gas imports, Centrica has been pursuing a three pronged strategy to enhance Britain's energy security. First, to maximise the potential economic extraction of the remaining resources of the North Sea and to evaluate the potential of natural gas from shale in the UK. As unit costs in the UK North Sea are increasing, at the same time as gas and oil prices have fallen from their 2012 peaks, we are targeting cost savings to keep our unit cash production costs flat over the next three years.

Second, to develop gas resources internationally that can supply our UK customer base, Norway is particularly important here. We will also increase our focus on North America, as our customer base grows there and where we are well placed to benefit from any increase in gas prices.

Finally, to contract for long-term supplies of gas from international sources. Global commodity markets are uncertain and volatile. To mitigate this, we continue to manage our risk exposure through active hedging programmes so that our competitive position is not negatively impacted and we continue to develop our midstream capabilities.

In power, market spark spreads remain low and, as a result, the returns from our gas-fired power stations are currently low. Forward spreads show no immediate signs of recovery. However, with much of the UK's coal fleet expected to close by 2015, we are positioning our existing gas-fired stations to capture the benefit from any improvement in market conditions.

The successful delivery of business change is fundamental to our future success. It is managed through a combination of projects/programme boards and regular review at both a business unit and executive level. We have introduced new management structures in British Gas and Direct Energy to improve our core operations and continue to focus on attracting and retaining talented employees.

Health and safety remains a core priority as there are inherent hazards in our operations. Security events could also cause disruption to our operations. We will continue to develop a best practice safety culture, improving our process safety awareness and performance metrics.

We will continue to focus on delivering value for our shareholders and are maintaining our commitment to grow the dividend by at least inflation each year. We will also continue our focus on capital discipline, rigorously evaluating investment decisions to ensure they meet our financial criteria. We will only invest where we see value and return funds to shareholders where appropriate as demonstrated by the extension of our share repurchase programme in 2014.

Business Model

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

We are an integrated energy company

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

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

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

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

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

SUPPLY IT
We supply energy to homes and businesses in the UK and North America.

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

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

We have distinctive assets and capabilities

- We have **extensive experience in onshore and offshore oil and gas** operations, development and exploration in North America, Europe and Trinidad and Tobago
- Our **power generation fleet** is diverse and low carbon
- Our strong balance sheet allows us to enter long-term commitments. Our **commitments to secure gas** now total over £60 billion
- Our **Rough storage facility** accounts for more than 70% of UK gas storage capacity, helping ensure security of gas supply
- We have a strong track-record in **managing complex risks**, including commodity price risk, daily and seasonal weather variations, changing consumption trends and changes in customer numbers
- Our **gas and power assets** provide opportunities to create additional value, by optimising our positions through asset-backed trading
- We have over **11 million residential customers in the UK**
- Our **UK energy services business** is underpinned by a nationwide network of over 10,000 engineers, six engineering academies and a state-of-the-art nationwide distribution centre
- We are the **largest home services provider in North America,** with a service area covering all US states and eight Canadian provinces
- We have the **most popular UK energy website**, with 30% of customers registered online and one million apps downloaded
- We are the **leading non-residential gas retailer in the US** and the second largest retailer in non-residential power
- In the UK, we **support around one million business accounts** with everything from gas and electricity supply, to boiler maintenance and energy efficiency

Integration gives us benefits

INTEGRATION REDUCES OUR RISK

Vertical integration lowers our risk profile. Broadly speaking, risks downstream are counter-balanced by risks upstream, so vertical integration helps reduce our commodity risk exposure. This benefits our investors and our customers. Energy companies need to be strong and stable to continue to supply their customers and to invest in future energy needs.

INTEGRATION ADDS SCALE

The combined strength of our Company gives confidence to international counterparties to enter long-term deals with us that are critical to securing energy supplies. It also means we can execute unique deals which combine upstream assets and downstream positions.

INTEGRATION REDUCES OUR COSTS

Vertical integration means that we have a lower cost of capital than we would as independent businesses. This means we are required to put up less capital for our commodity trades. It also reduces duplication of overheads since our supply and upstream businesses share management and overhead costs.

INTEGRATION WIDENS OUR RANGE OF INVESTMENT OPPORTUNITIES

Being a vertically integrated energy company means we have options to invest across the value chain: upstream, for example in gas production and gas-fired power generation, and downstream, for example in smart meters and new systems to improve customer service.

We can also generate benefits for others

ECONOMIC

£864m

In 2013, £864 million due to our shareholders in dividends

£1,022m

Our adjusted tax charge in 2013 was £1,022 million

Read in more detail in the Group Financial Review on page 34

SOCIAL

1.8m

In 2013, 1.8 million vulnerable UK householders were helped through British Gas programmes

Read in more detail in the International Downstream Operating Review on page 18

ENVIRONMENTAL

9.8mtCO_2e

Since 2010, we have helped save around 9.8 million tonnes of CO_2 equivalent through the products we have installed in UK homes and businesses, equivalent to taking 668,000 cars off the road

Read in more detail in the Corporate Responsibility Review on page 41

Strategic Report

Chief Executive's Review

Review of the Year

We are engaging with all stakeholders, to work towards a sustainable and affordable energy policy which recognises the need for strong underlying economics and investment certainty.

"We are taking positive action across the Group to position the business for the long-term, for the benefit of both customers and shareholders.

STRATEGY AND FOCUS REAFFIRMED

In 2013, we saw unprecedented focus on the energy sector in the UK, with intense political and media scrutiny against a backdrop of declining real disposable income for many consumers. However, much has been achieved during the year. We have simplified our energy offering and now have just four residential tariffs and are leading the industry in the transparency of our reporting. The recently announced changes to the Government's ECO energy efficiency programme will help more people at lower cost and there is improved public understanding and recognition of the real costs of securing energy supplies, the impact of climate change objectives and the global market in which we operate.

However, investor confidence and public trust in the industry have been damaged, with proposals for price controls and the potential for further political intervention, at a time when substantial investment is required to secure supplies of energy for the UK for the long-term. The consensus that existed between political parties over key questions of energy policy has broken down. We are engaging with all stakeholders, working towards a sustainable and affordable energy policy which recognises the need for strong underlying economics and investment certainty.

In February 2013, we announced new strategic priorities: **Innovate** to drive growth and service excellence; **Integrate** our natural gas business, linked to our core markets; and **Increase** our returns through efficiency and continued capital discipline. Developments over the past year have reaffirmed these priorities and validated our strategic direction. As existing sources of gas decline and worldwide energy markets become more interrelated, the UK will need to look further afield to secure energy supplies for the future.

Downstream, we have completed strategic reviews in both British Gas and Direct Energy and introduced new management structures. This will enable us to focus on improving our core operations in order to deliver better customer service, reduce costs where appropriate and drive growth through innovative propositions.

Upstream, we entered into a number of key transactions which will not only benefit our customers but provide the business with sustainable growth over the longer term. We also added reserves organically, mainly in Norway. Moving forward, against a backdrop of challenging economics upstream, particularly in the UK North Sea, we will be increasingly selective in our investments, directing capital towards the projects offering the most attractive returns with the lowest political risk.

SOLID EARNINGS AND GOOD STRATEGIC PROGRESS IN CHALLENGING MARKET CONDITIONS

Centrica performed well in 2013, with good operational performance in gas and oil production, power generation and gas storage and we are benefiting from improved scale from previous E&P and North American acquisitions. We delivered further improvements in our safety record, with the frequency of lost time incidents falling by 45% in 2013 compared to 2012 and no significant process safety incidents recorded during the year. I was also pleased to see another increase in employee engagement levels in 2013 and remain grateful to all my colleagues for their commitment and hard work during the year, particularly during times when the Company was the subject of much political and media scrutiny.

We have made good strategic progress in 2013 in challenging market conditions – investing along the gas value chain to secure long term, affordable energy supplies, with customers at the core of our activities:

- we signed £14 billion worth of new gas supply agreements with Cheniere and Qatargas, helping secure supplies for the UK;
- we completed the C$1 billion acquisition of a portfolio of Canadian gas assets in partnership with Qatar Petroleum International (QPI), adding over 100mmboe of reserves to our international upstream portfolio at lower cost than for equivalent North Sea assets;
- we acquired a 25% stake in the Bowland shale exploration licence, bringing our expertise and resources to a potentially important long-term source of gas for our customers;
- we made over £1.5 billion of organic investments across the Group, predominantly in our North Sea E&P portfolio, including in major projects such as Cygnus;
- we added 56mmboe organically to our reserves base, mostly from upgrades to our Norwegian assets;

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Centrica Storage Operating Review on page 32

- we announced £650 million of disposals, of selected North Sea assets, our Texas CCGTs and non-core UK wind assets, underlining our commitment to capital discipline and value; and
- we acquired the Hess Energy Marketing business for $1.2 billion, transforming the capabilities of our North American B2B activities.

However, with economic and market headwinds impacting many areas of the business, adjusted earnings per share were flat year-on-year at 26.6 pence. We also recognised pre-tax impairments and provisions totalling £1,064 million, £667 million after tax.

Downstream in the UK, the post-tax margin for residential energy supply fell to 4.5%, in part reflecting the impact of mild weather on consumption towards the end of the year. This followed unusually cold weather in the first half, with the benefit from higher consumption used to absorb the increased external costs being faced by the business for as long as possible. However, in October we announced the decision to increase our residential energy tariffs, as a result of higher commodity and non-commodity costs. Following the announcement, the level of customer switching increased significantly and the number of residential customer accounts reduced by 2% over the year. However, although account losses have continued in early 2014, with around 100,000 in the year to date, the position is now stabilising, with British Gas the first to pass on savings in full to all our customers following the announcement of changes to the ECO programme and the introduction of new fixed price propositions.

British Gas Services once again recorded operating profit growth despite the challenging economic environment, benefiting from cost reduction initiatives implemented over the course of 2012 and 2013. Early signs of economic recovery are also benefiting our central heating installations business. Installations were 7% higher in 2013 compared to 2012, while weekly sales of our remote heating control product have more than doubled since its launch under the Hive brand in September. In British Gas Business, the trading environment remained difficult in a highly competitive market. We led the industry with our programme to end auto-rollover of contracts at renewal, although this has placed further pressure on margins.

Downstream in North America, we delivered profit growth in both residential energy and residential services, as we benefited from previous acquisitions and services account growth. However, total Direct Energy profitability fell due to lower margins in Direct Energy Business, with rising wholesale costs and a highly competitive power market resulting in difficult trading conditions.

Upstream, gas and liquids production performance was good, as recent acquisitions in the North Sea and Canada delivered production better than our investment cases. We also added 56mmboe of 2P reserves organically, predominantly on our Norwegian assets. However, following reserve and resource downgrades and increases in expected costs on certain projects in the Southern North Sea and a reduction in North American natural gas prices since previous asset acquisition and developments, we recognised exceptional post-tax impairments of £318 million.

In UK power generation, the performance of the nuclear fleet was once again strong. However, our gas-fired fleet was loss-making, reflecting weak spark spreads and the end of free carbon allocations. In this environment, we continued to minimise our cost base and run our plants as efficiently as possible. We also recognised a £125 million exceptional onerous contract charge on the Rijnmond tolling contract in the Netherlands as a result of decreases in expected future revenues.

Our Rough gas storage asset performed well, particularly during the prolonged cold weather at the start of the year, making an invaluable contribution to UK security of supply. However, forward seasonal gas spreads remain very low, leading to a significant reduction in profit in 2013. The low seasonal spreads, together with the UK Government's decision to rule out incentivisation for new gas storage projects to be built, caused us not to proceed with the Baird storage project and to put our project at Caythorpe on hold. As a result, we have recognised exceptional impairments and provisions relating to storage projects of £224 million after tax.

We successfully completed our £500 million Group-wide cost reduction programme, announced at the start of 2012. We also completed our £500 million share repurchase programme launched in February and in December announced a further £420 million share repurchase programme, following the sale of our Texas CCGTs, to be undertaken over the course of 2014.

WORKING TOWARDS A TRANSPARENT AND AFFORDABLE ENERGY POLICY

Over the past year, UK energy policy has seen unprecedented levels of debate and discussion amongst all stakeholders. As a result, there is improved awareness of the costs of securing and supplying energy, the majority of which are external to the business. However, it is important that the facts are made public and that all stakeholders – energy companies, regulators, politicians, consumers and commentators – engage in full and open conversation.

We have simplified our UK residential energy product range to four tariffs and led the way earlier in 2013 with our unique Tariff Check, making it easier for our customers to ensure they are on the most appropriate British Gas tariff for them. We continue to improve the transparency of our reporting, including publication of audited Ofgem segmental statements as part of our year end reporting and separating out our midstream power profits and call on others to follow. We also protected over half a million of our most vulnerable customers from the November price rise, through a special discount to be applied to their bills. As a result, we currently expect this group of customers to have lower bills in 2014 than in 2013. We welcome the proposed changes announced by Government to the ECO programme, enabling more customers to benefit, at lower cost.

However, the prospect of political intervention and a wide range of potential policy initiatives has damaged investor confidence. In particular, we believe that a price freeze is not a credible solution when the large majority of costs are external to the business. Such proposals create both short-term uncertainty for all energy suppliers and longer-term additional costs for customers. With substantial investment required to secure energy supplies for the UK, these uncertainties increase the cost of capital and, in the eyes of major global producers, reduce the credit worthiness of prospective buyers of their gas, impairing rather than improving the UK's energy security position.

Against this uncertain background, financial stewardship and discipline remain important to our business, for the benefit of customers and shareholders. Customers rely on us for

> We are maintaining our focus on operational and capital efficiency, with specific new targets appropriate for each area of the business.

our financial strength to enter into long-term supply contracts and shareholders require an appropriate return, reflecting the risks inherent in managing commodity price and weather risk in the underlying business and in the investments we make. Whilst delivering good service and value for customers is paramount, with a significant proportion of our share capital held by UK pension funds and around 700,000 individual shareholders, making appropriate investments and delivering a fair level of return to investors also remains a core responsibility.

We firmly believe that any form of price control in a competitive market is not the answer and is not in the best interests of customers, this has been clearly demonstrated by experience in other markets. The industry requires a stable policy environment, which recognises the need for strong underlying economics and investment certainty, to deliver secure supplies for our customers. We will continue to engage with all policymakers to present proposals for more affordable ways to decarbonise and reduce energy consumption, helping more people at lower cost.

INVESTING TO SECURE ENERGY SUPPLIES FOR OUR CUSTOMERS

We have made substantial progress in delivering our gas value chain strategy, positioning the business for future growth. In an increasingly global gas market, it is important that the UK is able to source gas at the most cost-effective price. Centrica plays an important role, with existing relationships to secure pipeline gas from Norway and Continental Europe and LNG from Qatar. During the year we extended our LNG supply contract with Qatargas until 2018. We also signed a contract with Cheniere to take gas export capacity at the Sabine Pass facility in Louisiana, which gives us destination rights over cargoes for the first time and will allow us to benefit from any differential between North American gas prices and other worldwide markets.

With rising costs in the North Sea, we are targeting our investment towards opportunities that offer the best value, particularly in Norway and in North America. We have taken a stake in UK shale exploration, potentially a significant source of gas for the UK. In power, our Lincs offshore wind farm, which is capable of providing electricity for up to 200,000 UK homes, is now fully operational.

POSITIONING THE BUSINESS FOR THE FUTURE

Market conditions are expected to remain challenging in 2014, with margin pressures in our energy supply businesses on both sides of the Atlantic, rising North Sea unit costs and weak economics for both gas storage and gas-fired power generation. In British Gas Residential, the level of margin achieved in a competitive market is dependent on a number of factors, including retail and wholesale prices, service and the weather, which has been warmer than usual in the year to date. The wider external environment also currently provides a challenging operating backdrop. In North America, although the Hess Energy Marketing business is performing well, Direct Energy has had a difficult start to 2014. With a weaker US dollar, continued margin pressures and exceptionally cold weather, which resulted in additional short-term system charges, we currently expect Direct Energy operating profit to be broadly flat year-on-year. Overall for the Group, 2014 trading is in line with recent market forecasts, other than the one-off impact from extreme weather conditions in Direct Energy, with adjusted earnings per share in 2014 expected to be lower than in 2013.

Recognising the challenges, we are maintaining our focus on operational and capital efficiency, with specific new targets appropriate for each area of the business.

We have now completed strategic reviews in both British Gas and Direct Energy and our downstream strategic priority – Innovate to drive growth and service excellence – remains robust. New organisational structures are in place on both sides of the Atlantic to ensure delivery, as we target improvement in our core operations to enhance service and reduce costs, while driving growth through innovative propositions.

In our UK residential energy and services businesses, we are targeting industry leading service levels for our customers. We will aim to improve service and deliver further efficiencies by simplifying key customer interactions, in part enabled by our investment in a single residential Customer Relationship Management (CRM) system for energy and services, which is expected to be completed in 2014.

Our leadership in digital, smart and connected homes enables us to offer compelling, differentiated propositions. By the end of 2014 we are targeting over 100,000 sales of our Hive Active Heating smart thermostat and currently expect to have installed 1.3 million residential smart meters. We see the smart connected home as core to our customer proposition, materially improving the customer experience and providing an opportunity for growth. We also see further opportunities in residential services, leveraging our insurance capabilities to offer new pricing structures and an expanded product choice and from growing share in adjacent markets such as the landlord sector. Through enhanced price competitiveness, improved service quality and innovation, we are aiming to return to account growth in both UK residential energy and services.

In British Gas Business, we are also targeting industry leading service levels, with a sustained programme of process simplification and the implementation of a new billing system expected to deliver improved service at lower cost. A cost reduction programme is underway, which is expected to generate £100 million of annual savings by the end of 2015, helping to offset the impact of continuing difficult market conditions and the impact of our decision to lead the market in ending auto-rollover at contract renewal. Longer term, we expect to deliver growth from the development of new offerings tailored to the most valuable customer segments and from business services, where the market opportunity is comparable in size to business energy.

In North America, with margin pressures persisting in 2014, improving cost competitiveness is a core priority. Against this backdrop, we have launched a $100 million cost reduction programme, driving synergies from the enhanced scale of our business. We are already benefiting from call centre consolidation and back office integration, while we have started investment in a new residential energy billing system.

We are also positioning the business for growth and building a range of innovative product offerings is core to our North American business model, enabling improved customer retention and delivering growth. Our Power To Go prepayment offering and our innovative Free Electricity Saturdays product have both proved popular with residential energy customers, while we are targeting further growth in our services protection plan offering in 2014, which we see as a unique differentiating factor in our business model. Over time, we see significant potential for bundling of energy and services propositions to our residential customer base.

In Commercial and Industrial energy supply, the integration of Hess Energy Marketing is proceeding well. Our priority for 2014 is to fully integrate the teams, retaining key personnel and systems and in turn to deliver good service levels and high levels of customer retention. In the first three full months of our ownership, the business has delivered EBITDA in excess of our investment case. Over time, the enhanced scale, dual fuel capabilities, advantaged positions along the gas value chain and long-term customer relationships delivered by the Hess acquisition provide additional growth opportunities.

Our International E&P business has been reorganised with a substantially new leadership team, to help realise the full potential of the international resource base. We have added 155mmboe in total to our 2P reserves, organically and through acquisition. We also retain a number of attractive investment options, particularly in Norway and Canada, having increased our 2C resource base by 28% to 771mmboe over the year. However, with rising costs in the UK in particular, we are targeting savings to keep unit lifting and other cash production costs flat over the next three years.

Against this backdrop, we are being increasingly selective in our investment, concentrating on the most attractive opportunities. An increasing proportion is expected to be directed towards North America, where we are well placed to benefit from any increase in gas prices. Taking account of forward UK gas prices and higher costs, we are targeting a reduction in our organic investment in gas and oil projects to approximately £900 million on average over the next three years. This is around 20% lower than previously expected levels, but will have limited impact on near-term production, which we expect to be in the range 80–85mmboe per annum. Our current level of committed capital expenditure in the short to medium term gives us flexibility to consider acquisition opportunities, if the economics are attractive and the assets provide a good fit with our existing portfolio, while potentially divesting non-core assets for value.

In UK power generation, reflecting the challenging market conditions that resulted in losses for our gas-fired power stations, we will continue to optimise the running of our existing fleet to capture the benefit from any improvement in market spark spreads. However, following our decision not to invest in new nuclear in the UK and to sell the Race Bank offshore wind project to DONG, we expect our near-term investment in the UK power sector to be limited. Any future investment in new build gas-fired generation capacity will depend on the economics of the projects and the successful introduction of a capacity market, including an assessment of the political risk.

Centrica is an important company, providing energy or services for over 11 million homes in the UK as well as serving some six million customer accounts in North America. We directly employ over 35,000 people worldwide, make a tax contribution of around £1 billion a year and make a valuable contribution to retirement savings through our dividend payments, as well as securing cost-effective sources of energy for the UK.

Centrica has a strong balance sheet, providing flexibility for targeted investments for value. However, maintaining tight capital discipline is a core priority, as evidenced by our share repurchase programmes. We are recommending full year dividend growth of 4% in 2013, in excess of the UK retail price index and are maintaining our commitment to real dividend growth.

In a challenging external environment, we remain committed to our guiding principles of offering good service and value for customers and playing a vital role in the transition to a lower carbon economy. Whilst the outlook for the UK business has been impacted by short-term political uncertainty, we are taking positive action across the Group to position the business for the long term, for the benefit of both customers and shareholders.

SAM LAIDLAW
Chief Executive
20 February 2014

Strategic Report

Key Performance Indicators

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

Financial indicators

ADJUSTED OPERATING PROFIT

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

Strategic priorities

Increase

Adjusted operating profit £m

£2,695m

2013	2,695
2012	2,743
2011	2,415
2010	2,390

Target for 2014

To continue to drive towards our three-year economic profit target range of £2,600 million to £3,400 million.

ADJUSTED BASIC EARNINGS PER SHARE (EPS)

EPS is an industry standard determining corporate profitability for shareholders. EPS is adjusted to reflect better the performance of the business. With economic and market headwinds impacting many areas of the business, adjusted EPS was flat year-on-year.

Strategic priorities

Increase

EPS pence

26.6p

2013	26.6
2012	26.6
2011	25.1
2010	24.4

Target for 2014

To deliver real growth in adjusted EPS over successive three-year periods.

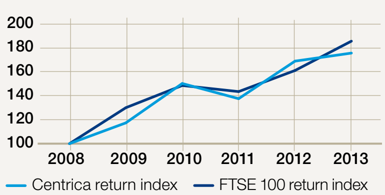
TOTAL SHAREHOLDER RETURN (TSR)

The Board believes that TSR is a valuable KPI to assess the Company's performance in the delivery of shareholder value. Centrica was on track to outperform the FTSE 100 Index until the sharp drop in share price in the last quarter of 2013, caused by political uncertainty. As a result, the TSR performance measures under the long-term incentive arrangements due to vest in April 2014 will not be met.

Strategic priorities

Increase

TSR indices unaudited



Source: Althos Limited, 31 December 2008 = 100

Target for 2014

To deliver improved levels of relative TSR as a measure of performance over a sustained period.

DIVIDEND PER SHARE

Dividend per share indicates the level of earnings distributed to Centrica shareholders. We delivered dividend growth of 4% in 2013.

Strategic priorities

Increase

Ordinary dividend pence

17.0p

2013	17.0
2012	16.4
2011	15.4
2010	14.3

Target for 2014

To deliver real growth each year. Dividends paid contribute to relative TSR.

Unless otherwise stated, all references to operating profit or loss, taxation and earnings numbers throughout the report are adjusted figures, as reconciled to their statutory equivalents in the Group Financial Review on page 35.

Deloitte LLP review our non-financial key performance indicators, providing limited assurance using the International Standard on Assurance Engagements (ISAE) 3000.

See our performance measures on pages 185 and 186

Non-financial indicators

LOST TIME INJURY FREQUENCY RATE (LTIFR)

Safety remains a core priority at Centrica. Our work to build a safety-first culture has helped drive consistent improvements in the safety of our activities.

Our Group LTIFR in 2013 reduced by 45% to 0.11 per 100,000 hours worked.

Strategic priorities

Innovate Integrate Increase

LTIFR per 100,000 hours worked

0.11

2013	0.11
2012	0.20
2011	0.25

Target for 2014

Continue to grow a best practice safety culture and at least maintain and if possible further improve our LTIFR performance.

PROCESS SAFETY

Process safety focuses on the integrity of operating systems and processes that handle hazardous substances in order to prevent the potential for major incidents.

There were no significant process safety events in 2013.

Strategic priorities

Integrate Increase

Significant events

0

(2012: 0)

Target for 2014

Continue to improve process safety awareness and performance metrics.

CUSTOMER TRUST

We use net promoter scores (NPS) to measure customer satisfaction in British Gas in the UK and Direct Energy in North America.

British Gas NPS decreased, primarily due to the price announcement and in common with other suppliers. British Gas' score was +15, which is in the low performance range. Direct Energy NPS increased to +40, which is in the high performance range.

Strategic priorities

Innovate

Net promoter scores

British Gas

2013	+15
2012	+30

Direct Energy

2013	+40
2012	+39

Target for 2014

British Gas:
Return to the high performance range.

Direct Energy:
Remain within the high performance range.

EMPLOYEE ENGAGEMENT

The employee survey allows us to measure engagement and receive feedback from across the Group on how we are progressing in making a positive work environment.

In 2013 we achieved a score of 4.81 out of 6 in the survey, placing us within the median performance range.

Strategic priorities

Innovate Integrate Increase

Employee engagement

4.81 out of 6

2013	4.81
2012	4.72

Target for 2014

To continue to strive towards top quartile performance, measured against an independent high performance benchmark range.

International Downstream

> We are developing innovative products and propositions to provide customers with greater convenience and control over their energy.

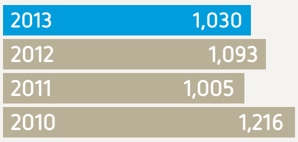
In International Downstream, we are investing across energy and services to provide the highest level of customer service in both the residential and business markets. This includes advancements in our digital capability to allow customers to engage with us when and where they want. We are also developing innovative products and propositions – such as smart thermostats, time of use tariffs and distributed generation – to provide customers with greater convenience and control over their energy, helping them save money by reducing their consumption. In British Gas, we lead the industry in smart metering, energy efficiency, help for the vulnerable and in ensuring that our pricing is simple, fair and transparent. In Direct Energy, our acquisition of Hess Energy Marketing positions us as the number one C&I gas supplier on the East Coast of the US and the number two C&I electricity supplier in the competitive US retail markets.

CHRIS WESTON
Managing Director, International Downstream

Our International Downstream business

British Gas
Adjusted operating profit £m

£1,030m

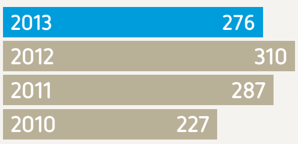


For the year ended 31 December	2013	2012
Adjusted operating profit (£m)		
Residential energy supply	**571**	606
Residential services	**318**	312
Business energy supply and services	**141**	175
Total British Gas	**1,030**	1,093
Customer numbers ('000)		
Residential energy customer accounts[1]	**15,256**	15,618
Residential services product holdings	**8,227**	8,402
Business energy supply points	**912**	924

[1] British Gas Residential energy customer accounts for 2012 have been restated to exclude 38,000 accounts subsequently classified as dormant.

Direct Energy
Adjusted operating profit £m

£276m



For the year ended 31 December	2013	2012
Adjusted operating profit (£m)		
Residential energy supply	**163**	156
Business energy supply	**77**	121
Residential and business services	**36**	33
Total Direct Energy	**276**	310
Customer numbers ('000)		
Residential energy customer accounts	**3,360**	3,455
Residential and business services customer accounts	**2,608**	2,401

What we do

BRITISH GAS

British Gas is the UK's leading energy supplier and provides energy or services to around 11 million homes in Britain, as well as providing energy to over 900,000 UK business supply points. British Gas Services installs, repairs and maintains boilers and heating systems and helps customers reduce their energy consumption and cut costs with a range of energy-saving measures. Our engineers also service electrical systems, appliances, plumbing and drains. Service excellence is critical to British Gas operations and will remain at the heart of all we do.

britishgas.co.uk

DIRECT ENERGY

Direct Energy is one of the largest retail providers of electricity, natural gas and home services across North America, operating in eight Canadian provinces and all US states. With more than six million customer relationships, we cover residential, business, services and supply. Our Company is committed to providing energy and services in ways that improve the quality of everyday life. We believe that our customers are our greatest asset and meeting their needs compels us to communicate and innovate so that we can become the best energy company in the market.

directenergy.com

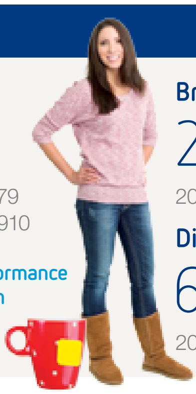
Key metrics

Employees

34,489

British Gas: 28,579
Direct Energy: 5,910

See our performance measures on page 180



British Gas customer accounts

24.4m

2012: 24.9m

Direct Energy customer accounts

6.0m

2012: 5.9m

British Gas gross revenue

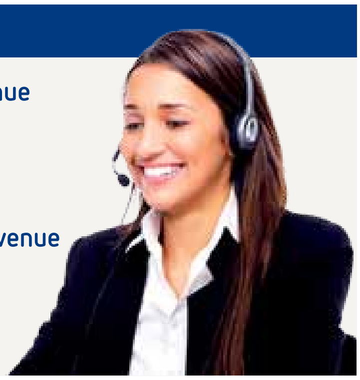
£14,226m

2012: £13,857m

Direct Energy gross revenue

£7,325m

2012: £5,684m



British Gas: Focus on service, efficiency and innovation

- We are aiming to deliver industry leading, high quality service for customers
- British Gas Residential operating profit fell due to higher commodity and non-commodity costs and warm weather towards the end of the year. We are targeting a return to customer account growth helped by our January 2014 price reduction and the introduction of new fixed price propositions
- We have simplified our product range to four residential tariffs and have made further improvements in our transparency of reporting. We were the first energy supplier to reduce retail tariffs in 2014, following proposed ECO changes
- British Gas Services benefited from cost reduction initiatives. Also targeting a return to customer account growth, we are leveraging our insurance capabilities and developing differentiated propositions such as Hive, our remote heating control
- British Gas Business operating profit fell as a result of the difficult trading environment and the end of the auto-rollover of contracts. We have a £100 million cost reduction programme underway, as well as the implementation of a new billing system

Corporate responsibility

British Gas

- Helped more than 1.8 million vulnerable households
- Investing in jobs, training 1,200 apprentices
- Over 1.3 million smart meter installations in the UK

Direct Energy

- Provided $600,000 to help vulnerable customers in Texas pay electricity bills
- Over 600 agents trained at Customer Service Excellence workshops

Corporate Responsibility Review on page 39

Direct Energy: Enhanced scale in deregulated markets

- Overall Direct Energy profitability fell, reflecting challenging market conditions leading to a narrowing of energy supply margins. We launched a $100 million cost reduction programme to improve competitiveness, driving synergies from enhanced scale
- In Direct Energy Residential we saw profit growth as we benefited from previous acquisitions; our innovative products and enhanced digital capability will be the key to future growth
- Direct Energy Business margins and profitability declined, with rising wholesale costs and a highly competitive power supply market. The Hess integration is proceeding well. We see growth potential through enhanced scale, dual fuel capabilities, advantaged positions along the gas value chain and long-term customer relationships
- Direct Energy Services profitability increased with services accounts up by more than 200,000. Our services protection plans are a unique differentiating factor and we have significant potential for combining energy and services

The risks and challenges

- Restoring public trust
- Further political and regulatory intervention and reform
- Challenging competitive environments and market conditions
- The need to manage exposure to volatile commodity prices and adverse weather
- HSE&S risks arising from our operations
- Compliance with existing laws and regulation
- Successful delivery of major new billing and CRM systems
- The need to maintain service levels
- Successful integration of Hess

Principal Risks and Uncertainties on page 42

A new management structure is in place, designed to enable us to focus on improving our core operations to deliver better customer service.

> We continue to lead the industry in helping the most vulnerable, having helped more than 1.8 million households suffering from fuel poverty.

INTERNATIONAL DOWNSTREAM

The operating environment for both our UK and North American downstream businesses was challenging during 2013. However, we made good strategic progress on both sides of the Atlantic, positioning ourselves for the future, and our downstream strategic priority – Innovate to drive growth and service excellence – has been reaffirmed. Under the leadership of Chris Weston a new management structure is in place, designed to enable us to focus on improving our core operations to deliver better customer service and drive growth through innovative propositions.

BRITISH GAS

In the UK, the operating environment for our downstream energy supply businesses was unprecedented. Affordability has been a key concern for both residential and business customers, amplified by media and political debate ahead of the 2015 election. Against this backdrop we welcomed the Government's proposed changes to the Energy Company Obligation (ECO), announced in December, which enabled us to be the first UK energy supplier to reduce retail tariffs. We have also made good progress in positioning the business for the future, with further development of our digital platforms, the launch of new propositions, continued industry leadership on smart metering and an ongoing focus on service and cost-efficiency.

Residential energy supply operating profit fell by 6%, reflecting warmer weather towards the end of the year and higher commodity and non-commodity costs, while business energy supply and services operating profit fell by 19% in challenging market conditions. A continued focus on cost reduction resulted in an increase in residential services profit, although delivering new sales of services contracts proved challenging. The health and safety of our employees and customers remains a core priority and the lost time injury frequency rate (LTIFR) over 2013 was 0.11 per 100,000 hours worked in British Gas (2012: 0.23).

Tough environment for residential energy supply

Having absorbed higher commodity and non-commodity costs for as long as possible, we took the decision in October to increase average household gas prices by 8.4% and average household electricity prices by 10.4%, an average of 9.2%. The price rise took effect in late November. However, the UK Government's proposed changes to the ECO programme allowed British Gas to reduce average household gas and electricity prices by 3.2%, effective from 1 January 2014. Including the Government's £12 rebate in relation to the Warm Home Discount, the average customer bill will reduce by £53, or 4.1%.

We strongly support the aims of the ECO programme, which is providing energy efficiency measures such as insulation to transform homes and communities across the UK, helping keep homes warm and reducing carbon emissions. Therefore we welcome the proposed changes to the ECO programme, which will extend the obligation period by two years to March 2017 and broaden eligibility measures, allowing us to help more customers and reduce the short-term impact on bills. We expect our costs to be over £1.7 billion over the life of the programme and in 2013 we incurred £420 million of costs. We also completed all work under the CERT and CESP programmes around the middle of 2013, later than the target date of December 2012. Overall, through these programmes, we installed 236,000 energy efficiency measures in customer homes in 2013, over half of which were for the elderly, disabled or those most in need.

We continue to lead the industry in helping the most vulnerable, having helped more than 1.8 million households suffering from fuel poverty. We maintain the widest eligibility criteria among all energy suppliers for the Warm Home Discount, which benefited over 500,000 of our customers during the year. We also protected these customers from our November price increase through an additional discount of up to £60 to be applied to their bills.

We now offer four distinct tariffs, all with a standing charge and single unit rate and have consolidated our discount structures. We introduced our unique Tariff Check in the first half of the year, which provides a personalised comparison of their energy costs under each British Gas tariff and enables customers to check that they are on the most appropriate tariff for them. In October, the Government announced a new annual competition review for the UK energy sector and we expect the results to be published around the end of the first quarter of 2014.

Helping restore confidence in the energy industry is a top priority for British Gas. Our independent Customer Board is in its third year and has continued to challenge and advise on a range of service and product topics. We are making good progress on implementing Ofgem's Standards of Conduct and have established a Customer Fairness Committee, which includes two independent external members. We also continue to invest in jobs, with 1,200 apprentices currently in training, while we have committed that from January 2014 all UK-based employees will be paid at least the living wage rate.

Focus on delivering great customer service

The number of residential accounts on supply as at the end of 2013 was 15.3 million, 2% lower than at the start of the year. This reflects a competitive market and higher levels of customer churn in the period immediately following our pricing announcement in October. Customer account losses have continued into 2014, with around 100,000 in the year to date, however the position is now stabilising, reflecting our January 2014 price reduction and the introduction of new fixed price propositions.

In a competitive market for energy supply it is important to focus on delivering high levels of customer service. The migration of our residential customers onto a new Customer Relationship Management (CRM) platform will be completed in 2014. We experienced some system outages during implementation, which was exacerbated by higher call volumes caused by the tariff increase announcement. Reflecting this, the total British Gas net promoter score decreased to +15 in 2013 (2012: +30). However, we invested in additional customer service advisers to address the short-term issues and the new system is expected to deliver a more integrated customer experience.

We are leading the industry in the use of digital platforms, reducing our cost to serve and increasing customer engagement. British Gas was awarded best ecommerce utility supplier at the 2013 ecommerce awards for excellence. Customer downloads of our top-rated mobile app were up 37% and over a million have been downloaded since its launch. The number of customers transacting through digital channels also increased. Total transactions increased 16%, while 1.2 million customers booked their

annual service or boiler breakdown online, up 22% and nearly 40% of bills were sent electronically. In January 2014 we fully launched Me (Mobile Energy), a new energy brand capable of being delivered entirely via mobile devices and aimed at the private tenant segment.

We are also developing smart and connected home solutions to give customers greater visibility and control over their energy usage. We have now installed over 1.3 million smart meters for homes and businesses in the UK, with over 800,000 of these for residential customers and in 2014 we expect to be the first company to install smart meters for residential prepayment customers. The industry-leading progress we have made leaves us well placed, as we move towards the mandated roll-out of smart meters in the UK from the end of 2015. Over 200,000 customers now receive our Smart Energy Report, which we launched in March 2013. This provides customers with comprehensive analysis of their energy usage and has resulted in a positive impact on customers' perception of British Gas. In September we launched Hive, our rebranded remote heating control proposition, which allows customers to control their heating and hot water remotely via their smartphone or online. Initial brand recognition has been strong, and we have now sold over 50,000 smart thermostats, with weekly sales having doubled since the Hive launch.

Strong cost focus in residential services in tough sales environment

Market conditions remained challenging for British Gas Services, in part due to continued pressure on household disposable income. Retention of existing customers was strong, with customers recognising the value of our services products during sustained periods of cold weather in the first half. However, sales of new products were lower reflecting the overall economic environment. As a result, the number of services customer accounts fell by 2% during 2013, ending the year at 8.2 million. We are beginning to see some pick up in the market for new central heating installations, with the number increasing by 7% in 2013 compared to 2012 and by 10% in the second half of the year, in part reflecting our leadership position on the Green Deal. British Gas was the first energy supplier to market on the Green Deal and we now have 300 Green Deal advisers trained and have completed over 10,000 installation measures.

British Gas Services delivered strong levels of operational performance in the year. Overall we responded to 3.2 million boiler breakdowns, over 200,000 more than in 2012. Despite the higher workload, our net promoter score increased to +59 (2012: +55) while the average speed to answer calls improved.

Although we incurred additional costs as a result of the higher level of call-outs, residential services operating profit increased slightly compared to 2012, reflecting the benefit of cost-savings delivered in 2012 and 2013. With the existing cost reduction programme now complete, we will maintain a keen focus on cost-efficiency in the business. We will also look to develop new and innovative products and propositions. During 2013 we launched packages tailored specifically for landlords and tenants, while we also launched British Gas branded home insurance in partnership with AXA and entered into a new partnership agreement with Nationwide's buy-to-let mortgage arm.

Continued challenging market conditions for business energy supply and services

The number of business energy supply points fell by 12,000 over the year and were flat in the second half of the year. The tough economic and competitive environment continued to put pressure on business energy supply margins, which were also impacted by our programme to end the auto-rollover of contracts at renewal, for the benefit of customers. This decision ensures our customers have a transparent choice of products and should provide long-term benefits. As a result of the margin pressures, operating profit in 2013 was significantly lower than in 2012.

During the year we started the implementation of a new business energy billing system, which is proceeding to plan and is expected to be fully operational by the end of 2014. The system leverages previous investment in residential platforms and will result in improved customer service at lower cost, helping to offset margin pressures. We continue to develop our business services propositions and we have now mobilised two major new contracts with Cornwall Council and a consortium of eight local authorities in the North East of England. We have also signed and commenced work on 13 energy performance contracts. Business services revenue increased by 11% in 2013 compared to 2012, while our secured pipeline of future work increased by 25% to over £200 million.

Reduced year-on-year operating profit

Total British Gas gross revenue increased to £14,226 million (2012: £13,857 million) while total British Gas operating profit fell to £1,030 million (2012: £1,093 million) with a slight increase in residential services profitability more than offset by declines in residential energy supply and business energy supply and services. British Gas has delivered its £300 million share of the Group's cost reduction programme, with the full year impact of 2012 initiatives coming through and further savings delivered in 2013 through procurement, IT and operational efficiencies. Reflecting the impact of inflation and investment in growth areas, British Gas operating costs were up slightly in 2013 compared to 2012, while previous investment in systems and a more proactive approach to helping customers resulted in the bad debt charge as a proportion of revenue holding broadly flat.

Residential energy supply gross revenue increased to £9,487 million (2012: £9,121 million), predominantly reflecting the impact of higher commodity and non-commodity costs on retail gas and electricity tariffs. Average gas consumption was broadly flat compared to a cold 2012, with a decline in underlying consumption and warmer than usual weather in the fourth quarter offsetting the impact of unusually cold weather in the first half. Average electricity consumption fell by 3%. Second half operating profit fell by 18% compared to 2012, while full year operating profit fell by 6% to £571 million (2012: £606 million), as increased revenue was more than offset by higher external costs, with commodity, transmission, metering and environmental costs all rising. The full year post-tax margin decreased to 4.5% (2012: 5.0%).

Residential services gross revenue decreased slightly to £1,655 million (2012: £1,674 million). Operating profit, including the receipt of an ECO management fee from residential energy supply, increased to £318 million (2012: £312 million), while the post-tax margin increased to 14.6% (2012: 14.1%), primarily reflecting the impact of operational efficiencies. Business energy and services gross revenue increased to £3,084 million (2012: £3,062 million), while operating profit, including credits arising from improved revenue and billing processes, fell by 19% to £141 million (2012: £175 million), reflecting the margin pressures. The post-tax margin fell to 3.7% (2012: 4.2%).

Positioning the business for the future in a tough external environment

Having completed a comprehensive review of the business, our focus is on improving our core operations to enhance service and reduce costs, while driving growth through innovative propositions.

In British Gas Residential and British Gas Services, we are targeting industry leading service levels for our customers. We will aim to improve service and deliver efficiencies by simplifying key customer interactions, such as moving home and paying by direct debit, to provide an effortless, consistent experience through all channels. Our project to move to a single residential billing platform for energy and services, which is expected

to be completed this year, will improve service and cost-efficiency as well as facilitating the integrated propositions needed to deliver increased energy and services cross-selling.

In addition, our leadership in digital, smart and connected homes enables us to offer compelling, differentiated propositions, such as our Hive Active Heating smart thermostat. We currently expect to have installed 1.3 million residential smart meters and to have sold over 100,000 smart thermostats by the end of 2014. We continue to see the smart connected home as core to our customer proposition, materially improving the customer experience and providing an opportunity for growth.

We see further growth opportunities in residential services from new pricing structures and expanded product choice, leveraging our insurance capabilities. We also see opportunities to grow share in adjacent, under-served markets such as the landlord sector and from improved conversion of boiler installation enquiries into sales. Overall, through enhanced price competitiveness and innovation, we are targeting a return to account growth in both residential energy and services.

In British Gas Business, a sustained programme of process simplification and the implementation of a new billing system, which started in 2013, is expected to deliver improved service at lower cost. We expect to deliver £100 million of annual operating cost and bad debt reductions by the end of 2015 and have already delivered around £20 million of this in 2013. This will help to offset the impact of transitioning our commercial model, including our decision to lead the market in ending auto-rollover at contract renewal.

As in the residential business, we will drive growth in business energy supply by developing new offerings tailored to valuable customer segments and utilising a more targeted channel strategy. In business services, where the market opportunity is comparable in size to business energy, we expect to grow a material position over time, through a combination of organic and inorganic growth.

DIRECT ENERGY

Market conditions for our North American downstream energy supply businesses proved challenging in 2013, as rising gas and power prices, declining barriers to entry and an increasingly competitive environment among both competitive energy suppliers and default utility providers led to a narrowing of margins. However, we made good strategic progress during the year, with the acquisition of the Hess Energy Marketing business significantly enhancing our scale and capability in Commercial and Industrial (C&I) gas supply, the acquisition of Bounce Energy providing a leading internet-based digital platform and further organic growth in our services protection plan product. We also continued our strong focus on health and safety, with the LTIFR remaining low at 0.12 per 100,000 hours worked in Direct Energy (2012: 0.11).

Direct Energy's scale in deregulated markets leaves us uniquely positioned in North America to respond to these challenging market dynamics. In the fourth quarter of the year the business was reorganised and the role of Chief Operations Officer was created to lead the drive for operational synergies across our businesses. In 2014 the business will be focused on delivering further cost reductions and building our range of innovative new products and services, with an increased focus on digital channels. We are positioning the business for growth, through innovation and attractive products and propositions, while the Hess acquisition provides us with the ability to optimise positions along the gas value chain.

The combination of organic growth and the effect of acquisitions has increased the scale of the business, resulting in an increase in Direct Energy gross revenue to £7,325 million (2012: £5,684 million). However, operating profit fell to £276 million (2012: £310 million), principally reflecting lower margins in business power energy supply. The operating profit in 2013 includes £14 million of integration costs and £22 million of additional amortisation of acquired intangibles relating to the Hess acquisition.

We continued to develop innovative products and during the second half of the year we launched our Free Electricity Saturdays product.

Competitive pressures offsetting the impact of acquisitions in residential energy supply

Operating profit for Direct Energy residential energy supply was up slightly in 2013, as the positive impact of previous acquisitions and reduced operating costs were largely offset by some narrowing of margins in Texas and the continued decline of our customer base in Ontario as a result of our decision to forego renewals and new customer sales due to the Energy Consumer Protection Act (ECPA). Gross revenue increased to £2,517 million (2012: £2,357 million) reflecting higher gas and power prices, while operating profit was £163 million (2012: £156 million) and the post-tax margin was unchanged at 4.4%.

The number of residential energy accounts at the end of 2013 was 3.4 million, a slight decline since the start of 2013, in part reflecting the expected decline in Ontario, a highly competitive sales environment in both Texas and the US North East and the expected loss of aggregation customers in the US North East.

In Canada, we now have less than 200,000 customer accounts in Ontario. The business is no longer core to our operations, with the region delivering only 11% of our residential energy supply operating profit in 2013 compared to 20% in 2012 and 29% at its peak in 2010. We also experienced a small drop in our regulated customer base in Alberta, although this was partially offset by growth in the competitive customer base in the region. This resulted in an increase in profitability in Alberta.

In the US North East, the number of accounts fell by 72,000, to 1.3 million, with the loss of 53,000 aggregation customers and the impact of a competitive sales environment being only partly offset by improved retention rates. However, profitability increased in the region, reflecting cost-efficiencies and the successful integration of customers acquired in 2012 in the Energetix and NYSEG Solutions transactions onto our systems.

In Texas, retention rates also improved, with churn improving by two percentage points. However, a highly competitive sales environment, with around 50 retail energy suppliers and 200 competitive offers, resulted in reduced renewal margins. To help offset this margin decline, we focused on lowering our operating cost base, with our cost to serve per customer in Texas falling by 24%. We also continued to develop innovative products and during the second half of the year we launched our Free Electricity

Saturdays product, while we increased sales of our prepayment product, Power To Go by 30% in 2013. In the second half of the year we also completed the acquisition of the independent electricity retailer, Bounce Energy, for $42 million (£27 million), adding 80,000 accounts to our Texas business and further consolidating our position as a top three retail energy provider in Texas. The acquisition provides a leading internet-based digital and ecommerce platform, for marketing innovative products and online account management and over time we expect this platform to aid residential energy and services account growth in all our core regions.

Volume growth in business energy supply not fully offsetting margin pressures

On 1 November we completed the acquisition of the New Jersey-based energy marketing business of Hess Corporation for $1,194 million (£736 million), including a payment for working capital of $416 million (£257 million). The acquisition makes Direct Energy the largest C&I gas supplier on the East Coast of the US and the second largest C&I power supplier in the competitive US retail markets and gives us a more balanced gas and power customer portfolio. It also builds on our existing capabilities and further integrates our activities along the gas value chain, linking gas supply from producers and other market participants, through secured transport and storage capacity, to both our C&I and residential customer bases. The initial performance of the acquired business has been strong.

Direct Energy business energy supply gross revenue increased by 52% to £4,238 million (2012: £2,795 million), reflecting the impact of higher wholesale commodity prices and increased sales volumes. Electricity volumes increased by 24% to 63.9TWh (2012: 51.4TWh) and gas volumes more than doubled to 1,839mmth (2012: 793mmth) reflecting two months of contribution from the Hess Energy Marketing business and good sales performance. However, the power market has been increasingly competitive with, up until January 2014, potential competitors finding it easier to access credit and reduced market volatility providing lower barriers to entry. This led to a 36% decline in profitability to £77 million (2012: £121 million). The underlying post-tax margin, excluding the impact of integration costs and additional amortisation associated with the Hess acquisition, fell to 1.8% (2012: 2.8%).

The business energy supply division now includes power generation and midstream activities. In December we announced the sale of our three Texas-based power stations, with a combined capacity of 1,295MW, to Blackstone for $685 million (£420 million). The disposal completed in January 2014 and we expect to recognise a profit on disposal of approximately £220 million as an exceptional item in the 2014 financial results. As part of the transaction we also entered into a three-year heat rate call option arrangement with Blackstone for an equivalent amount of capacity. We believe that in the near term this arrangement, together with a liquid physical and financial power market in Texas, can ably support our downstream operations through contractual arrangements rather than asset ownership.

Contract and profit growth in residential and business services

Direct Energy residential and business services gross revenue increased by 7% to £570 million (2012: £532 million), predominantly reflecting an increase in sales from our owned operations and those of our franchises. Operating profit increased to £36 million (2012: £33 million) and the post-tax margin improved slightly to 4.4% (2012: 4.1%) reflecting cost control.

Direct Energy Services gained market share during 2013, with the number of accounts increasing by 207,000. This partly reflects the acquisition of the US-based home services business, America's Water Heater Rentals (AWHR) for $30 million (£18 million), which added over 80,000 residential customers located primarily in the US Midwest, Florida and the US North East. The acquisition was completed in October and provides Direct Energy with an expanded services product range and the opportunity to grow its customer base further in the US, offering rentals alongside heating, air conditioning, plumbing and electrical services across its growing franchise business. In the year we increased our number of franchise territories by 11% to 633.

The increase in accounts also reflects organic growth from developing our protection plan offering in the US, in part leveraging the acquisition of Home Warranty, of America in 2012, and we now have over 100,000 whole-home warranty plans, up from 70,000 at the time of acquisition. Direct Energy Services also benefited from improved optimism in the economy, with a revival in new housing starts helping drive a 25% increase in sales in our residential new construction business.

Positioning the business for the future in a challenging external environment

Direct Energy has had a difficult start to 2014 and market conditions for our residential and business energy supply divisions look set to remain challenging. Although the Hess Energy Marketing business is performing well, Direct Energy has been impacted by a weaker US dollar, continued margin pressures and exceptionally cold weather, which had a significant impact across all suppliers in the US North East and resulted in additional system charges. As a result, we currently expect total Direct Energy operating profit to be broadly flat year-on-year.

Against this backdrop, improving cost competitiveness is a core priority and a cost reduction programme of $100 million is underway, as we deliver synergies from Direct Energy's enhanced scale. We are already benefiting from the creation of an integrated residential energy operations centre in Tulsa and a consolidated energy and services call centre in Phoenix. We are also investing in a new residential energy billing platform for the Alberta market. In Services, we are transitioning from eight separate operating systems to one, to help deliver simplified processes and operating efficiencies as well as to facilitate a more robust franchising platform.

In C&I, the integration of Hess Energy Marketing is proceeding well and on schedule. Our priority for 2014 is to fully integrate the teams, retaining key personnel and systems and in turn deliver exceptional service levels and high levels of customer retention. In the first three full months of ownership, the business has delivered EBITDA in excess of our investment case, with the acquisition expected to be earnings accretive in 2014. Over time, the enhanced scale, dual fuel capabilities, advantaged positions along the gas value chain and long-term customer relationships delivered by the Hess acquisition will provide additional growth opportunities across the enlarged business.

Building a range of innovative product offerings is also core to our business model, improving customer retention and delivering growth. Our Power To Go prepayment product and our innovative Free Electricity Saturdays product have both proved popular with residential energy customers. The Bounce Energy acquisition is already delivering increased sales through digital channels, while we see scope for further growth through connected home propositions. We have a relationship with Nest in Canada and launched a bundled thermostat and energy offering in the first quarter of 2014. Additionally, we plan to launch a Direct Energy branded smart thermostat in 2014.

In services, our franchise model enables expansion for limited capital outlay, while we expect to see further growth in our protection plan offering in the United States. We also recently launched a small scale pilot of a new HVAC leasing proposition. Initial sales have been considerably ahead of our expectations, with customers willing to undertake a higher value of work when purchased through rental payments as opposed to upfront payment. Over time, we see significant potential for combining energy and services propositions to our residential customer base.

Strategic Report

Operating Review

International Upstream

> Health and safety remains a core priority and we had no significant safety events in 2013.

In February 2013, I shared the three components of Centrica Energy's strategy: to invest for value in E&P with a focus on North America; to integrate across the gas value chain by increasing our presence in LNG; and to limit our capital employed in power. This is a strategy that has proved robust in the face of considerable market and regulatory challenges and one against which we have made substantial progress in delivering.

In E&P, our C$1 billion acquisition with QPI of onshore oil and gas assets in Western Canada from Suncor and our investment in UK shale with Cuadrilla are important steps towards diversifying our portfolio. In LNG, we signed significant agreements with Cheniere and Qatargas to import sufficient gas to supply up to 1.8 million and 3 million homes respectively. In power, we commissioned the Lincs offshore wind farm in September and chose not to invest in new nuclear, demonstrating our ongoing commitment to capital discipline and shareholder value.

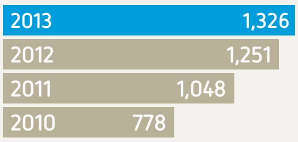
In 2014, we will continue our focus on driving up returns and respond to market conditions by taking advantage of the diversity and flexibility within our portfolio, reallocating capital towards the most attractive opportunities.

MARK HANAFIN
Managing Director, International Upstream

Our International Upstream business

Adjusted operating profit £m

£1,326m



For the year ended 31 December	2013	2012
Adjusted operating profit (£m)		
International gas	**1,155**	940
UK power	**171**	311
Total Centrica Energy	**1,326**	1,251
Gas and power		
Gas production (mmth)[1]	**3,557**	2,990
Liquids production (mmboe)[1]	**18.7**	17.4
Total gas and liquids production (mmboe)[1]	**77.3**	66.8
UK power generated (TWh)	**21.7**	21.5

[1] Includes 100% share of Canadian assets acquired from Suncor in partnership with QPI.

Following assessment of production rates and drilling results at some projects in the Southern North Sea and a reduction in North American natural gas prices since previous asset acquisitions and developments, we recognised pre-tax exceptional impairments of £699 million. We also recognised a £125 million exceptional onerous contract charge on the Rijnmond tolling contract in the Netherlands, reflecting decreases in expected future revenues.

What we do

EXPLORATION AND PRODUCTION

Our upstream oil and gas business operates in the Irish Sea, the UK, Norwegian and Dutch sectors of the North Sea, as well as in Trinidad & Tobago and owns and operates approximately 6,000 natural gas wells in Western Canada.

POWER GENERATION

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

MIDSTREAM

Our midstream operations support the E&P and power generation businesses in the UK and European energy markets. It also includes our growing LNG business.

Key metrics

Employees

2,158

Average achieved gas sales price

53.7p/th

pence per therm (p/th)

+ 9.6%

2012: 49.0p/th

See our performance measures on pages 183 and 184

Total gas and liquids production

77.3mmboe

+ 15.7%

2012: 66.8mmboe

Centrica Energy: Securing energy supplies for our customers

- International gas saw an increase in operating profit, with strong production from recently acquired assets and the impact of higher UK gas prices more than offsetting North Sea cost pressures
- We added 155mmboe to our 2P reserves in total with 56mmboe added organically, predominantly in Norway and our 2C resource base increased by 28%
- We recognised £318 million of post-tax exceptional impairments relating to UK Southern North Sea projects and existing Canadian gas assets
- We will be reducing organic E&P capital expenditure by approximately 20% to around £900 million per year on average over the next three years, against a backdrop of rising costs and lower wholesale market prices
- Our target is to have flat E&P unit lifting and cash production costs over the next three years
- Our profit in Power was down significantly despite a strong nuclear performance. The gas-fired fleet was loss making, reflecting weak spark spreads and following the loss of free carbon allowances. In the near term, investment in the UK power sector is likely to be limited

Corporate responsibility

- Developed Group operating principles for onshore natural gas exploration and extraction
- Worked with our partner Cuadrilla Resources to engage communities near potential UK shale exploration sites
- Achieved a lost time injury frequency rate of 0.10 down from 0.22 in 2012
- Zero significant process safety events occurred in 2013

Corporate Responsibility Review on page 39

The risks and challenges

- Continued exposure to volatile commodity prices
- Further political and regulatory intervention and reform
- Health, safety, environmental & security risks arising from our assets and operations
- Effective development of our assets and contracts
- Successful delivery of major capital projects
- Execution of our LNG strategy

Principal Risks and Uncertainties on page 42

We have a new international structure, which enables us to maximise the potential of our core E&P regions of UK and Netherlands, Norway and Canada.

CENTRICA ENERGY

Significant progress towards our refreshed strategic priorities

International Upstream performed well in 2013, with strong gas and oil production, the highest UK nuclear generation volumes for eight years and consistent operational performance from our gas-fired generation fleet. Under the leadership of Mark Hanafin we also made significant progress towards our refreshed strategic priority – to integrate our natural gas business, linked to our core markets – with a new international structure enabling us to maximise the potential of our core E&P regions of UK and Netherlands, Norway and Canada.

We have completed three key transactions: the North American LNG export agreement with Cheniere; the acquisition of a package of producing conventional gas and oil assets in the Western Canadian Sedimentary Basin from Suncor; and the acquisition of a 25% interest in the Bowland shale exploration licence from Cuadrilla Resources and AJ Lucas. Overall, we added 155mmboe of net 2P reserves in 2013, both organically – principally in Norway – and through acquisition and we increased our 2C resource base by 28% to 771mmboe. However, we recognised £318 million of post-tax impairments, reflecting reserve and resource downgrades and increases in expected costs on certain Southern North Sea projects and a reduction in North American natural gas prices since previous asset acquisitions and developments. We also announced the divestments of selected North Sea E&P assets and of non-core UK wind assets for value, evidence of our commitment to maintaining capital discipline.

International Upstream operating profit increased by 6% to £1,326 million (2012: £1,251 million). Gas operating profit increased, reflecting higher production volumes following recent acquisitions and higher achieved prices, partially offset by a decrease in Power operating profit following the loss of free carbon allowances and continued difficult trading conditions for gas-fired generation. Health and safety remains a core priority and we continued our focus on the effective management of major accident hazards through improved process safety training and reporting. We had no significant safety events in 2013, while the LTIFR fell to 0.10 (2012: 0.22).

Increased and more diverse gas and oil production

Total production of gas and liquids increased by 16% to 77.3mmboe (2012: 66.8mmboe). Total gas production volumes increased by 19% to 3,557 million therms (mmth) (2012: 2,990mmth) and total liquids volumes increased by 7% to 18.7mmboe (2012: 17.4mmboe). This predominantly reflects the benefit of a full year of production from the three acquisitions completed during 2012 and a part year of production from the package of Canadian conventional gas and crude oil assets acquired from Suncor in partnership with QPI, with production from new fields broadly offsetting the natural decline in our existing portfolio.

As a result of the recent acquisitions, we now have a more diverse geographical portfolio, with less reliance on Morecambe and larger scale businesses in Norway and Canada. Norwegian production increased by 36% in 2013 and production from Canada increased by 28%, while production from the East Irish Sea contributed only 17% of total 2013 production, compared to 20% in 2012.

The assets acquired in 2012 have overall been producing better than our investment cases and initial production from the Canadian assets acquired from Suncor was ahead of our expectations in the fourth quarter of 2013, following completion of the transaction in late September. This C$987 million (£601 million) acquisition, was made through a newly formed partnership owned by Centrica (60%) and QPI (40%) and was the first transaction made under the Memorandum of Understanding signed between the two parties in 2011. 100% of production and financial performance from the assets have been consolidated into the 2013 results. Centrica's 60% share of 2P reserves from the assets as at the end of 2013 was 101mmboe, which was higher than original expectations and we are well placed to benefit from any upside in North American gas prices through the accelerated development of resources in the portfolio.

In 2013 we had a full year of production from our Ensign and Seven Seas fields, which came on-stream in 2012 and delivered first gas from our York and Rhyl fields in the first quarter of 2013. However, lower than expected production flow rates at Ensign, Seven Seas and York, combined with lower forward gas prices and updated information on resource potential and development costs, have caused significant reductions in the value of these assets, leading to post-tax impairments totalling £252 million.

In the case of Ensign, the lower flow rates have led to adverse revisions of the future reserves potential of producing wells and of additional wells to exploit the potential of the field. In the case of Seven Seas, lower flow rates have led to a downward revision in 2P reserves from the production well. In the case of York, production flow rates from a second well were below expectations and we also suspended drilling on a third well. This has led to an increase in expected capital expenditure and adverse revisions to the future reserves potential of the two producing wells and of additional wells yet to be drilled.

In the second half of the year we announced the disposals of three packages of North Sea assets – a 13% non-operated stake in the Babbage field, a 50% operated interest in the Greater Kittiwake area and a portfolio of assets in the Heimdal area in Norway – disposing of 2P reserves totalling 12mmboe for a combined consideration of £125 million, including contingent consideration. The Babbage and Heimdal disposals, totalling 8mmboe of reserves, were completed in late 2013, with the Greater Kittiwake disposal expected to complete in late February 2014. This is in line with our strategy to optimise the North Sea portfolio, investing selectively in assets around our existing hubs while managing costs and looking to divest non-core assets for value. Taking into account these North Sea divestments and the full year impact of the Canadian acquisition, total gas and liquids production volumes are expected to increase to around 85mmboe in 2014, in line with previous guidance.

Adding value through reserve additions in our E&P portfolio

Centrica Energy added 155mmboe of 2P reserves in 2013, a net 99mmboe from acquisitions and disposals and 56mmboe from existing fields. This represents a total production replacement ratio of 201%, and 73% from organic sources.

In Norway, we recognised an additional 23mmboe of 2P reserves across our Kvitebjorn and Statfjord fields, reflecting strong performance from these assets and demonstrating the quality of our acquisitions

“Our profile of committed investment gives us flexibility to consider acquisitions, if the economics are attractive and they are a good fit with our existing portfolio.

in Norway. In Canada, incremental reserves of 7mmboe were recognised in the year from our existing portfolio, in addition to the reserves added following the Suncor acquisition. We have now undertaken a review of our larger Canadian portfolio and expect to increase our capital allocation to a number of attractive liquids-rich opportunities in the region, which we believe will drive longer term profit growth. However, we recognised a post-tax impairment of £66 million on our existing gas assets in Canada, reflecting a weaker outlook for North American natural gas prices and an increase in the discount rate applicable to these assets.

We continued to make progress across our development portfolio. In addition to producing first gas from York and Rhyl in the first quarter of 2013, first production from Kew was delivered in January 2014, while we are currently drilling a fourth production well at York. We have now sanctioned a sidetrack well at Grove, which is expected to produce first gas later in 2014. The Statoil-operated Valemon project continues to proceed as planned, with first production expected towards the end of 2014, while the GDF-operated Cygnus project is progressing well and remains on track to bring 53mmboe of reserves into production around the end of 2015.

In the year, we recognised 21mmboe of 2P reserves at Butch in the Norwegian North Sea, which was discovered in 2011, and continue to work on a development plan for the project. We have now also commenced appraisal drilling on the adjacent Butch East well, which has the potential to add further to reserves. On our Block 22 project in Trinidad & Tobago we had drilling successes on two wells, helping to firm up our resource base in the region. We continue to review our development and partnership options for gas export.

In exploration, drilling at the Rodriguez well in Norway in January confirmed the presence of gas condensate, while drilling at Whitehaven in the East Irish Sea in February confirmed a satellite field adjacent to the Rhyl reservoir. In January 2014 we were awarded 10 further Norwegian licences through the Awards in Predefined Areas process. In the UK, we were awarded 16 licences in the second tranche of the 27th UK offshore oil and gas licencing round, in addition to the 6 licences awarded in 2012. Since the start of 2013, in line with our commitment to capital discipline, we have relinquished our interests in Bligh, Christian, Selkirk and Peik. Overall we have an attractive portfolio of exploration prospects and will focus our expenditure on the best prospects.

In June, we announced that we had acquired a 25% interest in the Bowland shale exploration licence in Lancashire from Cuadrilla Resources and AJ Lucas for £44 million. This provides an attractive opportunity to explore the potential for natural gas from shale in the UK, while utilising our expertise as a responsible operator and developer of UK gas resources. We welcomed the Government's announcements in July and December concerning tax allowances relating to shale gas, although much remains to be done to determine its commercial viability in the UK.

Develop our midstream business to integrate along the gas value chain

In March, we announced a 20 year agreement with Cheniere to purchase 91,250,000 (mmbtu) (89 billion cubic feet) per annum of LNG volumes for export from the Sabine Pass liquefaction plant in Louisiana in the United States. The project remains subject to regulatory approvals being achieved for the fifth train, including Federal Energy Regulatory Commission clearance. In early April the export licence application was filed with the US Department of Energy and the full Federal Energy Regulatory Commission application was filed in September 2013. The contract marks an important step in delivering our strategy, as we look to link our positions across the gas value chain and invest in new sources of gas on both sides of the Atlantic, where we see attractive opportunities.

In November, we announced that we had entered into a further supply agreement with Qatargas to purchase up to 3 million tonnes per annum of LNG for the UK from June 2014. This deal follows on from our existing agreement with Qatargas and highlights Centrica's status as an attractive counterparty, underpinning the UK's access to the global LNG market amidst fierce demand from Asia and Latin America.

Higher gas and oil volumes and achieved prices more than offsetting higher costs

International gas operating profit increased by 23% to £1,155 million (2012: £940 million), reflecting higher production volumes and higher achieved prices. The average achieved gas sales price, including production from North America, increased by 10% to 53.7 pence per therm (p/th) (2012: 49.0p/th). This primarily reflects an increased achieved gas price in Europe of 65.0p/th (2012: 57.6p/th) due to a higher prevailing UK NBP gas price, only partially offset by a change in the production mix towards North America. The achieved gas price for North America and Trinidad & Tobago fell slightly to 20.9 p/th (2012: 23.2p/th). The average achieved oil and condensate price was broadly flat at £61.6 per boe (2012: £61.7/boe).

On a per unit of production basis, depletion, depreciation and amortisation costs increased by 23% in the year to £11.4/boe (2012: £9.3/boe) with a shift in production mix towards more recently acquired and developed higher cost fields in Europe, partly offset by additional production from lower cost North American fields. Unit lifting and other cash production costs increased by 2% to £12.6/boe (2012: £12.4/boe), with the impact of industry-wide cost inflation being mostly offset by the impact of an increased proportion of lower cost North American production. Exploration and appraisal costs were £154 million (2012: £143 million), in part reflecting costs written down following licence relinquishments.

International gas operating profit after tax was £325 million (2012: £198 million) and the return on total capital employed was 8.3% (2012: 5.6%). The business generated free cash flow of £180 million, net of total capital expenditure and acquisitions of £1,449 million.

Strong performance from existing nuclear fleet; challenging market conditions for gas-fired generation

Output from the nuclear fleet was once again strong, with our 20% equity share of the output increasing to 12.1 terawatt hours (TWh) (2012: 12.0TWh), the highest annual output since 2005. This reflects continued investment in the fleet, with no large unplanned outages occurring during the year, underlining the quality of our original investment in the British Energy fleet. The average achieved price for the year was £51.9/MWh (2012: £49.6/MWh), reflecting the increase in the baseload power market price and the impact of hedging. An increase in revenue was only partly offset by additional depreciation and inflationary cost pressures, resulting in a 5% increase in nuclear operating profit, to £250 million (2012: £237 million). In February 2013, we announced that we would not be exercising our option to participate in UK nuclear new build, taking into account increased costs and the lengthening time frame for a return on capital invested in a project of this scale.

The market environment remains challenging for gas-fired power generation, with continued low market clean spark spreads. The average gas-fired load factor increased to 27% (2012: 26%), although slightly lower capacity meant that generation volumes reduced to 8.9TWh (2012: 9.0TWh). Against this challenging environment, we continued to minimise costs, running the plants as efficiently as possible and thermal fleet reliability remained high at 97% (2012: 97%), enabling running at peak times. The gas-fired operating loss increased to £133 million (2012: £4 million loss), primarily reflecting the end of free carbon allowances.

Our gas-fired power stations at Barry, Brigg and Peterborough were all awarded contracts by the National Grid in March 2013, as part of its Short Term Operating Reserve market. All the contracts run until the end of the first quarter of 2015, with Brigg awarded a two-year contract, Peterborough awarded a follow-on contract when its current arrangement finishes in 2014 and Barry awarded a one-year contract starting in April 2014.

Availability of our wind assets was 88% (2012: 88%), with generated volumes up 41% to 753 gigawatt hours (GWh) (2012: 533GWh) and a load factor of 36% (2012: 32%), reflecting output from the Lincs wind farm, with all 75 turbines having been fully commissioned by September 2013. In June 2013, we sold our 50% interest in the Braes of Doune onshore wind farm to Hermes GPE Infrastructure fund for £59 million. In December 2013, we were disappointed not to receive a letter of eligibility for transitional Feed in Tariffs for our Race Bank offshore wind project and we sold our 100% interest in the project to DONG Energy Power (UK) Limited, for £50 million. The net impact of these two transactions was a £23 million profit on disposal. We retain a 50% interest in 4.2GW of potential capacity in Celtic Array, the Round 3 Irish Sea Zone. However, we have impaired the carrying value of this project by £25 million in the year. Overall, renewables operating profit reduced to £25 million (2012: £56 million), predominantly reflecting lower net profit on disposal during the year and the Round 3 impairment.

Total Power profitability decreased by 45% to £171 million (2012: £311 million), with increased losses from our gas-fired fleet and lower renewables profit only partially offset by improved nuclear and midstream profits. UK power operating profit after tax was £143 million (2012: £243 million) and the return on total capital employed was 3.8% (2012: 6.7%).

Positioning the business for the future

We made good strategic progress during 2013 and we will benefit in 2014 from a full year's worth of production from the Canadian assets acquired from Suncor. However, the E&P business is facing rising costs in the UK North Sea, while gas and oil prices have reduced from their peaks. As a result, we expect operating profit to reduce in 2014 compared to 2013, although with the move in production mix towards Canada, we expect post-tax profit to be broadly unchanged.

In this environment, while existing projects such as Cygnus and Valemon remain attractive opportunities and we have a number of potentially attractive future development options in Norway, we are likely to concentrate on only the very best North Sea investments with North America potentially a more attractive region for investment. We have also established new processes for project stage-gate review and have reduced our rig commitments, to provide additional assurance and maximise project returns. Overall we expect to invest around £900 million per annum of capital expenditure in E&P projects over the next three years, with an increasing proportion of capital spend in North America. This is around 20% lower than previously expected levels, but will have limited impact on near-term production, which we expect to be in the range 80–85mmboe per annum. Our profile of committed investment gives us flexibility to consider acquisitions, if the economics are attractive and they are a good fit with our existing portfolio, while potentially divesting further non-core assets for value.

Market conditions look set to remain challenging for our gas-fired power stations with no sign of material recovery in 2014. We have sanctioned a further turbine blade upgrade at our 1.3GW South Humber CCGT power station, which will improve the efficiency of the plant and work is scheduled to commence on the project in the first half of 2014. In addition, we have consent for 1GW of new build CCGT on our existing site at Kings Lynn and are exploring the option to repower the existing plant. However, continued political uncertainty is putting investment at risk and any future investment decisions remain dependent on the economics of the projects and the successful introduction of the capacity market. On renewables, we retain interests in our joint venture portfolio of operating wind assets, with purchase agreements for both the power and the ROCs. Our focus will be on maximising value through operating our assets efficiently.

Strategic Report
Operating Review

Centrica Storage

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

Centrica Storage performed well in 2013 although we have seen a continued narrowing of the spread between winter and summer gas prices, the key driver of seasonal storage revenue. These continued narrow spreads and the recent decision by the government not to support new storage resulted in us writing down our Baird and Caythorpe storage projects. This current market and regulatory environment continues to be challenging and is a major barrier to significant investment in new and existing storage facilities.

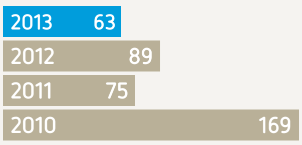
As we look to 2014, we will focus on delivering sustainable improvements in operational and cost-efficiency whilst ensuring the continued safe, reliable operation of our Rough storage facility. We will also redouble our efforts with industry and government to ensure that gas storage continues to play an important role in gas supply security for UK businesses and consumers.

GRANT DAWSON
Chairman, Centrica Storage

Our Centrica Storage business

Adjusted operating profit £m

£63m



For the year ended 31 December	2013	2012
Average SBU price (pence)	**26.7**	31.0
Gross revenue (£m)	**188**	202
Operating profit (£m)	**63**	89

Low seasonal gas spreads, together with the UK government's decision to rule out intervention to encourage new gas storage projects to be built, has caused us not to proceed with the Baird storage project and to put our project at Caythorpe on hold. As a result of these decisions, we have recognised pre-tax exceptional impairments and provisions totalling £240 million.

Key metrics

Employees	Lost time injury frequency rate	Asset reliability
319	0.06	96%

See our performance measures on page 184

What we do

GAS STORAGE

Our Rough gas storage facility is the largest in the UK, able to meet approximately 10% of the UK's winter peak day demand and representing more than 70% of the UK's current storage capacity. Rough is situated in the Southern North Sea, 18 miles off the coast of East Yorkshire. Here we store gas underneath the sea on behalf of utilities, gas traders and gas producers (including other Centrica businesses), before processing it at our Easington terminal for onward distribution via the National Transmission System.

At Easington, Centrica Storage also processes gas from Centrica Energy's York gas field, located just a few miles from Rough. In 2011/12, the terminal underwent a multi-million pound transformation to enable processing of York gas with first gas flowing into the terminal in March 2013.

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

Corporate responsibility

- Achieved a lost time injury frequency rate of 0.06 after our first recorded LTI in over three years
- Zero significant process safety events occurred in 2013

Corporate Responsibility Review on page 39

The risks and challenges

- Compliance with existing laws and regulation
- Further political and regulatory intervention and reform
- Further narrowing of the spread between winter and summer gas prices
- Health, safety, environmental & security risks arising from our assets and operations

Principal Risks and Uncertainties on page 42

Centrica Storage: Making an important contribution to the UK's security of supply

- Centrica Storage profitability was impacted by continuing low seasonal gas spreads and we expect a further significant decline in 2014
- The decision not to proceed with new gas storage projects at Caythorpe and Baird resulted in post-tax exceptional impairments and provisions of £224 million
- We launched a programme to deliver £15 million of cost reductions through operational efficiencies over the next three years

CENTRICA STORAGE

Good operational performance in challenging market conditions

Centrica Storage performed well operationally in 2013, with strong reliability of 96% (2012: 92%) helping Rough make an important contribution to the UK's security of supply during periods of sustained cold weather in the first four months of the year. However, operating profit fell by 29%, reflecting narrowing summer/winter gas price differentials.

The Net Reservoir Volume (NRV) reached record low levels in April, as we experienced sustained customer withdrawals during the prolonged cold weather. As temperatures returned to more normal levels from mid-April, customers switched to injection and the business delivered a record year in terms of gas volume injected. With warmer weather in November and December resulting in less withdrawal than usual towards the end of the year, the NRV ended the year above the five-year average.

Health and safety remains a core priority and Centrica Storage continues to progress its process safety programme. We experienced no further lost time incidents (LTIs) in the year, after recording our first LTI in over three years in March 2013.

Narrow forward seasonal spreads creating commercial headwinds

In April 2013, Centrica Storage announced that it had sold all SBUs for the 2013/14 storage year at an average price of 23.3p (2012/13: 33.9p), reflecting low summer/winter gas price differentials over the course of 2012 and 2013. Forward 2014/15 market spreads remain narrower still.

The narrow summer/winter price spreads also provide a challenging background for new projects. In light of the weak economics for storage projects and the UK Government's decision to rule out incentivisation for additional gas storage capacity to be built, Centrica decided not to proceed with its offshore Baird project and put its project at Caythorpe on hold indefinitely. As a result, a post-tax exceptional charge of £224 million was recognised in the year, relating to impairments and provisions for these projects.

Reduced year-on-year operating profit

Gross revenue fell 7% to £188 million (2012: £202 million). This reflected a lower calendar year SBU price of 26.7p (2012: 31.0p) and lower optimisation revenue, only partially offset by revenue generated from the York gas processing terminal, which was commissioned early in the year. Operating profit decreased by 29% to £63 million (2012: £89 million), primarily reflecting the decrease in revenue, additional fuel costs from the high levels of injection during the year and costs associated with the York terminal.

With forward spreads even lower, Centrica Storage profitability is likely to be only around break-even in 2014. Against this backdrop we will continue our focus on safety and further capital investment will be limited. We have also now launched a three-year programme to deliver £15 million of cost reductions through operational improvements.

Strategic Report

Group Financial Review

We are committed to real dividend growth, which will benefit around 700,000 individual shareholders and millions of current and future pensioners.

Financial stewardship and discipline remain important to our business for the benefit of customers and shareholders.

Group revenue

Group revenue was up 11% to £26.6 billion (2012: £23.9 billion). Revenue increased in British Gas, primarily due to the impact on retail energy prices of higher UK wholesale gas and electricity prices and non-commodity costs. Revenue in Direct Energy increased, predominantly reflecting the impact of higher gas and power volumes and the acquisition of the Hess Energy Marketing business which completed in November. Revenue increased in Centrica Energy, with higher gas and liquids production due to the full-year impact of the 2012 asset purchases and higher achieved gas and liquids prices in Europe. Centrica Storage revenue fell slightly, reflecting lower seasonal gas spreads and a higher proportion of storage capacity sold internally.

£26.6bn

2012: £23.9 billion

Adjusted operating profit

In British Gas, total profitability decreased. Operating profit decreased in residential energy supply, with the impact of higher unit tariffs more than offset by increased wholesale commodity, transmission and metering and environmental costs. Operating profit decreased in business energy supply and services, with lower margins as a result of challenging market conditions and our programme to end the auto-rollover of contracts. Operating profit increased in residential services, predominantly reflecting the impact of cost-efficiencies.

£2,695m

2012: £2,743 million

Adjusted operating profit continued

In Direct Energy, overall profitability decreased, as increases in residential energy supply and residential and business services operating profit, resulting from previous acquisitions and services account growth, were more than offset by decreased profitability in the business energy supply segment, which experienced margin pressure on power sales in a competitive environment. In Centrica Energy, overall profitability increased, with higher operating profit in the gas segment more than offsetting lower power operating profit. In the gas segment, higher gas and liquids production and higher achieved prices in Europe more than offset the impact of increased unit costs. In the power segment, profitability decreased following the loss of free carbon allowances. In Centrica Storage, reduced seasonal gas price differentials led to lower profitability.

Net finance cost

Net finance cost increased to £243 million (2012: £209 million), with higher average levels of debt in the year, as the Group raised $1.35 billion in the US bond market to fund North American acquisitions completed during the year.

£243m

2012: £209 million

Tax

The taxation charge reduced to £942 million (2012: £1,031 million) and the adjusted tax charge was £1,022 million (2012: £1,112 million). The resultant adjusted effective tax rate for the Group was 43% (2012: 45%). An effective tax rate calculation, showing the UK and non-UK components, is shown in the table on page 36.

£1,022m

2012: £1,112 million adjusted tax change

Profit and adjusted basic EPS

Reflecting all of the above, profit for the year was £1,333 million (2012: £1,322 million) and, after adjusting for depreciation of fair value uplifts from strategic investments, adjusted earnings were broadly flat at £1,370 million (2012: £1,378 million). Adjusted basic earnings per share (EPS) were unchanged at 26.6 pence (2012: 26.6 pence).

£1,333m

2012: £1,322 million

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

	Notes	**2013** Business performance £m	**2013** Exceptional items and certain re-measurements £m	**2013** Statutory result £m	2012 Business performance £m	2012 Exceptional items and certain re-measurements £m	2012 Statutory result £m
Adjusted operating profit							
British Gas		**1,030**			1,093		
Direct Energy		**276**			310		
Centrica Energy		**1,326**			1,251		
Centrica Storage		**63**			89		
Total adjusted operating profit	4c	**2,695**			2,743		
Depreciation of fair value uplifts from Strategic Investments, before tax	10	**(66)**			(96)		
Interest and taxation on joint ventures and associates	4c	**(111)**			(85)		
Group operating profit	4c, 7	**2,518**	**(626)**	**1,892**	2,562	63	2,625
Net finance cost		**(243)**	**–**	**(243)**	(209)	–	(209)
Taxation	7, 9	**(942)**	**243**	**(699)**	(1,031)	(140)	(1,171)
Profit for the year		**1,333**	**(383)**	**950**	1,322	(77)	1,245
Depreciation of fair value uplifts from Strategic Investments, after taxation	10	**37**			56		
Adjusted earnings		**1,370**			1,378		

The Group has applied IAS19 (revised) pensions accounting. As a result, 2012 net finance cost, taxation, earnings and earnings per share have been restated.
To reflect a new organisational structure, the North American upstream gas business has been reallocated from Direct Energy to Centrica Energy.

Statutory profit and basic EPS

The statutory profit for the year was £950 million (2012: £1,245 million). The reconciling items between Group profit for the year from business performance and statutory profit are related to exceptional items and certain re-measurements. The decrease compared with 2012 is principally due to an increased net exceptional charge of £667 million (2012: £481 million) and a reduced gain from certain re-measurements of £284 million (2012: £404 million). The Group reported a statutory basic EPS of 18.4 pence (2012: 24.0 pence).

£950m

2012: £1,245 million

Dividend

In addition to the interim dividend of 4.92 pence per share, we propose a final dividend of 12.08 pence, giving a total ordinary dividend of 17.0 pence for the year (2012: 16.4 pence), an increase of 4%.

17.0p

2012: 16.4 pence

Cash flow

Group operating cash flow before movements in working capital was higher at £3,737 million (2012: £3,542 million), with the full year impact of the 2012 upstream asset purchases being the main contributing factor. After working capital adjustments, tax and payments relating to exceptional charges, net cash flow from operating activities was £2,940 million (2012: £2,820 million).

The net cash outflow from investing activities was lower at £2,351 million (2012: £2,558 million), predominantly reflecting the receipt of a larger nuclear dividend and increased proceeds from the disposal of businesses.

The net cash outflow from financing activities was £791 million (2012: inflow of £190 million). The outflow mainly reflects the impact of the Group's £500 million share repurchase programme, fully undertaken during the year and a reduced net issuance of debt during the period of £809 million (2012: £1,196 million).

£2,940m

2012: £2,820 million

Net debt and net assets

Reflecting all of the above, the Group's net debt at 31 December 2013 was £5,049 million (2012: £4,047 million).

During the year net assets decreased to £5,257 million (2012: £5,927 million), reflecting the impact of the Group's share repurchase programme, actuarial losses on the Group's defined benefit pension schemes and foreign currency movements on the retranslation of foreign subsidiaries.

£5,049m

2012: £4,047 million net debt

£5,257m

2012: £5,927 million net assets

	UK £m	**Non-UK £m**	**2013 Total £m**	UK £m	Non-UK £m	2012 Total £m
Adjusted operating profit	**1,903**	**792**	**2,695**	2,079	664	2,743
Share of joint ventures'/associates' interest	**(60)**	**–**	**(60)**	(44)	–	(44)
Net finance cost	**(146)**	**(97)**	**(243)**	(105)	(104)	(209)
Adjusted profit before taxation	**1,697**	**695**	**2,392**	1,930	560	2,490
Taxation on profit	**493**	**449**	**942**	694	337	1,031
Tax impact of depreciation of Venture fair value uplifts	**29**	**–**	**29**	40	–	40
Share of joint ventures'/associates' taxation	**51**	**–**	**51**	41	–	41
Adjusted tax charge	**573**	**449**	**1,022**	775	337	1,112
Adjusted effective tax rate	**34%**	**65%**	**43%**	40%	60%	45%

Exceptional items

Exceptional pre-tax charges of £1,064 million were incurred within Group operating profit during the year (2012: £534 million). Taxation on these charges generated a credit of £397 million (2012: £93 million) while there was a £40 million exceptional tax charge in 2012 related to the effect of a change in upstream UK tax rates. This resulted in exceptional post-tax charges of £667 million (2012: £481 million).

Following reserve and resources downgrades and increases in expected costs on the Seven Seas, York and Ensign fields in the Southern North Sea and a weaker outlook for North American natural gas prices and an increase in the discount rate applicable to North American assets, the Group recognised pre-tax impairment charges of £699 million relating to UK and Canadian exploration and production assets. Taxation on these charges generated a credit of £381 million, resulting in exceptional post-tax charges of £318 million.

In September, in the light of weak economics for new storage projects and the UK Government's announcement ruling out incentivisation for gas storage capacity to be built in the UK, Centrica announced its decision not to proceed with the Baird offshore gas storage project and to put the onshore project at Caythorpe on hold indefinitely. As a result, the Group has recorded £240 million of impairments and provision charges as exceptional operating costs. Taxation on these charges generated a credit of £16 million resulting in exceptional post-tax charges of £224 million.

The Group also recognised a further onerous contract charge of £125 million (no tax impact) for the Rijnmond power tolling contract in the Netherlands as a result of decreases in expected future revenues.

Certain re-measurements

As an integrated energy business the Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair-valued under IAS39. The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. The operating profit in the statutory results includes net gains of £438 million (2012: £597 million) relating to these re-measurements, of which there are a number of elements. The Group recognises the realised gains and losses on these contracts in business performance when the underlying transaction occurs. The profits arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements. See note 2 on page 93.

Business combinations

On 15 April 2013, the Group announced that it had agreed to form a partnership with Qatar Petroleum International and jointly acquire a package of producing conventional natural gas and crude oil assets and associated infrastructure located in the Western Canadian Sedimentary Basin from Suncor Energy. The transaction completed on 26 September 2013 for consideration of C$987 million (£601 million). The Group owns a 60% share in the partnership and operates the assets. It has fully consolidated the partnership for accounting and reporting purposes.

On 30 July 2013, the Group announced that it had agreed to acquire the New Jersey-based energy marketing business of Hess Corporation. The transaction completed on 1 November 2013 for consideration of $1,194 million (£736 million) including a payment for the working capital of the business of approximately $416 million (£257 million).

Further details on business combinations, plus details of asset purchases, disposals and disposal groups classified as held for sale are included in notes 4(f) and 12 on pages 103 and 111 to 113.

Events after the balance sheet date

Details of events after the balance sheet are described in note 26 on page 134.

Risks and capital management

The Group's risk management processes are largely unchanged from 31 December 2012. Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note S3 on pages 145 to 149.

Details on the Group's capital management processes are provided under sources of finance in note 24 on page 130.

Accounting policies

UK listed companies are required to comply with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group's specific accounting measures, including changes of accounting presentation and selected key sources of estimation uncertainty, are explained in notes 1, 2 and 3 on pages 92 to 97.

Our view on taxation

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

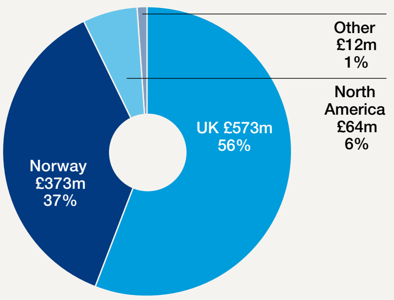
TAXES PAID IN THE UK

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

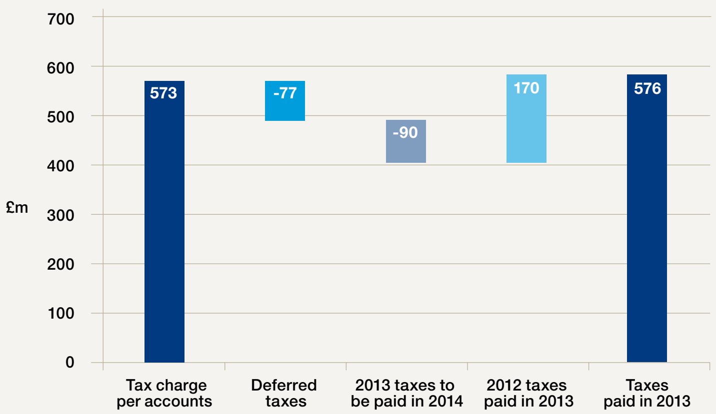
The Group's tax strategy is consistent with its wider Business Principles which are set out in the Chairman's Statement on page 05.

- We maintain a transparent and constructive relationship with HMRC in the UK. This includes regular, open dialogue on issues of significance to HMRC and Centrica. Our relationship with fiscal authorities in other countries where we do business is conducted on the same principles.
- We carefully manage the tax risks and costs inherent in every commercial transaction, in the same way as any other cost. However, we do not enter into artificial arrangements in order to avoid taxation nor to defeat the stated purpose of tax legislation.
- We actively engage in consultation with government on tax policy where we believe we are in a position as a group to provide valuable commercial insight.

Group adjusted tax charge



Breakdown of UK adjusted tax charge



Strategic Report

Corporate Responsibility Review

At Centrica, how we do business is integral to what we deliver. A responsible business must build trust and maintain strong sustainable performance over the long term.

> Affordability is a key concern. We are committed to charging fair prices to our customers.

Responsibility metrics

See our corporate responsibility key performance indicators on page 185

See our corporate responsibility metrics online in our data centre at centrica.com/cr

Our Corporate Responsibility (CR) work is built around four key themes, which reflect Centrica's principal impacts on the communities and environments in which we operate:

- treating customers fairly;
- safeguarding the environment;
- caring for our people and communities; and
- working with our partners.

Previously, our stakeholders' focus was principally on the actions we were taking to safeguard the environment and improve energy efficiency. In 2013, these issues continued to cause concern but the primary focus of public debate moved to the affordability of energy.

Energy companies were challenged on the prices they charge and the margins they earn. They also faced protests related to onshore exploration for shale gas as the country seeks new energy sources.

Affordability is, understandably, a key concern. We strive to keep energy affordable for our customers. At the same time, we have to keep in mind the complex environment in which we operate and the multiple – and sometimes conflicting – interests of our stakeholders. We are committed to charging fair prices to our customers. As an integrated energy company, we also have a responsibility to invest in energy supplies for the future. We therefore need to make sufficient profits to sustain this investment as well as to pay our taxes and provide fair returns to our shareholders.

The following review summarises our progress against each of our CR themes. The themes are an essential part of the work of each individual business, so further information can be found in the Operating Review on pages 18 to 33.

We place a strong emphasis on setting qualitative and quantitative targets for our CR work. The Corporate Responsibility Committee oversees progress towards the targets, as well as reviewing strategic and longer term issues. A list of the main topics it discussed in 2013 is on page 61.

More details about Centrica's CR work are available online in our 2013 CR reporting at centrica.com/crreportinghub.

MARY FRANCIS CBE
Chairman of the Corporate Responsibility Committee
20 February 2014

External assurance

Deloitte LLP reviewed selected performance metrics, which are available on pages 185 and 186. They provided limited assurance, using the International Standard on Assurance Engagements (ISAE) 3000. Deloitte's full assurance statement and the Basis of Reporting are available online at centrica.com/CRassurance.

See the online 2013 Corporate Responsibility Performance Review for further information at centrica.com/cr

Treating customers fairly

Treating customers fairly is essential to earn their trust, retain their loyalty and ensure the long-term sustainability of our business.

Being fair and transparent in our pricing and communications

Affordability of energy is a key issue, especially in the UK. Customers were concerned when we had to increase our prices in October 2013. However, the increase was necessary for us to remain profitable. We play a critical role in the UK providing power and heat for homes and businesses. Earning a reasonable margin is essential to enable us to invest in and secure long-term sources of gas and electricity.

We continue to engage with all policy makers and are working hard to regain the trust of our customers. We fully support the principles introduced in 2013 by the UK energy regulator, Ofgem, to make the UK energy market simpler, clearer and fairer. Our Customer Fairness Committee (CFC) helps us implement these standards and ensure fairness in everything we do for customers. Two members of the CFC are independent of Centrica and British Gas to ensure that we are externally challenged.

Customers told us they found the way we charge confusing. We began transferring all British Gas customers to a fixed standing charge (in line with new regulations) plus a single rate per unit of energy used according to the selected tariff. British Gas Business customers are no longer subject to automatic renewals if they miss the deadline for switching.

Engaging with our customers

We engage with customers to improve the products and services we provide. The British Gas Customer Board enables us to gain valuable insight from customers on key strategic and policy decisions. The Board, made up of nine customer representatives and chaired by Ann Robinson, Head of Consumer Policy at uSwitch.com, covered items such as customer service, simplifying the bill and smart meter roll-out.

We strive to provide great service to our customers and in 2013 British Gas began upgrading IT systems to strengthen our capability to do so. Unfortunately, standards of service to some customers fell below acceptable levels during the systems transition and we accordingly brought in over 300 additional customer service advisers and extra training to address the short-term problems. Direct Energy also focused on training for customer service agents, with more than 600 completing the Achieving Customer Excellence workshops.

Together with energy pricing, customer service remains an important contributing factor to net promoter scores for British Gas and Direct Energy (see page 17).

Caring for our vulnerable customers

Supporting vulnerable customers is becoming increasingly important as more people struggle to pay for essentials. In 2013, we helped more than 1.8 million vulnerable households and over 8,000 struggling small businesses in the UK through contributions to mandatory government programmes and additional support including debt advice, payment assistance and energy and household grants from the British Gas Energy Trust (an independent charity). Direct Energy provided $600,000 through the Neighbor-to-Neighbor programme to help vulnerable customers in Texas pay electricity bills.

Caring for our people and communities

Strong relationships with our employees and the communities where we operate are central to our ability to perform effectively.

Creating a great place to work

To attract and retain the most talented people, we need to create a rewarding and fulfilling place to work where employees are engaged in the business strategy, motivated to help us achieve success and have clear opportunities to develop their own skills and careers. Overall engagement levels have continued to improve across the business, up from 4.72 in 2012 to 4.81 out of 6 in 2013 – above average for peer companies in the UK and the US.

Continuously focusing on safety across our assets and operations

Our operations are inherently hazardous and safety is a core priority. In 2013, we continued to embed a strong safety culture, with improved risk management processes and further training on process safety in our upstream business and a focus on customer safety and safe driving in our downstream business.

Safety performance improved across the business for employees and contractors, with a 45% reduction in our lost time injury frequency rate – to 0.11 per 100,000 hours worked – and a 46% reduction in our total recordable injury frequency rate to 0.76 per 100,000 hours worked. There were no significant process safety events in 2013.

Supporting local communities

We contributed over £392 million to help those in need. Of this, just under £381 million is to support vulnerable customers through mandatory programmes. Our people volunteered more than 48,000 hours.

We continued to train people at the British Gas Green Skills Centre in Wales and to support businesses through our partner, the Social Business Trust. We also pledged our support to Step Up 2 Serve which seeks to get businesses more involved in providing opportunities for young people.

Around 0.3% of our employees operate in countries with a high risk to human rights. Despite this small footprint, we are steadfast in our commitment to respecting human rights as set out in our Business Principles and Human Rights Policy.

Responsibility in more detail

See the Operating Reviews on pages 18, 26 and 32 for further information

See the Corporate Governance Report on page 60 for more information on employee diversity

A summary of our engagement with stakeholders is available online at centrica.com/cr

Safeguarding the environment

Managing environmental impacts is integral to the way we run our business.

Reducing carbon emissions in our operations

Most of the emissions we produce come from our power stations. These emissions will be reduced over time as the UK shifts to lower carbon power generation. Reducing these emissions must be balanced with the need to maintain affordable and secure energy supplies. We believe gas has a central role to play for a cost-effective transition to a low carbon future.

We monitor the carbon intensity of the power we generate, which in 2013 was 200gCO_2/kWh (2012: 200gCO_2/kWh). Our 2020 target is 260gCO_2/kWh. This represents a 40% reduction on intensity levels in 2008, whilst reflecting increased demand for gas generation. We are on course to meet the target.

We are most able to control CO_2 emissions from our property, fleet and travel. We have achieved a 19% reduction in these emissions against our target of a 20% reduction by the end of 2015 (from a 2007 baseline) in our core businesses.

Helping our customers reduce their carbon emissions

Emissions associated with our customers' use of energy remains significantly larger than our own direct carbon footprint. Since 2010, the products we installed in UK customer homes and businesses (such as boilers and insulation) saved around 9.8mtCO_2e – equivalent to taking 668,000 cars off the road. In 2013, we installed energy efficiency measures that will achieve a total lifetime carbon saving of 5.1 million tonnes.

Protecting biodiversity, air, land and water quality

We have systems in place at site level to assess and manage these impacts. In 2013, we contributed to research to help catalogue basking sharks near wind farm projects in the Irish Sea Zone. We also developed our operating principles for onshore natural gas exploration and extraction, providing a framework for protecting biodiversity and communities in an open and transparent way.

Reporting greenhouse gas emissions

We report our greenhouse gas (GHG) emissions each year, most extensively in our online data centre. We have expanded the detail in this report to reflect new reporting requirements.

In 2013, our group carbon intensity based on revenue was 269tCO_2e/£m, down from 298tCO_2e/£m in 2012. Our total carbon emissions (Scope 1 and 2 emissions) increased slightly to 7,146,412tCO_2e from 7,128,491tCO_2e in 2012. Our Scope 1 emissions were 7,031,658tCO_2e in 2013, compared to 7,008,906tCO_2e in 2012, covering emissions from power stations, upstream production, offices and fleet. Our Scope 2 emissions were 114,753tCO_2e in 2013, compared to 119,585tCO_2e in 2012 including emissions from electricity we purchase for use.

We report on an equity basis with practices combined from WRI/WBCSD Greenhouse Gas Protocol, IPIECA's Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions and DEFRA's Environmental Reporting Guidelines. See the Basis of Reporting at centrica.com/CRassurance for more details.

Working with our partners

Collaborating closely with partners helps us tackle social and environmental impacts.

Embedding responsible practices in our supply chain and with our partners

We work with suppliers to understand and manage social and environmental risks in our supply chain. In 2013, we introduced a risk management system to help manage social and environmental risks in our supply chain. We have assessed over 70 strategic suppliers in 2013. Collectively, their risk score was 49 (low risk), better than a multi-industry average of 41 (medium risk). We will continue to assess suppliers and work with those who need to improve. We also held supplier forums to foster collaboration and share best practices.

Embracing new technologies and sources of supply to maintain energy security for our customers

Maintaining secure sources of energy for our customers is a core deliverable for our business and particularly critical in the UK which is increasingly dependent on imported gas. We are collaborating with partners to explore new onshore sources of gas in the UK and we are piloting ways to reduce demand on the electricity grid through an initiative known as the Customer Led Network Revolution (CLNR). For example, we have piloted time-of-use tariffs that offer cheaper energy at certain times. Participating customers used 3% less energy overall and there was a 10% reduction in energy demand at peak times.

Collaborating with our wider stakeholder groups

We engage with stakeholders in a variety of ways, from daily interactions to formal committees. Our Corporate Responsibility Advisory Group met three times in 2013, advising on our smart grids, shale gas, business ethics and community investment activities. We also held multi-stakeholder forums to gain insights on the development of our four CR themes and corporate responsibility reporting.

British Gas continued its work with strategic partner Shelter, jointly campaigning to raise standards in the private rented sector. British Gas Business also continued to run their Engagement Panel in 2013 with over 350 enterprise and corporate customers providing feedback.

Strategic Report

Principal Risks and Uncertainties

"We are operating in a challenging environment where levels of trust between the UK energy sector and society have fallen steeply. To help restore that trust, and in doing so help to ensure the successful implementation of our strategic priorities, we must continue to focus on the principal risks that affect our business and make effective decisions based on our assessment of those risks."

NICK LUFF

Group Finance Director

GOVERNANCE, RISK AND 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 our strategic priorities. The following diagram shows some of the key elements in the governance, risk and control framework by which our operations are conducted. The work of the Board and its Committees is at the heart of the process. They set objectives, performance targets and policies designed to achieve a balanced and transparent assessment of the risks facing our 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 our operation together with a set of Business Principles and processes, which are communicated to our employees.

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

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

Details of our principal risks and uncertainties are set out in pages 44 to 48 of the Strategic Report.

Improvements in 2013

Throughout 2013 we continued to develop the integrated approach to our risk and assurance activities. Specifically the following improvements were implemented:

- refresh of our risk management policy, guidelines and assessment matrices and the introduction of a separate risk standards document;
- the Group Control Standards have been embedded in our self-certification process, which underpins our overall review of the system of internal control;
- development of software to support both risk and control processes;
- development of risk training materials to drive consistency and knowledge sharing;
- improved interaction with specialist risk committees, such as Legal & Regulatory Compliance and Health, Safety & Environment, which improves visibility and enables a more consistent approach to risk identification; and
- a review of and improved resourcing in a number of second line of defence functions.

Improvements for 2014

The Financial Reporting Council is proposing to replace their existing Internal Control: Guidance for Directors (2005) and Going Concern and Liquidity Risk: Guidance for Directors (2009) with one set of integrated guidance. Any proposed changes or additions to the code will require us to formulate a programme of work to ensure compliance, which will form the basis for a proportion of our improvement activity during 2014. Outside of this, we will continue to improve our risk management processes with a number of initiatives, including:

- implementation and roll-out of risk management software to help improve risk identification and drive consistency; and,
- delivering risk management training to help ensure a consistent approach in embedding our risk practices through the business as well as educating employees on the importance of this discipline.

Group risk governance structure

Group Risk Management Committee

The Group Risk Management Committee (GRMC) plays a pivotal role in the governance of risks. Each of our business units has a Business Risk Management Committee or equivalent 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 our aggregate risk profile and can ensure that control processes are in place for the monitoring and management of significant risks. The GRMC is chaired by the Chief Executive and membership reflects that of the Executive Committee. In 2013, the GRMC met four times.

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 our financial risks (market, credit, liquidity risks and operational risks within the trading operations) 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 the Group Finance Director and membership comprises senior finance and risk personnel. The GFRMC met 16 times in 2013. Further details of the Group's Financial Risk Management are provided in note S3 on page 145.

Centrica Controls Board

The Centrica Controls Board (CCB), whose members are the Group Finance Director, the Director of Corporate Finance, the Head of Risk, Control & Audit 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 CCB met three times in 2013 and is chaired by the Group Finance Director. The responsibilities of the CCB 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 our 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 ongoing self-assessment and independent testing of the controls. The CCSG met three times during 2013 and is chaired by the Group Head of Financial Controls.

The IRSG monitors our information systems control environment, providing robust challenge to the business units to ensure that information systems' risk management remains effective and appropriate. It is also responsible for monitoring the progress of key information security projects. The IRSG met three times during 2013 and is chaired by the Group Head of Information Risk.

Executive Committee and Audit Committee

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

At each of its meetings in 2013 the Audit Committee received a risk update as part of an overall integrated assurance 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 Audit Committee. These reports, supplemented by management presentations and discussion with the Audit Committee, enable it to track issues, monitor performance and ensure that necessary action is taken to remedy any significant failings or weaknesses identified.

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

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

Centrica Storage and other Group companies

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

The Board's review of the system of internal control

Each year, an extensive process of self-certification operates throughout the Group whereby the effectiveness of internal controls and compliance with Group Business Principles and policies are assessed. In 2013, the self-certification was completed both at the half year and full year. During the year, the self-certification process was enhanced to include requirements to perform more detailed assessments to comply with the Group Control Standards. 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 2013 to the date of this report and is satisfied that the Group complies with the Turnbull Guidance. The Board will continue to routinely challenge management in order to ensure that the system of internal control is constantly improving and remains fit for purpose.

Audit Committee on page 56

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

Commodity costs

Strategic priorities

Integrate

Increase

Risk climate

→

What are the risks?

A significant proportion of our profitability and price competitiveness is dependent upon our ability to manage exposure to increasingly volatile world energy markets including wholesale commodity prices for gas, oil, coal, carbon and power.

The price of gas in the UK market is particularly important for us given that we supply a significant proportion of Britain's gas needs. This position sets us apart from the other counterparts in the UK market; however, we produce less gas from our own resources than we require to meet the demand from the markets we serve. As the country secures an increasing proportion of gas from abroad, its price and availability will be increasingly shaped by international forces.

Shale gas has already transformed the US energy market where an immediate effect has been to lower wholesale gas prices and weaken the traditional links between gas and oil prices. The low cost of natural gas may present new risks to us as barriers to entry are lowered and margins tightened requiring cost-efficiency and the development of innovative products to support them.

Seasonal variations and, in the short to medium term, economic conditions both in Europe and globally, make it difficult to forecast future energy demand, leading to significant uncertainties around commodity prices and the potential to leave us with a surplus of gas, which would have to be sold back to the wholesale market at a loss.

Longer-term commodity price increases or decreases may require us to change the price at which we sell energy. We may not be able to pass through all increases in commodity prices to customers. If we do pass increased commodity prices on, or fail to pass on decreased commodity prices, those customers may seek to switch to competitors.

Commodity price decreases may also reduce upstream gas and oil production profits and over the longer term may make certain exploration and development projects uneconomic. In addition, investment decisions (particularly in respect of upstream assets) are based upon evaluations underpinned by forecasts of longer-term commodity price development. Assets, including goodwill, may be impaired if discounted future cash flows from such assets are insufficient to cover their cost on the balance sheet.

If we are unable to successfully manage our exposure to fluctuating commodity prices, our competitive position could be negatively impacted and our business, financial condition, reputation and results of operations could be adversely affected.

The Group also incurs liabilities and costs associated with the decommissioning of oil, gas and storage fields. Decommissioning costs could exceed the Group's estimated costs and we may be required to provide greater security for these costs than expected, which could have a material adverse effect on our overall financial condition.

How do we manage these risks?

- We have an active hedging programme and track supplier risks through robust governance frameworks to ensure an affordable security of supply.
- Strategic 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 lifetime of the project.
- We continue to selectively invest in assets around our existing hubs, while managing costs, looking to divest non-core assets, delivering new projects and purchasing stakes in other assets.
- The gas supply relationships with Statoil and Gazprom and the new gas agreements signed with Cheniere and Qatargas to import LNG, as well as the purchase of additional assets such as the Canadian gas and oil assets from Suncor, are examples of how we continue to develop our portfolio, support North American downstream operations through contractual arrangements rather than asset ownership and make progress accessing new markets and securing new sources of gas.
- The Group's estimates of the cost of decommissioning are reviewed periodically and are based on proven and probable reserves, price levels, the general economic performance of each asset and decommissioning technology.

Arrows show risk climate

→ No change

↑ Risk has increased

Political and regulatory intervention

Strategic priorities

Innovate

Risk climate

↑

What are the risks?

The markets in which we operate are already subject to detailed legislation and regulation across different jurisdictions. This complex structure is continually evolving and any changes or uncertainty, or ineffective or incomplete implementation of any new obligations could adversely affect our current market operations and have adverse consequences on the viability of investment in new technologies and the development of assets. Any failure or perceived failure by us to comply with such developments or related requirements could have a negative impact on our brands, operations and reputation.

The energy industry and markets expect to be subject to increased political scrutiny in the lead-up to the 2015 UK general election. This could result in manifesto pledges that do not translate well into considered policy which in turn could result in sharp fluctuations in investor confidence, an increase in the cost of capital and a reduction in the credit worthiness of energy buyers due to the uncertainty this creates.

In the event that Scotland was to become independent following the referendum, some of our upstream assets could be subject to a new fiscal regime. Our downstream businesses could also be subject to policy and regulatory decisions of an independent Scotland. While the outcome and impact of this referendum remains uncertain, this could have impacts on our operational and financial results.

Any failure to follow our Group Business Principles of operating professionally, fairly and with integrity, or the public perception that there has been such a failure or other real or perceived failures of governance or regulatory compliance, could further undermine public trust in our business. This could lead to increased political and regulatory intervention, harm our reputation, damage our consumer brands and adversely affect investor confidence, our business, results of operations and overall financial condition.

How do we manage these risks?

- Our Group Business Principles, policy framework and corporate responsibility framework govern how we conduct our affairs.
- We proactively engage with our stakeholders, including government, legislators and regulators in order to shape proposals and manage risks.
- Our Corporate Responsibility and supply chain teams work closely with each part of our business to set and implement policy, strengthen internal processes and responsible procurement throughout our third party contracts.

Health, safety, environment and security (HSES)

Strategic priorities

Innovate

Risk climate

→

What are the risks?

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

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

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

Failure to manage risks arising from these operations could result in major injuries and/or loss of life, to staff, contractors and/or members of the public, significant disruption to production or services, damage to our reputation, environmental damage and loss of shareholder value. The cost related to the recovery, clean up and/or resultant litigation could have a material financial impact.

Further information can be found in our Corporate Responsibility Review on page 39

How do we manage these risks?

- The management of HSES risk is overseen by the Board and Executive Committee and remains one of our core priorities with a continued focus across all our assets and operations.
- We undertake regular reviews and independent assessment of the processes in place to manage these risks to ensure they remain effective and continue to develop. This includes any third parties involved in our operations, building strong relationships and supporting local communities we work within. We also continue to invest in training to ensure we maintain safe operating practices in both our upstream and downstream businesses.
- Security intelligence and operating procedures, crisis management and business continuity plans are regularly evaluated and tested to provide assurance to the Board that we are capable of responding positively to any events.

Principal Risks and Uncertainties continued

Strategic growth

Strategic priorities

Innovate

Integrate

Increase

Risk climate

What are the risks?

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

In the US, rising consumer confidence is tempered by concerns about the Federal Government debt ceiling. Tightening conditions in our retail markets are also putting pressure on energy margins and, in a low and less volatile price environment, the successful delivery of sales targets will be challenging. Growth in our North American downstream business will also be dependent in part on the successful integration of the Hess Energy Marketing business.

In the UK, signs of economic recovery notwithstanding, levels of disposable income continue to decline and our markets face potential pressures in the run-up to the next general election.

Recent announcements across UK political parties have exacerbated significant uncertainty in the UK energy landscape across power generation, gas storage and energy supply. This could impact future power, storage and upstream investment and targets, reduce the attractiveness of the UK energy supply business and impede the economic viability of proposed initiatives.

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

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

As digital media, the internet and mobile devices play a greater role in the retail energy business sector, we could see heightened competitive pressures resulting from falling barriers to market entry and swiftly changing customer loyalties as existing energy and other service providers, such as insurance companies, telecom companies, supermarkets and other large retail companies enter the services market and seek to strengthen their positions.

Climate change, new technologies and global economic conditions may be subject to circumstances beyond our control resulting in an adverse impact on our strategic growth and investment. All such effects could fail to create shareholder value, meet shareholder expectations and ultimately lead to a loss of investor confidence and a decline in the share price.

How do we manage these risks?

- We continue to pursue a range of investment options across the energy chain and in different geographies to both deepen our customer relationships and secure the Group's future energy requirements.
- We face competition in each of our businesses and therefore seek to grow demand for our offerings and differentiate our propositions accordingly.
- We continue to seek cost-efficiency through innovation and investment in systems, positioning ourselves to deliver targets whilst maintaining a stable platform for investment.
- Smart meters, personalised customer energy usage reports, smart tariffs and applications for remote heating control in UK residential and business markets, alongside the acquisition of a leading internet-based digital platform in our North American services offering, has allowed us to create greater visibility and control over energy use through continued development of smart and connected home solutions.

Trust and perception

Strategic priorities

Innovate

Risk climate

↑

What are the risks?

The energy sector in the UK is currently the subject of unprecedented public and political debate and scrutiny against a backdrop of declining disposable income for many customers. This is not only raising concern for our customers but also damaging investor confidence, increasing the prospect of potential further government or regulatory intervention in our operating markets at a time when substantial investment is required to secure supplies of energy for the UK in the long term.

The positions taken by political parties and the media in the run-up to the 2015 UK general election could also lead to further uncertainty, as the consensus that existed between them over key questions of energy policy has broken down.

Hydraulic fracturing in the UK could cause further adverse publicity as we explore opportunities for unconventional energy supply and generation as part of our business strategy.

Customers could also leave if they experience unacceptable customer service levels or if it is perceived that we are failing to maintain service quality. This risk could be exacerbated in the current environment where trust in the industry is at an all-time low.

The increased use of social media allows customers and consumer groups to engage in direct action and other campaigns more readily than before. Any failure to restore trust in the energy industry and markets could lead to campaigns for corporate change through specific resolutions to direct the Company in a particular manner.

How do we manage these risks?

- We are working to deliver a fair, simplified and transparent deal to consumers and protect the most vulnerable, fuel-poor households through initiatives to improve energy efficiency or with financial advice and aid.
- We engage with NGOs, consumer and customer groups, political parties, regulators and other stakeholders to understand their views and concerns, working together to identify solutions, help minimise the impact of higher costs on bills and improve transparency to help restore trust in the industry.
- We actively manage our reputation with a number of different stakeholders including customers, investors, opinion-formers, employees, the media, governments and government agencies, other political parties and regulatory and trade union bodies.

Further information can be found in our International Downstream Operating Review and Corporate Responsibility Review on pages 18 and 39 respectively

People

Strategic priorities

Innovate

Increase

Risk climate

↑

What are the risks?

Cultural and behavioural transformation, ambitious technical-change programmes, changes to our current structure (including the departure of senior Group personnel) and inadequate trade union relations could all have adverse consequences, including an impact on employee engagement. This may drive issues with attraction and retention not only for key roles but also in the wider operational workforce, as well as the threat of industrial action in our upstream business operations and engineering workforce in both the UK and North America.

Any failure in high calibre attraction, retention and succession planning for key roles could cause business disruption and damage investor confidence, which could impact the delivery of the Group's strategy and growth aspirations. Insufficient capability, capacity and strategy in this area could limit our ability to exploit opportunities and/or realise the full value of investments, erode shareholder value, impact the effectiveness of merger and acquisition integration and harm the employer brand impacting our ability to attract and retain key staff.

How do we manage these risks?

- We continue to evolve a clearly defined people strategy based on culture and engagement, talent development, training and reward and recognition, for the ongoing success of our business through regular reviews of organisational capability, critical business areas, reward strategies for key skills, talent management and learning, development programmes and external benchmarking. We also have processes in place during merger and acquisition integration activity to ensure the retention of key roles and complementary talent.
- We engage with trade unions on restructuring and issues that could impact terms and conditions with clear and open processes to promote an environment of trust and honesty. Additionally, we provide channels for employees to discuss concerns and regularly review the procedures in place to support and encourage whistleblowing.

Principal Risks and Uncertainties continued

Information security

Strategic priorities

Innovate

Increase

Risk climate

→

What are the risks?

Our business operations rely on effective and secure information systems containing a high degree of confidentiality, integrity and availability.

Corporate, governmental and other organisations are targets for malicious and unauthorised attempts to access information systems. Our business could be compromised by an incident resulting in the accidental or deliberate exposure of sensitive data, viral effect of social media channels, inadvertent or deliberate changes to information we are dependent on, disruptions to business continuity and an online attack that results in loss or exposure of confidential data, intellectual property or control systems.

Such events could seriously affect our reputation, lead to legal action and/or outages that could cause financial and operational loss. The US and EU data privacy proposals increase the implications of such risks materialising, due to requirements around public notification of any data breach and the scale of associated fines for non-compliance.

How do we manage these risks?

- We seek to detect and investigate all incidents, aiming to prevent any repetition and regularly interrogate the adequacy of our infrastructure, IT security controls and data-recovery processes.
- Our information security strategy seeks to integrate information, personnel and physical aspects overseen by a risk group from across our business. Collaborative working groups are also in place across the industry and wider. These measures allow for controls and responses to be put in place that are both effective and proportionate, whilst recognising the evolving environment they are situated within.

Change management

Strategic priorities

Innovate

Integrate

Increase

Risk climate

→

What are the risks?

The successful delivery of business change is fundamental to our future success and includes organisational, cultural and technical transformation. Any failure to manage change successfully can adversely affect operational objectives, strategic growth, investor confidence and cause financial loss.

The delivery of certain technical change programmes is large and complex. Trying to deliver too much change could result in a stretch on resources, undermine system integrity and threaten business continuity, cost more or take longer than estimated to implement. Change programmes could also suffer from quality and safety issues and/or the planned benefits might not be realised.

The scale of change in our International Downstream business could adversely affect our operations, reputation and financial position if not successfully delivered. Changes to billing systems and the implementation of smart and connected home targets in the UK and the successful integration of the Hess Energy Marketing business in North America all need to be managed correctly if we are to achieve expected synergies, continue to improve our customer service levels and engage in new markets.

As we grow, structures are regularly reviewed to ensure that activities are organised in an effective and efficient way, to keep our cost base as low as possible. These changes can involve difficult decisions for our employees and there is a risk that industrial relations could worsen.

How do we manage these risks?

- Change activity is managed through a combination of project/programme boards and regular review at both a business unit and executive level. We will be increasingly selective in our investments, directing capital towards the projects offering the most attractive returns with the lowest political risk. We also have a dedicated project management directorate to improve governance of large capital change programmes undertaken in our upstream business.
- We continue to focus on attracting and retaining talented employees to ensure the successful delivery of our objectives.

The Strategic Report was approved by a duly authorised Committee of the Board of Directors on 20 February 2014 and signed on its behalf by:

GRANT DAWSON
General Counsel & Company Secretary
20 February 2014

Governance

Read here to find out about our standards of governance in relation to Board leadership and effectiveness, remuneration, accountability and relations with shareholders.

Board of Directors and Senior Executives

BOARD OF DIRECTORS

1. Rick Haythornthwaite

Chairman

Appointed as a Non-Executive Director on 14 October 2013 and as Chairman with effect from 1 January 2014.

Committee membership: N (Chairman), R

Skills and experience: Rick has a wealth of knowledge in the energy industry. He has significant board experience, both as an executive and non-executive. He led the rescue of Invensys from 2001 to 2005 and the defence, turnaround and subsequent sale of Blue Circle Industries from 1997 to 2001. He spent his early career in various corporate, upstream and leadership positions in BP from 1978 to 1995, including exploration and production roles in the North Sea, Alaska, France and Venezuela before moving to Premier Oil as commercial director from 1995 to 1997. He has served on the boards of Network Rail as chairman and Cookson, Lafarge, ICI and Land Securities as non-executive director.

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

2. Sam Laidlaw

Chief Executive

Appointed to the Board on 1 July 2006.

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

Skills and experience: Sam has an invaluable combination of upstream and downstream expertise, a very considerable reputation for managing a large-scale global energy business and a proven record of creating shareholder value. Prior to joining Centrica, Sam was an executive vice president of the Chevron Corporation, chief executive officer at Enterprise Oil and president and chief operating officer at Amerada Hess. Until the end of 2012, Sam was a member of the UK Prime Minister's Business Advisory Group.

External appointments: Non-executive director of HSBC Holdings plc, lead non-executive director on the board of the Department for Transport and trustee of the medical charity RAFT.

3. Margherita Della Valle

Non-Executive Director

Appointed as Non-Executive Director on 1 January 2011; Chairman of the Audit Committee with effect from 1 July 2013.

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

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

External appointments: Group financial controller of Vodafone Group plc.

4. Mary Francis CBE

Senior Independent Director

Appointed as Non-Executive Director on 22 June 2004; Senior Independent Director with effect from 19 May 2006; Chairman of the Corporate Responsibility Committee with effect from 1 March 2006. Mary will step down from the Board by no later than 31 December 2014.

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

Skills and experience: Our longest serving Non-Executive Director, Mary has extensive knowledge of corporate business and has held a variety of senior positions. Mary is a former non-executive director of Aviva plc, Cable & Wireless Communications Plc, the Bank of England, Alliance & Leicester plc and St. Modwen Properties plc. She is a former director general of the Association of British Insurers, a former senior civil servant in the Treasury and the Prime Minister's Office and former chair of governors of James Allen's Girls' School.

External appointments: Director of Swiss Reinsurance Company Ltd, non-executive director of Swiss Re Group, non-executive director of Ensco plc and senior adviser to Chatham House.

5. Mark Hanafin

Managing Director, International Upstream

Appointed to the Board on 14 July 2008.

Committee membership: E

Skills and experience: Mark has excellent midstream and trading credentials as well as a strong track record in developing supply and marketing businesses. Before joining Centrica, Mark spent 21 years with Royal Dutch Shell, most recently as CEO of Shell Energy North America in Houston. Prior to joining Shell, he worked for General Electric Company (GEC) having qualified as a chartered engineer.

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

6. Lesley Knox

Non-Executive Director

Appointed as Non-Executive Director on 1 January 2012; Chairman of the Remuneration Committee with effect from 1 January 2012.

Committee membership: A, N, R (Chairman)

Skills and experience: Lesley brings a wealth of strategic and financial experience across a range of businesses to the Board and she is an experienced remuneration committee chair. She was previously with British Linen Bank in 1997, becoming governor in 1999 and was subsequently a founder director of British Linen Advisers from 1999 to 2003. She was senior non-executive director of Hays Plc and also spent 15 years with Kleinwort Benson from 1981 to 1996, first in corporate finance and then as chief executive of the institutional asset management business.

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

Committee membership key

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

Past Directors

14. Sir Roger Carr stepped down as Chairman of the Board on 31 December 2013.
15. Phil Bentley stepped down as Managing Director, British Gas on 30 June 2013.
16. Andrew Mackenzie stepped down as a Non-Executive Director on 10 May 2013.

7. Mike Linn

Non-Executive Director

Appointed as Non-Executive Director on 1 June 2013.
Committee membership: A, N, R
Skills and experience: Mike has considerable experience in the energy sector, particularly exploration and production and the US market. He founded and was previously chairman, CEO and president of LINN Energy, LLC. He was formerly president of Allegheny Interests and president and CEO of Meridian Exploration Company, Pittsburgh. He was the former chairman of the Independent Petroleum Association of America and was the Texas representative for the Legal and Regulatory Affairs Committee of the Interstate Oil and Gas Compact Commission. He was former president of the Independent Oil and Gas Association of New York, president of the Independent Oil and Gas Association of Pennsylvania and president of the Independent Oil and Gas Association of West Virginia.
External appointments: Non-executive director of LINN Energy, LLC, non-executive board member of Nabors Industries, Black Stone Minerals and Western Refining Logistics and senior advisor to Quantum Energy Partners. Member of the National Petroleum Council and inducted into the All American Wildcatters.

8. Nick Luff

Group Finance Director

Appointed to the Board on 1 March 2007, Nick submitted his resignation in January 2014 and will step down from the Board no later than 31 December 2014.
Committee membership: D, E
Skills and experience: Nick has a wealth of high level finance experience. Prior to joining Centrica, Nick was previously chief financial officer of The Peninsular & Oriental Steam Navigation Company (P&O) and 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.
External appointments: Non-executive director of Lloyds Banking Group plc.

9. Ian Meakins

Non-Executive Director

Appointed as Non-Executive Director on 1 October 2010.
Committee membership: A, N, R
Skills and experience: Ian has broad general management and board experience and considerable experience in managing businesses with strong brands. Ian is currently CEO of Wolseley plc and was, until April 2009, chief executive of Travelex Holdings Ltd, the international foreign exchange and payments business. Previously he was chief executive officer of Alliance UniChem plc until its merger with Boots in July 2006. Between 2000 and 2004, he was president, European Major Markets and Global Supply for Diageo plc, spending over 12 years with the company in a variety of international management positions.
External appointments: Group chief executive of Wolseley plc.

10. Paul Rayner

Non-Executive Director

Appointed as Non-Executive Director on 23 September 2004. Paul will step down from the Board no later than 31 December 2014 having stepped down as Chairman of the Audit Committee on 1 July 2013.
Committee membership: A, N, R
Skills and experience: Paul brings very considerable and wide-ranging international experience. 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.
External appointments: Non-executive director and chairman of the remuneration committee of Qantas Airways Limited, non-executive director and chairman of the audit committee of Boral Limited, chairman and non-executive director of Treasury Wine Estates Limited.

11. Chris Weston

Managing Director, International Downstream

Appointed to the Board on 1 July 2009.
Committee membership: CR, E
Skills and experience: Chris brings extensive management expertise, with particular strengths in supply businesses and the US energy market. Prior to his appointment as Managing Director, International Downstream, Chris was Managing Director, North America from July 2009, Managing Director, British Gas Services from June 2005 and 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.
External appointments: None.

SENIOR EXECUTIVES

12. Jill Shedden

Group Director, Human Resources

Appointed as Group Director, Human Resources: 1 July 2011.
Skills and experience: Jill was previously HR Director for Centrica Energy having joined British Gas plc as a graduate in 1988 and has since held a wide range of roles across the Group including HR Director for British Gas Business and British Gas Residential.

13. Grant Dawson

General Counsel & Company Secretary

Appointed as General Counsel & Company Secretary since the demerger from British Gas plc in February 1997 having joined British Gas in October 1996.
Skills and experience: Grant was called to the Bar in 1982, he spent most of his career in industry joining the legal department of Racal Electronics plc in 1984 and then STC plc as legal adviser in 1986 until they were taken over in 1991 by Northern Telecom Limited. Between 1991 and 1996 he was the Associate General Counsel for Nortel in Europe, Africa and the Middle East.

Corporate Governance Report

"We see governance as a guide to ensure we do the right things in the right way.

The Centrica business model is both wide ranging and complex but its culture is simple and straightforward – professionalism, openness and transparency in the way we do things, together with integrity and honesty in how we do them. An organisation is dependent upon its management and structure for the execution of its strategy and upon its culture for the way in which its results are achieved.

The Group relies on a robust governance framework to support the organisation. Responsibility for good governance lies with the Board. The Board is accountable to shareholders and is committed to the highest standards of corporate governance as set out in the UK Corporate Governance Code (the Code).

In keeping with best practice, we oversee the Group's worldwide operations through a unitary Board and six separate Committees – Audit, Nominations, Remuneration, Corporate Responsibility, Executive and Disclosure. The full governance arrangements of the Board, including its composition and performance, are discussed in detail in the Corporate Governance Report together with the role of each Committee, its membership and the key issues considered during 2013.

The Board comprises 11 Directors of which six are Non-Executive in addition to our Chairman. We have sought to ensure we have a balanced Board where individual merit and relevance are the key entry requirements but collectively there is an appropriate mix of gender, nationalities and skills to ensure constructive debate and thoughtful decision making.

Following the announcement last June that Sir Roger Carr would step down as Chairman of Centrica at the end of 2013, we undertook a formal and rigorous recruitment process to identify and appoint his successor. This process was led by Mary Francis, our Senior Independent Non-Executive Director. Rick Haythornthwaite joined us as a Non-Executive Director on 14 October 2013 and took over as Chairman on 1 January 2014. We will be carrying out similar recruitment processes to identify a new Group Finance Director following the announcement that Nick Luff will be leaving Centrica no later than 31 December 2014. In addition we will recruit two new Non-Executive Directors this year as both Mary Francis and Paul Rayner have completed their nine-year term of office. All shareholders have the opportunity to vote on the re-election of each of our Directors on an annual basis.

In keeping with the requirements of the Code, we carried out an internal evaluation of the Board's performance in 2013, the findings of which are discussed on page 55 of the Corporate Governance Report. We will be carrying out an externally facilitated evaluation of our Board, its Committees and individual Directors in 2014. In recognising that there are likely to be further Board changes either at the end of this year or early 2015, the Board is also considering a further external review towards the end of 2015, once the refreshed Board has had the opportunity to settle.

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

GRANT DAWSON

General Counsel & Company Secretary

20 February 2014

This report sets out how the Company applied the principles of the Code and the extent to which the Company complied with the provision of the Code in the year to 31 December 2013.

The Board considers that throughout the year, it complied with the provisions set out in the Code. During this period, two of our Non-Executive Directors, Mary Francis and Paul Rayner completed their nine-year term of office, however, the Board considers that their continued membership is in the best interests of the Company. Further detail on their term of office is provided on page 54. The Code sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. A copy of the Code is available from the UK Financial Reporting Council (FRC).

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

The Board has a schedule of matters specifically reserved for its approval which is reviewed annually to ensure best practice. No changes were made in 2013. A summary is shown below and the full schedule is available on our website. The Board also delegates other matters to Board Committees and management as appropriate.

The Board is responsible for:

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

As part of its responsibilities, the Board approves and monitors the development of the Group's strategy. At its 2013 strategy conference, the Board reviewed the progress against strategic priorities and debated the challenges within our current markets.

Key strategic considerations included:

- the competitive landscape and market conditions;
- an assessment of growth options across the Group and investment opportunities in exploration and production, midstream (including UK gas storage), power generation and downstream;
- an assessment of our investment in the development of offshore wind projects; and
- a review of different capital allocation options, including an assessment of long-term financial performance and capacity under various scenarios of the business and the optimal use of capital, including whether any capital should, in future, be returned to shareholders.

Board meetings

The Board holds regular scheduled meetings throughout the year. In 2013, the Board met 11 times, of which eight were scheduled meetings and three were unscheduled supplementary meetings. Four other Committee meetings of the Board were held which considered the appointment of the Chairman, the share repurchase programme, potential acquisitions and financing arrangements.

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

All Directors are expected to attend all Board and relevant Committee meetings. Details of attendance by Directors at Board meetings during 2013 are set out in the table below and attendance at Committee meetings, where appropriate, is included on pages 56 to 62. Where a Director was not in attendance, this was due to other prior work commitments. Directors who were unable to attend specific Board or Committee meetings reviewed the relevant papers and provided their comments to the Chairman of the Board or Committee, as appropriate. In addition, any Director who misses a meeting will, as a matter of course, receive the minutes of that meeting for future reference.

	Number of meetings	Meetings attended
Sir Roger Carr (i)	11	11
Sam Laidlaw	11	11
Margherita Della Valle	11	11
Mary Francis	11	11
Mark Hanafin	11	11
Rick Haythornthwaite (ii)	4	3
Lesley Knox	11	11
Mike Linn (iii)	7	6
Nick Luff	11	11
Ian Meakins	11	11
Paul Rayner	11	10
Chris Weston	11	11
Phil Bentley (iv)	5	5
Andrew Mackenzie (v)	4	3

(i) Sir Roger Carr stepped down as Chairman of the Board on 31 December 2013.
(ii) Rick Haythornthwaite joined the Board as a Non-Executive Director on 14 October 2013 and was appointed as Chairman with effect from 1 January 2014. Rick was not in attendance at one Board meeting due to work commitments agreed prior to his appointment.
(iii) Mike Linn joined the Board as a Non-Executive Director on 1 June 2013. Mike was not in attendance at one Board meeting due to work commitments agreed prior to his appointment.
(iv) Phil Bentley stepped down as Managing Director, British Gas on 30 June 2013.
(v) Andrew Mackenzie stepped down as a Non-Executive Director on 10 May 2013.

Board constitution and appointments

Following the departure of Sir Roger Carr, the Board will have a total of 11 Directors of which four are Executive and six are Non-Executive, in addition to our Chairman. The Board comprises a good balance of Executive Directors and independent Non-Executive Directors which promotes thorough consideration of the important issues facing Centrica and the Group's performance. The roles of Chairman and Chief Executive are separate, formalised in writing and have been approved by the Board. A summary of these roles is available on page 54 and they are available on the Company's website, together with an explanation of the roles of the Non-Executive Directors.

Corporate Governance Report continued

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

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

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

Our Non-Executive Directors, through their diverse experience and skills, scrutinise the performance of management and constructively challenge and help develop our strategy. They uphold high standards of integrity and probity. They form the Audit, Nominations and Remuneration Committees.

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

On the appointment of Rick Haythornthwaite as Chairman of the Company, the Board considered that he met the independence criteria set out in the Code. 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. In addition, the Senior Independent Director met with the independent Non-Executive Directors in the absence of the Chairman to appraise the Chairman's performance.

Board composition planning

Over the last two years, we have completed a refresh of the Board in keeping with the requirement for ensuring independence of mind and relevance of skills.

As announced in January 2014, Nick Luff will be leaving the Company by no later than 31 December 2014. A search for Nick's successor is currently underway. As detailed on page 53, two of our Non-Executives, Mary Francis and Paul Rayner, completed their nine-year term of office in 2013. In the Annual Report 2012, it was confirmed that Mary Francis would extend her term of office on the Board through to a maximum of December 2014. As announced in July 2013, the Board decided that it was appropriate to extend Paul Rayner's term as a Non-Executive Director through to December 2014. Whilst this exceeds their nine-year term, the Board has confirmed that they remain independent in character and judgement as they are free from any business or other relationship that could materially interfere with the exercise of their independent judgement. This approach is in the best interests of the Company. A search will be initiated for the replacement of both Mary Francis and Paul Rayner in 2014 with a specification of skills and background to be determined in keeping with the demands of the business model at that time.

A formal, rigorous and transparent process is followed during the selection and subsequent appointment of new Directors to the Board. This process is described in the section on the Nominations Committee on page 60. Recent changes to the composition of the Board are set in the table below:

Andrew Mackenzie	Resigned as Non-Executive Director	10 May 2013
Mike Linn	Appointed as Non-Executive Director	1 June 2013
Phil Bentley	Resigned as Managing Director, British Gas	30 June 2013
Rick Haythornthwaite	Appointed as Non-Executive Director and Chairman	14 October 2013 1 January 2014
Sir Roger Carr	Resigned as Chairman	31 December 2013

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

The Board recognises that its Non-Executive Directors have other interests outside of Centrica and so, each year, the Chairman and each Non-Executive Director provide assurance to the Board that they remain fully committed to their respective roles. The Board considers these assurances and is satisfied that each Non-Executive Director can dedicate the necessary amount of time to attend to the Company's affairs.

The Board has agreed that each Director shall stand for re-appointment at each Annual General Meeting (AGM).

Details of the Directors of the Company are set out with their biographies on pages 50 and 51. Details of Directors' service contracts or letters of appointment, in the case of Non-Executive Directors, emoluments and share interests are set out in the Remuneration Report on pages 65 to 82.

Board performance

Board development

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

Mike Linn and Rick Haythornthwaite, both recently appointed to the Board, discussed with the General Counsel & Company Secretary what briefings and meetings would be most beneficial to them to ensure an effective induction. As a result, tailored induction programmes were designed for both Mike Linn and Rick Haythornthwaite respectively which included briefings from members of the Executive team on key areas of the business including the internal audit function, an overview of the Group's risk management processes, the key risks facing the business, site visits and a briefing in respect of the corporate governance framework within Centrica.

Ongoing development and training is also provided to all Directors, as agreed with the Chairman, at Board and Committee meetings. During the year, Directors received regular updates and presentations on changes and developments to the business and to the legislative

See the Principal Risks and Uncertainties on page 42

and regulatory environments in which the Group operates. In particular, the Board was briefed on the following key issues during 2013:

- the impact of the Energy Company Obligation (ECO);
- progress with and the impact of the Energy Bill;
- progress made on the British Gas trust agenda;
- an overview of the latest developments in British Gas smart technology, including Me (Mobile Energy);
- an update on the Company's gas storage strategy and the security of energy supply debate;
- progress within the Group's regulated businesses;
- company law, corporate governance, reporting and remuneration reporting developments; and
- health, safety and environmental governance and strategy.

In addition, the Directors visited Direct Energy's offices in Houston in September 2013 for presentations on the North American management priorities, performance, outlook and strategy and undertook site visits.

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

Board evaluation

Our policy over many years has been to conduct a thorough review of Board process, practice and culture on an annual basis with the input of an external facilitator at least once every three years. The Board considers the annual review of the Board, its Committees and Directors as an essential part of good corporate governance. Over the last 10 years, the Company has employed Egon Zehnder on two occasions, JCA Group and in 2011, Independent Board Evaluations (IBE). (IBE have no other connections with the Company.) On each occasion, the Board has received positive reports and has adopted recommendations to improve Board, Committee and individual Director performance.

In December 2013, we conducted an internal Board evaluation involving a written questionnaire followed by discussion in order to evaluate the success of the changes made and identify points to be addressed in the next 12 months.

For 2013, the findings continued to be positive and demonstrate that the Directors consider that the Board leads and controls the Group effectively. The effectiveness of the Board agenda and time management was rated as above average but greater discussion on strategy would be welcomed. As a result, an additional Board meeting which focused on strategy was held in January 2014 and progress against identified issues will be monitored at each Board meeting throughout the year. Responses also indicated that additional site visits and exposure to senior management below the level of the Executive Committee would be appreciated. As a result, two site visits are planned for 2014. The Board will visit our upstream operations in Aberdeen and the British Gas office in Oxford where the Board will take the opportunity to meet local management, employees and stakeholders. Succession planning was recognised as a key area of focus, particularly in light of the changes discussed on pages 53 and 54. Continued focus will be given to the competitive environment and to the views of major investors. There was good consensus across the Board on the most significant risks facing the business.

Each of the Board Committees have also reviewed the outcome from the evaluation in 2013 and have already started progressing against the findings. These reviews identified a number of areas of good practice and a few areas that could be improved but no material issues were found. As stated on page 52 we will carry out an externally facilitated evaluation of the Board, Committees and individual Directors in 2014 and, recognising that there are likely to be further Board changes, we are considering commissioning a further external review towards the end of 2015.

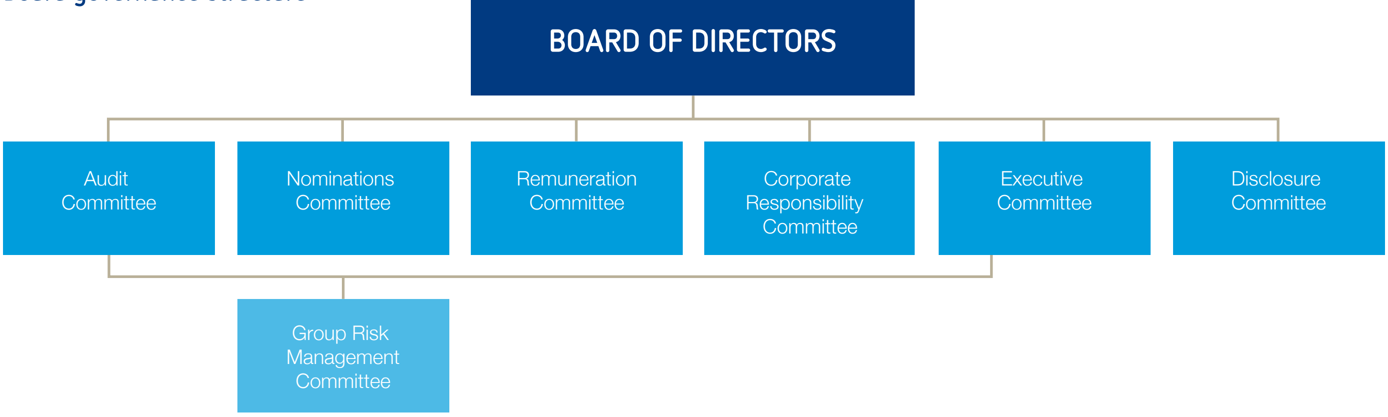
Balance and independence of the Board

As part of the evaluation process, the Board considers the balance of skills, knowledge, experience and independence to ensure the Board and Committees effectively discharge their duties and responsibilities. It is important that the Directors have a varied range of skills and experience to ensure they can exercise their independent judgement on issues of strategy, performance and resources. Details of Directors' skills and experience can be found on pages 50 and 51.

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. Qualifying third party indemnity provisions (as defined by section 234 of the Act) were in force during the year ended 31 December 2013 and remain in force. The Company also maintains directors' and officers' liability insurance for its Directors and Officers.

Board governance structure



BOARD COMMITTEES

The Board operates six Committees to oversee the standards of the Group: Audit, Nominations, Remuneration, Corporate Responsibility, Executive and Disclosure. All of the independent Non-Executive Directors are members of the Audit, Nominations and Remuneration Committees. The Committees are supported in the same way as the Board in order to ensure information flows in a timely, accurate and complete manner.

The Board reviews each Committee's terms of reference and membership against best practice as well as taking into account any relevant changes in circumstances. In 2013, no changes were made to the terms of reference of the Board Committees. The roles and responsibilities for each Committee are set out in formal terms of reference which are approved by the Board and are available on our website.

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

A chart setting out the Company's Board and Executive Committees' structure can be found on page 55. The responsibilities of each Board Committee, its membership and the key issues considered by each one during 2013 are set out in the following Committee reports.

AUDIT COMMITTEE

Role of the Committee

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

Membership and attendance during the year:

	Number of meetings	Meetings attended
Margherita Della Valle (Chairman)	4	4
Mary Francis	4	4
Lesley Knox	4	4
Mike Linn(i)	2	1
Ian Meakins	4	4
Paul Rayner	4	4

(i) Mike Linn joined the Committee on 1 June 2013. Mike was not in attendance at one Audit Committee meeting due to work commitments agreed prior to his appointment.

Margherita Della Valle was appointed as Chairman of the Committee in July 2013 and as Group financial controller of Vodafone Group plc, is considered by the Board to have recent and relevant financial experience as required by the Code. In addition, Paul Rayner is considered by the Board to have recent and relevant financial experience having held several senior financial positions. Other members of the Committee are independent Non-Executive Directors who have a wide range of relevant business experience. Further details regarding the Directors' skills and experience can be found in their biographies on pages 50 and 51. The Board is satisfied that the Committee has the resources and expertise to fulfil its responsibilities.

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

The Committee members participated in two training sessions during the year: one in July 2013 facilitated by members of Centrica's Group Finance team focusing on the treatment of exceptional items and their presentation in the Income Statement and one in November 2013 in respect of the global LNG market.

Key issues considered by the Audit Committee

During 2013, the Committee considered:

- the 2012 preliminary results, the 2012 Annual Report and the 2013 half-year results;
- progress on aligning assurance activities to improve the quality and delivery of internal controls and assurance;
- the internal audit strategy and scope of activities;
- the independence, objectivity and fees of the external auditors, the scope of audit and non-audit services and the policy on the independence of external auditors;
- the implications of the Code and accounting standards;
- adherence across the Group to key regulatory and compliance requirements, including compliance with the undertakings in respect of Centrica Storage Limited; and
- whether the judgements, estimates and assumptions used in the presentation of the Financial Statements were reasonable and consistent (see note 3 of the Financial Statements), including those set out in the table on pages 58 and 59.

See the Principal Risks and Uncertainties on page 42

Risk management and internal controls

Further details of risk management and internal controls are set out on pages 42 to 48.

Internal audit

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

The Group's internal audit three-year plan for the period 2014 to 2016 was approved by the Committee, which was primarily risk-based and also focused on the assurance of core processes. The Committee also reviewed staffing levels and qualifications to ensure these were appropriate and adequate for the delivery of the plan.

During the year, the Committee received regular reports from the Head of Risk, Control & Audit summarising the findings from the Group's internal audit functions work and action plans to resolve any highlighted areas.

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

The Board's review of the system of internal controls

Each year, an extensive process of self-certification operates throughout the Group whereby the effectiveness of internal controls and compliance with the Group's business principles and policies are assessed. In 2013, the self-certification was completed both at the half-year and full-year. During the year, the self-certification process was enhanced to include requirements to perform more detailed assessments to comply with the new Group Controls Standards. The results of the annual process, together with the conclusions of the internal reviews by internal audit, inform the annual assessment performed by the Audit Committee.

External auditors

The Committee manages the relationship with the Group's external auditors on behalf of the Board. The Committee considers annually the scope, fee, performance and independence of the external auditors as well as whether a formal tender process is required. PwC were reappointed auditors of the Group at the AGM held in May 2013.

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

Effectiveness and independence of the external auditors

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

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

Non-audit fees

In order to preserve the independence of the external auditor, the Committee is responsible for the policy on the award of non-audit services to the external auditors. A copy of this policy is available on our website. The award of non-audit work, within permitted categories, is subject to pre-clearance by the Committee, should the fees in a given year exceed a specified threshold. All significant non-audit work is tendered and where PwC were appointed, it was considered that their skills and experience made them the most appropriate supplier of the work. On a quarterly basis, the Committee is provided with reports of all non-audit assignments awarded to the external auditors and a full breakdown of non-audit fees incurred. Significant engagements undertaken during 2013 included tax compliance and advice, corporate finance support for a significant acquisition and the rationalisation of the Group's legal entity structure. A summary of fees paid to the external auditors is set out in note S9 to the Financial Statements.

Appointment of the external auditors

PwC has been the external auditor of the Group since the demerger of Centrica in 1997. In accordance with the Code, the Group expects to perform an audit tender before 2017, but will continue to monitor the implications from any potential new corporate governance guidance or changes in business requirements. As in past years, at the Committee's request, PwC performed a detailed review of their audit and submitted a formal audit plan and fee proposal.

Following a full review and having given full consideration to the performance and independence of the external auditors, the Committee has recommended to the Board that a resolution to re-appoint PwC be proposed at the 2014 AGM and the Board has accepted and endorsed this recommendation.

Audit information

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

Key judgements and financial reporting matters in 2013	Audit Committee reviews and conclusions
Impairment of goodwill, upstream gas and oil assets, power generation assets and storage facility assets The Group makes judgements and estimates in considering whether the carrying amounts of its assets are recoverable. These judgements include primarily the achievement of Board approved business plans, long-term projected cash flows, generation and production levels (including reserve estimates) and macroeconomic assumptions such as the growth and discount rates used in the valuation process. In the forecasts, where forward market prices are not available, prices are determined based on internal model inputs.	The Committee reviewed management reports detailing the carrying and recoverable value of the assets and the key judgements and estimates used. During the year, following reserves and resources downgrades and lower than expected well performance, the Committee concluded pre-tax impairments of upstream gas assets of £613 million in relation to the York, Seven Seas and A fields in the Southern North Sea. Following an increased discount rate and a decrease in North American prices, the Committee also concluded that it was appropriate to make a £130 million impairment in relation to the Group's Canadian gas assets. Following the government's decision not to support future storage development projects, the Committee concluded a pre-tax impairment of storage assets of £240 million. The Committee also reviewed the recoverable amount of all other significant balance sheet assets and concluded they had recoverable values in excess of the carrying value and were not impaired. The external auditors provided detailed reporting and held discussions with the Committee on the key judgements and assumptions used. Further detail on impairments arising and the assumptions used in determining the recoverable amounts is provided in notes 7 and S2 on pages 106 and 135.
Onerous contracts The Group makes judgements and estimates in considering whether the unavoidable costs of meeting specific obligations exceed the associated future net benefits.	A review and discussion of provisions with management was undertaken by the Committee and by the external auditors, including the utilisation and release of existing provisions and any new provisions made during the year. The Committee reviewed management reports detailing the key judgements and estimates used. Following a decrease in expected future revenues, a further pre-tax provision for the Rijnmond power station in the Netherlands of £125 million was recognised. Further detail on provisions and the assumptions used in determining the value is provided in note 21 on page 122.
Treatment and presentation of certain re-measurements and exceptional items The Group reflects its underlying financial results in the business performance column of the Group Income Statement. To be able to provide this clearly and with consistent presentation, the effects of certain re-measurements of financial instruments and exceptional items are reported separately in a different column in the Group Income Statement.	During the year the Committee received training on the classification of exceptional items and certain re-measurements on the face of the income statement. The Committee considered the size, nature and incidence of these items and concluded that separate disclosure of these items was appropriate in the Financial Statements. Exceptional items include the upstream gas impairments in the UK and North America, storage impairment in the UK and the onerous lease provision in the Netherlands as mentioned above. Further detail is provided in note 7 on page 106.
Downstream revenue recognition The Group's revenue for energy supply activities includes an estimate of energy supplied to customers between the date of the last meter reading and an estimated year-end meter reading. It is estimated through the billing systems, using historical consumption patterns, on a customer by customer basis, taking into account weather patterns, load forecasts and the differences between actual meter readings being returned and system estimates. An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits which will flow to the Group, including bill cancellation and re-bill rates. To the extent that the economic benefits are not expected to flow to the Group, revenue is not recognised.	The Committee has reviewed and held discussions with the external auditors on the level of provisions made during the year. Further detail of accrued energy income is provided in note 17 on page 119.

Key judgements and financial reporting matters in 2013	Audit Committee reviews and conclusions
Determination of fair values for energy derivatives The fair values of derivative financial instruments in North America and Europe are based primarily on quoted market prices. However, certain energy contracts extend beyond the active period of the market. The fair value of contracts are determined by reference in part to published price quotations in active markets where they exist and in part by using valuation techniques based on commodity prices derived using assumptions that are based on internal market expectations and expected volumes, discounted using an average discount rate. A significant number of judgements and assumptions are used in deriving future commodity curves.	The Committee reviewed management reports detailing the key developments during the year and a summary of price changes and drivers. The Committee also reviewed the proposed valuation commodity curves versus those of external third parties. The external auditors also provided detailed reporting and held discussions with the Committee on the potential impact of changes in the commodity curves. More detail on the assumptions used in determining fair valuations is provided in note S6 on page 152.
Consolidation of the Canadian Partnership During the year, the Group acquired from Suncor Energy a number of producing and development oil and gas assets in Canada in partnership with Qatar Petroleum International. The Group has applied judgement in determining that it has control over the relevant activities of the partnership and therefore fully consolidates its results.	The Group obtained an independent accounting opinion supporting management's assessment. The Committee has reviewed management's view and approved the treatment and disclosures in the Annual Report and Accounts 2013. More detail on the acquisition is provided in note 12 on page 113.
Business combinations During the year, in addition to the Suncor acquisition, the Group also acquired a downstream supply business in North America from Hess Corporation. Business combinations require a fair value exercise to be undertaken to allocate the purchase price (cost) to the fair value of the acquired identifiable assets, liabilities, contingent liabilities and goodwill. As a result of the nature of fair value assessments in the energy industry, this purchase price allocation exercise requires subjective judgements based on a wide range of complex variables at a point in time. Specifically, judgement is required in valuing the customer relationship and oil and gas assets.	The Committee reviewed management reports detailing the valuations and the key judgements and estimates including the valuation of oil and gas assets and the cashflows and discount rates used in valuing the customer relationships. The Committee also approved the disclosures in note 12. The external auditors also provided detailed reporting and held discussions with the Committee on the key judgements and assumptions used. Further details on business combinations are set out in note 12 on page 111.
Pensions The cost, assets and liabilities associated with providing benefits under defined benefit schemes is determined separately for each of the Group's schemes. Judgement is required in setting the key assumptions used for the actuarial valuation which determines the ultimate cost of providing post-employment benefits, especially given the length of the Group's expected liabilities.	The Committee reviewed and approved the key assumptions and disclosures in the Financial Statements, including the new additional risk reporting requirements for the current year. Independent actuaries are consulted on the appropriateness of the assumptions and discussions are held with the external auditors. Further details on pensions are set out in note 22 on page 123.
Going concern and liquidity risk The Group experiences significant movements in its liquidity position due primarily to the seasonal nature of its business and margin cash. To mitigate this risk the Group holds cash on deposit and maintains significant committed facilities. The Group regularly prepares an assessment detailing these available resources to support the going concern assumption in preparing the Financial Statements.	The Committee reviewed management's funding forecasts and sensitivity analysis and the impact of various adverse events including significant commodity price movements and credit rating downgrades. The external auditors also provide detailed reporting and hold discussions with the Committee. Following the review, the Committee recommended to the Board the adoption of the going concern statement in the Annual Report and Accounts 2013. Further details on sources of finance are set out in note 24 on page 130.
Ofgem Consolidated Segmental Statement The Group is required to prepare an annual regulatory statement (Consolidated Segmental Statement or CSS) for Ofgem which breaks down our licensed activities for the financial year into a generation, domestic and non-domestic and electricity and gas result. The CSS is reconciled to our externally reported IFRS Annual Report and Accounts. The Group has decided to publish the CSS at the same time as our full year Annual Report and Accounts and for the CSS to be independently audited to improve transparency and trust. In preparing the CSS, judgement is required in the allocation of non-specific costs between domestic and non-domestic and electricity and gas and the distinction between licensed and non-licensed activities.	The Committee reviewed the Ofgem Consolidated Segmental Statement and the key judgements and disclosures made in its preparation. The external auditor also provided a detailed report and held discussions with the Committee. The full CSS and the independent audit opinion approved by the Committee for publication are set out on pages 169 to 178.

NOMINATIONS COMMITTEE

Following the departure of Sir Roger Carr on 31 December 2013, Rick Haythornthwaite became Chairman of the Committee on 1 January 2014. To reflect best practice, Sam Laidlaw stepped down from the Committee with effect from 10 May 2013.

The Committee ensures there is a formal and appropriate procedure for the appointment of new Directors to the Board. The Committee is responsible for leading this process and making recommendations to the Board.

Membership and attendance during the year:

	Number of meetings	Meetings attended
Sir Roger Carr (i) (Chairman)	7	7
Margherita Della Valle (ii)	7	4
Mary Francis	7	7
Rick Haythornthwaite (iii)	2	2
Lesley Knox	7	7
Mike Linn (iv)	5	3
Ian Meakins	7	7
Paul Rayner	7	6
Sam Laidlaw (v)	2	2
Andrew Mackenzie (vi)	2	1

(i) Sir Roger Carr stepped down as Chairman of the Committee on 31 December 2013.
(ii) Margherita Della Valle was not in attendance at two Nominations Committee meetings convened to discuss the succession of the Group Finance Director due to the risk of a potential conflict of interest, which was subsequently resolved. Her apologies for absence were accepted for one further meeting during the year due to a prior work commitment.
(iii) Rick Haythornthwaite joined the Committee on 14 October 2013 and was appointed its Chairman with effect from 1 January 2014.
(iv) Mike Linn joined the Committee on 1 June 2013. Mike was not in attendance at two Nominations Committee meetings due to work commitments agreed prior to his appointment.
(v) Sam Laidlaw stepped down from the Committee with effect from 10 May 2013 but continues to attend at the invitation of the Chairman.
(vi) Andrew Mackenzie stepped down from the Committee on 10 May 2013.

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

Key issues reviewed by the Nominations Committee

During 2013, the Committee considered:

- the appointment of the new Chairman;
- succession planning for the Executive Directors, including a role profile for a new Group Finance Director;
- succession planning for the Non-Executive Directors;
- a review of Non-Executive Directors whose length of service was more than six years;
- the balance of skills, experience, independence and knowledge on the Board in respect of succession planning; and
- the skills of each of the Directors and the independence of each of the independent Non-Executive Directors prior to the 2013 AGM and recommended that each of them be subject to re-election at the 2013 AGM.

Recruitment process

The recruitment processes undertaken for the appointment of Mike Linn and Rick Haythornthwaite were formal, rigorous and transparent. Mary Francis, as Senior Independent Director, chaired the Committee in respect of the recruitment of Sir Roger Carr's successor. The Committee appointed executive search consultancy, MWM Consulting and the following process was undertaken for both appointments:

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

MWM Consulting do not provide any other services to the Company.

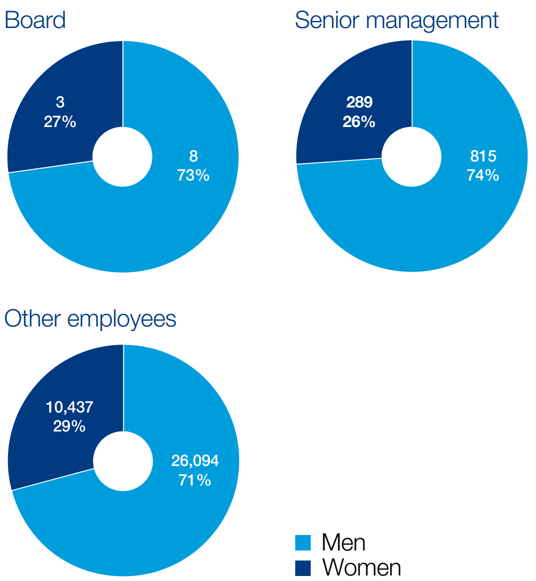
Diversity

Centrica is committed to the merits of diversity in all its forms at Board level and throughout the Group. Twenty-seven per cent of the Board are women. Centrica is committed to maintaining its current level of women on the Board and would increase the percentage if the skills, experience and knowledge of the individual were appropriate and in keeping with the business needs. An example of this is that as at 1 January 2014, 50% of the senior leadership team of British Gas were women.

Our employment policies and practices reflect a culture where decisions are based on individual ability and potential in relation to the business' needs. We are committed to ensuring individuals are treated in a non-discriminatory manner at all stages of their employment, including recruitment and selection, reward, training and development and promotion and career development.

At senior management level, 26% of this population are women, whilst 29% of employees excluding the Board and senior management are women as indicated in the charts below. Our senior management level includes categories of employees as defined in the Act. Centrica has various initiatives taking place relating to gender diversity. These include coaching and mentoring and the Pearls Programme which identified 25 women across the business to participate in a programme designed to deliver a unique environment for growth and learning. Also Centrica has partnered with the Women's Oil Council which is a business network in the oil and gas industry and is working with the Women's Business Council which makes recommendations to government and UK businesses on how women's contribution to growth can be optimised.

Breakdown by gender



Full details of the Company's Remuneration Policy and matters addressed in the year can be found in the Directors' Remuneration Report on pages 65 to 82

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REMUNERATION COMMITTEE

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

The activities of the Committee during the year are discussed in the statement of the Chairman of the Remuneration Committee on page 65.

Membership and attendance during the year:

	Number of meetings	Meetings attended
Lesley Knox (Chairman)	5	5
Margherita Della Valle	5	5
Mary Francis	5	5
Rick Haythornthwaite (i)	1	–
Mike Linn (ii)	2	2
Ian Meakins	5	4
Paul Rayner	5	4
Sir Roger Carr (iii)	5	4
Andrew Mackenzie (iv)	4	2

(i) Rick Haythornthwaite joined the Committee on 14 October 2013. Rick was not in attendance at one Remuneration Committee meeting due to work commitments agreed prior to his appointment.
(ii) Mike Linn joined the Committee on 1 June 2013.
(iii) Sir Roger Carr stepped down from the Committee on 31 December 2013.
(iv) Andrew Mackenzie stepped down from the Committee on 10 May 2013.

The Board has determined that each member of the Committee is independent. No Director is involved in the determination of, or votes on, any matters relating to his or her own remuneration.

CORPORATE RESPONSIBILITY COMMITTEE

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

Membership and attendance during the year:

	Number of meetings	Meetings attended
Mary Francis (Chairman)	4	4
Sam Laidlaw	4	4
Margherita Della Valle	4	4
Grant Dawson	4	4
Chris Weston	4	3
Phil Bentley (i)	2	2
Andrew Mackenzie (ii)	2	–

(i) Phil Bentley stepped down from the Committee on 30 June 2013.
(ii) Andrew Mackenzie stepped down from the Committee on 10 May 2013.

Key issues reviewed by the Corporate Responsibility Committee

During 2013, the Committee focused on:

- developing the Group's strategy for CR;
- reviewing the 2012 CR Report;
- reviewing the assurance provided by Deloitte LLP in respect of the 2012 CR Report;
- reviewing key CR performance indicators, in particular focusing on health and safety, environmental and customer engagement metrics as well as key CR strategic priorities;
- specific CR issues in relation to each business unit, including CR aspects of emerging energy issues such as shale gas and improving UK home energy efficiency; and
- an assessment of the Group's top strategic suppliers in respect of social, environmental and ethical criteria.

EXECUTIVE COMMITTEE

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

Membership and attendance during the year:

	Number of meetings	Meetings attended
Sam Laidlaw (Chairman)	11	11
Grant Dawson	11	11
Mark Hanafin	11	11
Nick Luff	11	11
Jill Shedden	11	11
Chris Weston	11	11
Phil Bentley (i)	6	4

(i) Phil Bentley stepped down from the Committee on 30 June 2013.

Key issues reviewed by the Executive Committee

During 2013, the Committee considered the financial and operational performance of the business against the operating plan, health and safety performance, human resourcing issues including employee engagement, senior management changes and succession planning and proposed acquisitions and divestments. Major proposed transactions together with progress made on major operational projects are considered by the Committee prior to consideration by the Board.

DISCLOSURE COMMITTEE

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

Membership and attendance during the year:

	Number of meetings	Meetings attended
Sam Laidlaw (Chairman)	9	9
Grant Dawson	9	9
Nick Luff	9	9

In addition, at each Executive Committee meeting, transactions or events were considered against the disclosure obligations of the Company and whether any matter was considered to be price sensitive.

Key issues reviewed by the Disclosure Committee

During 2013, the Committee considered the release of the 2012 preliminary announcement, the interim management statements in May and November 2013, the 2013 half-year results and the release of announcements in respect of specific projects. Following a complete review of the Company's processes for managing price sensitive information, the Committee approved enhancements to the Company's policies and procedures relating to Model Code Compliance.

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.

During 2013, Centrica hosted presentations for the announcement of the Group's 2012 preliminary result and strategy update in February and the 2013 interim results in July. Attended by both Executive and Non-Executive Directors, the presentations were made to institutional investors and analysts, including representatives of a number of the Group's largest shareholders. The presentation materials are available on the Company's website.

The Chief Executive and Group Finance Director also held 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 of the Remuneration Committee also met with a number of the Company's major shareholders during the year to discuss our remuneration arrangements and will further engage in advance of any future changes. The Chairman also met major institutional shareholders in order to gain a first-hand understanding of their concerns and key issues and provided regular updates to the Board. Rick Haythornthwaite held meetings with major shareholders as part of his induction. In addition, the Board receives annually an Investor Perception Survey which covers strategy, management, investment approach, valuation, business performance and balance sheet management. The Chairman is planning to hold a governance meeting in April 2014, following the publication of the Annual Report and Accounts 2013, for our largest investors and leading proxy advisors. The overriding objective of the meeting is to provide investors and their governance specialists with an insight into the key focus and considerations of the Board and its Committees and to better understand the governance measures operating across the business.

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

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

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.

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

Further details of material shareholdings in the Company are set out on page 63.

Information included in the Directors' report

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

GRANT DAWSON

General Counsel & Company Secretary

20 February 2014

Governance

Directors' Report

The Directors present their report with the audited consolidated Financial Statements of the Company for the year ended 31 December 2013.

STRATEGIC REPORT

The Companies Act 2006 (the Act) requires the Company to present a fair review of the business and the Group during the financial year. The Strategic Report can be found on pages 06 to 48.

FUTURE DEVELOPMENTS

A description of future developments can be found in the Strategic Report on pages 06 to 48.

RISKS

A description of the Group's exposure and management of risks is provided in the Strategic Report on pages 42 to 48.

RESULTS AND DIVIDENDS

The results for the year are set out on pages 88 to 91. Dividends paid and proposed are set out on page 110.

FINANCIAL INSTRUMENTS

Full details of the Group's financial instruments can be found in notes 19, S3 and S6 on pages 120, 145 and 152 respectively.

CORPORATE GOVERNANCE STATEMENT

The Disclosure & Transparency Rules require certain information to be included in the Corporate Governance Statement in the Directors' Report. Information that fulfils the requirements of the Corporate Governance Statement can be found in the Corporate Governance Report on pages 52 to 62 and is incorporated into this Directors' Report by reference.

AMENDMENT OF THE COMPANY'S ARTICLES OF ASSOCIATION (ARTICLES)

Details of the authority required to amend the Company's Articles are set out in the Corporate Governance Report on page 53.

DIRECTORS

The names of the Directors who held office during the year are set out on pages 50 and 51.

Details of the powers of Directors are set out in the Corporate Governance Report on pages 52 to 62 and details of the third party indemnity provisions for Directors are detailed on page 55.

EMPLOYMENT POLICIES

Reference to the Group's employment policies, including human rights, can be found on page 40 in the Corporate Responsibility Review. Further details, including employment of disabled persons, can be found in the online Corporate Responsibility Performance Review at centrica.com/cr.

MATERIAL SHAREHOLDINGS

At 31 December 2013, Centrica had received notification of the following material shareholdings pursuant to the Disclosure & Transparency Rules:

		31 December 2013	
	Nature of holding	**Ordinary shares**	**% of share capital**
Invesco Limited	Indirect	**258,200,185**	**5.08%**

No changes have been disclosed in accordance with these rules in the period 31 December 2013 to 20 February 2014.

GREENHOUSE GAS EMISSIONS

All disclosures concerning the Group's greenhouse gas emissions can be found in the Corporate Responsibility Review on page 41.

POLITICAL DONATIONS

Centrica's political donations policy states that Centrica operates on a politically neutral basis. No donations were made by the Group for political purposes during the year. However, in accordance with the Federal Election Campaign Act, Direct Energy has authorised the establishment of a Political Action Committee (PAC), to facilitate voluntary political contributions by its US employees. The PAC is not controlled by Centrica and contributions from the fund are determined by a governing board of PAC members. Participation in the PAC is voluntary for eligible employees. In 2013, contributions to the PAC by employees amounted to $14,850. The PAC made three political donations totalling $1,800.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

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

- as part of the demerger in 1997, BG Group plc (which is a separately listed company and not a part of the Centrica Group) assigned ownership of the British Gas trademarks and related logos to Centrica for use in Great Britain. BG Group plc has the right to call for a reassignment of this intellectual property if control of Centrica is acquired by a third party; and
- in 2009, Centrica entered into certain transactions with EDF Group in relation to an investment in 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 British Energy nuclear power stations. As part of these arrangements, on a change of control of Centrica, the Group loses its rights to participate on the boards of the companies in which it has invested. Furthermore, where the acquirer is not located in certain specified countries, EDF Group is able to require Centrica to sell out its investments to EDF Group.

OVERSEAS BRANCHES

Details of the Group's overseas branches can be found in note S10 of the Financial Statements.

RELATED PARTY TRANSACTIONS

Related party transactions are set out in note S8 to the Financial Statements.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are disclosed in note 26 to the Financial Statements.

SHARE CAPITAL

The Company has a single share class which is divided into ordinary shares of $6^{14}/_{81}$ pence each. The Company was authorised at the 2013 Annual General Meeting (AGM) to allot up to 1,733,163,009 ordinary shares as permitted by the Act. As at 31 December 2013 the Company had allotted 910,018 under this authority. A renewal of this authority will be proposed at the 2014 AGM. The Company's issued share capital as at 31 December 2013, together with details of shares issued during the year, is set out in note 25 to the Financial Statements.

RIGHTS ATTACHING TO SHARES

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

REPURCHASE OF SHARES

As permitted by the Articles, the Company obtained shareholder authority at the 2013 AGM to purchase its own shares up to a maximum of 519,948,902 ordinary shares. The minimum which must be paid for each ordinary share is its nominal value and the maximum price is the higher of (i) an amount equal to 105% of the average of the middle market quotations for an ordinary share of the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased; and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share as derived from the London Stock Exchange Trading System, in each case, exclusive of expenses.

On 4 February 2013, the Company announced a £500 million share repurchase programme which commenced on 28 February 2013 and ran until 18 December 2013. Between 28 February 2013 and 18 December 2013, 137,286,890 ordinary shares of $6^{14}/_{81}$ pence were repurchased, the aggregate amount paid for the repurchased shares was £499,997,425.34 (excluding fees). This represents approximately 2.7% of the Company's called up share capital (excluding treasury shares) as at 18 December 2013.

The shares purchased have not been cancelled and are held as treasury shares. As at 31 December 2013, 119,138,235 shares were held as treasury shares. These shares held in treasury represent 2.3% of the Company's issued share capital (excluding treasury shares). Dividends are waived in respect of shares held in the treasury share account.

On 18 December 2013, the Company announced a £420 million extension to its share repurchase programme, which will be conducted over the course of 2014.

SHARES HELD IN EMPLOYEE BENEFIT TRUSTS

The Centrica plc Employee Benefit Trust (EBT) is used to purchase shares on behalf of the Company for the benefit of employees, in connection with the Deferred and Matching Share Scheme, the Deferred Bonus Plan and the Restricted Share Scheme. The Centrica plc Share Incentive Plan Trust (SIP Trust) is used to purchase shares on behalf of the Company for the benefit of employees, in connection with the Share Incentive Plan (SIP). Both the Trustees of the EBT and the SIP, in accordance with best practice, have agreed not to vote any unallocated shares held in the EBT or SIP at any general meeting and dividends are waived in respect of these shares. In respect of allocated shares in both the EBT and the SIP Trust, the Trustees shall vote in accordance with participant's instructions. In the absence of any instruction, the Trustees shall not vote.

GOING CONCERN

After making enquiries, the Board has a reasonable expectation that the parent company and the Group as a whole has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the Financial Statements. Further details of the Group's liquidity position and going concern review are provided in note S3 of the Financial Statements.

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors, who are named on pages 50 and 51, are responsible for preparing the Annual Report, the Directors' Remuneration Report, the Strategic Report and the Financial Statements in accordance with applicable law and regulations.

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

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

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

Furthermore, the Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts 2013, when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 50 and 51 confirm that to the best of their knowledge:

- the Group Financial Statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Strategic Report contained on pages 6 to 48 together with the Directors' Report on pages 63 and 64, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces;
- as outlined on page 57, there is no relevant audit information of which PwC are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

GRANT DAWSON

General Counsel & Company Secretary

20 February 2014

Governance

Remuneration Report

"The Committee is working towards greater simplicity and transparency in remuneration plan design.

LESLEY KNOX
Chairman of the Remuneration Committee

On behalf of the Board I am pleased to present the Remuneration Committee's report for 2013.

My summary of the year extends over the following two pages and includes a quick overview of performance targets, outcomes, the total remuneration opportunity and total remuneration received in respect of the 2013 performance year for Executive Directors, together with the prior year for comparison purposes.

Total variable earnings opportunity in 2013 remained unchanged from the prior year. However, the prior year figures for both opportunity and actual remuneration received have been restated to ensure the presentation complies with the most recent legislation finalised during the year.

For 2013, the results achievement has fallen below the stretching targets set by the Committee for British Gas, Direct Energy, Centrica Storage and the Group as a whole. Centrica Energy exceeded its 2013 operating plan targets following a particularly strong performance in midstream and power generation.

Performance against long-term targets for the three-year period ending with 2013 failed to meet the minimum threshold and, therefore, none of the awards originally granted in 2011 will vest. Total shareholder return (TSR) performance exceeded the FTSE 100 Index throughout the majority of the performance period. However, proposals for future price controls and the potential for further political intervention had a material detrimental impact on the Group's share price in the final quarter of the year. The Committee considered the formulaic result in the context of the current climate and alignment with shareholder experience and decided not to exercise any discretion in favour of the impacted executives.

The Committee noted Sam Laidlaw's personal desire to donate any annual incentive award for the year to charity and took the necessary steps to facilitate that. As a result, Sam will not be required to defer the usually mandatory portion (40%) of his Annual Incentive Scheme (AIS) award and will instead donate the entire award received in cash.

The Board accepted Nick Luff's resignation on 7 January 2014 and he is working through his notice period. In accordance with the rules of the AIS, as Nick tendered his resignation prior to the award date for the 2013 performance year, any award is forfeited unless the Committee decides otherwise. Having considered the matter carefully and in the context of his contribution to the Group and consistent high individual performance, the Committee determined that Nick would receive an award in respect of 2013 performance. However, in accordance with policy set by the Committee in 2011, the portion of his award that ordinarily would be mandatorily deferred, being 30%, would be forfeited. The Committee also confirmed that in accordance with its policy, Nick would not be eligible for an annual incentive award for the 2014 year.

Strategic Overview on page 08

The information in this summary relates to each Executive Director on the Board for the whole of 2013.

COMBINED SHORT-TERM AND LONG-TERM INCENTIVE PERFORMANCE 2013

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

Short-term incentive targets

For Group economic profit (EP), adjusted operating profit of £2,705m less tax and a capital charge was required for 50% achievement and £2,844m for 100%.

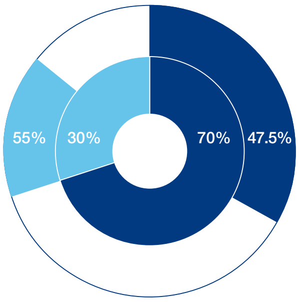
For British Gas EP, adjusted operating profit of £1,036m less tax and a capital charge was required for 50% achievement and £1,091m for 100%.

For Centrica Energy EP, adjusted operating profit of £1,273m less tax and a capital charge was required for 50% achievement and £1,471m for 100%.

For Direct Energy EP, adjusted operating profit of £359m less tax and a capital charge was required for 50% achievement and £393m for 100%.

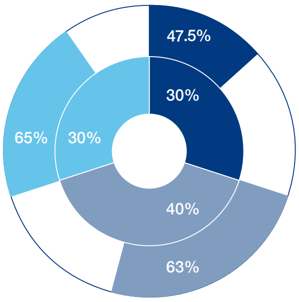
In 2013 specific objectives related to our strategic priorities included achieving a scale roll-out of smart meters and remote heating controls, making key downstream acquisitions in North America, making progress on renewables and LNG strategies through partnerships and/or acquisitions, increasing ROCE in the International Upstream business, improving customer satisfaction, maintaining focus on safety and increasing employee engagement.

Sam Laidlaw



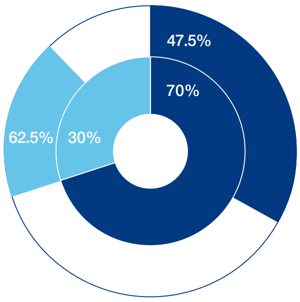
Group EP 47.5% achieved
Strategic priorities 55% achieved

Mark Hanafin



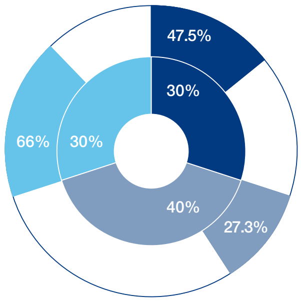
Group EP 47.5% achieved
Centrica Energy EP 63% achieved
Strategic priorities 65% achieved

Nick Luff



Group EP 47.5% achieved
Strategic priorities 62.5% achieved

Chris Weston



Group EP 47.5% achieved
British Gas and Direct Energy EP (60:40) 27.3% achieved
Strategic priorities 66% achieved

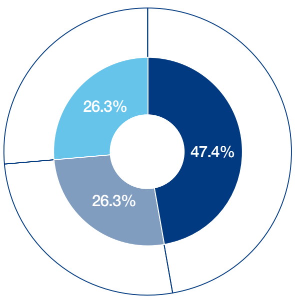
Long-term incentive targets

For Group EP, 25% growth above 2010 actual was required for 100% achievement.

For Group earnings per share (EPS), a minimum growth of RPI +9% was required.

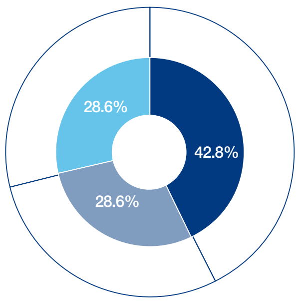
For total shareholder return (TSR), out-performance of the FTSE 100 Index by 0.1% per annum was required for 25% achievement and 7% per annum for 100% achievement.

Sam Laidlaw



Group EP 0% achieved
EPS 0% achieved
TSR (relative) 0% achieved

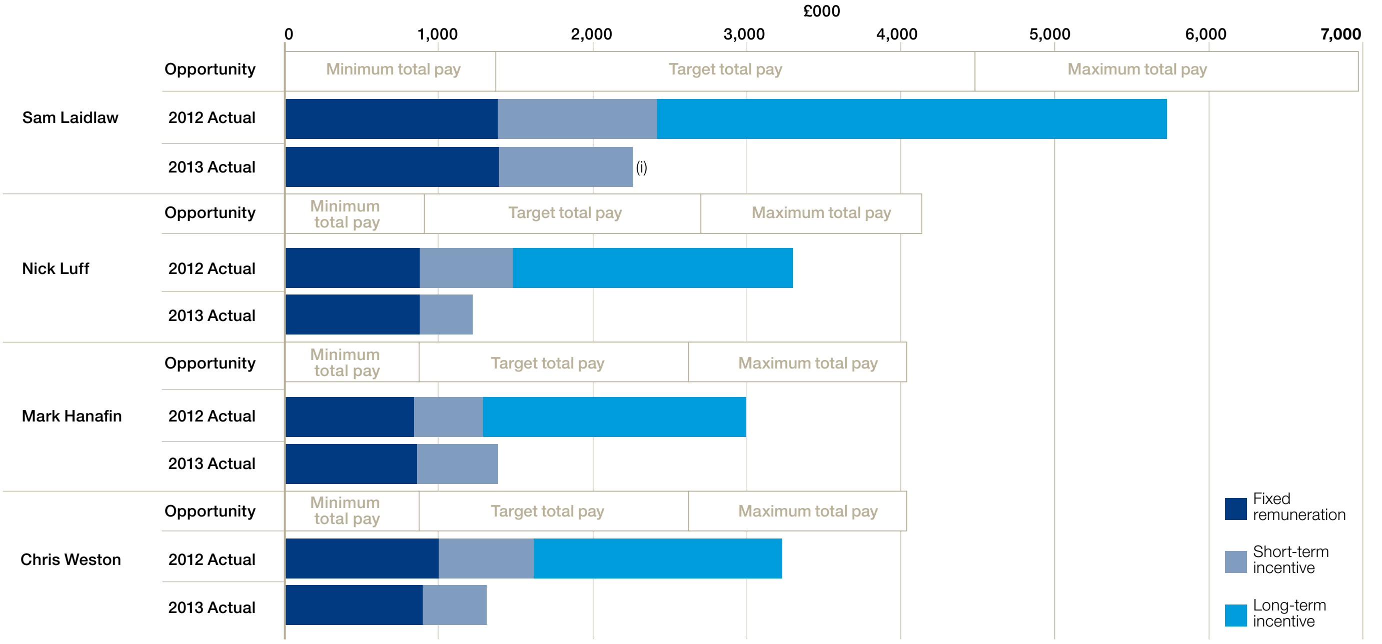
Mark Hanafin, Nick Luff, Chris Weston



Group EP 0% achieved
EPS 0% achieved
TSR (relative) 0% achieved

MAXIMUM TOTAL REMUNERATION OPPORTUNITY AND TOTAL REMUNERATION RECEIVED IN 2013

The chart below sets out the total remuneration received for the year for each Executive Director, prepared on the same basis as the single figure for total remuneration table set out on page 76. In addition, for comparison purposes, the chart provides an indication of minimum, on-target and maximum total remuneration, prepared on the same basis.

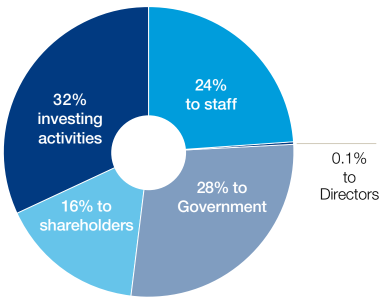


(i) Sam Laidlaw has elected to donate his entire 2013 bonus to charity.

2013 CASH FLOW DISTRIBUTION TO STAKEHOLDERS

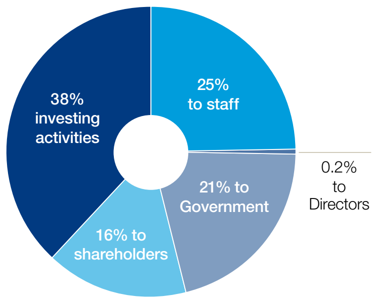
The Committee monitors the relationship between the Directors' total remuneration and cash outflows to other stakeholders. As demonstrated by the chart below, the Directors' aggregate total remuneration for the year equates to 0.1% (2012: 0.2%) of the Group's operating cash flow.

2013



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

2012 (restated for Directors' total remuneration)



A further c.£700m of investment was funded from borrowing and other sources rather than from operating cashflows.

FUTURE POLICY

As noted in the 2012 Remuneration Report and discussed with a number of shareholders during that year, the Committee is working towards greater simplicity and transparency in remuneration plan design and will present a new set of arrangements for discussion with shareholders during 2014 prior to seeking shareholder approval at the AGM in 2015 when the current plans approach the end of their ten-year life. Therefore, whilst the Committee is seeking formal approval for the current policy as set out on pages 68 to 75 of this report, it is anticipated that these arrangements will apply for only one further year.

The new arrangements are expected to be significantly more simple and maintain the existing underlying principle of requiring substantial deferral of short-term performance related reward to ensure alignment with the Group's strategic objectives and shareholder value creation.

LESLEY KNOX

Chairman of the Remuneration Committee

20 February 2014

Key Performance Indicators on page 16
Strategic Overview on page 08

EXECUTIVE DIRECTORS' REMUNERATION

The Remuneration Committee believes that our remuneration arrangements appropriately incentivise and reward strong performance and shareholder value creation, whilst ensuring behaviours remain consistent with Centrica's principles and values.

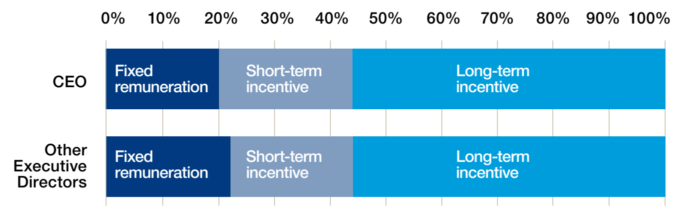
Remuneration principles

The Remuneration Policy aims to deliver a remuneration package:

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

Reward framework and objectives

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



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

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

The KPIs, which are set out in detail on pages 16 and 17, underpin the selection of performance criteria used within the incentive arrangements as demonstrated in the table below. If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee.

KPI	Performance measure	
Adjusted operating profit	EP – 1 year	EP – 3 year
EPS	EPS	
TSR	TSR	
Dividend per share	TSR	
Lost time injury frequency rate	Non-financial KPI dashboard	
Process safety	Non-financial KPI dashboard	
Customer trust	Non-financial KPI dashboard	
Employee engagement	Non-financial KPI dashboard	

The key objectives

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

Remuneration Policy table

The table below sets out the Remuneration Policy that the Committee intends to apply to Executive Directors (Executives), subject to shareholder approval, from 12 May 2014, the date of the AGM.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
Base pay/salary Reflects the role and sustained value of the individual in terms of skills, experience and contribution. Sufficient level to recruit and retain individuals of the correct calibre to execute the Company's strategy.	Base salaries are reviewed annually, taking account of performance, market conditions and pay in the Group as a whole. Changes are usually effective from 1 April each year. Current base salaries for the Chief Executive and the Group Finance Director were originally set in 2010. Salaries for the Managing Director International Upstream and the Managing Director International Downstream were set at the time of their appointment into those roles in July 2013.	Ordinarily, base salary increases in percentage terms will be in line with increases awarded to other employees of the Group. Increases may be made above this level to take account of individual circumstances such as a change in responsibility, progression in the role or a significant increase in the scale or size of the role. The base salary for an Executive will not exceed £1 million per annum.	Not applicable.
Pension Positioned to provide a competitive post-retirement benefit, in a way that manages the overall cost to the Company.	Incoming Executives are entitled to participate in a Company money purchase pension arrangement or to take a fixed salary supplement (calculated as a percentage of base salary, which is excluded from any bonus calculation) in lieu of pension entitlement. The Group's policy is not to offer defined benefit arrangements to new employees at any level, unless this is specifically required by applicable legislation or an existing contractual agreement.	30% salary supplement for Chief Executive and 25% salary supplement for all other Executives.	Not applicable.
	Current Executives are entitled to participate in a Centrica pension arrangement or to receive a fixed salary supplement in lieu of pension entitlement in accordance with the terms of their contracts. Chris Weston participates in the Centrica Pension Plan, a contributory final salary arrangement and in the Centrica Unfunded Pension Scheme defined benefit section. Sam Laidlaw, Nick Luff and Mark Hanafin are entitled to receive a salary supplement equal to 40% of their base salaries in lieu of pension or to participate in a Company money purchase pension arrangement. We would continue to honour defined benefit pension arrangements in the event of an individual being promoted to the Board who retains a contractual entitlement to such a pension benefit.	40% salary supplement for current Executives or final salary accrual of 2.22% per annum if existing member.	

Remuneration Policy continued

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
Benefits Positioned to ensure broad competitiveness with market practice.	The Group offers Executives a range of benefits including some or all of: • a company-provided car and fuel, or a cash allowance in lieu; • life assurance and personal accident insurance; • health and medical insurance for the Executive and their dependants; • health screening; and • a contribution towards financial planning advice.	Cash allowance in lieu of company car – £22,000 per annum. The benefit in kind value of other benefits will not exceed 5% of base salary.	Not applicable.
Relocation and expatriate assistance To enable the Group to recruit or promote the right individual into a role, to retain key skills and to provide career opportunities.	Assistance may include (but is not limited to) removal and other relocation costs, housing or temporary accommodation, education, home leave, repatriation and tax equalisation.	Maximum of 100% of base salary.	Not applicable.
Annual Incentive Scheme (AIS) Designed to reward the delivery of key strategic priorities for the year. These priorities position the Group well for strong future performance, reinforcing the importance of balancing growth with economic profit returns in a business which is more vertically integrated and capital intensive.	AIS is designed to incentivise and reward the achievement of demanding financial and individual strategically aligned performance objectives. A significant proportion of the AIS is required to be deferred into the Deferred and Matching Share Scheme (DMSS) for three years. Details of the DMSS are shown on page 71. If overall business performance is not deemed satisfactory, an individual's AIS payment for the year may be reduced or forfeited, at the discretion of the Committee.	Chief Executive: 0% to 180% of base salary. Other Executive Directors: 0% to 150% of base salary. Half the maximum is payable for on-target performance.	Up to 40% based on individuals' strategic objectives aligned to the Group's strategic priorities, with the remainder based on EP. Assessed over one financial year.
All-employee share plans Provide an opportunity for employees to voluntarily invest in the Company.	UK-based Executives are entitled to participate in the HMRC-approved Sharesave and Share Incentive Plan (SIP) on the same terms as all other eligible employees. The Sharesave plan offers a three or five-year savings period, with up to a 20% discount to the market value of the shares at the point of grant. The SIP currently offers partnership and matching shares. Dividends paid on SIP shares may be reinvested in the plan.	Maximum contribution limits are set by legislation. Levels of participation allowed by the Board are within these limits and apply to all participants. The SIP currently awards one free matching share for every two partnership shares purchased, up to a maximum of 22 matching shares per month, although the plan allows for higher levels of match.	Not applicable.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
Long-term incentive plans Assist with employee retention and incentivise an appropriate balance between short-term performance and long-term value creation for shareholders. Encourage sustainable high performance. Provide a direct link between remuneration and KPIs, reinforcing the desire for sustainable high performance over the long-term.	DMSS The Chief Executive is required to defer 40% of any AIS payment into the DMSS each year. All other Executive Directors are required to defer 30% of any AIS payment into the DMSS. An additional voluntary deferral may be made, taking the total deferral to up to 50% of maximum bonus opportunity. Up to two matching shares are awarded for each deferred share subject to performance over a three-year period. Matching awards for UK-based Executives are delivered as nil cost options at the end of the performance period and the options are exercisable for seven years. Matching awards for non UK-based Executives are structured as conditional share awards and shares are released at the end of the performance period. Dividends are paid on the deferred shares during the three-year performance period. Notional dividend equivalents are calculated at the end of the performance period on any conditional matching share awards or at the point of exercise for nil cost options. Dividend equivalents are paid as additional shares or as cash. All deferred awards can be clawed back if it is subsequently discovered that the results have been achieved by behaviour which fails to reflect the governance and values of the business. LTIS LTIS awards are granted based on a percentage of base salary at the point of award. Shares are released at the end of a three-year performance period, depending on the achievement against the Company performance targets. LTIS awards for UK-based Executives are delivered as nil cost options at the end of the performance period and the options are exercisable for seven years. LTIS awards for non UK-based Executives are structured as conditional share awards and the shares are released at the end of the performance period. Notional dividend equivalents are calculated at the end of the performance period on any conditional LTIS awards or at the point of exercise for nil cost options. Dividend equivalents are paid as additional shares or as cash. If none of the EP shares are due to vest, then the KPI shares will not vest unless the Committee confirms that this would not be reflective of the true underlying performance of the Group. If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee.	DMSS Up to 200% match, on 50% of maximum bonus opportunity plus dividend equivalents. LTIS Up to 200% of base salary plus dividend equivalents.	DMSS Absolute aggregate EP over the three-year performance period. LTIS 35% based on EPS over the three-year performance period. 35% based on absolute aggregate EP. 30% based on non-financial KPI dashboard. TSR performance against the FTSE 100 Index acting as a positive or negative multiplier: 0.667x multiple for Index -7% per annum and 1.5x multiple for Index +7% per annum capped at the face value of the award. Where performance falls between stated points, vesting is calculated on a straight-line basis.

Key Performance Indicators on page 16

Policy table notes

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

Centrica Pension Plan (CPP)

The CPP is a funded, HMRC-registered, final salary, contributory occupational pension scheme. Members' contributions are payable at the rate of 6% of pensionable earnings. Contributions made by the Executives who are also members of the Centrica Unfunded Pension Scheme are payable at the rate of 6% of their total pensionable earnings above the scheme earnings cap.

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 and the Lifetime Allowance. The CUPS defined benefit section provides any additional benefits in excess of the maximum amount that could be provided through the CPP on the members' uncapped pensionable earnings. Pensionable pay increases are limited to pay reviews up to a maximum of 2% per annum with effect from 1 March 2012 for members of the CPP and CUPS defined benefit section.

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

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

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

Economic profit (EP)

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

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

Earnings per share (EPS)

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

Non-financial KPIs

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

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

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

● High performance zone

● Median performance zone

● Low performance zone

Total shareholder return (TSR)

TSR is calculated as the annualised percentage increase in the Net Return Index of the Company above the Net Return Index of the FTSE 100 over the three-year performance period. The Net Return Index reflects movements in the share price and dividends reinvested over the performance period. In the opinion of the Directors, the FTSE 100 Index is the most appropriate index against which the TSR of Centrica plc should be measured, as it is an index of similar sized companies.

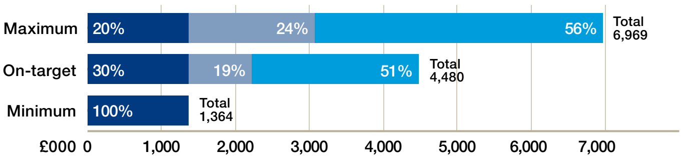
The Committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Total remuneration by performance scenario

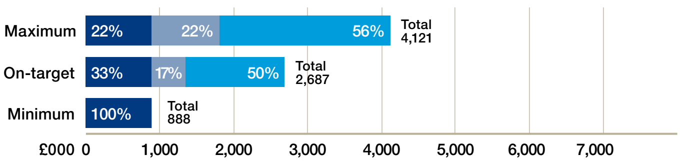
The charts below indicate the minimum, on-target and maximum remuneration that could be received by each Executive, excluding share price movement and dividends. Assumptions made for each scenario are:

- minimum – fixed remuneration only (base salary, pension and benefits as disclosed in the single figure for total remuneration table on page 76);
- on-target – fixed remuneration plus target AIS (as set out in the Remuneration Policy table) assuming maximum deferral and expected value under the long-term incentive plans (DMSS matching award based on vesting of 60% and LTIS award based on vesting of 56.5%); and
- maximum – fixed remuneration plus maximum AIS opportunity (as set out in the Remuneration Policy table) assuming maximum deferral and maximum levels of vesting under DMSS and LTIS.

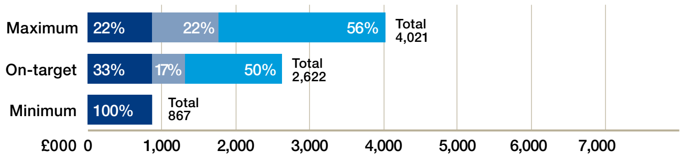
Sam Laidlaw



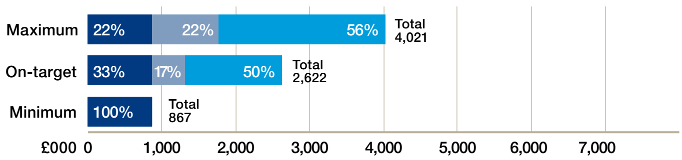
Nick Luff



Mark Hanafin



Chris Weston



Fixed | Short-term Incentive | Long-term Incentive

Discretion and judgement

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

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

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

The Committee retains discretion, consistent with market practice, regarding the operation and administration of the long-term incentive plans including, but not limited to, the following in relation to the LTIS and the DMSS:

- determination of the result of any disputes relating to the interpretation of the rules;
- alteration of the terms of the performance targets if it feels that they are no longer a fair measure of the Company's performance, as long as the new targets are not materially less challenging than the original ones;
- determination that any award is forfeit in whole or in part; and
- setting the level of the mandatory deferral of the DMSS, which must be at least 20% of annual bonus and deciding the maximum level of voluntary investment up to the limits set out in the rules.

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

Remuneration Policy continued

Recruitment policy

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

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

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

Termination policy

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

Save for summary dismissal, the policy is to either continue to provide base pay, pension and other benefits for any unworked period of notice or, at the option of the Company, to make a payment in lieu of notice comprising base pay only. Typically any payment in lieu of notice will be made in monthly instalments and reduce, or cease completely, in the event that remuneration from new employment is received. An AIS award for the year in which the termination occurs may be made following the normal year end assessment process, subject to achievement of the agreed performance measures and time apportioned for the period worked. Any award would be payable at that time without deferral and no new long-term incentive plan awards would be made.

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

Executives leaving following resignation will forfeit any potential AIS award for the performance year in which the resignation occurs and all unvested long-term incentive plan awards. In addition, Executives summarily dismissed will also forfeit any voluntary investment shares. Deferred awards can also be clawed back if it is subsequently discovered that the results have been achieved by behaviour which fails to reflect the governance and values of the business.

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

Pay and employment conditions across the Group

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

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

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

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

Shareholding guidelines

Minimum shareholding guidelines are in place for Executive Directors and senior executives to build and maintain a value of shares over a five year period from date of appointment as follows:

- Chief Executive – 2 times base salary;
- other Executive Directors – 1.25 times base salary; and
- senior executives – 1 times base salary.

In addition to the guidelines above and to align with investor preference, for awards made after 1 January 2011, the guidelines provide that all transferred shares under the Group's long-term incentive arrangements be retained for a minimum period of five years from the original award or grant date.

External appointments of Executive Directors

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

Fees received in respect of external appointments are retained by the individual Executive.

Implementation in the next financial period

Base salary increases for Executives in 2014 will be in line with the increases awarded to the general UK employee population during the year.

AIS awards will be made to the Executives in line with the limits set out in the Remuneration Policy. Sixty per cent of the award will be linked to financial performance and 40% will be subject to the achievement of individual strategic objectives aligned to the Group's strategic priorities. Performance measures will be disclosed retrospectively due to their commercial sensitivity.

Awards will be made to the Executives under the LTIS and the DMSS, in line with the limits set out in the Remuneration Policy. Performance measures and weightings are unchanged from the prior year.

NON-EXECUTIVE DIRECTORS' REMUNERATION

Remuneration Policy

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

Terms of appointment

Non-Executives, including the Chairman, do not have service contracts. Their appointments are subject to Letters of Appointment and the Articles of Association and the dates they joined the Board are shown on pages 50 and 51.

Remuneration Policy table

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

SERVICE CONTRACTS

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

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

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

Appointment dates for all Directors are set out on pages 50 and 51.

Directors' Annual Remuneration Report

DIRECTORS' REMUNERATION IN 2013

This report sets out information on the remuneration of the Directors for the financial year ended 31 December 2013.

Single figure for total remuneration (audited)

£000	2013 Salary/ fees	2012 Salary/ fees	2013 Bonus (cash)	2012 Bonus (cash)	2013 (v) Bonus (deferred)	2012 (v) Bonus (deferred)	2013 (vi) Benefits	2012 (vi) Benefits	2013 (vii) LTIPs	2012 LTIPs	2013 (viii) Pension	2012 (viii) Pension	2013 Total	2012 (ix) Total restated
Executives														
Sam Laidlaw	**950**	950	**851**(x)	185	**–**	855	**55**	42	**–**	3,297	**379**	380	**2,235**(x)	5,709
Phil Bentley(i)	**318**	635	**238**	635	**–**	–	**22**	44	**–**	1,954	**48**	79	**626**	3,347
Mark Hanafin	**585**	575	**368**	23	**158**	431	**31**	34	**–**	1,713	**230**	230	**1,372**	3,006
Nick Luff	**610**	610	**333**	145	**–**	458	**29**	18	**–**	1,813	**246**	244	**1,218**	3,288
Chris Weston	**553**	510	**281**	224	**120**	383	**174**	408	**–**	1,614	**154**	77	**1,282**	3,216
													6,733	18,566
Non-Executives														
Sir Roger Carr	**490**	490	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**490**	490
Margherita Della Valle	**77**	65	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**77**	65
Mary Francis	**105**	105	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**105**	105
Rick Haythornthwaite(ii)	**14**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**14**	–
Lesley Knox	**85**	85	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**85**	85
Mike Linn(iii)	**38**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**38**	–
Andrew Mackenzie(iv)	**23**	65	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**23**	65
Ian Meakins	**65**	65	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**65**	65
Paul Rayner	**77**	88	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**77**	88
													974	963
Total													**7,707**	19,529

(i) Phil Bentley resigned as an Executive Director on 30 June 2013 and remained an employee of Centrica until 31 December 2013. During the period between 31 July and 31 December 2013, he received basic salary and benefits. The figures in this table include his emoluments for the period to 30 June 2013. The bonus was calculated in accordance with Group EP and British Gas EP performance and strategic priorities.
(ii) Rick Haythornthwaite was appointed as a Non-Executive Director on 14 October 2013 and as Chairman on 1 January 2014.
(iii) Mike Linn was appointed as a Non-Executive Director on 1 June 2013.
(iv) Andrew Mackenzie resigned as a Non-Executive Director on 10 May 2013.
(v) Each Executive apart from Phil Bentley, Sam Laidlaw and Nick Luff has deferred part of their AIS award on a gross basis and invested these funds into DMSS in accordance with the rules for minimum mandatory and voluntary maximum deferral.
(vi) Benefits include car and fuel, health and medical, financial planning advice, matching shares received under the Share Incentive Plan and the gain from any options exercised under the HMRC-approved Sharesave plan. Benefits for Chris Weston include expenses and benefits paid under the terms of his international assignment agreement including for his relocation from the US to the UK.
(vii) The long-term incentives include a forecast of the value of the LTIS and DMSS matching awards due to vest in April 2014, relating to the three-year performance period ending in 2013. The LTIS awards were valued using the latest TSR projection as at 1 February 2014, which was 0% and the projected EPS performance outcome of 0%. The DMSS awards were valued using the projected EP performance outcome of 0%.
(viii) The value of the increase in defined benefit pension accrual for Phil Bentley and Chris Weston has been calculated using the BIS methodology of 20 times the increase in accrued pension for the year (less an allowance for the contributions paid by the member and CPI inflation of 5.2% in 2012 and 2.2% in 2013). Notional contributions to the CUPS DC Scheme for Sam Laidlaw, Mark Hanafin and Nick Luff have been included in this table as if CUPS DC were a cash balance scheme.
(ix) The 2012 total remuneration figures have been recalculated and restated to comply with the new regulations. The share price on the date of release of the LTIS and DMSS matching conditional awards was 369.28p and the share price at the point of vesting of the LTIS and DMSS matching nil cost options was 372.04p (the 3 month average share price used to calculate the awards in the 2012 remuneration report was 328.6p). The value of dividend equivalents accrued up until the date of vesting have been calculated for the LTIS and DMSS matching nil cost options and the value of the pension salary sacrifice waiver into the CUPS DC plan has been added.
(x) As indicated on page 65 Sam Laidlaw has elected to donate his entire 2013 bonus to charity.

Base pay/salary

There were no increases to the base salary of Sam Laidlaw and Nick Luff in 2013, thus maintaining the levels originally set in 2010.

Salaries for Mark Hanafin, Managing Director International Upstream and Chris Weston, Managing Director International Downstream were set at the time of their appointment into those roles in July 2013.

Base salaries will be reviewed during the course of 2014.

AIS

The performance targets for the 2013 AIS are set out in the Committee Chairman's introduction. The charts on page 66 under short-term incentive targets indicate the extent of achievement for each Executive for each component of the AIS.

Key Performance Indicators on page 16

Pension

Chris Weston and Phil Bentley participate in the Centrica Pension Plan (CPP), a contributory final salary arrangement and in the Centrica Unfunded Pension Scheme (CUPS) defined benefit (DB) section. Full disclosure of the pension arrangements for Phil Bentley and Chris Weston is given below.

Sam Laidlaw, Mark Hanafin and Nick Luff are entitled to receive a salary supplement of 40% of base pay or participate in the CUPS defined contribution (DC) section. During the year, the three Executives participated in the CUPS DC section and received an unfunded promise equal to 40% of base pay. Notional contributions to the CUPS DC Scheme have been included in the single figure for total remuneration table on page 76 as if it was a cash balance scheme.

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

Defined benefit section	**(iii) Accrued pension as at 31 December 2013 £**	Accrued pension as at 31 December 2012 £
Phil Bentley (i)(ii)	**234,600**	226,200
Chris Weston	**137,600**	125,600

Defined contribution section (iv)	**Total notional pension fund as at 31 December 2013 £**	Total notional pension fund as at 31 December 2012 £
Sam Laidlaw	**475,928**	95,000
Mark Hanafin	**289,041**	57,500
Nick Luff	**308,496**	61,000

(i) Phil Bentley stepped down as an Executive Director on 30 June 2013 and remained an employee of the Company until 31 December 2013. The figures set out above reflect the pension in respect of service until 30 June 2013.
(ii) As previously reported, under the terms of his contract of employment, following the completion of the appropriate qualifying period which ended on 14 January 2012, Phil Bentley is entitled to draw his pension on an unreduced basis with effect from his 58th birthday.
(iii) The accrued pension is that which would be paid annually on retirement at age 62 (Chris Weston) or age 58 (Phil Bentley), based on eligible service to, and pensionable earnings at, 31 December 2013 (30 June 2013 for Phil Bentley). The pension accrual rates for 2013 for Phil Bentley and Chris Weston were 2.65% and 2.22% respectively of final pensionable earnings.
(iv) The retirement age for the CUPS DC section is 62.

Long-term incentives

Earnings per share (EPS)

EPS growth during the three-year period ending with 2012 did not exceed RPI growth by 9%. Consequently, the EPS portion of the 2010 LTIS award did not vest.

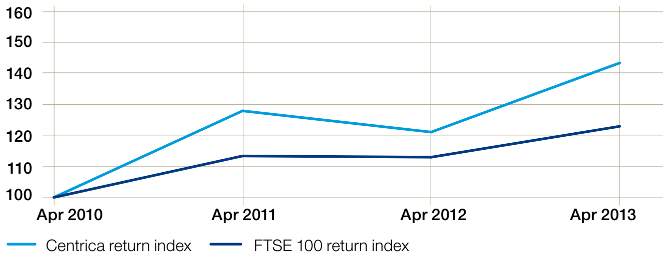
Total shareholder return (TSR)

In assessing the extent to which the performance conditions have been met, the Committee uses data provided as a genuine reflection of the Company's underlying financial performance.

The TSR graph for the three-year performance of the LTIS awards that vested in April 2013 is shown below.

TSR – three-year comparator group

Centrica and FTSE 100 comparator companies



Source: Alithos Limited, 4 April 2010 = 100

Termination payments

No termination payments were made during 2013 (2012: £nil).

Termination arrangements for Phil Bentley

As announced on 27 February 2013, Phil Bentley stepped down from his role as Managing Director of British Gas and, therefore, as an Executive Director on 30 June 2013 and he left the Company on 31 December 2013.

Phil Bentley was paid according to his contractual arrangements including a pro-rata performance bonus award through to the expiry of his accrued vacation on 31 July 2013. Thereafter he was paid a basic salary and all bonus earning opportunities ceased. He did not participate in any new long-term awards granted in 2013.

On completion of his employment, he was deemed to have worked his contractual notice period and no lump sum was paid in lieu of notice. His remuneration for the period up to 30 June 2013 is included in the single figure for total remuneration table on page 76.

In accordance with the termination policy on page 74, Phil Bentley is entitled to all accrued allocations that had been earned during his employment under the long-term incentive plans in the normal way. The value of the long-term incentive plans will be time apportioned and will remain subject to the performance conditions and, therefore, the number of shares which will vest will be lower than the maximum potential. The actual value of the awards will be determined at the end of each performance measurement period.

Phil Bentley left with a pension entitlement consistent with his contractual rights which reflects his length of service and includes accrued rights transferred in from his prior employment commencing in September 1980. Under the pension arrangements he is entitled to retire at age 55 on a reduced pension or at age 58 on an unreduced pension.

Directors' Annual Remuneration Report continued

LTIS awards (audited)

	Awarded during 2013(i)		In performance period(i)	
	Number of shares	(ii) (iii) Value £000	Granted April 2012	Granted April 2011
Sam Laidlaw	**510,012**	**1,900**	598,312	582,179
Mark Hanafin	**308,691**	**1,150**	362,136	352,371
Nick Luff	**327,481**	**1,220**	384,179	373,820
Chris Weston	**273,796**	**1,020**	321,199	312,538
Vesting/release date	**April 2016**		April 2015	April 2014

(i) LTIS awards for UK-based Executives are delivered as nil cost options at the end of the performance period and the options remain exercisable for seven years.
(ii) Awards were made in 2013 to Executives based on a value of 200% of salary.
(iii) The share price used to calculate the number of shares granted was 372.54p, being the average closing share price over five business days immediately preceding the grant date of 8 April 2013. The performance conditions relating to these awards are set out below. 9% of shares awarded will vest if minimum performance is achieved. 100% of shares awarded will vest if maximum performance is achieved.

LTIS performance conditions

In 2013, LTIS allocations equal to 200% of base salary were awarded to Executives and, at lower levels, to other senior executives. The performance measures attaching to the outstanding LTIS awards are shown in the table below.

Vesting criteria 2012 and 2013	Performance conditions over three-year period
35% on EPS(i) growth against RPI growth	Full vesting for EPS growth exceeding RPI growth by 30% Zero vesting if EPS growth does not exceed RPI growth by 9% Vesting will increase on a straight-line basis between 25% and 100% between these points
35% on absolute aggregate EP	Full vesting for aggregate EP of £3.4 billion Zero vesting if aggregate EP is below £2.6 billion Vesting will increase on a straight-line basis between 25% and 100% between these points
30% on non-financial KPI dashboard	As disclosed on page 79
Positive/negative multiplier on TSR performance against the FTSE 100 Index	0.667x multiple for Index -7% per annum and 1.5x multiple for Index +7% per annum, subject to a cap at the face value of the award. Where performance falls between stated points, vesting is calculated on a straight-line basis
Vesting criteria 2011	
50% on EPS(i) growth against RPI growth	Full vesting for EPS growth exceeding RPI growth by 30% Zero vesting if EPS growth does not exceed RPI growth by 9% Vesting will increase on a straight-line basis between 25% and 100% between these points
50% 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

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

LTIS timeline

Key Performance Indicators on page 16

LTIS non-financial KPI dashboard

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

- 🟢 High performance zone
- 🟠 Median performance zone
- 🔴 Low performance zone

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

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

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

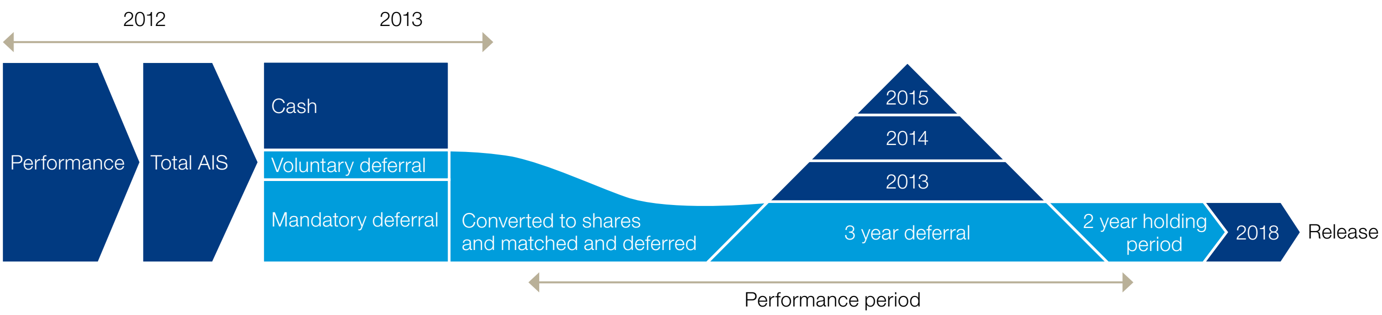
For each median performance zone outcome, 5% of the KPI shares will be forfeited and for each low performance zone outcome, 10% of the KPI shares will be forfeited.

DMSS matching awards (audited)

	Awarded during 2013[i]		In performance period[i]	
	(ii) Number of shares	**(iii) Value £000**	Awarded during 2012	Awarded during 2011
Sam Laidlaw	**463,060**	**1,710**	548,114	514,838
Mark Hanafin	**233,562**	**862**	276,462	259,675
Nick Luff	**247,776**	**915**	293,290	275,484
Chris Weston[i]	**207,158**	**765**	245,210	230,324
Vesting/release date	**April 2016**		April 2015	April 2014

(i) DMSS matching awards for UK-based Executives are delivered as nil cost options at the end of the performance period and the options remain exercisable for seven years.
(ii) DMSS matching awards granted in 2013 vest subject to absolute EP over the three-year performance period: minimum £2.6 billion and maximum £3.4 billion provides one or two matching shares respectively. Where performance falls between these points, vesting is calculated on a straight-line basis.
(iii) The share price used to calculate the number of shares granted was 369.28p, being the share price at which the corresponding deferred shares were purchased in the open market on 8 April 2013.

DMSS timeline



Directors' Annual Remuneration Report continued

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

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

	Shares owned outright as at 31 December 2012	**Shares owned outright as at 31 December 2013**	(ii) Minimum Shareholder Guideline (% of salary)	**Achievement as at 31 December 2013 (% of salary)**	**(iii) Shares owned (subject to continued service) as at 31 December 2013**	**(iv) Fully vested unexercised options as at 31 December 2013**
Executives						
Sam Laidlaw	2,027,484	**1,897,757**	200	**695**	**402,627**	**643,444**
Nick Luff	444,795	**275,404**	125	**157**	**176,140**	**436,313**
Mark Hanafin(i)	315,362	**189,923**	125	**110**	**170,391**	**267,349**
Chris Weston	464,978	**477,920**	125	**279**	**161,118**	**398,107**(v)
Non-Executives						
Sir Roger Carr	58,361	**58,361**	–	**–**	**–**	**–**
Margherita Della Valle	5,000	**7,232**	–	**–**	**–**	**–**
Mary Francis	3,500	**3,500**	–	**–**	**–**	**–**
Rick Haythornthwaite	–	**12,500**	–	**–**	**–**	**–**
Lesley Knox	3,500	**5,192**	–	**–**	**–**	**–**
Mike Linn	–	**42,575**	–	**–**	**–**	**–**
Ian Meakins	5,000	**6,276**	–	**–**	**–**	**–**
Paul Rayner	56,875	**56,875**	–	**–**	**–**	**–**

(i) DMSS deferred shares are due to be released from the plan in April 2014. Following this release, Mark Hanafin will exceed the required minimum shareholding.
(ii) Minimum shareholding guidelines are two times base salary for the Chief Executive and 1.25 times base salary for other Executives. In addition, for awards made after 1 January 2011, the guidelines provide that all transferred shares under the long-term incentive arrangements be retained for a minimum period of five years from the original award or grant date.
(iii) Shares and options that are subject to the achievement of long-term performance conditions are included in the LTIS awards table on page 78 and the DMSS matching awards table on page 79.
(iv) These share options are fully vested and have achieved all required performance conditions. They may be exercised at any time, subject to the Centrica Code for Dealing.
(v) Fully vested options for Chris Weston include 130,187 options granted in April 2005 with an exercise price of 203.55p and 267,920 options granted in April 2006 with an exercise price of 253.80p.

Percentage change in CEO remuneration compared with other employees

The table below shows the percentage change in base pay/salary, taxable benefits and AIS payments between 2012 and 2013 for Sam Laidlaw, compared with a comparator group of UK employees, over the same period of time.

	CEO % change	Employees % change	Difference
Salary and fees	0.0	3.6	(3.6)
Taxable benefits	20.3	(0.3)	20.6
Annual incentive	(18.2)	(10.6)	(7.6)

The comparator group includes management employees based in the UK in Level 2 to Level 5 (where Level 1 is the CEO). The employees selected have been employed in their role throughout 2012 and 2013 to give a meaningful comparison. The group has been chosen as the employees have a remuneration package with a similar structure to the CEO, including base salary, benefits and annual bonus.

The increase in Sam Laidlaw's taxable benefits is not as a result of his entitlement increasing but is due to a change in the Company provided vehicle.

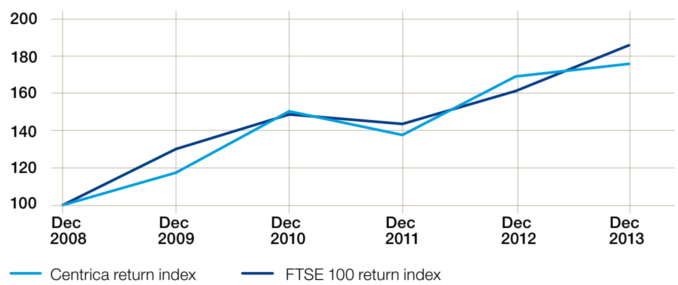
Pay for performance

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

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

The performance graph below shows Centrica's TSR performance against the performance of the FTSE 100 Index over the five-year period to 31 December 2013. The FTSE 100 Index has been chosen as it is an index of similar sized companies and Centrica has been a constituent member throughout the period.

Total return indices – Centrica and FTSE 100



Source: Alithos Limited, 31 December 2008 = 100

External appointments of Executive Directors

In 2013, Sam Laidlaw received £125,000 (2012: £125,000) as a non-executive director of HSBC Holdings plc and has waived his right to receive a fee for his role as the lead non-executive director of the Department of Transport.

Phil Bentley received £65,000 (2012: £13,125) as a non-executive director of IMI plc during 2013.

In March 2013, Nick Luff was appointed as a non-executive director of Lloyds Banking Group plc and received £107,539 in fees during 2013.

Relative importance of spend on pay

The following table sets out the amounts paid under the share repurchase programme, in dividends and employee remuneration for the years ended 31 December 2012 and 2013.

	2013 £m	2012 £m	% Change
Share repurchase(i)	**500**	–	n/a
Dividends	**862**	815	6
Employee Remuneration	**1,294**	1,316	(2)

(i) 137,286,890 shares were purchased during the year under the £500 million repurchase programme announced on 4 February 2013.

Funding of share schemes in 2013

During 2013, new issue and treasury shares were used to satisfy the release of shares or exercise of options under DMSS, LTIS, Executive Share Option Scheme (ESOS, under which the last options were granted in 2006), Sharesave and SIP. Market purchased shares, held in trust, were used to satisfy outstanding allocations under DMSS (deferred and investment shares), the Restricted Share Scheme (a conditional share plan for Centrica employees below the executive level) and the Deferred Bonus Plan (a plan for International Upstream employees below the executive level). At 31 December 2013, 119,138,235 shares were held in treasury (2012: nil), following the share repurchase programme throughout 2013.

Share price

The closing price of a Centrica ordinary share on the last trading day of 2013, which was 31 December 2013, was 347.7 pence. The range during the year was 323.1 pence to 402.2 pence.

ADVICE TO THE REMUNERATION COMMITTEE

The membership of the Remuneration Committee during 2013 is set out in the Governance Report on page 61.

Sam Laidlaw, Grant Dawson (General Counsel & Company Secretary), Jill Shedden (Group Director, Human Resources) and David House (Group Reward and HR Operations Director) are normally invited to attend each Committee meeting and provide advice and guidance to the Committee, other than in respect of their own remuneration. No additional fees are paid for this advice and guidance in addition to the salaries of these employees under their service contracts.

The Committee also has access to detailed external information and research on market data and trends from independent consultants. Deloitte LLP (Deloitte) was appointed by the Committee in 2011 as independent external adviser and provided support to the Committee on executive remuneration design, benchmarking and market data during 2013. The fees amounted to £15,000.

Deloitte has also provided advice to Centrica globally during 2013 in the areas of employment taxes, share schemes, pensions, corporate finance, management consulting and internal audit.

The Committee is satisfied with the performance of Deloitte and has determined that it is not necessary to seek a tender for the services currently provided.

Alithos was appointed by the Company in 2002 to provide a TSR monitoring and reporting service. The fees for TSR reports provided to the Committee on completion of the LTIS performance cycles during 2013 and the TSR performance graphs provided for inclusion in the Remuneration Report, amounted to £6,000. Alithos also provided monthly TSR reports and updates to the Company which were used to keep the general LTIS population regularly updated with TSR performance. The fees for this service amounted to £27,000.

The Committee takes into account the Remuneration Consultants Group's Code of Conduct when dealing with its advisers. The Committee is satisfied that the advice it received during the year was objective and independent and that the provision of those other services by Deloitte and Alithos in no way compromises their independence.

2013 VOTING

At the AGM held on 13 May 2013, shareholders approved the Remuneration Report for the year ended 31 December 2012. Below is the result in respect of the resolution, which required a simple majority (of 50%) of the votes cast to be in favour in order for the resolution to be passed:

Votes for	%	Votes against	%
3,106,096,662	93.17	227,719,213	6.83

43,387,372 votes were withheld.

A full schedule in respect of shareholder voting on the above and all resolutions at the 2013 AGM is available at centrica.com.

CHANGES SINCE 1 JANUARY 2014

Share Incentive Plan (SIP)

During the period from 1 January 2014 to 20 February 2014, Sam Laidlaw, Mark Hanafin, Nick Luff and Chris Weston each acquired 114 shares through the SIP.

The Remuneration Report has been approved by the Board of Directors and signed on its behalf.

GRANT DAWSON

General Counsel & Company Secretary

20 February 2014

Governance

Independent Auditors' Report

to the members of Centrica plc

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion:

- the Financial Statements, defined below, give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's profit and cash flows for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group Financial Statements and Parent Company Financial Statements (the Financial Statements), which are prepared by Centrica plc, comprise:

- the Group statement of financial position and Parent Company balance sheet as at 31 December 2013;
- the Group income statement and statement of comprehensive income for the year then ended;
- the Group statement of cash flows for the year then ended;
- the Group statement of changes in equity for the year then ended; and
- the notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements comprises applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

What an audit of Financial Statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and 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.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts (the Annual Report) to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the Financial Statements as a whole.

Based on our professional judgement, we determined overall materiality for the Group Financial Statements as a whole to be £116 million which is approximately 5% of adjusted pre-tax profit. We used adjusted pre-tax profit to exclude the effect of volatility on underlying performance from disclosed exceptional items and certain remeasurements.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £10 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group is structured along three business lines being International Upstream, International Downstream and Centrica Storage, each made up of different business units. The Group Financial Statements are a consolidation of these business units, comprising the Group's operating businesses and centralised functions.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at each of the business units by us as the group engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those business units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group Financial Statements as a whole.

Accordingly, based on size and risk characteristics we determined the business units where we would perform an audit of their complete financial information. Specific audit procedures on certain balances and transactions were also performed on those business units which did not require an audit of their complete financial information. This, together with additional procedures performed at the Group level, gave us 88% coverage of adjusted pre-tax profit and the evidence we needed for our opinion on the Group Financial Statements as a whole.

Areas of particular audit focus

In preparing the Financial Statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements and evaluating the disclosures in the Financial Statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of audit focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the Financial Statements is set out on pages 58 and 59.

Independent Auditors' Report to the members of Centrica plc continued

Area of focus	How the scope of our audit addressed the area of focus
Impairment assessment Determination of whether or not an impairment charge for goodwill, tangible assets, or intangible assets was necessary required that the Directors make significant judgements. In addition, market conditions are challenging and the regulatory environment is changing, both of which increase the risk of impairment. Furthermore, the Directors have recorded a £699 million impairment in relation to UK and North American exploration and production assets and £240 million in relation to Storage assets. Refer to notes 7 and 13 to the Financial Statements.	We evaluated the Directors' future cash flow forecasts and the process by which they were drawn up, including comparing them to the latest Board approved budgets and testing the underlying calculations. We challenged: • the Directors' key assumptions for long-term growth rates in the forecasts by comparing them to historical results, economic and industry forecasts; and • the discount rate by assessing the cost of capital for the Parent Company and comparable organisations. We also performed sensitivity analysis around the key drivers of the cash flow forecasts. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired, we considered the likelihood of such a movement in those key assumptions arising.
Valuation of derivative transactions in commodity trading The valuation of derivatives is highly judgemental due to the uncertainty around the assumptions applied by management. Application of the appropriate accounting is complex and depends on identifying any of the following: derivatives, own use classification and/or embedded derivatives. Refer to notes 2, 7 and 19 to the Financial Statements.	We assessed the appropriateness and consistency in the derivatives valuation methodology, obtained external confirmations where appropriate, read technical accounting papers prepared by management and tested year end reconciliations and unconfirmed trades. We have also held discussions with the Audit Committee on the key judgements and assumptions used, specifically over price changes and drivers and the proposed valuation curves versus external third party views.
Presentation in the middle column The middle column of the income statement represents exceptional items and certain re-measurements. Exceptional items are non-recurring in nature and disclosed separately by virtue of their nature, size or incidence. The appropriate classification involves complex and subjective judgement by management. As management seek greater value from planned optimisation activities and the volume and complexity of trades and strategies increase there is significant judgement by management in the classification of certain re-measurements. Refer to notes 2 and 7 to the Financial Statements.	We held discussions with management and challenged the principles used regarding the purpose and use of the middle column. We checked how these principles were applied to each type of contract or transaction proposed by management to be presented in the middle column. We evaluated management's assessment and tested the classification of items presented in the middle column through the examination of strategy and governance papers to support the presentation in the middle column. We have also held discussions with the Audit Committee on the key judgements and assumptions used.
Onerous Contracts The Group enters into a number of significant and complex contracts, for example, forward gas purchase contracts and metering contracts, some of which may become onerous. The valuation of any provision against an onerous contract is complex and subjective as it often involves significant estimates. Furthermore we note the Directors have concluded that a further pre-tax provision for the Rijnmond power station of £125 million was required. Refer to notes 7 and 21 to the Financial Statements.	Where onerous contracts exist, we tested the valuation of the provisions to evaluate whether appropriate judgements and assumptions have been applied in determining the unavoidable costs of meeting the obligation and the estimate of the expected benefits to be received under the contract. We have also held discussions with the Audit Committee on the key judgements and assumptions used.

Area of focus	How the scope of our audit addressed the area of focus
Business combinations During the year management has made two significant acquisitions in North America. These have been accounted for as a business combination and therefore required a fair value assessment of the identifiable assets, liabilities, contingent liabilities and goodwill. This requires judgement based on a wide range of variables especially in relation to customer relationships and oil and gas assets. Refer to notes 3 and 12 to the Financial Statements.	We tested the sale and purchase agreements and assessed whether the acquisitions meet the definition of a business combination and whether they have been accounted for in accordance with IFRS 3 (Business combinations). We also tested management's fair value assessment and the key assumptions used. This included the valuation of oil and gas assets, the valuation of customer relationships, the cash flows and the discount rates used.
Downstream revenue recognition The accuracy of the recognition of energy services revenue within British Gas and Direct Energy and its presentation in the income statement is dependent on complex estimation methodologies/algorithms used to assess the amount of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity comprises both billed and unbilled revenue. Refer to note 3 to the Financial Statements.	We tested the IT general controls and system application controls in relation to the revenue and billing systems. We tested controls over gross margin and revenue recognition and discussed the basis of recovery of unbilled balances. We tested the accuracy of the unbilled reports by assessing the level of subsequent true ups and reconciled the reports to the general ledger at the year end. We assessed the methodology used to derive the unbilled balances at the balance sheet date and established whether any changes were made to the methodology during the financial year. We assessed the level of unbilled write-off and the aging profile of unbilled debt.
Pensions The net pension asset is £40 million, consisting of a £5,643 million obligation, offset by £5,683 million of plan assets. The assumptions used in valuing the pension liability are both judgemental and sensitive to change. For example, 0.25% increase/decrease in the discount rate has a 6% impact on the scheme liabilities. Refer to note 22 to the Financial Statements.	We assessed the key actuarial assumptions used to value the assets and liabilities, including the discount, inflation and mortality rates. We also obtained asset confirmations from third parties concerning the existence and valuation of the assets.
Fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. We focused on the timing of revenue recognition and its presentation in the income statement, because this is dependent on the fulfilment of contractual obligations, which are complex. Refer to note 3 to the Financial Statements.	We evaluated the relevant IT systems and tested the internal controls over the completeness, accuracy and timing of revenue recognised in the Financial Statements. We also tested journal entries posted to revenue accounts to identify unusual or irregular items.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to whistleblow inappropriate actions and interviewed senior management and the Group's internal audit function. We examined the significant accounting estimates and judgements relevant to the Financial Statements for evidence of bias by the Directors that may represent a risk of material misstatement due to fraud. In particular, we tested key reconciliations, pension asset/liability valuation, unbilled revenue, impairment adjustments and fair values. We also tested manual journal entries.

Independent Auditors' Report to the members of Centrica plc continued

Going concern

Under the Listing Rules we are required to review the Directors' Responsibilities Statement, set out on page 64, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' Statement, the Directors have concluded that it is appropriate to prepare the Group's and Parent Company's Financial Statements using the going concern basis of accounting. The going concern basis presumes that the Group and Parent Company have adequate resources to remain in operation and that the Directors intend them to do so, for at least one year from the date the Financial Statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and the Parent Company's ability to continue as a going concern.

OPINIONS ON MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements;
- 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 Corporate Governance Statement set out on pages 52 to 64 in the Annual Report with respect to internal control and risk management systems and about share capital structures is consistent with the Financial Statements.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on Directors' remuneration. We have no exceptions to report arising from these responsibilities.

Corporate governance statement

Under the Companies Act 2006, we are required to report to you if, in our opinion a corporate governance statement has not been prepared by the Parent Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Parent Company's compliance with nine provisions of the UK Corporate Governance Code (the Code). We have nothing to report having performed our review.

On page 64 of the Annual Report, as required by the Code Provision C.1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On pages 58 and 59, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the Financial Statements and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 64, the Directors are responsible for the preparation of the Group and 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 Group and Parent Company Financial Statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

CHARLES BOWMAN

Senior Statutory Auditor

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 February 2014

Financial Statements

Here you can understand the details behind our financial performance.

Group Income Statement

Year ended 31 December	Notes	2013 Business performance £m	2013 Exceptional items and certain re-measurements £m	2013 Results for the year £m	2012 (restated) (i) Business performance £m	2012 (restated) (i) Exceptional items and certain re-measurements £m	2012 (restated) (i) Results for the year £m
Group revenue	4(b)	**26,571**	**–**	**26,571**	23,942	–	23,942
Cost of sales before exceptional items and certain re-measurements (i)	5	**(21,464)**	**–**	**(21,464)**	(18,840)	–	(18,840)
Exceptional items	7	**–**	**(125)**	**(125)**	–	(89)	(89)
Re-measurement of energy contracts	7	**–**	**413**	**413**	–	603	603
Cost of sales	5	**(21,464)**	**288**	**(21,176)**	(18,840)	514	(18,326)
Gross profit		**5,107**	**288**	**5,395**	5,102	514	5,616
Operating costs before exceptional items (i)	5	**(2,735)**	**–**	**(2,735)**	(2,680)	–	(2,680)
Exceptional items	7	**–**	**(939)**	**(939)**	–	(445)	(445)
Operating costs	5	**(2,735)**	**(939)**	**(3,674)**	(2,680)	(445)	(3,125)
Share of profits/(losses) of joint ventures and associates, net of interest and taxation	6, 7	**146**	**25**	**171**	140	(6)	134
Group operating profit	4(c)	**2,518**	**(626)**	**1,892**	2,562	63	2,625
Financing costs (i)	8	**(297)**	**–**	**(297)**	(271)	–	(271)
Investment income (i)	8	**54**	**–**	**54**	62	–	62
Net finance cost		**(243)**	**–**	**(243)**	(209)	–	(209)
Profit before taxation		**2,275**	**(626)**	**1,649**	2,353	63	2,416
Taxation on profit (i)	7, 9	**(942)**	**243**	**(699)**	(1,031)	(140)	(1,171)
Profit for the year		**1,333**	**(383)**	**950**	1,322	(77)	1,245
Attributable to:							
Owners of the parent		**1,333**	**(383)**	**950**	1,322	(77)	1,245

Earnings per ordinary share	Notes	2013 Pence	2012 Pence
Basic (i)	10	**18.4**	24.0
Diluted (i)	10	**18.3**	23.9
Interim dividend paid per ordinary share	11	**4.92**	4.62
Final dividend proposed per ordinary share	11	**12.08**	11.78

(i) See note 1(a).

The notes on pages 92 to 159 form part of these Financial Statements.

Financial Statements
Group Statement of Comprehensive Income

Year ended 31 December	Notes	2013 £m	2012 (restated) (i) £m
Profit for the year (i)		**950**	1,245
Other comprehensive income/(loss):			
Items that will be or have been recycled to the Group Income Statement:			
Gains on revaluation of available-for-sale securities, net of taxation	S4	**3**	5
Net losses on cash flow hedges	S4	**(25)**	(27)
Transferred to income and expense on cash flow hedges	S4	**34**	108
Taxation on cash flow hedges	S4	**(1)**	(20)
		8	61
Exchange differences on translation of foreign operations		**(217)**	(44)
Share of other comprehensive income/(loss) of joint ventures and associates, net of taxation	S4	**18**	(12)
		(188)	10
Items that will not be recycled to the Group Income Statement:			
Net actuarial losses on defined benefit pension schemes (i)	S4	**(179)**	(293)
Taxation on net actuarial losses on defined benefit pension schemes (i)	S4	**31**	71
		(148)	(222)
Reversal of revaluation reserve, net of taxation and exchange differences	S4	**(17)**	–
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	S4	**(15)**	44
Other comprehensive loss net of taxation		**(368)**	(168)
Total comprehensive income for the year		**582**	1,077
Attributable to:			
Owners of the parent		**590**	1,077
Non-controlling interests		**(8)**	–

(i) See note 1(a).

Group Statement of Changes in Equity

	Share capital (note 25) £m	Share premium £m	Retained earnings £m	Other equity (note S4) £m	**Total £m**	Non-controlling interests (note 12) £m	**Total equity £m**
1 January 2012 (as previously reported)	319	874	4,043	364	5,600	–	5,600
Effect of adoption of IAS 19 (revised 2011) (i)	–	–	(297)	297	–	–	–
1 January 2012 (restated)	319	874	3,746	661	5,600	–	5,600
Total comprehensive income (i)	–	–	1,245	(168)	1,077	–	1,077
Employee share schemes	2	55	11	(2)	66	–	66
Dividends	–	–	(816)	–	(816)	–	(816)
Taxation	–	–	–	(1)	(1)	–	(1)
Exchange adjustments	–	–	–	1	1	–	1
31 December 2012 (restated)	321	929	4,186	491	5,927	–	5,927
Total comprehensive income	–	–	950	(360)	**590**	(8)	**582**
Employee share schemes	–	2	(15)	70	**57**	–	**57**
Purchase of treasury shares	–	–	(2)	(500)	**(502)**	–	**(502)**
Amounts arising on acquisition (see note 12)	–	–	–	–	**–**	81	**81**
Distribution paid to non-controlling interests	–	–	–	–	**–**	(8)	**(8)**
Dividends paid to equity holders	–	–	(864)	–	**(864)**	–	**(864)**
Taxation on share based payments	–	–	–	(16)	**(16)**	–	**(16)**
31 December 2013	**321**	**931**	**4,255**	**(315)**	**5,192**	**65**	**5,257**

(i) See note 1(a).

The notes on pages 92 to 159 form part of these Financial Statements.

Financial Statements

Group Balance Sheet

31 December	Notes	2013 £m	2012 (restated) (i) £m
Non-current assets			
Property, plant and equipment	13	**7,446**	7,965
Interests in joint ventures and associates	14	**2,658**	2,721
Other intangible assets	15	**1,905**	1,579
Goodwill	15	**2,819**	2,543
Deferred tax assets	16	**105**	183
Trade and other receivables	17	**150**	55
Derivative financial instruments	19	**227**	313
Retirement benefit assets	22	**205**	254
Securities	24	**202**	199
		15,717	15,812
Current assets			
Trade and other receivables	17	**5,446**	4,335
Inventories	18	**530**	545
Derivative financial instruments	19	**573**	268
Current tax assets		**151**	54
Securities	24	**9**	7
Cash and cash equivalents	24	**719**	931
		7,428	6,140
Assets of disposal groups classified as held for sale	12	**301**	–
Total assets		**23,446**	21,952
Current liabilities			
Derivative financial instruments	19	**(506)**	(615)
Trade and other payables	20	**(5,630)**	(4,545)
Current tax liabilities		**(645)**	(594)
Provisions for other liabilities and charges	21	**(258)**	(266)
Bank overdrafts, loans and other borrowings (i)	24	**(859)**	(566)
		(7,898)	(6,586)
Net current liabilities		**(470)**	(446)
Non-current liabilities			
Deferred tax liabilities	16	**(1,426)**	(1,678)
Derivative financial instruments	19	**(431)**	(327)
Trade and other payables	20	**(64)**	(26)
Provisions for other liabilities and charges	21	**(2,934)**	(2,480)
Retirement benefit obligations	22	**(165)**	(166)
Bank overdrafts, loans and other borrowings (i)	24	**(5,172)**	(4,762)
		(10,192)	(9,439)
Liabilities of disposal groups classified as held for sale	12	**(99)**	–
Net assets		**5,257**	5,927
Share capital	25	**321**	321
Share premium		**931**	929
Retained earnings (i)		**4,255**	4,186
Other equity (i)	S4	**(315)**	491
Total shareholders' equity		**5,192**	5,927
Non-controlling interests		**65**	–
Total shareholders' equity and non-controlling interests		**5,257**	5,927

(i) See note 1(a).

The Financial Statements on pages 88 to 159, of which the notes on pages 92 to 159 form part, were approved and authorised for issue by the Board of Directors on 20 February 2014 and were signed below on its behalf by:

SAM LAIDLAW
Chief Executive

NICK LUFF
Group Finance Director

Financial Statements
Group Cash Flow Statement

Year ended 31 December	Notes	2013 £m	2012 £m
Group operating profit including share of results of joint ventures and associates		**1,892**	2,625
Less share of profit of joint ventures and associates		**(171)**	(134)
Group operating profit before share of results of joint ventures and associates		**1,721**	2,491
Add back/(deduct):			
Depreciation, amortisation, write-downs and impairments		**2,319**	1,507
Profit on disposals		**(21)**	(38)
Increase in provisions		**162**	201
Defined benefit pension service cost and contributions		**(87)**	(52)
Employee share scheme costs		**43**	43
Unrealised gains arising from re-measurement of energy contracts		**(400)**	(610)
Operating cash flows before movements in working capital		**3,737**	3,542
Decrease/(increase) in inventories		**78**	(88)
Increase in trade and other receivables (i)		**(456)**	(205)
Increase in trade and other payables (i)		**697**	361
Operating cash flows before payments relating to taxes, interest and exceptional charges		**4,056**	3,610
Taxes paid	9(d)	**(892)**	(524)
Payments relating to exceptional charges		**(224)**	(266)
Net cash flow from operating activities		**2,940**	2,820
Purchase of businesses		**(1,115)**	(155)
Sale of businesses		**140**	30
Purchase of intangible assets and property, plant and equipment	4(f)	**(1,615)**	(2,367)
Sale of property, plant and equipment and intangible assets		**17**	14
Investments in joint ventures and associates		**(51)**	(291)
Dividends received from joint ventures and associates	14(a)	**193**	110
Repayments of loans to, and disposal of investments in, joint ventures and associates		**59**	42
Interest received		**29**	33
(Purchase)/sale of securities	24(b)	**(8)**	26
Net cash flow from investing activities		**(2,351)**	(2,558)
Issue and surrender of ordinary share capital for share awards		**20**	24
Purchase of treasury shares under share repurchase programme		**(502)**	–
Distribution paid to non-controlling interests		**(8)**	–
Financing interest paid		**(248)**	(215)
Repayment of borrowings	24(b)	**(400)**	(516)
Cash received from borrowings	24(b)	**1,209**	1,712
Equity dividends paid		**(862)**	(815)
Net cash flow from financing activities		**(791)**	190
Net (decrease)/increase in cash and cash equivalents		**(202)**	452
Cash and cash equivalents at 1 January		**931**	479
Effect of foreign exchange rate changes		**(10)**	–
Cash and cash equivalents at 31 December		**719**	931
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents	24(b)	**719**	931

(i) Includes net inflow of £82 million of cash collateral in 2013 (2012: £114 million). See note 24(d).

The notes on pages 92 to 159 form part of these Financial Statements.

Notes to the Financial Statements – Basis of Preparation

Notes to the Financial Statements provide additional information required by statute, accounting standards or Listing Rules to explain a particular feature of the consolidated Financial Statements.

This year we have changed the order of the notes to the Financial Statements to help with the flow of information, focusing on areas that we feel are key to understanding our business. These are split into the following sections: Basis of Preparation; Income Statement; Operating Assets and Liabilities and Capital Structure and Financing. Additional information that we are required to disclose by accounting standards or regulation has been moved to Supplementary Information (notes S2 to S10).

In addition, each note now begins with a simple introduction outlining its purpose. We hope this format makes it easier for you to navigate to the information that is important to you.

1. SUMMARY OF SIGNIFICANT NEW ACCOUNTING POLICIES AND REPORTING CHANGES

This section details new accounting standards, amendments and interpretations, whether these are effective in 2013 or later years, and if and how these are expected to impact the financial position and performance of the Group.

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below and in the Supplementary Information (note S2). These policies have been consistently applied to the years presented.

Basis of Preparation

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

The consolidated Financial Statements have been prepared on the historical cost basis, except for derivative financial instruments, available-for-sale financial assets, financial instruments designated at fair value through profit or loss on initial recognition, and the assets of the Group's pension schemes that have been measured at fair value and the liabilities of the Group's pension schemes that are measured using the projected unit credit valuation method. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The preparation of Financial Statements in conformity with IFRS, as adopted by the EU, requires the use of certain critical accounting estimates. It requires management to exercise its judgement in the processes of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the consolidated Financial Statements are described in notes 2 and 3.

(a) Standards, amendments, and interpretations effective or adopted in 2013 and other reporting changes

(i) IAS 19 (revised)

IAS 19 (revised): 'Employee benefits' amends the accounting for employee benefits. The Group has applied the standard retrospectively in accordance with the transition provisions and the comparatives have been restated accordingly.

The impact on the Group's Financial Statements has been as follows:

- The standard replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost, based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year. This has increased the Income Statement charge with an equal and offsetting movement in other comprehensive income (actuarial gains and losses).
- Investment income has been reduced by £46 million for the year ended 31 December 2013, and reduced by £26 million for the year ended 31 December 2012.
- Profit after tax has been reduced by £51 million for the year ended 31 December 2013, and reduced by £28 million for the year ended 31 December 2012.
- As at 1 January 2012 and 1 January 2013, retained earnings have been reduced by £297 million and £325 million respectively. The actuarial gains and losses reserve increased by the same amounts to reflect the retrospective application.
- Basic and diluted earnings per share (EPS) have been reduced by 1.0 pence for the year ended 31 December 2013. For the year ended 31 December 2012 the effect was a reduction of 0.6 pence on basic EPS and 0.5 pence on diluted EPS. The effect on adjusted basic EPS and adjusted diluted EPS was to reduce EPS by 1.0 pence for the year ended 31 December 2013. For the year ended 31 December 2012 the effect was a reduction of 0.5 pence on adjusted basic EPS and 0.6 pence on adjusted diluted EPS.

(ii) Amendment to IAS 1

Amendment to IAS 1: 'Presentation of financial statements – Presentation of items of other comprehensive income'. The Group has applied this amendment retrospectively and the comparatives have been re-presented accordingly. Within the Group Statement of Comprehensive Income, items are now separated into 'Items that will be or have been recycled to the Group Income Statement' and 'Items that will not be recycled to the Group Income Statement'.

(iii) Amendment to IFRS 7

Amendment to IFRS 7: 'Financial instruments: Disclosures', on asset and liability offsetting. The Group has provided the newly required financial asset and liability offsetting disclosures in note S6.

(iv) IFRS 10

IFRS 10: 'Consolidated financial statements', builds on the existing principle of control as the determining factor in whether an entity should be included within the consolidated financial statements. The enhanced concept of control requires the identification of the relevant activities of the investee, and provides guidance to assist in the determination of these activities. If an investor has power over the relevant activities and the ability to use its power to affect returns, it is deemed to control, and therefore must consolidate, the investee. The standard is not mandatory for adoption by the Group until 1 January 2014, however it has been early adopted as of 1 January 2013. The change in accounting policy has had no material impact on the Group Balance Sheet, Group Income Statement, Group Statement of Comprehensive Income, Group Cash Flow Statement and Earnings Per Share for investments owned by the Group at the date of initial application of the standard or for the comparative period. However, the Suncor Upstream acquisition, as described in note 12 was conducted through a legal partnership (CQ Energy Canada Partnership) with Qatar Petroleum International. This partnership has been fully consolidated in accordance with IFRS 10 and is described in more detail in the critical accounting judgements in note 3.

Financial Statements

Notes to the Financial Statements – Basis of Preparation

1. SUMMARY OF SIGNIFICANT NEW ACCOUNTING POLICIES AND REPORTING CHANGES

(v) IFRS 11

IFRS 11: 'Joint arrangements', focuses on the rights and obligations of the parties to the arrangement rather than its legal form. Under the new standard, there are two types of joint arrangement: joint operations and joint ventures. A joint operation arises where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator recognises its share of the assets, liabilities, revenue and expenses for the operation. A joint venture arises where the investors have rights to the net assets of the arrangement. A joint venture partner equity accounts for its share of net assets. The application of the standard is not mandatory for the Group until 1 January 2014, however it has decided to early adopt it as of 1 January 2013. The change in accounting policy has had no material impact on the Group Balance Sheet, Group Income Statement, Group Statement of Comprehensive Income, Group Cash Flow Statement and Earnings Per Share for existing investments held by the Group at the date of initial application of the standard, or for the comparative period.

(vi) IFRS 12

IFRS 12: 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off Balance Sheet vehicles. The standard is not mandatory for the Group until 1 January 2014, however it has decided to early adopt as of 1 January 2013. The change in accounting policy has had no material impact on the Group Balance Sheet, Group Income Statement, Group Statement of Comprehensive Income, Group Cash Flow Statement and Earnings Per Share as it relates to disclosures matters only.

(vii) IFRS 13

IFRS 13: 'Fair value measurement', aims to provide a single source of fair value measurement and disclosure requirements for use across the IFRS framework. The requirements do not extend the use of fair value accounting but provide guidance on application where use is required or permitted by other IFRSs. The change in accounting policy has had no material impact on the Group Balance Sheet, Group Income Statement, Group Statement of Comprehensive Income, Group Cash Flow Statement and Earnings Per Share.

(viii) Other presentational changes

Presentation of sales commissions and prepayment customer vending fees

Where there is a specific link to revenue generation, the Group has reclassified sales commissions paid to brokers or agents (or similar arrangements) and prepayment customer vending fees, from operating costs to cost of sales. The effect of this change has been to reduce operating costs and increase cost of sales by £171 million for the year ended 31 December 2013, and by £164 million for the year ended 31 December 2012. The prior period comparatives have been restated accordingly.

Current/non-current classification of interest accruals

The Group has reclassified the interest accruals on bank overdrafts, loans and other borrowings from non-current liabilities to current liabilities because the amounts are due for payment within 12 months. The effect of this change has been to increase current liabilities and reduce non-current liabilities by £102 million as at 31 December 2013, by £94 million as at 31 December 2012, and by £65 million as at 31 December 2011. The prior period comparatives have been restated accordingly.

Presentation of gains and losses on revaluations in financing costs

The Group has re-presented fair value gains and losses on its derivatives and hedges on a net basis within financing costs because it aids comparability with prior periods. Historically, such gains and losses were recognised gross within financing costs and investment income. The effect has been to reduce financing costs and reduce investment income by £346 million for the year ended 31 December 2013, and by £166 million for the year ended 31 December 2012. The prior period comparatives have been restated accordingly.

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

The only issued standard not yet applied by the Group which could have an effect on future Financial Statements is IFRS 9: 'Financial Instruments'. The mandatory effective date of this standard has not yet been determined by the IASB, however the Group is continuing to assess the impact that it may have.

There are no issued amendments or interpretations that have not yet been applied by the Group.

2. CENTRICA SPECIFIC ACCOUNTING MEASURES

This section sets out the Group's specific accounting measures applied in the preparation of the Financial Statements. These measures enable the users of the accounts to understand the Group's underlying and statutory business performance separately.

Use of adjusted profit measures

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

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

- exceptional items;
- certain re-measurements;
- depreciation resulting from fair value uplifts to property, plant and equipment (PP&E) on the acquisition of the Strategic Investments acquired in 2009;

but including:

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

Note 4 contains an analysis of adjusted operating profit by segment and a reconciliation of adjusted operating profit to operating profit after exceptional items and certain re-measurements. Note 4 also details an analysis of adjusted operating profit after taxation by segment and a reconciliation to statutory profit for the year. Adjusted operating profit after taxation is defined as segment operating profit after tax, before exceptional items, certain re-measurements and impact of fair value uplifts from the Strategic Investments acquired in 2009. This includes the operating results of equity-accounted interests, net of associated taxation, before interest and associated taxation.

Adjusted earnings is defined as earnings before:

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

A reconciliation of earnings is provided in note 10.

The Directors have determined that for Strategic Investments acquired in 2009, it is important to separately identify the earnings impact of increased depreciation arising from the acquisition-date fair value uplifts made to PP&E over their useful economic lives. As a result of the nature

2. CENTRICA SPECIFIC ACCOUNTING MEASURES

of fair value assessments in the energy industry the value attributed to strategic assets is a subjective judgement based on a wide range of complex variables at a point in time. The subsequent depreciation of the fair value uplifts bears little relationship to current market conditions, operational performance or underlying cash generation. Management therefore reports and monitors the operational performance of Strategic Investments before the impact of depreciation on fair value uplifts to PP&E and the segmental results are presented on a consistent basis.

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

(i) Venture

Significant adjustments have been made to the acquired PP&E to report the acquired oil and gas field interests at their acquisition-date fair values which are subsequently depreciated through the Group Income Statement over their respective useful economic lives using the unit of production method. Whilst the impact of unwinding the PP&E at their acquisition-date fair values is included in overall reported profit for the year, the Directors have reversed the earnings impact of the increased depreciation and related taxation resulting from fair value uplifts to the acquired oil and gas interests in order to arrive at adjusted profit after taxation.

(ii) British Energy

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

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

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

Exceptional items and certain re-measurements

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

The Group is an integrated energy business. This means that it utilises its knowledge and experience across the gas and power (and related commodity) value chains to make profits across the core markets in which it operates. As part of this strategy, the Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers (downstream demand). These trades are designed to reduce the risk of holding such assets, contracts or downstream demand and are subject to strict risk limits and controls.

Primarily because some of these trades include terms that permit net settlement (ie they are prohibited from being designated as 'own use'), the rules within IAS 39: 'Financial Instruments' require them to be individually fair valued. Fair value movements on these commodity derivative trades do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. Therefore, these certain re-measurements are reported separately and are subsequently reflected in business performance when the underlying transaction or asset impacts profit or loss.

The arrangements discussed above and reflected as certain re-measurements are all managed separately from proprietary energy trading activities where trades are entered into speculatively for the purpose of making profits in their own right. These proprietary trades are included in the business performance column (ie in the results before certain re-measurements).

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

This section sets out the key areas of judgement and estimation that have the most significant effect on the amounts recognised in the Financial Statements.

(a) Critical judgements in applying the Group's accounting policies

Such key judgements include the following:

- the presentation of selected items as exceptional, see notes 2 and 7;
- the use of adjusted profit and adjusted earnings per share measures, see notes 2, 4 and 10; and
- the classification of energy procurement contracts as derivative financial instruments and presentation as certain re-measurements, see notes 2, 7 and 19.

In addition, management has made the following key judgements in applying the Group's accounting policies that have the most significant effect on the Group's Financial Statements:

Wind farm disposals

In recent years, the Group has partially disposed of some of its wind farm companies by selling 50% of the equity voting capital (and 50% of the shareholder loans where relevant) in, for example, GLID Wind Farms TopCo Limited, Lincs Wind Farm Limited and Celtic Array Limited (Round 3).

Associated with certain of these disposals, the Group contracted to purchase a large percentage of the output produced by the wind farms under arm's length, 15-year off-take agreements. The Group also contracted to provide management, operational and transitional support services to these companies as directed by their boards (and shareholders). Shareholders' agreements were put in place which include a number of reserved matters and provide for joint management of the major decisions of the companies.

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Notes to the Financial Statements – Basis of Preparation

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Accordingly, the Directors have judged that the partial disposals of equity interests constituted a loss of control as the Group was no longer able to exercise control over the relevant activities or operating and financial policies of these companies. Therefore, the remaining investments are equity accounted as investments in joint ventures (see note 6 and 14) in accordance with IFRS 11: 'Joint arrangements' and IAS 28 (Revised (2011)): 'Investments in joint ventures and associates'.

The Directors have also judged that the 15-year off-take agreements are not leasing arrangements. This is because the Group is not purchasing substantially all of the economic output of the wind farms. These contracts are considered to be outside the scope of IAS 39 apart from the embedded derivatives arising from the pricing terms which are marked to market separately.

The profits and losses arising on the disposal of the equity interests in Braes of Doune Wind Farm (Scotland) Limited and Centrica (RBW) Limited respectively are recognised within this year's 'business performance' column of the Income Statement as part of the 'Centrica Energy – Power' segment. See note 12 for further details of the disposals. In the prior period the profit on the partial disposal of Celtic Array Limited (Round 3) was also recognised in the 'business performance' column. This is in line with the Group's established wind farm strategy to realise value, share risk and reduce our capital requirements as individual projects develop, which may involve bringing in partners at an appropriate stage or full disposal.

Leases – third-party power station tolling arrangements

The Group has two long-term power station tolling contracts considered to be leases: (i) Spalding in the UK and (ii) Rijnmond in the Netherlands. The arrangements provide Centrica with the right to nominate 100% of the plant capacity for the duration of the contracts in return for a mix of capacity payments and operating payments based on plant availability.

The Spalding contract runs until 2021 and Centrica holds an option to extend the tolling arrangement for a further eight years, exercisable by 30 September 2020. If extended, Centrica is granted an option to purchase the station at the end of this further period. The Directors have determined that the arrangement should be accounted for as a finance lease as the lease term is judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at inception date of the arrangement amounted to substantially all of the fair value of the power station at that time.

Details of the interest charges, finance lease asset and finance lease payable are included in notes 8, 13 and 24 respectively.

The Rijnmond contract runs until 2030 and Centrica does not have the right to extend the agreement or any option to purchase the plant. The Directors have determined that the arrangement should be accounted for as an operating lease as the lease term is not judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at the inception date of the arrangement did not amount to substantially all of the fair value of the power station at that time. Details of the operating lease disclosures are included in note 23.

Business combinations and asset acquisitions

Business combinations and acquisitions of associates and joint ventures require a fair value exercise to be undertaken to allocate the purchase price (cost) to the fair value of the acquired identifiable assets, liabilities, contingent liabilities and goodwill.

As a result of the nature of fair value assessments in the energy industry this purchase price allocation exercise requires subjective judgements based on a wide range of complex variables at a point in time. Management uses all available information to make the fair value determinations.

During the year the Group has made two major acquisitions – Suncor Upstream and Hess Energy Marketing LLC. Both of these acquisitions have been accounted for as business combinations as set out in note 12.

For Suncor Upstream, the key areas of judgement revolved around the value of the oil and gas assets classified as property, plant and equipment and the decommissioning provisions. A large proportion of the consideration is allocated to this property, plant and equipment and a discounted projected cash flow exercise was undertaken based on forecast future commodity prices, expected production profiles, assessed levels of reserves/resources, expected costs and appropriate discount rates to determine fair value. Similarly, the decommissioning provision required an estimation of the costs of site rehabilitation based on known technology at the date of acquisition and an appropriate discount rate.

For Hess Energy Marketing LLC, the key areas of judgement were the value of customer relationships and derivatives. Customer relationships are based on anticipated retention rates as well as expected margins for the customer extensions based on unit margins for gas and power (these variables being key inputs for modelling purposes). Customer relationship valuations have inherent risks as they are based on estimates in respect of (i) customer performance, (ii) future margin rates and (iii) future renewal rates (customer churn). The purchase accounting valuation exercise was also materially impacted by exchange traded and over-the-counter (OTC) derivative fair values (ie swaps, futures, options, etc) as these represent a fairly significant element of the identifiable net assets acquired. The value of these instruments is based on forward market curves derived from both liquid market data and internal predictions of future prices.

In the prior year the Group acquired interests in a number of Norwegian producing and development oil and gas assets. The Group determined that these acquisitions took the form of asset purchases rather than business combinations as they constituted the purchase of jointly controlled assets (referred to as 'joint operations' under IFRS 11) governed by joint operating agreements and as such do not give the Group control of the businesses.

Consolidation of the CQ Energy Canada Partnership

The Suncor Upstream acquisition involved the formation of the CQ Energy Canada Partnership (CQECP) to acquire Suncor Energy's North American oil and gas assets. CQECP is owned and funded by the Group and Qatar Petroleum International (QPI) on a 60:40 basis. The partnership provides the Group with the ability to control the business plan and budgets and consequently the general operation of the assets. Accordingly, this arrangement has been assessed under IFRS 10 and the conclusion has been reached that the Group has power over the relevant activities of CQECP. Consequently this entity has been fully consolidated into the Group's Financial Statements and QPI's ownership share is represented as a non-controlling interest. Further details of the acquisition are provided in note 12.

Energy Company Obligation

The Energy Company Obligation (ECO) order requires UK-licenced energy suppliers to improve the energy efficiency of domestic households from 1 January 2013. Targets are set in proportion to the size of historic customer bases and must be delivered by 31 March 2015. The Group continues to judge that it is not legally obligated by this order until 31 March 2015. Accordingly, the costs of delivery are recognised as incurred, when cash is spent or unilateral commitments made resulting in obligations that cannot be avoided.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

During the year, the Group has entered into a number of contractual arrangements and commitments, and issued a public statement to underline its commitment to deliver a specific proportion of the ECO requirements. Consequently, the Group's result includes the costs of these contractual arrangements and commitment obligations.

The Government has recently announced a likely extension to the ECO delivery period up to 2017 with other potential changes to the obligations. Further legislation is expected in 2014 and the Group will judge the impact when more details become available.

Metering contracts
The Department of Energy and Climate Change (DECC) has modified the UK gas and electricity supply licences requiring all domestic premises to be fitted with compliant smart meters for measuring energy consumption by 31 December 2020. The Group has a number of existing rental contracts for non-compliant meters that include penalty charges if these meters are removed from use before the end of their deemed useful lives. The Group considers that these contracts are not onerous until the meters have been physically removed from use and therefore only recognises a provision for penalty charges at this point.

As part of the smart meter roll-out, the Group has entered into new meter rental arrangements with third parties. The Group judges these are not leases because it does not have the right to physically or operationally control the smart meters and other parties also take a significant amount of the output from the assets.

(b) Key sources of estimation uncertainty

Revenue recognition – unread gas and electricity meters
Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity comprises both billed and unbilled revenue. It is estimated through the billing systems, using historical consumption patterns, on a customer by customer basis, taking into account weather patterns, load forecasts and the differences between actual meter reads being returned and system estimates. Actual meter reads continue to be compared to system estimates between the balance sheet date and the finalisation of the accounts. An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits which will flow to the Group, including bill cancellation and re-bill rates. To the extent that the economic benefits are not expected to flow to the Group, the value of that revenue is not recognised. The judgements applied, and the assumptions underpinning these judgements, are considered to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognised.

Industry reconciliation process – cost of sales
Industry reconciliation procedures are required as differences arise between the estimated quantity of gas and electricity the Group deems to have supplied and billed customers, and the estimated quantity industry system operators deem the individual suppliers, including the Group, to have supplied to customers. The difference in deemed supply is referred to as imbalance. The reconciliation procedures can result in either a higher or lower value of industry deemed supply than has been estimated as being supplied to customers by the Group, but in practice tends to result in a higher value of industry deemed supply. The Group reviews the difference to ascertain whether there is evidence that its estimate of amounts supplied to customers is inaccurate or whether the difference arises from other causes. The Group's share of the resulting imbalance is included within commodity costs charged to cost of sales. Management estimates the level of recovery of imbalance which will be achieved either through subsequent customer billing or through developing industry settlement procedures.

Decommissioning costs
The estimated cost of decommissioning at the end of the producing lives of fields (including storage facility assets) is reviewed periodically and is based on reserves, price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be incurred until 2067, with the majority of the costs expected to be paid between 2020 and 2030.

Significant judgements and estimates are also made about the costs of decommissioning British Energy's nuclear power stations and the costs of waste management and spent fuel. These estimates impact the carrying value of our investment. Various arrangements and indemnities are in place with the Secretary of State with respect to these costs, as explained in note S2.

Gas and liquids reserves
The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production method of depreciating producing gas and liquids PP&E as well as being a significant estimate affecting decommissioning and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition are described on page 167.

The impact of a change in estimated 2P reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If 2P reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value.

Determination of fair values – energy derivatives
Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. Quoted market prices considered for valuation purposes are the bid price for assets held and/or liabilities to be issued, or the offer price for assets to be acquired and/or liabilities held, although the mid-market price or another pricing convention may be used as a practical expedient (where typically used by other market participants). More detail on the assumptions used in determining fair valuations of energy derivatives is provided in note S6.

Impairment of long-lived assets
The Group has several material long-lived assets that are assessed or tested for impairment at each reporting date in accordance with the Group's accounting policy as described in note S2. The Group makes judgements and estimates in considering whether the carrying amounts of these assets or cash generating units (CGUs) are recoverable. The key assets that are subjected to impairment tests are upstream gas and oil assets, power generation assets, storage facility assets, nuclear investment (investment in associate) and goodwill.

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

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Notes to the Financial Statements – Basis of Preparation

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Further details of the assumptions used in determining the recoverable amounts and the impairments booked during the year are provided in notes 7 and S2.

Power generation assets

The recoverable amount of the Group's power generation assets is calculated by discounting the pre-tax cash flows expected to be generated by the assets and is dependent on views of forecast power generation and forecast power, gas, carbon and capacity prices (where applicable) and the timing and extent of capital expenditure. Where forward market prices are not available, prices are determined based on internal model inputs.

Storage facility assets

The recoverable amount of our operational and planned storage facilities is calculated by discounting the post-tax cash flows expected to be generated by the assets based on predictions of seasonal gas price differentials and shorter term price volatilities less any related capital and operating expenditure. Further details of the impairments booked during the year are provided in note 7.

Nuclear investment

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

Goodwill

Goodwill does not generate independent cash flows and accordingly is allocated at inception to specific CGUs or groups of CGUs for impairment testing purposes. The recoverable amounts of these CGUs are derived from estimates of future cash flows (as described in the asset classes above) and hence the goodwill impairment tests are also subject to these key estimates. The results of these tests may then be verified by reference to external market valuation data.

Further detail on impairments arising and the assumptions used in determining the recoverable amounts is provided in notes 7, 15 and S2.

Credit provisions for trade and other receivables

The methodology for determining provisions for credit losses on trade and other receivables and the level of such provisions is set out in note 17. Although the provisions recognised are considered appropriate, the use of different assumptions or changes in economic conditions could lead to movements in the provisions and therefore impact the Group Income Statement.

Pensions and other post-employment benefits

The cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in note 22.

Provisions for onerous contracts

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

Rijnmond power station operating lease

The onerous provision is calculated by taking the unavoidable costs that will be incurred under the contract and deducting any estimated revenues.

European gas transportation capacity contracts

The onerous provision is calculated using capacity costs incurred under the contracts, less any predicted income. The provision assumes that contracts for capacity in Continental Europe are onerous but those that enable gas to be transported directly back into the UK may be necessary to achieve security of supply in the future. Therefore no provision has been recognised relating to these latter contracts.

Direct Energy wind farm power purchase agreements

The onerous nature of the power purchase agreements is measured using estimates relating to wind forecasts, forward curves for energy prices, balancing costs and renewable energy certificates.

4. SEGMENTAL ANALYSIS

The Group's operating segments are those used internally by management to run the business and make decisions. The Group's operating segments are based on products and services. The operating segments are also the Group's reportable segments. The Group's results are discussed in the Operating Review (pages 18 to 33).

(a) Segmental structure

On 27 February 2013 the Group announced a new organisational structure. To reflect this structure and to align with management reporting, the North American Upstream Gas business has been reallocated from the 'Direct Energy - Upstream and wholesale energy' segment to the 'Centrica Energy – Gas' segment and the North American Power and Midstream & Trading businesses have been reallocated from the 'Direct Energy – Upstream and wholesale energy' segment to the 'Direct Energy – Business energy supply' segment. Prior period comparatives have been restated accordingly throughout note 4.

The types of products and services from which each reportable segment derived its revenues during the year:

Segment	Description
International Downstream	
British Gas:	
Residential energy supply	The supply of gas and electricity to residential customers in the UK
Residential services	Installation, repair and maintenance of domestic central heating, plumbing and drains, gas appliances and kitchen appliances, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in the UK
Business energy supply and services	The supply of gas and electricity and provision of energy-related services to business customers in the UK
Direct Energy:	
Residential energy supply	The supply of gas and electricity to residential customers in North America
Business energy supply	i) The supply of gas, electricity and energy management solutions to commercial and industrial customers in North America, ii) power generation, and iii) procurement and trading activities in the North American wholesale energy markets
Residential and business services	Installation and maintenance of heating, ventilation and air conditioning (HVAC) equipment, water heaters and the provision of breakdown services, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in North America
International Upstream	
Centrica Energy:	
Gas	Production, processing, trading and optimisation of gas and oil and the development of new fields to grow reserves
Power	Generation, trading and optimisation of power from thermal, nuclear and wind sources
Centrica Storage	Gas storage in the UK

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4. SEGMENTAL ANALYSIS
(b) Revenue

Gross segment revenue represents revenue generated from the sale of products and services to both third parties and to other reportable segments of the Group. Group revenue reflects only the sale of products and services to third parties.

	2013			2012 (restated) (i)		
Year ended 31 December	**Gross segment revenue £m**	**Less inter-segment revenue £m**	**Group revenue £m**	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m
International Downstream						
Residential energy supply	**9,487**	**–**	**9,487**	9,121	–	9,121
Residential services	**1,655**	**(149)**	**1,506**	1,674	(131)	1,543
Business energy supply and services	**3,084**	**(38)**	**3,046**	3,062	(10)	3,052
British Gas	**14,226**	**(187)**	**14,039**	13,857	(141)	13,716
Residential energy supply	**2,517**	**–**	**2,517**	2,357	–	2,357
Business energy supply (i)	**4,238**	**(55)**	**4,183**	2,795	(45)	2,750
Residential and business services	**570**	**–**	**570**	532	–	532
Direct Energy	**7,325**	**(55)**	**7,270**	5,684	(45)	5,639
International Upstream						
Gas (i)	**4,596**	**(455)**	**4,141**	3,893	(432)	3,461
Power	**1,386**	**(402)**	**984**	1,237	(275)	962
Centrica Energy	**5,982**	**(857)**	**5,125**	5,130	(707)	4,423
Centrica Storage	**188**	**(51)**	**137**	202	(38)	164
	27,721	**(1,150)**	**26,571**	24,873	(931)	23,942

(i) Prior period comparatives have been restated to reflect the new organisational structure announced by the Group on 27 February 2013. See note 4(a).

4. SEGMENTAL ANALYSIS

(c) Operating profit before and after taxation

The measure of profit used by the Group is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements, before depreciation on fair value uplifts on the Strategic Investments acquired in 2009. This includes results of equity-accounted interests before interest and taxation.

This note also details adjusted operating profit after taxation. Both measures are reconciled to their statutory equivalents.

	Adjusted operating profit (iii)		Adjusted operating profit after taxation (iv)	
Year ended 31 December	**2013 £m**	2012 (restated) (i) £m	**2013 £m**	2012 £m
International Downstream				
Residential energy supply	**571**	606	**423**	457
Residential services	**318**	312	**241**	236
Business energy supply and services	**141**	175	**113**	130
British Gas	**1,030**	1,093	**777**	823
Residential energy supply	**163**	156	**111**	103
Business energy supply (i)	**77**	121	**53**	78
Residential and business services	**36**	33	**25**	22
Direct Energy	**276**	310	**189**	203
International Upstream				
Gas (i) (ii)	**1,155**	940	**325**	198
Power (ii)	**171**	311	**143**	243
Centrica Energy	**1,326**	1,251	**468**	441
Centrica Storage	**63**	89	**48**	67
	2,695	2,743	**1,482**	1,534
Share of joint ventures'/associates' interest and taxation	**(111)**	(85)		
Depreciation of fair value uplifts to property, plant and equipment – Venture (ii)	**(48)**	(67)		
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) – associates – British Energy (ii)	**(18)**	(29)		
	2,518	2,562		
Exceptional items (note 7)	**(1,064)**	(534)		
Certain re-measurements included within gross profit (note 7)	**413**	603		
Certain re-measurements of associates' energy contracts (net of taxation) (note 7)	**25**	(6)		
Operating profit after exceptional items and certain re-measurements	**1,892**	2,625		

	2013 £m	2012 £m
Adjusted operating profit after taxation (iv)	**1,482**	1,534
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) (ii)	**(37)**	(56)
Impact of changes to UK corporation tax rates (note 9) (v)	**64**	32
Corporate and other taxation, and interest (net of taxation) (vi)	**(176)**	(188)
Business performance profit for the year	**1,333**	1,322
Exceptional items and certain re-measurements (net of taxation) (note 7)	**(383)**	(77)
Statutory profit for the year	**950**	1,245

(i) Prior period comparatives have been restated to reflect the new organisational structure announced by the Group on 27 February 2013. See note 4(a).
(ii) See notes 2 and 10 for an explanation of the depreciation on fair value uplifts to PP&E on the Strategic Investments acquired in 2009.
(iii) Segment operating profit before exceptional items, certain re-measurements and impact of fair value uplifts from the Strategic Investments acquired in 2009. This includes results of equity-accounted interests before interest and taxation.
(iv) Segment operating profit after tax, before exceptional items, certain re-measurements and impact of fair value uplifts from the Strategic Investments acquired in 2009. This includes operating results of equity-accounted interests, net of associated taxation, before interest and associated taxation.
(v) Excludes £29 million credit (2012: £21 million) relating to equity-accounted interests.
(vi) Includes joint ventures'/associates' interest, net of associated taxation.

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4. SEGMENTAL ANALYSIS

(d) Included within adjusted operating profit

Presented below are certain items included within adjusted operating profit, including further details of impairments of property, plant and equipment and write-downs relating to exploration and evaluation assets.

Year ended 31 December	Share of results of joint ventures and associates before interest and taxation 2013 £m	2012 £m	Depreciation and impairments of property, plant and equipment 2013 £m	2012 (restated) (i) £m	Amortisation, write-downs and impairments of intangibles 2013 £m	2012 (restated) (i) £m
International Downstream						
Residential energy supply	**(7)**	–	**16**	8	**48**	34
Residential services	**–**	–	**23**	20	**8**	8
Business energy supply and services	**–**	–	**2**	2	**7**	6
British Gas	**(7)**	–	**41**	30	**63**	48
Residential energy supply	**–**	–	**1**	2	**24**	22
Business energy supply (i)	**–**	–	**16**	18	**36**	9
Residential and business services	**–**	–	**2**	3	**7**	7
Direct Energy	**–**	–	**19**	23	**67**	38
International Upstream						
Gas (i) (ii) (iii)	**–**	–	**886**	705	**111**	135
Power (ii) (iii)	**282**	254	**93**	106	**4**	5
Centrica Energy	**282**	254	**979**	811	**115**	140
Centrica Storage	**–**	–	**30**	30	**–**	–
Other	**–**	–	**15**	22	**20**	19
	275	254	**1,084**	916	**265**	245

(i) Prior period comparatives have been restated to reflect the new organisational structure announced by the Group on 27 February 2013. See note 4(a).
(ii) The share of results of joint ventures and associates is before interest, taxation, certain re-measurements and depreciation of fair value uplifts to PP&E on the Strategic Investments acquired in 2009.
(iii) Depreciation of PP&E is stated before depreciation of fair value uplifts for the Strategic Investments acquired in 2009.

Impairment of property, plant and equipment

During 2012, a £73 million impairment charge was recognised in the 'Centrica Energy – Gas' segment, in relation to the Ensign development well in the Southern North Sea.

Write-downs of intangible assets

During 2013, £95 million of write-downs relating to exploration and evaluation assets were recognised in the 'Centrica Energy – Gas' segment (2012: £122 million), within 'operating costs before exceptional items' within the Group Income Statement.

4. SEGMENTAL ANALYSIS

(e) Average capital employed

Capital employed represents the investment required to operate each of the Group's segments. Capital employed is used by the Group to calculate the return on capital employed for each of the Group's segments.

Year ended 31 December	Total capital employed £m	Pre-productive capital employed £m	2013 Productive capital employed £m	Total capital employed £m	Pre-productive capital employed £m	2012 (restated) (i) Productive capital employed £m
International Downstream						
Residential energy supply	**101**	**–**	**101**	212	–	212
Residential services	**218**	**–**	**218**	289	–	289
Business energy supply and services	**539**	**–**	**539**	714	–	714
British Gas	**858**	**–**	**858**	1,215	–	1,215
Residential energy supply	**820**	**–**	**820**	840	–	840
Business energy supply (i)	**783**	**–**	**783**	628	–	628
Residential and business services	**384**	**–**	**384**	371	–	371
Direct Energy	**1,987**	**–**	**1,987**	1,839	–	1,839
International Upstream						
Gas (i)	**3,932**	**(1,292)**	**2,640**	3,557	(1,161)	2,396
Power	**3,717**	**(282)**	**3,435**	3,605	(610)	2,995
Centrica Energy	**7,649**	**(1,574)**	**6,075**	7,162	(1,771)	5,391
Centrica Storage	**435**	**(130)**	**305**	517	(216)	301
Total average segmental capital employed	**10,929**	**(1,704)**	**9,225**	10,733	(1,987)	8,746

(i) Prior period comparatives have been restated to reflect the new organisational structure announced by the Group on 27 February 2013. See note 4(a).

Reconciliation of total average segmental capital employed to net assets in the Group Balance Sheet

Year ended 31 December	2013 £m	2012 £m
Total average segmental capital employed	**10,929**	10,733
Add back/(deduct):		
Average intra-group, margin cash and cash balances	**281**	395
Effect of averaging	**(81)**	(177)
Total segmental net operating assets at 31 December	**11,129**	10,951
(Deduct)/add back:		
Bank overdrafts and loans, securities and treasury derivatives	**(5,785)**	(5,054)
Certain derivative financial instruments including balances held by joint ventures/associates	**(257)**	(553)
Corporate assets	**130**	495
Net retirement benefit asset	**40**	88
Net assets in Group Balance Sheet	**5,257**	5,927

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4. SEGMENTAL ANALYSIS
(f) Capital expenditure

Capital expenditure represents additions, other than assets acquired as part of business combinations, to property, plant and equipment, and intangible assets. Capital expenditure has been reconciled to the related cash outflow.

Year ended 31 December	Capital expenditure on property, plant and equipment (note 13) 2013 £m	2012 (restated) (i) £m	Capital expenditure on intangible assets other than goodwill (note 15) 2013 £m	2012 (restated) (i) £m
International Downstream				
Residential energy supply	**27**	7	**287**	230
Residential services	**59**	44	**12**	9
Business energy supply and services	**1**	9	**121**	91
British Gas	**87**	60	**420**	330
Residential energy supply	**9**	–	**33**	3
Business energy supply (i)	**19**	17	**64**	29
Residential and business services	**3**	3	**1**	2
Direct Energy	**31**	20	**98**	34
International Upstream				
Gas (i) (ii)	**982**	1,795	**147**	392
Power	**32**	76	**74**	8
Centrica Energy	**1,014**	1,871	**221**	400
Centrica Storage	**37**	42	**3**	1
Other	**15**	17	**39**	64
Capital expenditure	**1,184**	2,010	**781**	829
Capitalised borrowing costs	**(43)**	(53)	**(8)**	(7)
Movements in payables and prepayments related to capital expenditure	**123**	(162)	**9**	–
Purchases of emissions allowances and renewable obligations certificates	**–**	–	**(431)**	(250)
Net cash outflow (iii)	**1,264**	1,795	**351**	572

(i) Prior period comparatives have been restated to reflect the new organisational structure announced by the Group on 27 February 2013. See note 4(a).
(ii) During 2012, £1,175 million of assets were acquired from Statoil, ConocoPhillips and Total.
(iii) The £351 million (2012: £572 million) purchase of intangible assets includes £121 million (2012: £370 million) relating to exploration and evaluation of oil and gas assets.

The Group does not monitor and manage performance by geographic territory, but we provide below an analysis of certain non-current assets and revenue by geography.

Year ended 31 December	Non-current assets (based on location of assets) (i) 2013 £m	2012 £m	Revenue (based on location of customer) 2013 £m	2012 £m
UK	**8,985**	9,788	**17,463**	16,991
North America	**3,534**	2,458	**7,530**	5,741
Norway	**1,813**	2,113	**695**	184
Rest of the world	**496**	449	**883**	1,026
	14,828	14,808	**26,571**	23,942

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

5. COSTS OF OPERATIONS

Costs of operations details the types of costs the Group incurs and the number of employees in each of our operations.

(a) Analysis of costs by nature

Year ended 31 December	Cost of sales 2013 £m	Cost of sales 2012 (restated) (i) £m	Operating costs 2013 £m	Operating costs 2012 (restated) (i) £m	Total costs 2013 £m	Total costs 2012 £m
Transportation, distribution and metering costs	**(4,182)**	(3,835)	**–**	–	**(4,182)**	(3,835)
Commodity costs	**(12,243)**	(10,750)	**–**	–	**(12,243)**	(10,750)
Depreciation, amortisation and write-downs	**(1,105)**	(843)	**(322)**	(385)	**(1,427)**	(1,228)
Employee costs (i)	**(759)**	(750)	**(1,135)**	(1,112)	**(1,894)**	(1,862)
Impairment of trade receivables (note 17)	**–**	–	**(220)**	(206)	**(220)**	(206)
Other direct costs relating to the upstream businesses	**(1,072)**	(694)	**(159)**	(140)	**(1,231)**	(834)
Other direct costs relating to the downstream businesses (i)	**(2,103)**	(1,968)	**(899)**	(837)	**(3,002)**	(2,805)
Total costs before exceptional items and certain re-measurements	**(21,464)**	(18,840)	**(2,735)**	(2,680)	**(24,199)**	(21,520)
Exceptional items and certain re-measurements (note 7)	**288**	514	**(939)**	(445)	**(651)**	69
Total costs	**(21,176)**	(18,326)	**(3,674)**	(3,125)	**(24,850)**	(21,451)

(b) Employee costs (ii)

Year ended 31 December	2013 £m	2012 £m
Wages and salaries	**(1,586)**	(1,611)
Social security costs	**(144)**	(140)
Pension and other post-employment benefits costs	**(154)**	(97)
Share scheme costs	**(43)**	(43)
	(1,927)	(1,891)
Capitalised employee costs	**33**	29
Employee costs recognised in the Income Statement	**(1,894)**	(1,862)

(c) Average number of employees during the year

Year ended 31 December	2013 Number	2012 (restated) (iii) Number
British Gas	**28,579**	30,305
Direct Energy (iii)	**5,910**	6,027
Centrica Energy (iii)	**2,158**	2,004
Centrica Storage	**319**	306
	36,966	38,642

(i) See note 1(a).
(ii) Details of Directors' remuneration, share-based payments and pension entitlements in the Remuneration Report on pages 65 to 82 form part of these Financial Statements. Details of the remuneration of key management personnel are given in note S8.
(iii) Prior period comparatives have been restated to reflect the organisational structure announced by the Group on 27 February 2013. See note 4(a).

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6. SHARE OF RESULTS OF JOINT VENTURES AND ASSOCIATES

Share of results of joint ventures and associates represents the results of businesses where we exercise joint control or significant influence and generally have an equity holding of up to 50%.

(a) Share of results of joint ventures and associates

The Group's share of results of joint ventures and associates for the year ended 31 December 2013 principally arises from its interests in the following entities (predominantly reported in the Centrica Energy – Power segment):

- Wind farms – Braes of Doune Wind Farm (Scotland) Limited, Barrow Offshore Wind Limited, GLID Wind Farms TopCo Limited, Lincs Wind Farm Limited and Celtic Array Limited (Round 3) [(ii)]; and
- Nuclear – Lake Acquisitions Limited (British Energy).

Year ended 31 December	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	2013 Total £m	2012 Total £m
Income	82	645	8	**735**	641
Expenses excluding certain re-measurements [(i)]	(59)	(447)	(15)	**(521)**	(453)
Certain re-measurements	–	23	–	**23**	(8)
	23	221	(7)	**237**	180
Interest paid	(34)	(25)	(1)	**(60)**	(44)
Taxation excluding certain re-measurements [(i)]	–	(8)	–	**(8)**	(4)
Taxation on certain re-measurements	–	2	–	**2**	2
Share of post-taxation results of joint ventures and associates [(i)]	**(11)**	**190**	**(8)**	**171**	134

(i) Includes £61 million (2012: £66 million) relating to depreciation of fair value uplifts to PP&E on acquiring British Energy. The associated tax impact is £43 million credit (2012: £37 million credit).
(ii) As part of the finance arrangements entered into by GLID Wind Farms TopCo Limited and Lincs Wind Farm Limited, the Group's shares in GLID Wind Farms TopCo Limited and Lincs Wind Farm Limited are secured in favour of third parties. The securities would only be enforced in the event that GLID Wind Farms TopCo Limited or Lincs Wind Farm Limited default on any of their obligations under their respective finance arrangements.

British Energy

During November 2009 the Group acquired a 20% interest in British Energy. The Group's share of profit arising from its investment in British Energy for the year to 31 December 2013, as set out in the above table, includes the effect of unwinding the fair value uplifts recognised at acquisition. As explained in note 2 the depreciation, net of taxation, arising on fair value uplifts attributed to the nuclear power stations is reversed in arriving at adjusted profit for the period as shown in the reconciliation table below and as set out in notes 4(c) and 10.

(b) Reconciliation of share of results of joint ventures and associates to share of adjusted results of joint ventures and associates

Year ended 31 December	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	2013 Total £m	2012 Total £m
Share of post-taxation results of joint ventures and associates	(11)	190	(8)	**171**	134
Certain re-measurements (net of taxation)	–	(25)	–	**(25)**	6
Depreciation – British Energy (net of taxation) [(i)]	–	18	–	**18**	29
Interest paid	34	25	1	**60**	44
Taxation (excluding certain re-measurements and British Energy depreciation)	–	51	–	**51**	41
Share of adjusted results of joint ventures and associates	**23**	**259**	**(7)**	**275**	254

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

Further information on the Group's investments in joint ventures and associates is provided in notes 14 and S10.

7. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

Exceptional items are those items which are of a non-recurring nature, and in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Items which may be considered exceptional in nature include disposals of businesses, business restructurings, significant onerous contract charges and asset write-downs.

(a) Exceptional items

Year ended 31 December	2013 £m	2012 £m
Provision for onerous power procurement contract (i)	**(125)**	–
Provision for Direct Energy wind power purchase agreements	**–**	(89)
Exceptional items included within gross profit	**(125)**	(89)
Impairment of UK and North American exploration and production assets (ii)	**(699)**	–
Impairment of UK gas storage assets and associated provision for onerous capacity contracts (iii)	**(240)**	–
Restructuring charges	**–**	(214)
Impairment of investment in nuclear new build (note 14)	**–**	(231)
	(939)	(445)
Exceptional items included within Group operating profit	**(1,064)**	(534)
Taxation on exceptional items (note 9)	**397**	93
Effect of change in upstream UK tax rates (note 9)	**–**	(40)
Total exceptional items after taxation	**(667)**	(481)

Certain re-measurements are the fair value movements on energy contracts entered into to meet the future needs of our customers. These contracts are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued, and are therefore separately identified in the current period and reflected in business performance in future periods when the underlying transaction or asset impacts the Group Income Statement.

(b) Certain re-measurements

Year ended 31 December	2013 £m	2012 £m
Certain re-measurements recognised in relation to energy contracts (note 2):		
Net gains arising on delivery of contracts	**317**	745
Net gains/(losses) arising on market price movements and new contracts	**96**	(142)
Net re-measurements included within gross profit	**413**	603
Net gains/(losses) arising on re-measurement of associates' energy contracts (net of taxation)	**25**	(6)
Net re-measurements included within Group operating profit	**438**	597
Taxation on certain re-measurements (note 9)	**(154)**	(193)
Net re-measurements after taxation	**284**	404

(i) The Group has recognised a further £125 million onerous contract charge in the 'Centrica Energy – Power' segment for the Rijnmond tolling contract as a result of decreases in expected future revenues.

(ii) Following reserve and resources downgrades, and increases in expected costs on the Seven Seas, York and Ensign fields in the Southern North Sea, the Group recognised pre-tax impairment charges of £166 million (post-tax charge £63 million) on the Seven Seas field, £221 million (post-tax charge £97 million) on the York field, and £225 million (post-tax charge £92 million) on the Ensign field in the 'Centrica Energy – Gas' segment. As a result of the weaker outlook for North American natural gas prices, and an increase in the discount rate applicable to these assets, the Group recognised a pre-tax Income Statement impairment charge of £87 million (post-tax charge £66 million) in relation to the Canadian Upstream assets held prior to the Suncor Upstream acquisition, in the 'Centrica Energy – Gas' segment. A further £20 million charge (£15 million net of taxation) was recognised in other comprehensive income to reverse previous upwards revaluations of the impaired assets, giving a total impairment of the Canadian Upstream assets held prior to the Suncor Upstream acquisition, of £107 million. Further details on how the recoverable amounts of fields are calculated, on a FVLCS basis, are provided in note S2.

(iii) In light of weak economics for storage projects, and following announcements regarding future government support for gas storage in the UK, the Group announced its decision not to proceed with the Baird offshore gas storage project and to put the onshore project at Caythorpe on hold indefinitely. As a result, the Group has recorded pre-tax impairments and provision charges totalling £240 million (post-tax charge £224 million) in the 'Centrica Storage' segment. Goodwill (£33 million), property, plant and equipment (£105 million) and investments in joint ventures and associates (£55 million) have been written off during the year, and an onerous capacity contract provision of £47 million was recognised.

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8. NET FINANCE COST

Financing costs mainly comprises interest on bonds, bank debt and commercial paper, the results of hedging activities used to manage foreign exchange and interest rate movements on the Group's borrowings, and notional interest arising on discounting of decommissioning provisions. An element of financing cost is capitalised on qualifying projects.

Investment income predominantly includes interest received on short-term investments in money market funds, bank deposits, government bonds and notional interest on pensions.

Year ended 31 December	2013 Financing costs £m	2013 Investment income £m	2013 Total £m	2012 (restated) (i) Financing costs £m	2012 (restated) (i) Investment income £m	2012 (restated) (i) Total £m
Cost of servicing net debt						
Interest income	–	43	43	–	39	39
Interest cost on bonds, bank loans and overdrafts (ii)	(252)	–	(252)	(232)	–	(232)
Interest cost on finance leases	(17)	–	(17)	(18)	–	(18)
	(269)	43	(226)	(250)	39	(211)
Net losses on revaluation (iii)	(6)	–	(6)	(21)	–	(21)
Notional interest arising from discounting and other interest	(73)	11	(62)	(60)	23	(37)
	(348)	54	(294)	(331)	62	(269)
Capitalised borrowing costs (iv)	51	–	51	60	–	60
(Cost)/income	**(297)**	**54**	**(243)**	**(271)**	**62**	**(209)**

(i) See note 1(a).
(ii) During 2013 the Group increased its outstanding bond debt principal by £50 million and $1,480 million, and decreased it by ¥3,000 million and €367 million. See note 24(c).
(iii) Includes gains and losses on fair value hedges, movements in fair value of other derivatives primarily used to hedge foreign exchange exposure associated with inter-company loans, and foreign currency gains and losses on the translation of inter-company loans.
(iv) Borrowing costs have been capitalised using an average rate of 4.55% (2012: 4.70%). See note 4(f).

9. TAXATION

The taxation note details the different tax charges and rates, including current and deferred tax arising in the Group. The current tax charge is the tax payable on this year's taxable profits. This tax charge excludes taxation on the Group's share of results of joint ventures and associates. Deferred tax represents the tax on differences between the accounting carrying values of assets and liabilities and their tax bases. These differences are temporary and are expected to unwind in the future.

(a) Analysis of tax charge

Year ended 31 December	2013 Business performance £m	2013 Exceptional items and certain re-measurements £m	2013 Results for the year £m	2012 Business performance (restated) (i) £m	2012 Exceptional items and certain re-measurements £m	2012 Results for the year (restated) (i) £m
Current tax						
UK corporation tax	(346)	(1)	(347)	(376)	14	(362)
UK petroleum revenue tax	(210)	–	(210)	(208)	–	(208)
Non-UK tax	(504)	–	(504)	(285)	(7)	(292)
Adjustments in respect of prior years – UK	140	–	140	(71)	–	(71)
Adjustments in respect of prior years – Non-UK	28	–	28	18	–	18
Total current tax	**(892)**	**(1)**	**(893)**	**(922)**	**7**	**(915)**
Deferred tax						
Origination and reversal of temporary differences – UK (i)	(85)	370	285	(137)	(86)	(223)
UK petroleum revenue tax	37	–	37	13	–	13
Origination and reversal of temporary differences – Non-UK tax	55	(121)	(66)	(70)	(11)	(81)
Change in tax rates (i)	64	(5)	59	32	(50)	(18)
Adjustments in respect of prior years – UK	(94)	–	(94)	52	–	52
Adjustments in respect of prior years – Non-UK	(27)	–	(27)	1	–	1
Total deferred tax	**(50)**	**244**	**194**	**(109)**	**(147)**	**(256)**
Total tax on profit (ii)	**(942)**	**243**	**(699)**	**(1,031)**	**(140)**	**(1,171)**

(i) See note 1(a).
(ii) Total tax on profit excludes taxation on the Group's share of profits of joint ventures and associates.

9. TAXATION

Tax on items taken directly to equity is disclosed in note S4. The Group earns the majority of its profits in the UK. Most activities in the UK are subject to the standard rate for UK corporation tax, which from 1 April 2013 was 23% (2012: 24%). Upstream oil and gas production activities are taxed at a UK corporation tax rate of 30% (2012: 30%) plus a supplementary charge of 32% (2012: 32%) to give an overall rate of 62% (2012: 62%). In addition, certain upstream assets in the UK bear petroleum revenue tax (PRT) at 50% (2012: 50%) which is deductible against corporation tax, giving an overall effective rate of 81% (2012: 81%). Norwegian upstream profits are taxed at the standard rate of 28% (2012: 28%) plus a special tax of 50% (2012: 50%) resulting in an aggregate tax rate of 78%. Taxation for other jurisdictions is calculated at the rates prevailing in those respective jurisdictions.

On 2 July 2013, the UK Government substantively enacted Finance Act 2013 which included reductions in the main UK corporation tax rate to 20% by 1 April 2015. At 31 December 2013, the relevant UK deferred tax assets and liabilities included in these Financial Statements have been based on the reduced rates. The deferred tax revaluation benefit recognised from the adoption of the reduced rates is not expected to recur in future periods.

(b) Factors affecting the tax charge

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

Year ended 31 December	Business performance £m	Exceptional items and certain re-measurements £m	2013 Results for the year £m	Business performance (restated) (i) £m	Exceptional items and certain re-measurements £m	2012 Results for the year (restated) (i) £m
Profit before tax (i)	**2,275**	**(626)**	**1,649**	2,353	63	2,416
Less: share of profits in joint ventures and associates, net of interest and taxation	**(146)**	**(25)**	**(171)**	(140)	6	(134)
Group profit before tax	**2,129**	**(651)**	**1,478**	2,213	69	2,282
Tax on profit at standard UK corporation tax rate of 23.25% (2012: 24.5%) (i)	**(495)**	**151**	**(344)**	(543)	(17)	(560)
Effects of:						
Net expenses not deductible for tax purposes	**(7)**	**(61)**	**(68)**	(77)	(56)	(133)
Additional charges applicable to upstream profits	**(357)**	**241**	**(116)**	(235)	(11)	(246)
UK petroleum revenue tax rates	**(131)**	**–**	**(131)**	(149)	–	(149)
Non-UK tax rates (ii)	**(41)**	**(53)**	**(94)**	(39)	(6)	(45)
Movement in unrecognised deferred tax assets	**(22)**	**(30)**	**(52)**	(20)	–	(20)
Changes to tax rates (i)	**64**	**(5)**	**59**	32	(50)	(18)
Adjustments in respect of prior years	**47**	**–**	**47**	–	–	–
Taxation on profit for the year	**(942)**	**243**	**(699)**	(1,031)	(140)	(1,171)

(i) See note 1(a).
(ii) Excludes additional Non-UK tax applicable to upstream profits.

(c) Factors that may affect future tax charges

The Group's effective tax rates are impacted by changes to the mix of activities and production across the territories in which it operates.

The Group's UK profits earned away from gas and oil production will benefit from reduced rates of corporation tax in 2014 and beyond (21% from 1 April 2014 and 20% from 1 April 2015).

Profits from oil and gas production in the UK continue to be taxed at rates above the UK statutory rate and PRT will continue to be applied to certain upstream profits. The PRT borne is expected to decrease as production activity in the relevant fields declines over time.

Income earned in territories outside the UK, notably in the US and Norway, is generally subject to higher effective rates of tax than the current UK statutory rate.

In the medium term, the Group's effective tax rate is expected to remain above the UK statutory rate.

(d) Relationship between current tax charge and taxes paid

Year ended 31 December	UK £m	Non-UK £m	2013 £m	UK £m	Non-UK £m	2012 £m
Current tax charge:						
Corporation tax	207	476	**683**	433	274	707
Petroleum revenue tax	210	–	**210**	208	–	208
	417	**476**	**893**	641	274	915
Taxes paid:						
Corporation tax	330	316	**646**	139	193	332
Petroleum revenue tax	246	–	**246**	192	–	192
	576	**316**	**892**	331	193	524

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9. TAXATION
Differences between current tax charged and taxes paid arose principally due to the following factors:

- corporation tax payments are generally based on estimated profits, partly during the year and partly in the following year and cash tax balancing on agreement with tax authorities will also occur in future periods. Fluctuations in profits from year to year may therefore give rise to divergence between the charge for the current year and taxes paid; and
- petroleum revenue tax payments are based on income realised in the preceding period, with subsequent adjustments to reflect actual profits. Variations in production from period to period may therefore lead to temporary differences between the tax charged and the tax paid.

10. EARNINGS PER ORDINARY SHARE
Earnings per share (EPS) is the amount of profit attributable to each share. Basic EPS is the amount of profit for the year divided by the number of shares in issue during the year. Diluted EPS includes the impact of outstanding share options as if they were exercised at the year end.

Basic earnings per ordinary share has been calculated by dividing the earnings attributable to equity holders of the Company for the year of £950 million (2012: £1,245 million) by the weighted average number of ordinary shares in issue during the year of 5,150 million (2012: 5,183 million). The number of shares excludes 50 million ordinary shares (2012: 6 million), being the weighted average number of the Company's own shares held in the employee share trust and treasury shares purchased by the Group as part of the share repurchase programme.

The Directors believe that the presentation of adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for certain re-measurements, exceptional items and the impact of the Strategic Investments acquired in 2009, assists with understanding the underlying performance of the Group, as explained in note 2.

During the year, the Group purchased 137.3 million ordinary shares of $6^{14}/_{81}$ pence each, representing 2.7% of the called up share capital as at 31 December 2013 at an average price of £3.64 per share for a total consideration including expenses of £502 million. The shares were purchased as part of the £500 million share repurchase programme announced on 4 February 2013. These shares are held as treasury shares once purchased and are deducted from equity (see note S4).

In addition to basic and adjusted basic earnings per ordinary share, information is presented for diluted and adjusted diluted earnings per ordinary share. Under this presentation, no adjustments are made to the reported earnings for either 2013 or 2012, however the weighted average number of shares used as the denominator is adjusted for potentially dilutive ordinary shares.

Weighted average number of shares

	2013 Million shares	2012 Million shares
Weighted average number of shares – basic	**5,150**	5,183
Dilutive impact of share-based payment schemes	**33**	33
Weighted average number of shares – diluted	**5,183**	5,216

Basic to adjusted basic earnings per share reconciliation

Year ended 31 December	**2013 £m**	**2013 Pence per ordinary share**	2012 (restated) (i) £m	2012 (restated) (i) Pence per ordinary share
Earnings – basic (i)	**950**	**18.4**	1,245	24.0
Net exceptional items after taxation (notes 2 and 7)	**667**	**13.0**	481	9.3
Certain re-measurement gains after taxation (notes 2 and 7)	**(284)**	**(5.5)**	(404)	(7.8)
Depreciation of fair value uplifts to property, plant and equipment from the Strategic Investments acquired in 2009, net of taxation	**37**	**0.7**	56	1.1
Earnings – adjusted basic (i)	**1,370**	**26.6**	1,378	26.6
Earnings – diluted (i)	**950**	**18.3**	1,245	23.9
Earnings – adjusted diluted (i)	**1,370**	**26.4**	1,378	26.4

(i) See note 1(a).

10. EARNINGS PER ORDINARY SHARE

Strategic Investments

During 2009, the Group acquired a 20% interest in British Energy and the entire share capital of Venture. As explained in note 2, the depreciation relating to fair value uplifts of the acquired Venture PP&E and associated taxation is excluded in arriving at adjusted earnings for the year, which amounted to £48 million (2012: £67 million) depreciation and a taxation credit of £29 million (2012: £40 million) in the period. Additionally, the impact of depreciation arising on fair value uplifts attributed to the British Energy nuclear power stations and related taxation included within the Group's share of the post-taxation results of the associate is excluded in arriving at adjusted earnings for the period, which amounted to £18 million (2012: £29 million) net of taxation.

11. DIVIDENDS

Dividends represent the cash return of profits to shareholders and are paid twice a year, in June and November. Dividends are paid as an amount per ordinary share held. We retain part of the profits generated in the year to meet future investment plans or to fund share repurchase programmes.

			2013			2012
	£m	**Pence per share**	**Date of payment**	£m	Pence per share	Date of payment
Prior year final dividend	**611**	**11.78**	**12 Jun 2013**	576	11.11	13 Jun 2012
Interim dividend	**253**	**4.92**	**13 Nov 2013**	240	4.62	14 Nov 2012
	864			816		

The Directors propose a final dividend of 12.08 pence per ordinary share (totalling £614 million) for the year ended 31 December 2013. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 12 May 2014 and, subject to approval, will be paid on 11 June 2014 to those shareholders registered on 25 April 2014.

Notes to the Financial Statements – Operating Assets and Liabilities

12. ACQUISITIONS AND DISPOSALS

Business combinations

The Group has acquired a number of businesses during the year, including Hess Energy Marketing LLC (HEM) in the US and a package of gas and oil assets from Suncor Energy in Canada in partnership with Qatar Petroleum International (QPI). The business combinations section details the consideration paid, net assets acquired and the goodwill arising on these acquisitions.

The fair values are provisional unless stated otherwise. Note 3(a) sets out the assumptions used to derive the fair values. Goodwill recognised on the following acquisitions is attributable to enhanced geographical presence, cost savings, synergies, growth opportunities and technical goodwill from items such as deferred tax.

Suncor Upstream

The Group formed a 60:40 partnership (CQ Energy Canada Partnership, CQECP) with QPI and, on 26 September 2013, jointly acquired a package of producing conventional natural gas and crude oil assets and associated infrastructure located in the Western Canadian Sedimentary Basin from Suncor Energy for consideration of C$987 million (£601 million). The Group and QPI funded this acquisition using a mixture of equity and debt in CQECP. As described in note 3(a), the Group has judged that it has power over the relevant activities of CQECP and hence it will fully consolidate this entity. Accordingly, the Suncor acquisition is treated as a business combination of the Group and a purchase price allocation was performed. The 40% equity interest owned by QPI is shown as a non-controlling interest and is recognised at the acquisition date fair value calculated using the income approach (which equals the equity cash injected by QPI into CQECP). The 40% financial liability due to QPI is included within other payables. Goodwill arising on the transaction is not deductible for tax purposes. This business forms part of the 'Centrica Energy – Gas' segment.

Hess Energy Marketing

The Group acquired 100% of the New Jersey-based energy marketing business, HEM, from Hess Corporation on 1 November 2013, for consideration of $1,194 million (£736 million). This included a payment for the working capital of the business of approximately $416 million (£257 million). A purchase price allocation was performed and goodwill arising is deductible for tax purposes. Included in the opening balance sheet is $586 million (£361 million) related to the fair value of the trade receivables, with a gross contractual amount of $613 million (£378 million). This business forms part of the 'Direct Energy – Business energy supply' segment.

Bounce Energy

On 13 August 2013 the Group acquired a 100% equity interest in the privately-owned Texas-based electricity retailer Bounce Energy (Bounce) for $42 million (£27 million) in cash. Goodwill of $47 million (£30 million) was recognised and is not tax deductible. This business forms part of the 'Direct Energy – Residential energy supply' segment.

America's Water Heater Rentals

On 11 October 2013 the Group acquired a 100% equity interest in the privately owned America's Water Heater Rentals (AWHR) for consideration of $30 million (£18 million). The business rents water heaters to approximately 89,000 residential customers. A tax deductible goodwill of $7 million (£4 million) arose on acquisition. This business forms part of the 'Direct Energy – Residential and business services' segment.

12. ACQUISITIONS AND DISPOSALS

Provisional fair value of the identifiable acquired assets and liabilities

	Suncor Upstream £m	Hess Energy Marketing £m	Other £m	**Total £m**
Balance sheet items				
Intangible assets	105	210	23	**338**
Property, plant and equipment	762	–	10	**772**
Other non-current assets	–	146	5	**151**
Current assets including £25 million of cash and cash equivalents	47	749	16	**812**
Current liabilities	(20)	(487)	(25)	**(532)**
Non-current liabilities	(443)	(93)	(19)	**(555)**
Net identifiable assets	451	525	10	**986**
Goodwill	150	211	39	**400**
Net assets acquired	601	736	49	**1,386**
Non-controlling interests – equity (i)	(81)	–	–	**(81)**
Financial liability due to non-controlling interest – other payables (i)	(156)	–	–	**(156)**
Total	364	736	49	**1,149**
Consideration comprises:				
Cash consideration injected from Centrica (i)	355	736	49	**1,140**
Cash consideration injected from non-controlling interest upon acquisition (i)	237	–	–	**237**
Deferred consideration (i)	9	–	–	**9**
Total consideration transferred	601	736	49	**1,386**
Income Statement items (ii)				
Revenue recognised since the acquisition date in the Group Income Statement	62	906	27	**995**
(Loss)/profit since the acquisition date in the Group Income Statement	(2)	(2)	2	**(2)**

Acquisition-related costs have been charged to 'operating costs before exceptional items' in the Group Income Statement for the year ended 31 December 2013 for an aggregated amount of £4 million.

(i) QPI injected £237 million of cash into CQECP, of which £81 million was equity, upon acquisition of Suncor Upstream. This equated to 40% of the initial purchase consideration of £592 million. At the same time, Centrica injected £355 million of cash into CQECP, of which £121 million was equity. The deferred consideration of £9 million will be funded directly by the operations of CQECP rather than further contributions from its owners.
(ii) Revenue and (losses)/profits from business performance between the acquisition date and the balance sheet date, excluding exceptional items and certain re-measurements.

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Notes to the Financial Statements – Operating Assets and Liabilities

12. ACQUISITIONS AND DISPOSALS

Pro forma information

The pro forma consolidated results of the Group, as if the acquisitions had been made at the beginning of the year, would show revenue of £30,584 million (compared to reported revenue of £26,571 million) and profit after taxation of £1,019 million (compared to reported profit after taxation of £950 million). This pro forma information includes the revenue and profits/losses made by the acquired businesses between the beginning of the financial year and the date of acquisition, not restated for accounting policy alignments and/or the impact of the fair value uplifts resulting from purchase accounting considerations. This pro forma aggregated information is not necessarily indicative of the results of the combined Group that would have occurred had the acquisitions actually been made at the beginning of the year presented, or indicative of the future results of the combined Group.

Note that despite the fact that the Group controls the relevant activities of CQECP, dividends are subject to unanimous consent of the partnership owners. This means that dividends are restricted as they require QPI approval. At the balance sheet date, cash and cash equivalents held by CQECP amounted to £66 million. If these funds were to be distributed as a dividend to owners, on a 60:40 basis, the non-controlling interests would be entitled to £26 million of the cash paid from the partnership.

2012 Business Combinations – fair value updates

There have been no significant updates in 2013 to the fair values recognised for businesses acquired in 2012.

Asset purchases

UK shale gas

On 13 June 2013, the Group acquired a 25% interest in the Bowland exploration licence in Lancashire from Cuadrilla Resources Ltd and AJ Lucas Group Ltd for £44 million in cash. The Group is committed to pay exploration and appraisal costs of up to £6 million (included in 'Other intangible assets' in note 23) and may pay up to £45 million additional costs under a carry arrangement which is contingent on consents being received. Following the exploration and appraisal phase, if the Group elects to continue into the development phase, a further contingent consideration of £60 million will become payable.

Disposals

The Group has disposed of a number of businesses and assets during the year. This note details the cash consideration received and the profit or loss arising.

Date of disposal	Business/assets disposed of by the Group	Sold to	Cash consideration £m	Profit/(loss) on disposal before tax £m
7 June 2013	50% interest in the Braes of Doune Wind Farm (Scotland) Limited	Hermes GPE Infrastructure fund	**59**	**29**
23 October 2013	Babbage upstream production licence	Bayerngas Europe Limited	**19**	**(17)**
12 December 2013	Centrica (RBW) Limited - Race Bank offshore Wind Farm project (i)	DONG Energy Power (UK) Limited	**50**	**(6)**
30 December 2013	Various interests in upstream assets in the Heimdal area	Lotos Exploration & Production Norge	**64**	**9**

(i) £31 million of contingent consideration has not been recognised.

On 18 March 2013, the Group legally disposed of its 20% investment in NNB Holding Company Limited (Nuclear New Build). A related exceptional impairment charge of £231 million was recorded in 2012.

Assets and liabilities of disposal groups classified as held for sale

Assets, and associated liabilities, that are expected to be recovered principally through a sale have been classified as held for sale on the face of the Balance Sheet, and include the Group's gas-fired power stations in the US.

In October 2013, the Group agreed to sell its Greater Kittiwake upstream gas assets to Enquest Heather Limited, for cash consideration of $40 million (£24 million) plus contingent consideration. This transaction is expected to complete in February 2014.

On 18 December 2013, the Group announced that it had agreed to sell its Texas gas-fired power stations to Blackstone for $685 million (£420 million) in cash. This transaction completed on 22 January 2014.

	Texas power stations £m	Greater Kittiwake upstream gas assets £m	Total £m
Property, plant and equipment	186	89	**275**
Other assets	9	17	**26**
Assets of disposal groups classified as held for sale	**195**	**106**	**301**
Other liabilities	–	(50)	**(50)**
Non-current provisions for other liabilities and charges	(3)	(46)	**(49)**
Liabilities of disposal groups classified as held for sale	**(3)**	**(96)**	**(99)**
Net assets of disposal groups classified as held for sale and total shareholders' equity	**192**	**10**	**202**

13. PROPERTY, PLANT AND EQUIPMENT

PP&E includes significant investment in power stations, gas production and gas storage assets. All assets are depreciated over their useful economic lives.

(a) Carrying amounts

	2013 Land and buildings £m	2013 Plant, equipment and vehicles £m	2013 Power generation (i) £m	2013 Gas production and storage (i) £m	2013 Total £m	2012 Land and buildings £m	2012 Plant, equipment and vehicles £m	2012 Power generation (i) £m	2012 Gas production and storage (i) £m	2012 Total £m
Cost										
1 January	26	462	2,382	12,902	**15,772**	26	417	2,318	10,708	13,469
Additions and capitalised borrowing costs (notes 8 and 4(f))	6	116	51	1,011	**1,184**	–	84	93	1,833	2,010
Acquisitions (note 12)	–	1	–	771	**772**	–	–	–	67	67
Disposals	(1)	(33)	(58)	(246)	**(338)**	–	(38)	(19)	(210)	(267)
Transfers (ii)	–	–	–	23	**23**	–	–	–	–	–
Transfers to disposal groups held for sale	(2)	–	(326)	(248)	**(576)**	–	–	–	–	–
Decommissioning liability revisions and additions (note 21)	–	–	9	205	**214**	–	–	4	536	540
Exchange adjustments	–	(9)	(6)	(366)	**(381)**	–	(1)	(14)	(32)	(47)
31 December	**29**	**537**	**2,052**	**14,052**	**16,670**	26	462	2,382	12,902	15,772
Accumulated depreciation and impairment										
1 January	14	232	1,176	6,385	**7,807**	13	190	1,064	5,790	7,057
Charge for the year	2	64	108	958	**1,132**	1	60	109	727	897
Impairments (note 7)	–	–	–	824	**824**	–	4	13	73	90
Disposals	(1)	(13)	(4)	(117)	**(135)**	–	(20)	(4)	(181)	(205)
Transfers to disposal groups held for sale	(1)	–	(140)	(159)	**(300)**	–	–	–	–	–
Exchange adjustments	–	(6)	(3)	(95)	**(104)**	–	(2)	(6)	(24)	(32)
31 December	**14**	**277**	**1,137**	**7,796**	**9,224**	14	232	1,176	6,385	7,807
NBV at 31 December	**15**	**260**	**915**	**6,256**	**7,446**	12	230	1,206	6,517	7,965

(i) The NBV of decommissioning assets included within power generation and gas production and storage assets was £1,562 million (2012: £1,307 million).
(ii) Transfers to/from other Balance Sheet accounts, including £35 million transfers to inventory, and £58 million transfers from intangible assets for exploration licences where the field is now being developed.

(b) Assets in the course of construction included in above carrying amounts:

31 December	2013 £m	2012 £m
Plant, equipment and vehicles	**58**	66
Power generation	**–**	55
Gas production	**732**	715
Gas storage	**16**	143

(c) Assets held under finance leases and to which title was restricted included in above carrying amounts:

	2013 Plant, equipment and vehicles £m	2013 Power generation £m	2013 Gas production and storage £m	2013 Total £m	2012 Plant, equipment and vehicles £m	2012 Power generation £m	2012 Gas production and storage £m	2012 Total £m
Cost at 1 January	2	469	415	**886**	6	469	415	890
Disposals	(2)	–	–	**(2)**	(4)	–	–	(4)
Cost at 31 December	**–**	**469**	**415**	**884**	2	469	415	886
Aggregate depreciation at 1 January	1	229	385	**615**	3	201	380	584
Charge for the year	–	28	5	**33**	–	28	5	33
Disposals	(1)	–	–	**(1)**	(2)	–	–	(2)
Aggregate depreciation at 31 December	**–**	**257**	**390**	**647**	1	229	385	615
NBV at 31 December	**–**	**212**	**25**	**237**	1	240	30	271

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Notes to the Financial Statements — Operating Assets and Liabilities

14. INTERESTS IN JOINT VENTURES AND ASSOCIATES

Investments in joint ventures and associates represent businesses where we exercise joint control or significant influence and generally have an equity holding of up to 50%. These include investments in the existing UK nuclear power station fleet and various UK wind farms.

(a) Interests in joint ventures and associates

	Investments in joint ventures and associates £m	Shareholder loans £m	**2013** **Total £m**	Investments in joint ventures and associates £m	Shareholder loans £m	2012 Total £m
1 January	2,316	405	**2,721**	2,351	269	2,620
Additions	55	20	**75**	140	178	318
Disposals	(29)	(5)	**(34)**	–	–	–
Decrease in shareholder loans	–	–	**–**	–	(42)	(42)
Share of profits for the year	171	–	**171**	134	–	134
Share of other comprehensive income	3	–	**3**	32	–	32
Impairment (i)	(64)	(21)	**(85)**	(231)	–	(231)
Dividends	(193)	–	**(193)**	(110)	–	(110)
31 December	**2,259**	**399**	**2,658**	2,316	405	2,721

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

31 December	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	**2013** **Total £m**	2012 Total £m
Share of non-current assets	850	3,529	11	**4,390**	4,319
Share of current assets	69	618	2	**689**	765
	919	4,147	13	**5,079**	5,084
Share of current liabilities	(244)	(205)	(1)	**(450)**	(473)
Share of non-current liabilities	(534)	(1,828)	–	**(2,362)**	(2,283)
	(778)	(2,033)	(1)	**(2,812)**	(2,756)
Restricted interest on shareholder loan (ii)	(8)	–	–	**(8)**	(12)
Share of net assets of joint ventures and associates	133	2,114	12	**2,259**	2,316
Shareholder loans	399	–	–	**399**	405
Interests in joint ventures and associates	**532**	**2,114**	**12**	**2,658**	2,721
Net (debt)/cash included in share of net assets	(620)	86	–	**(534)**	(279)

(i) Includes £55 million in relation to the Baird offshore gas storage project. See note 7.
(ii) The Group restricts an element of interest received on the shareholder loan to Lincs Wind Farm Limited.

Further information on the Group's investments in joint ventures and associates is provided in notes 6 and S10.

15. OTHER INTANGIBLE ASSETS AND GOODWILL

The Group Balance Sheet contains significant intangible assets. Goodwill, customer relationships and brands arise when we acquire a business. Goodwill is attributable to enhanced geographical presence, cost savings, synergies and growth opportunities. Goodwill is not amortised but is assessed for recoverability each year.

The Group uses European Union Allowances (EUAs) and Renewable Obligation Certificates (ROCs) to satisfy its related obligations.

Upstream exploration and evaluation expenditure is capitalised as an intangible asset until development of the asset commences, at which point it is transferred to property, plant and equipment or is deemed to not be commercially viable and is written down.

(a) Carrying amounts

						2013						2012
	Customer relation-ships and brands £m	Application software (i) £m	EUAs and ROCs £m	Exploration and evaluation expenditure £m	Goodwill £m	**Total £m**	Customer relation-ships and brands £m	Application software (i) £m	EUAs and ROCs £m	Exploration and evaluation expenditure £m	Goodwill £m	Total £m
Cost												
1 January	382	1,137	144	566	2,553	**4,782**	351	959	122	306	2,526	4,264
Additions and capitalised borrowing costs (notes 8 and 4(f))	–	229	431	121	–	**781**	4	205	250	370	–	829
Acquisitions (note 12)	220	13	–	105	400	**738**	42	–	–	6	74	122
Disposals and surrenders	–	(22)	(396)	(27)	–	**(445)**	(5)	(22)	(227)	–	–	(254)
Write-downs	–	–	–	(95)	–	**(95)**	–	–	–	(122)	–	(122)
Transfers (ii)	–	–	–	(58)	–	**(58)**	–	–	–	–	–	–
Exchange adjustments	(9)	(11)	–	(46)	(91)	**(157)**	(10)	(5)	(1)	6	(47)	(57)
31 December	**593**	**1,346**	**179**	**566**	**2,862**	**5,546**	382	1,137	144	566	2,553	4,782
Accumulated amortisation												
1 January	129	515	6	–	10	**660**	106	407	4	–	8	525
Amortisation	60	98	–	–	–	**158**	31	79	–	–	–	110
Impairments (notes 7 and 15(b))	–	1	11	–	33	**45**	–	49	6	–	2	57
Disposals and surrenders	–	(15)	(14)	–	–	**(29)**	(5)	(18)	(4)	–	–	(27)
Exchange adjustments	(4)	(8)	–	–	–	**(12)**	(3)	(2)	–	–	–	(5)
31 December	**185**	**591**	**3**	**–**	**43**	**822**	129	515	6	–	10	660
NBV at 31 December	**408**	**755**	**176**	**566**	**2,819**	**4,724**	253	622	138	566	2,543	4,122

(i) Application software includes assets under construction with a cost of £339 million (2012: £315 million).
(ii) Transfers from intangible assets to property, plant and equipment.

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15. OTHER INTANGIBLE ASSETS AND GOODWILL

(b) Carrying amount of goodwill and intangible assets with indefinite useful lives allocated to CGUs

Goodwill acquired through business combinations, and indefinite-lived intangible assets, have been allocated for impairment testing purposes to individual CGUs or groups of CGUs, each representing the lowest level within the Group at which the goodwill or indefinite-lived intangible asset is monitored for internal management purposes.

31 December	Principal acquisitions to which goodwill and intangibles with indefinite useful lives relate	2013 Carrying amount of goodwill £m	2013 Carrying amount of indefinite-lived intangible assets (i) £m	2013 Total £m	2012 Carrying amount of goodwill £m	2012 Carrying amount of indefinite-lived intangible assets (i) £m	2012 Total £m
CGU(s)							
British Gas:							
Business energy supply and services	Enron Direct/Electricity Direct	**178**	**–**	**178**	178	–	178
Residential services	Dyno-Rod	**38**	**57**	**95**	38	57	95
Centrica Energy Gas:							
UK/Norway/Netherlands	Newfield/Heimdal/Venture	**909**	**–**	**909**	929	–	929
North America	Suncor	**150**	**–**	**150**	–	–	–
Trinidad and Tobago	Trinidad and Tobago	**66**	**–**	**66**	67	–	67
Direct Energy:							
Residential energy supply	Direct Energy/ATCO/CPL/WTU/FCP/Bounce	**726**	**–**	**726**	742	–	742
Residential and business services	Enbridge Services/Residential Services Group/Clockwork	**303**	**12**	**315**	311	12	323
Business energy supply	Direct Energy/ATCO/Strategic Energy/FCP/HEM	**433**	**–**	**433**	229	–	229
Centrica Storage	Caythorpe (ii)	**–**	**–**	**–**	33	–	33
Other	Various	**16**	**1**	**17**	16	1	17
		2,819	**70**	**2,889**	2,543	70	2,613

(i) The indefinite-lived assets mainly relate to the Mr Sparky and Benjamin Franklin brands, acquired as part of the Clockwork business combination, and the Dyno-Rod brand.
(ii) During the year, £33 million of goodwill was impaired. See note 7 for further details.

(c) Impairment reviews – Summary of results

For all material CGUs, the recoverable amounts exceed their carrying values at the impairment test date. Details of the impairment test methodologies and assumptions used are provided in note S2. Reasonably possible changes in the key assumptions listed in note S2 would not cause the recoverable amounts of the goodwill balances to be less than the carrying amounts.

16. DEFERRED TAX LIABILITIES AND ASSETS

Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future as a result of differences in the accounting and tax bases of assets and liabilities. The principal deferred tax liabilities and assets recognised by the Group relate to capital investments, fair value movements on derivative financial instruments, petroleum revenue tax and pensions.

	Accelerated tax depreciation (corporation tax) £m	Other timing differences including losses carried forward £m	Marked to market £m	Net deferred petroleum revenue tax (ii) £m	Retirement benefit obligation and other provisions (i) £m	Total (restated) (i) £m
1 January 2012	(2,027)	459	355	23	(81)	(1,271)
Credit/(charge) to income – change to tax rates (i)	28	(46)	(10)	9	1	(18)
(Charge)/credit to income – other (i)	(269)	192	(177)	26	(10)	(238)
(Charge)/credit to equity (i)	–	(3)	(20)	–	71	48
Acquisition of businesses	(4)	–	–	–	–	(4)
Exchange and other adjustments	(7)	(1)	(4)	–	–	(12)
31 December 2012	(2,279)	601	144	58	(19)	(1,495)
Credit/(charge) to income – change to tax rates	16	26	(5)	–	22	**59**
Credit/(charge) to income – other	254	91	(149)	20	(81)	**135**
Credit/(charge) to equity	5	(16)	(1)	–	31	**19**
Acquisition/disposal of businesses	(86)	2	–	–	–	**(84)**
Transfer to liabilities of disposal groups classified as held for sale	29	–	–	–	–	**29**
Exchange and other adjustments	16	1	2	(2)	(1)	**16**
31 December 2013	**(2,045)**	**705**	**(9)**	**76**	**(48)**	**(1,321)**

(i) See note 1(a).
(ii) The deferred petroleum revenue tax amounts include the effect of deferred corporation tax as petroleum revenue taxation is deductible for corporation tax purposes.

Certain deferred tax assets and liabilities have been offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is an analysis of the gross deferred tax balances and associated offsetting balances for financial reporting purposes:

31 December	**2013** Assets £m	**2013** Liabilities £m	2012 Assets £m	2012 Liabilities £m
Gross deferred tax balances crystallising within one year	**149**	**(190)**	66	(261)
Gross deferred tax balances crystallising after one year	**801**	**(2,081)**	514	(1,814)
	950	**(2,271)**	580	(2,075)
Offsetting deferred tax balances	**(845)**	**845**	(397)	397
Net deferred tax balances (after offsetting for financial reporting purposes)	**105**	**(1,426)**	183	(1,678)

At the balance sheet date the Group had certain deductible temporary differences of £804 million (2012: £382 million) of which £262 million (2012: £257 million) are carried forward tax losses available for utilisation against future taxable profits. Some £144 million (2012: £157 million) of these losses will expire within one to five years. All other temporary differences have no expiry date. No deferred tax asset has been recognised in respect of these temporary differences, due to the unpredictability of future profit streams. At the balance sheet date, no taxable temporary differences existed in respect of the Group's overseas investments (2012: nil). The deferred tax liability arising on these temporary differences is estimated to be nil (2012: nil).

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17. TRADE AND OTHER RECEIVABLES

Trade and other receivables include accrued income, and are amounts owed by our customers for goods we have delivered or services we have provided. These balances are valued net of expected irrecoverable debts. Other receivables include payments made in advance to our suppliers.

31 December	2013 Current £m	2013 Non-current £m	2012 Current £m	2012 Non-current £m
Financial assets:				
Trade receivables	**2,511**	**3**	1,951	5
Accrued energy income	**2,255**	**–**	1,812	–
Other accrued income	**202**	**–**	219	–
Cash collateral pledged (note 24)	**160**	**–**	125	–
Other receivables	**379**	**15**	326	–
	5,507	**18**	4,433	5
Less: provision for credit losses	**(603)**	**–**	(511)	–
	4,904	**18**	3,922	5
Non-financial assets: prepayments and other receivables	**542**	**132**	413	50
	5,446	**150**	4,335	55

Trade and other receivables include financial assets representing the contractual right to receive cash or other financial assets from residential customers, business customers and treasury, trading and energy procurement counterparties as follows:

31 December	2013 Current £m	2013 Non-current £m	2012 Current £m	2012 Non-current £m
Financial assets by class:				
Residential customers	**2,023**	**6**	1,922	5
Business customers	**2,178**	**8**	1,657	–
Treasury, trading and energy procurement counterparties	**1,306**	**4**	854	–
	5,507	**18**	4,433	5
Less: provision for credit losses	**(603)**	**–**	(511)	–
	4,904	**18**	3,922	5

Receivables from residential and business customers are generally considered to be fully performing until such time as the payment that is due remains outstanding past the contractual due date. Contractual due dates range from falling due upon receipt to falling due in 30 days from receipt. Receivables from residential customers are generally reviewed for impairment on an individual basis once a customer discontinues their relationship with the Group.

Current financial assets within trade and other receivables net of provision for credit losses on an undiscounted basis	2013 £m	2012 £m
Balances that are not past due	**3,540**	2,662
Balances that are past due but not considered to be individually impaired	**1,310**	1,221
Balances with customers that are considered to be individually impaired	**54**	39
	4,904	3,922

An ageing of the carrying value of trade and other receivables that are past due that are not considered to be individually impaired is as follows:

Financial assets within trade and other receivables on an undiscounted basis	2013 £m	2012 £m
Days past due:		
Less than 30 days	**688**	582
30 to 89 days	**219**	235
Less than 90 days	**907**	817
90 to 182 days	**119**	135
183 to 365 days	**158**	179
Greater than 365 days	**126**	90
	1,310	1,221

17. TRADE AND OTHER RECEIVABLES

The provision for credit losses is based on an incurred loss model and is determined by application of expected default and loss factors, 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. The impairment charge in trade receivables is stated net of credits for the release of specific provisions made in previous years, which are no longer required. These relate primarily to residential customers in the UK. Movements in the provision for credit losses by class are as follows:

	Residential customers £m	Business customers £m	Treasury, trading and energy procurement counterparties £m	**2013 Total £m**	Residential customers £m	Business customers £m	Treasury, trading and energy procurement counterparties £m	2012 Total £m
1 January	(304)	(206)	(1)	**(511)**	(360)	(226)	(13)	(599)
Impairment of trade receivables	(132)	(86)	(2)	**(220)**	(100)	(114)	8	(206)
Receivables written off	62	66	–	**128**	156	134	4	294
31 December	**(374)**	**(226)**	**(3)**	**(603)**	(304)	(206)	(1)	(511)

18. INVENTORIES

Inventories represent assets that we intend to use in future periods, either by selling the asset itself (for example gas in storage) or by using it to provide a service to a customer.

31 December	**2013 £m**	2012 £m
Gas in storage and transportation	**316**	344
Other raw materials and consumables	**167**	156
Finished goods and goods for resale	**47**	45
	530	545

The Group consumed £850 million of inventories (2012: £1,285 million) during the year.

19. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to manage the risk arising from fluctuations in the value of certain assets or liabilities, associated with treasury management, energy sales and procurement. These derivatives are held at fair value, and are predominantly unrealised positions, expected to unwind in future periods. The Group also uses derivatives for proprietary energy trading purposes.

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

(i) With the exception of certain energy derivatives related to cross-border transportation and capacity contracts.
(ii) Energy contracts designated at fair value through profit or loss include certain energy contracts that the Group has, at its option, designated at fair value through profit or loss under IAS 39 because the energy contract contains one or more embedded derivatives that significantly modify the cash flows under the contract (note S2).

In cases where a derivative qualifies for hedge accounting, derivatives are classified as fair value hedges, or cash flow hedges. Notes S2 and S5 provide further detail on the Group's hedge accounting.

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19. DERIVATIVE FINANCIAL INSTRUMENTS

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

31 December	2013 Assets £m	2013 Liabilities £m	2012 Assets £m	2012 Liabilities £m
Derivative financial instruments – held for trading under IAS 39:				
Energy derivatives – for procurement	**512**	**(750)**	229	(772)
Energy derivatives – for proprietary trading	**56**	**–**	69	–
Interest rate derivatives (i)	**–**	**(26)**	13	(86)
Foreign exchange derivatives (i)	**106**	**(96)**	33	(42)
Energy derivative contracts designated at fair value through profit or loss	**24**	**(1)**	65	–
Derivative financial instruments in hedge accounting relationships:				
Energy derivatives	**–**	**(2)**	–	(14)
Interest rate derivatives (i)	**95**	**(22)**	172	(2)
Foreign exchange derivatives (i)	**7**	**(40)**	–	(26)
Total derivative financial instruments	**800**	**(937)**	581	(942)
Included within:				
Derivative financial instruments – current	**573**	**(506)**	268	(615)
Derivative financial instruments – non-current	**227**	**(431)**	313	(327)

(i) Included within these categories are £52 million (2012: £144 million) of derivatives used to hedge movements in net debt. See note 24(b).

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

31 December	2013 £m	2012 £m
Short-term forward market purchases and sales of gas and electricity:		
UK and Europe	**(30)**	(163)
North America	**22**	(209)
Structured gas purchase contracts	**(54)**	(36)
Structured gas sales contracts	**(54)**	(78)
Structured power purchase contracts	**(41)**	54
Other	**(4)**	9
Net total	**(161)**	(423)

Net gains/(losses) on derivative financial instruments due to re-measurement

31 December	2013 Income Statement £m	2013 Equity £m	2012 Income Statement £m	2012 Equity £m
Financial assets and liabilities measured at fair value:				
Derivative financial instruments – held for proprietary energy trading	**(13)**	**–**	24	–
Derivative financial instruments – held for trading under IAS 39	**505**	**–**	465	–
Energy contracts designated at fair value through profit or loss	**(42)**	**–**	104	–
Derivative financial instruments in hedge accounting relationships	**(82)**	**(5)**	7	66
	368	**(5)**	600	66

20. TRADE AND OTHER PAYABLES

Trade and other payables include accruals, and are principally amounts we owe to our suppliers. Deferred income represents monies received from customers in advance of the delivery of goods or the performance of services by the Group.

31 December	2013 Current £m	2013 Non-current £m	2012 Current £m	2012 Non-current £m
Financial liabilities:				
Trade payables	**(1,032)**	**–**	(1,022)	–
Deferred income	**(327)**	**–**	(263)	–
Capital payables	**(132)**	**–**	(256)	–
Other payables	**(683)**	**(6)**	(464)	(12)
Accruals:				
Commodity costs	**(1,295)**	**–**	(833)	–
Transportation, distribution and metering costs	**(379)**	**–**	(277)	–
Operating and other accruals	**(965)**	**–**	(841)	–
	(2,639)	**–**	(1,951)	–
	(4,813)	**(6)**	(3,956)	(12)
Non-financial liabilities:				
Other payables and accruals	**(673)**	**(41)**	(428)	(3)
Deferred income	**(144)**	**(17)**	(161)	(11)
	(5,630)	**(64)**	(4,545)	(26)

Financial liabilities within current trade and other payables	2013 £m	2012 £m
Less than 90 days	**(4,570)**	(3,797)
90 to 182 days	**(58)**	(81)
183 to 365 days	**(185)**	(78)
	(4,813)	(3,956)

21. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Provisions are recognised when an obligation exists that can be reliably measured, but where there is uncertainty over the timing of the payment. The main provisions relate to decommissioning costs for upstream assets we own, or have owned, which require restoration or remediation. Other provisions relate to purchase contracts we have entered into that are now onerous, restructuring costs, and legal and regulatory matters.

Current provisions for other liabilities and charges	1 January 2013 £m	Acquisitions and disposals £m	Charged in the year £m	Notional interest £m	Unused and reversed in the year £m	Utilised £m	Transfers (iv) £m	Exchange adjustments £m	31 December 2013 £m
Restructuring costs (i)	(129)	–	–	–	6	72	9	–	**(42)**
Decommissioning costs (ii)	(15)	–	–	–	–	29	(52)	–	**(38)**
Purchase contract loss provision (iii)	(77)	–	(13)	(4)	10	107	(111)	–	**(88)**
Other	(45)	–	(29)	–	–	12	(28)	–	**(90)**
	(266)	**–**	**(42)**	**(4)**	**16**	**220**	**(182)**	**–**	**(258)**

Non-current provisions for other liabilities and charges	1 January 2013 £m	Acquisitions and disposals £m	Charged in the year £m	Notional interest £m	Unused and reversed in the year £m	Revisions and additions £m	Transfers (iv) £m	Exchange adjustments £m	31 December 2013 £m
Restructuring costs (i)	(20)	–	–	(1)	–	–	6	–	**(15)**
Decommissioning costs (ii)	(2,156)	(325)	–	(54)	–	(214)	103	86	**(2,560)**
Purchase contract loss provision (iii)	(232)	–	(159)	(14)	–	–	111	(2)	**(296)**
Other	(72)	–	(15)	–	–	–	24	–	**(63)**
	(2,480)	**(325)**	**(174)**	**(69)**	**–**	**(214)**	**244**	**84**	**(2,934)**

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Notes to the Financial Statements – Operating Assets and Liabilities

21. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Included within the above liabilities are the following financial liabilities:

Financial liabilities 31 December	2013 Current £m	 Non-current £m	2012 Current £m	 Non-current £m
Restructuring costs (i)	**(42)**	**(15)**	(129)	(20)
Provisions other than restructuring costs	**(158)**	**(272)**	(66)	(135)
	(200)	**(287)**	(195)	(155)

(i) The brought forward restructuring provisions relate to restructuring programmes announced in prior years.
(ii) Provision has been made for the estimated net present cost of decommissioning gas production and storage facilities at the end of their useful lives. The estimate has been based on 2P reserves, price levels and technology at the balance sheet date. The timing of decommissioning payments is dependent on the lives of the facilities but is expected to occur by 2067, with the majority of the provision being utilised between 2020 and 2030.
(iii) The purchase contract loss provision relates to a number of European gas transportation contracts, the Rijnmond tolling contract and Direct Energy wind farm power purchase agreements. The majority of the provision is expected to be utilised by 2020.
(iv) Includes transfers to/from other Balance Sheet accounts including retirement benefit obligations and liabilities of disposal groups classified as held for sale.

22. POST RETIREMENT BENEFITS

The Group manages a number of final salary and career average defined benefit pension schemes. It also has defined contribution schemes. The majority of these schemes are in the UK.

(a) Summary of main post retirement benefit schemes

Name of scheme	Type of benefit	Status	Country	Number of active members as at 31 December 2013 (i)	Total membership as at 31 December 2013 (i)
Centrica Engineers Pension Scheme	Defined benefit final salary pension	Closed to new members in 2006	UK	4,614	8,730
	Defined benefit career average pension	Open to service engineers only	UK	3,672	4,375
Centrica Pension Plan	Defined benefit final salary pension	Closed to new members in 2003	UK	4,302	8,785
Centrica Pension Scheme	Defined benefit final salary pension	Closed to new members in 2003	UK	34	10,828
	Defined benefit career average pension	Closed to new members in 2008	UK	2,166	4,055
	Defined contribution pension	Open to new members	UK	13,462	14,903
Direct Energy Marketing Limited Pension Plan	Defined benefit final salary pension	Closed to new members in 2004	Canada	383	749
Direct Energy Marketing Ltd	Post-retirement benefits	Closed to new members in 2012	Canada	655	857

(i) For Direct Energy schemes, membership information is as at 31 December 2012.

The Centrica Engineers Pension Scheme (CEPS), Centrica Pension Plan (CPP) and Centrica Pension Scheme (CPS) form the significant majority of the Group's defined benefit obligation and are referred to below as the 'Registered Pension Schemes'. The other schemes are individually, and in aggregate, immaterial.

Independent valuations

The Registered Pensions Schemes are subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employer contributions which, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes.

The latest full actuarial valuations were carried out at the following dates: the Registered Pensions Schemes at 31 March 2012 and the Direct Energy Marketing Limited Pension Plan at 31 December 2012. These have been updated to 31 December 2013 for the purposes of meeting the requirements of IAS 19. Investments have been valued for this purpose at market value.

Governance

The Registered Pension Schemes are managed by trustee companies whose boards consist of both company-nominated and member-nominated Directors. Each scheme holds units in the Centrica Combined Common Investment Fund (CCCIF), which holds the majority of the combined assets of the participating schemes. The board of the CCCIF is currently comprised of nine Directors; three independent Directors, three Directors appointed by Centrica plc (including the Chairman) and one Director appointed by each of the three participating schemes.

Under the terms of the Pensions Act 2004, Centrica plc and each trustee board must agree the funding rate for its defined benefit pension scheme and a recovery plan to fund any deficit against the scheme-specific statutory funding objective. This approach was first adopted for the triennial valuations completed at 31 March 2006, and has been reflected in subsequent valuations, including the 31 March 2012 valuations.

22. POST RETIREMENT BENEFITS

(b) Risks

The Registered Pension Schemes expose the Group to the following risks:

Asset volatility

The pension liabilities are calculated using a discount rate set with reference to AA corporate bond yields; if the growth in plan assets is lower than this, this will create an actuarial loss within other equity. The CCCIF is responsible for managing the assets of each scheme in line with the liability related investment objectives that have been set by the trustees of the schemes, and invests in a diversified portfolio of assets. The schemes are relatively young in nature (the schemes opened in 1997 on the formation of Centrica plc on demerger from BG plc (formerly British Gas plc), and only took on liabilities in respect of active employees). Therefore, the CCCIF holds a significant proportion of return seeking assets; such assets are generally expected to provide a higher return than corporate bonds, but result in greater exposure to volatility and risk in the short-term. The investment objectives are to achieve a target return above a return based on a portfolio of gilts, subject to a maximum volatility ceiling. If there have been advantageous asset movements relative to liabilities above a set threshold, then de-risking is undertaken, and as a consequence the return target and maximum volatility ceiling are reduced. Whilst there is no explicit target for the level or rate of de-risking, the pace of de-risking is regularly monitored and is typically restricted to once a quarter.

Interest rate

A decrease in the bond interest rate will increase the net present value of the pension liabilities. The relative immaturity of the schemes means that the duration of the liabilities is longer than average for typical UK pension schemes, resulting in a relatively higher exposure to interest rate risk.

Inflation

Pensions in deferment, pensions in payment and pensions accrued under the career average schemes increase in line with the Retail Price Index and the Consumer Price Index. Therefore scheme liabilities will increase if inflation is higher than assumed, although in some cases caps are in place to limit the impact of significant movements in inflation.

Longevity

The majority of the schemes' obligations are to provide benefits for the life of scheme members and their surviving spouses; therefore increases in expected life expectancy will result in an increase in the pension liabilities. The relative immaturity of the schemes means that there is comparatively little observable mortality data to assess the rates of mortality experienced by the schemes, and means that the schemes' liabilities will be paid over a long period of time, making it particularly difficult to predict the life expectancy of the current membership. Furthermore, pension payments are subject to inflationary increases, resulting in a higher sensitivity to changes in life expectancy.

Salary

For final salary schemes, the pension liabilities are calculated by reference to the future salaries of active members, and hence salary rises in excess of assumed increases will increase scheme liabilities. During 2011 changes were introduced to the final salary sections of CEPS and CPP such that annual increases in pensionable pay are capped to 2%, resulting in a reduction in salary risk.

Foreign exchange

Certain of the assets held by the CCCIF are denominated in foreign currencies, and hence their values are subject to exchange rate risk.

The CCCIF has long-term hedging programmes in place to manage interest rate, inflation and foreign exchange risks.

The table below analyses the total liabilities of the Registered Pension Schemes, calculated in accordance with accounting principles, by type of liability, as at 31 December 2013.

Total liabilities of the Registered Pension Schemes 31 December	2013 %
Actives – final salary – capped	**29**
Actives – final salary – uncapped and crystallised benefits	**4**
Actives – career average	**5**
Deferred pensioners	**30**
Pensioners	**32**
	100

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22. POST RETIREMENT BENEFITS

(c) Accounting assumptions

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

Major assumptions used for the actuarial valuation **31 December**	**2013** **%**	2012 %
Rate of increase in employee earnings:		
Subject to cap	**1.7**	1.7
Other	**3.3**	3.2
Rate of increase in pensions in payment	**3.3**	3.2
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**2.3**	2.5
In line with RPI	**3.3**	3.2
Discount rate	**4.6**	4.8

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

		2013		2012
Life expectancy at age 65 for a member	**Male** **Years**	**Female** **Years**	Male Years	Female Years
Currently aged 65	**22.9**	**25.3**	22.8	25.2
Currently aged 45	**24.7**	**27.3**	24.6	27.2

The other demographic assumptions have been set having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuations of the pension schemes.

Reasonably possible changes as at 31 December to one of the actuarial assumptions would have affected the scheme liabilities as set out below:

		2013		2012
Impact of changing material assumptions	**Increase/** **decrease in** **assumption**	**Indicative effect** **on scheme** **liabilities** **%**	Increase/ decrease in assumption	Indicative effect on scheme liabilities %
Rate of increase in employee earnings subject to cap	**0.25%**	**+/–1**	0.25%	+/–1
Rate of increase in pensions in payment and deferred pensions	**0.25%**	**+/–5**	0.25%	+/–4
Discount rate	**0.25%**	**–/+6**	0.25%	–/+5
Inflation assumption	**0.25%**	**+/–5**	0.25%	+/–4
Longevity assumption	**1 year**	**+/–3**	1 year	+/–2

The indicative effects on scheme liabilities have been calculated by changing each assumption in isolation and assessing the impact on the liabilities. For the reasonably possible change in the inflation assumption, it has been assumed that a change to the inflation assumption would lead to corresponding changes in the assumed rates of increase in uncapped pensionable pay, pensions in payment and deferred pensions.

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

(d) Amounts included in the Group Balance Sheet

31 December	**2013** **£m**	2012 £m
Fair value of plan assets	**5,683**	5,133
Present value of defined benefit obligation	**(5,643)**	(5,045)
Net asset recognised in the Group Balance Sheet	**40**	88
Pension asset presented in the Group Balance Sheet as:		
Retirement benefit assets	**205**	254
Retirement benefit liabilities	**(165)**	(166)
Net pension asset	**40**	88

22. POST RETIREMENT BENEFITS

(e) Movement in the year

	2013 Pension liabilities £m	2013 Pension assets £m	2012 (restated) (i) Pension liabilities £m	2012 (restated) (i) Pension assets £m
1 January	**(5,045)**	**5,133**	(4,340)	4,670
Items included in the Group Income Statement:				
Current service cost	**(103)**	**–**	(84)	–
Contributions by employer in respect of employee salary sacrifice arrangements (ii)	**(19)**	**–**	–	–
Total current service cost	**(122)**	**–**	(84)	–
Interest (expense)/income (i)	**(242)**	**249**	(235)	254
Items included in the Group Statement of Comprehensive Income:				
Returns on plan assets, excluding interest income (i)	**–**	**187**	–	156
Actuarial loss from changes to demographic assumptions	**(64)**	**–**	(56)	–
Actuarial loss from changes in financial assumptions	**(311)**	**–**	(480)	–
Actuarial gain from experience adjustments	**9**	**–**	87	–
Exchange adjustments	**12**	**(6)**	2	(2)
Items included in the Group Cash Flow Statement:				
Employer contributions	**–**	**232**	–	187
Contributions by employer in respect of employee salary sacrifice arrangements (ii)	**–**	**19**	–	–
Other movements:				
Plan participants' contributions	**(7)**	**7**	(27)	27
Benefits paid from schemes	**138**	**(138)**	159	(159)
Transfers from provisions for other liabilities and charges	**(11)**	**–**	(71)	–
31 December	**(5,643)**	**5,683**	(5,045)	5,133

(i) See note 1(a).
(ii) A salary sacrifice arrangement was introduced on 1 April 2013 for pension scheme members. The contributions paid via the salary sacrifice arrangement have been treated as employer contributions, and included within current service cost, with a corresponding reduction in salary costs.

In addition to current service cost on the Group's defined benefit pension schemes, the Group also charged £32 million (2012: £13 million) to operating profit in respect of defined contribution pension schemes. This included £8 million (2012: nil) contributions paid via a salary sacrifice arrangement.

(f) Pension scheme assets

The market value of plan assets were:

31 December	2013 Quoted £m	2013 Unquoted £m	2013 Total £m	2012 Quoted £m	2012 Unquoted £m	2012 Total £m
Equities	**1,636**	**163**	**1,799**	1,756	146	1,902
Diversified asset funds	**305**	**98**	**403**	246	–	246
Corporate bonds	**1,571**	**–**	**1,571**	1,412	–	1,412
High-yield debt	**155**	**207**	**362**	173	151	324
Liability matching assets	**1,012**	**258**	**1,270**	1,005	22	1,027
Property	**–**	**271**	**271**	–	210	210
Cash pending investment	**7**	**–**	**7**	12	–	12
	4,686	**997**	**5,683**	4,604	529	5,133

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Notes to the Financial Statements – Operating Assets and Liabilities

22. POST RETIREMENT BENEFITS

Included within equities are £2 million (2012: £3 million) of ordinary shares of Centrica plc via pooled funds that include a benchmark allocation to UK equities. Included within corporate bonds are £4 million (2012: £3 million) of bonds issued by Centrica plc held within pooled funds over which the CCCIF has no ability to direct investment decisions. Apart from the investment in the Scottish Limited Partnerships described in note 22(g), no direct investments are made in securities issued by Centrica plc or any of its subsidiaries or property leased to or owned by Centrica plc or any of its subsidiaries.

Included within the Group Balance Sheet within non-current securities are £67 million (2012: £61 million) of investments, held in trust on behalf of the Group, as security in respect of the Centrica Unfunded Pension Scheme. Of the pension scheme liabilities above, £42 million (2012: £37 million) relate to this scheme. More information on the Centrica Unfunded Pension Scheme is included in the Remuneration Report on pages 65 to 82.

(g) Pension scheme contributions

Based on the latest triennial valuations at 31 March 2012, the Group and the trustees of the Registered Pension Schemes agreed to fund the scheduled deficit payments using asset-backed contribution arrangements. Under the arrangements, certain loans to UK Group companies were transferred to Scottish Limited Partnerships established by the Group. During the year the Group made special contributions to the Registered Pension Schemes of £360 million (31 December 2012: £84 million); the schemes immediately used these contributions to acquire interests in the partnerships for their fair value of £360 million (31 December 2012: £84 million). The schemes' total partnership interests now entitle them to distributions from the income of the partnerships over a period of between 4 and 15 years. £77 million was distributed in the year to 31 December 2013, £77 million per annum will be distributed from 2014 to 2016, and further reduced distributions will be made thereafter. The partnerships are controlled by and consolidated by the Group. As the trustees' interests in the partnerships do not meet the definition of a plan asset under IAS 19, they are not reflected in the Group Balance Sheet. Distributions from the partnerships to the schemes will be recognised as scheme assets in the future as they occur. A continuing £590 million charge over the Humber power station provides additional security for the trustees.

Deficit payments are also being made in respect of the Direct Energy Marketing Limited Pension Plan in Canada. £7 million was paid in the year to 31 December 2013 and £7 million per annum is to be paid until 2018.

The Group estimates that it will pay £100 million of ordinary employer contributions during 2014 at an average rate of 21% of pensionable pay, together with £25 million of contributions paid via the salary sacrifice arrangement. At 31 March 2012 (the date of the latest full actuarial valuations) the weighted average duration of the liabilities of the Registered Pensions Schemes was 24 years.

23. COMMITMENTS AND CONTINGENCIES

(a) Commitments

Commitments are not held on the Group's Balance Sheet as these are executory arrangements, and relate to amounts that we are contractually required to pay in the future as long as the other party meets its contractual obligations.

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

The total volume of gas to be taken under certain long-term structured contracts depends on a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis. The commitments disclosed below are based on the minimum quantities of gas 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 S3. Whilst the commitments in relation to commodity purchase contracts include all purchase contracts, only certain procurement and sales contracts are within the scope of IAS 39 and included in note S3. In addition, the volumes used in calculating the maturity analysis in note S3 are estimated using valuation techniques, rather than being based on minimum contractual quantities.

On 25 March 2013, the Group and Company announced that it had entered into a 20 year agreement with Cheniere to purchase 89bcf per annum of LNG volumes for export from the Sabine Pass liquefaction plant in the US, subject to a number of project milestones and regulatory approvals being achieved. Under the terms of the agreement the Group is committed to make capacity payments of up to £3.7 billion (included in 'LNG capacity' below) between 2018 and 2038. The Group may also make up to £6 billion of commodity purchases based on market gas prices and foreign exchange rates as at the balance sheet date. The target date for first commercial delivery is September 2018.

31 December	2013 £m	2012 £m
Commitments in relation to the acquisition of property, plant and equipment:		
Development of Norwegian oil and gas assets	**159**	283
Development of Cygnus gas field	**146**	88
Other capital expenditure	**51**	21
Commitments in relation to the acquisition of intangible assets:		
Renewable obligation certificates to be purchased from joint ventures (i)	**1,169**	1,376
Renewable obligation certificates to be purchased from other parties	**1,516**	784
Other intangible assets	**205**	147
Other commitments:		
Commodity purchase contracts	**49,831**	51,933
LNG capacity	**4,452**	844
Transportation capacity	**939**	936
Outsourcing of services	**226**	277
Commitments to invest in joint ventures	**130**	174
Energy Company Obligation	**255**	–
Power station tolling fees	**125**	–
Smart meters	**62**	6
Power station operating and maintenance	**138**	150
Other long-term commitments	**333**	406
Operating lease commitments:		
Future minimum lease payments under non-cancellable operating leases	**975**	974

(i) Renewable obligation certificates are purchased from several joint ventures which produce power from wind energy under long-term off-take agreements (up to 15 years). The commitments disclosed above are the gross contractual commitments and do not take into account the Group's economic interest in the joint venture.

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Notes to the Financial Statements – Operating Assets and Liabilities

23. COMMITMENTS AND CONTINGENCIES

At 31 December the maturity analyses for commodity purchase contract commitments and the total minimum lease payments under non-cancellable operating leases were:

	Commodity purchase contracts commitments		Total minimum lease payments under non-cancellable operating leases	
31 December	**2013 £billion**	2012 £billion	**2013 £m**	2012 £m
<1 year	**11.1**	9.2	**217**	222
1–2 years	**8.1**	7.2	**138**	98
2–3 years	**5.8**	5.9	**89**	82
3–4 years	**3.8**	5.1	**64**	64
4–5 years	**3.7**	3.0	**54**	54
>5 years	**17.3**	21.5	**413**	454
	49.8	51.9	**975**	974

Operating lease payments recognised as an expense in the year were as follows:

Year ended 31 December	**2013 £m**	2012 £m
Minimum lease payments (net of sub-lease receipts)	**112**	125
Contingent rents – renewables [(i)]	**109**	130

(i) The Group has entered into long-term arrangements with renewable providers to purchase physical power, renewable obligation certificates and levy exemption certificates from renewable sources. Payments made under these contracts are contingent upon actual production and so there is no commitment to a minimum lease payment (2012: nil). Payments made for physical power are charged to the Income Statement as incurred and disclosed as contingent rents.

(b) Guarantees and indemnities

This section discloses any guarantees and indemnities that the Group has given, where we may have to provide security in the future against existing and future obligations that will remain for a specific period.

In connection with the Group's energy trading, transportation and upstream activities, certain Group companies have entered into contracts under which they may be required to prepay, provide credit support or provide other collateral in the event of a significant deterioration in creditworthiness. The extent of credit support is contingent upon the balance owing to the third party at the point of deterioration.

The Group has provided a number of guarantees and indemnities in respect of decommissioning costs; the two most significant indemnities relate to the decommissioning costs associated with the Morecambe and Statfjord fields. These indemnities are to the previous owners of these fields. Under the licence conditions of the fields, the previous owners will have exposure to the decommissioning costs should these liabilities not be fully discharged by the Group.

Security is to be provided when the estimated future net revenue stream from the associated gas field falls below a predetermined proportion of the estimated decommissioning cost. The nature of the security may take a number of different forms and will remain in force until the costs of such decommissioning have been irrevocably discharged and the relevant legal decommissioning notices in respect of the relevant fields have been revoked.

(c) Contingent liabilities

There are no material contingent liabilities other than those disclosed in note 12.

24. SOURCES OF FINANCE

(a) Capital structure

The Group seeks to maintain an efficient capital structure with a balance of debt and equity as shown in the below table:

31 December	2013 £m	2012 £m
Net debt	**5,049**	4,047
Equity	**5,192**	5,927
Capital	**10,241**	9,974

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 for several reasons, to maintain a low cost of debt; limit collateral requirements in energy trading, hedging and decommissioning security arrangements; and ensure the Group is an attractive counterparty to energy producers and long-term customers. At 31 December 2013, the Group's long-term credit rating was A3 stable outlook for Moody's Investors Service Limited and A- stable outlook for Standard & Poor's Credit Market Services Europe Limited. These ratings did not change during 2013.

The Group monitors its current and projected capital position on a regular basis, considering a medium-term view of three to five years, and different stress case scenarios, including the impact of changes in the Group's credit ratings and significant movements in commodity prices. A number of financial ratios are monitored, including those used by the credit rating agencies, such as debt to cash flow ratios and adjusted EBITDA to gross interest expense. At 31 December 2013, the ratio of the Group's net debt to adjusted EBITDA was 1.3 (2012: 1.1). Adjusted EBITDA to gross interest expense for the year ended 31 December 2013 was 12.8 (2012: 13.5). The Group now has a new financial covenant in some of its debt facilities, which restricts adjusted net borrowings to less than 3.5 times adjusted EBITDA. At 31 December 2013 the ratio was 1.4 times.

British Gas Insurance Limited (BGIL) is required under PRA regulations to hold a minimum capital amount and has complied with this requirement in 2013 (and 2012). For the remainder of the Group, the level of debt that can be raised is restricted by the Company's Articles of Association. Net debt is limited to the greater of £5.0 billion and a gearing ratio of three times adjusted capital and reserves. Based on adjusted capital and reserves as at 31 December 2013 of £5.2 billion, the limit for net debt was £15.6 billion. The Group funds its debt principally through issuing bonds, supplemented by some bank debt. In addition the Group also maintains substantial committed facilities from banks but generally uses these to provide backup liquidity and does not typically draw on them.

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Notes to the Financial Statements – Capital Structure and Financing

24. SOURCES OF FINANCE

(b) Net debt summary

Net debt includes predominately capital market borrowings offset by cash, securities and certain hedging financial instruments used to manage interest rate and foreign exchange movements on borrowings.

	Cash and cash equivalents (i) £m	Current and non-current securities (ii) £m	Current and non-current borrowings £m	Derivatives £m	Net debt £m
1 January 2012	518	218	(4,171)	143	(3,292)
Cash inflow from sale of securities	26	(26)	–	–	–
Cash inflow from issued bonds and bank loans	1,712	–	(1,712)	–	–
Cash outflow from payment of capital element of finance leases	(31)	–	31	–	–
Cash outflow from repayment of other borrowings	(471)	–	471	–	–
Cash outflow from derivatives	(14)	–	–	14	–
Net cash outflow increasing net debt	(809)	–	39	–	(770)
Revaluation	–	10	2	(12)	–
Increase in interest payable and amortisation of borrowings	–	–	(41)	–	(41)
Acquisitions	–	5	–	–	5
Exchange adjustments	–	(1)	48	(1)	46
Other non-cash movements	–	–	5	–	5
31 December 2012	931	206	(5,328)	144	(4,047)
Cash outflow from purchase of securities	(8)	8	–	–	**–**
Cash inflow from issued bonds and commercial paper	1,209	–	(1,209)	–	**–**
Cash outflow from payment of capital element of finance leases	(30)	–	30	–	**–**
Cash outflow from repayment of other borrowings	(370)	–	370	–	**–**
Net cash outflow increasing net debt	(1,003)	–	–	–	**(1,003)**
Revaluation	–	(2)	87	(96)	**(11)**
(Increase)/decrease in interest payable and amortisation of borrowings	–	–	(11)	4	**(7)**
Exchange adjustments	(10)	(1)	30	–	**19**
31 December 2013	**719**	**211**	**(6,031)**	**52**	**(5,049)**

(i) Cash and cash equivalents includes £235 million (2012: £241 million) of restricted cash mostly held by the Group's insurance undertakings that is not readily available to be used for other purposes within the Group.
(ii) Securities balances include £126 million (2012: £130 million) of index-linked gilts which the Group uses for short-term liquidity management purposes and £85 million of available-for-sale financial assets (2012: £76 million). During the year the Group pledged £28 million of non-current securities as collateral against an index-linked swap maturing on 16 April 2020.

24. SOURCES OF FINANCE

(c) Borrowings summary

31 December	Coupon rate %	Principal m	2013 Current £m	2013 Non-current £m	2013 Total £m	2012 (restated) (i) Current £m	2012 (restated) (i) Non-current £m	2012 (restated) (i) Total £m
Bank overdrafts and loans (i)			**(16)**	**(305)**	**(321)**	(31)	(336)	(367)
Bonds (by maturity date): (i)								
27 February 2013	1.045	¥3,000	**–**	**–**	**–**	(22)	–	(22)
9 December 2013	7.125	€367	**–**	**–**	**–**	(304)	–	(304)
4 November 2014	Floating	$100	**(60)**	**–**	**(60)**	–	(61)	(61)
10 December 2014	5.125	£315	**(323)**	**–**	**(323)**	–	(331)	(331)
31 March 2015	Floating	$70	**–**	**(42)**	**(42)**	–	(43)	(43)
24 October 2016	5.500	£300	**–**	**(321)**	**(321)**	–	(334)	(334)
19 September 2018	7.000	£400	**–**	**(443)**	**(443)**	–	(471)	(471)
1 February 2019	3.213	€100	**–**	**(83)**	**(83)**	–	(81)	(81)
25 September 2020	Floating	$80	**–**	**(48)**	**(48)**	–	–	–
22 February 2022	3.680	HK$450	**–**	**(35)**	**(35)**	–	(36)	(36)
10 March 2022	6.375	£500	**–**	**(490)**	**(490)**	–	(501)	(501)
16 October 2023	4.000	$750	**–**	**(444)**	**(444)**	–	–	–
4 September 2026	6.400	£200	**–**	**(212)**	**(212)**	–	(224)	(224)
16 April 2027	5.900	$70	**–**	**(42)**	**(42)**	–	(43)	(43)
13 March 2029	4.375	£750	**–**	**(740)**	**(740)**	–	(740)	(740)
5 January 2032 (ii)	Zero	€50	**–**	**(46)**	**(46)**	–	(41)	(41)
19 September 2033	7.000	£770	**–**	**(762)**	**(762)**	–	(762)	(762)
16 October 2043	5.375	$600	**–**	**(356)**	**(356)**	–	–	–
12 September 2044	4.250	£500	**–**	**(489)**	**(489)**	–	(489)	(489)
12 September 2044	4.250	£50	**–**	**(47)**	**(47)**	–	–	–
25 September 2045	5.250	$50	**–**	**(30)**	**(30)**	–	–	–
			(383)	**(4,630)**	**(5,013)**	(326)	(4,157)	(4,483)
Commercial paper			**(325)**	**–**	**(325)**	(82)	–	(82)
Obligations under finance leases			**(32)**	**(237)**	**(269)**	(30)	(269)	(299)
Interest accruals (i)			**(103)**	**–**	**(103)**	(97)	–	(97)
			(859)	**(5,172)**	**(6,031)**	(566)	(4,762)	(5,328)

(i) See note 1(a).
(ii) €50 million of zero coupon notes have an accrual yield of 4.200%, which will result in a €114 million repayment on maturity.

Maturity analysis for non-current bank loans at 31 December	2013 £m	2012 £m
1–2 years	**–**	(15)
2–5 years	**(90)**	–
>5 years	**(215)**	(321)
	(305)	(336)

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Notes to the Financial Statements – Capital Structure and Financing

24. SOURCES OF FINANCE

(d) Liquidity risk management and going concern

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

At 31 December 2013, the Group had undrawn committed credit facilities of £3,780 million (2012: £3,029 million) and £484 million (2012: £690 million) of unrestricted cash and cash equivalents. 113% (2012: 130%) 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 13.8 years (2012: 12.6 years).

The Group's liquidity is impacted by the cash pledged or received under margin and collateral agreements. The terms and conditions of these depend on the counterparty and the specific details of the transaction. Cash is generally returned to the Group or by the Group within two days of trade settlement. The table below summarises the movements in margin cash:

	2013 £m	2012 £m
Net cash pledged as collateral at 1 January	**(102)**	(219)
Net cash inflow	**82**	114
Acquisition of businesses	**(93)**	(4)
Foreign exchange	**6**	7
Net cash pledged as collateral at 31 December (i)	**(107)**	(102)

(i) Of the net cash collateral pledged, £53 million (2012: £23 million) is included within trade payables and £160 million (2012: £125 million) within trade receivables.

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 64.

25. SHARE CAPITAL

Ordinary share capital represents the total number of shares issued which are publicly traded. We also disclose the number of own and treasury shares the Company holds, which the Company has bought itself, principally as part of the share repurchase programme.

Allotted and fully paid share capital of the Company

31 December	**2013 £m**	2012 £m
5,199,929,692 ordinary shares of 6$^{14}/_{81}$ pence each (2012: 5,199,019,674)	**321**	321

The number of allotted and fully paid shares of the Company issued under employee share schemes for the year was 1 million (2012: 26 million). 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:

	2013	2012
Number of shares (millions)	**1**	26
Nominal value (£million)	**–**	2
Cash consideration (£million)	**2**	33
Service consideration (£million)	**–**	24

The closing price of one Centrica ordinary share on 31 December 2013 was 347.70 pence (2012: 333.60 pence). Centrica employee share ownership trusts purchase Centrica ordinary shares from the open market and receive newly issued shares and treasury shares to satisfy future obligations of certain employee share schemes. The movements in own and treasury shares during the year are shown below:

	Own shares		Treasury shares	
	2013 Million shares	2012 Million shares	**2013 Million shares**	2012 Million shares
1 January	**6.2**	7.3	**–**	–
Shares purchased	**3.3**	2.2	**137.3**	–
Newly allotted shares received	**0.5**	5.8	**–**	–
Treasury shares placed into trust	**2.1**	–	**(2.1)**	–
Shares released to employees on vesting	**(5.7)**	(9.1)	**(16.1)**	–
31 December (i)	**6.4**	6.2	**119.1**	–

(i) The closing value of own shares was £21 million (2012: £19 million) and the closing value of treasury shares was £435 million (2012: nil).

26. EVENTS AFTER THE BALANCE SHEET DATE

The Group updates disclosures in light of new information being received, or a significant event occurring, in the period between 31 December 2013 and the date of this report.

Disposals

In October 2013, the Group agreed to sell its Greater Kittiwake upstream gas assets to Enquest Heather Limited, for cash consideration of $40 million (£24 million) plus contingent consideration. This transaction is expected to complete in February 2014.

On 18 December 2013, the Group announced that it had agreed to sell its Texas gas-fired power stations to Blackstone for $685 million (£420 million) in cash. This transaction completed on 22 January 2014.

Share repurchase programme

On 18 December 2013, the Group announced that it will return the proceeds from the sale of the Texas gas-fired power stations to shareholders through a £420 million extension of its share repurchase programme, which will be conducted during 2014.

Dividends

The Directors propose a final dividend of 12.08 pence per ordinary share (totalling £614 million) for the year ended 31 December 2013. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 12 May 2014 and, subject to approval, will be paid on 11 June 2014 to those shareholders registered on 25 April 2014.

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Supplementary information includes additional information and disclosures we are required to make by accounting standards or regulation.

S1. GENERAL INFORMATION

Centrica plc is a Company domiciled and incorporated in the UK. The address of the registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD. The nature of the Group's operations and principal activities are set out in note 4(a) and on pages 6 to 48.

The consolidated Financial Statements of Centrica plc are presented in pounds sterling. Operations and transactions conducted in currencies other than pounds sterling are included in the consolidated Financial Statements in accordance with the foreign currencies accounting policy set out in note S2.

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This section sets out the Group's significant accounting policies in addition to the critical accounting policies applied in the preparation of these consolidated Financial Statements. These accounting policies have been consistently applied to the years presented.

Income Statement presentation

The Group'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.

Basis of consolidation

The Group Financial Statements consolidate the Financial Statements of the Company and entities controlled by the Company. Subsidiaries are all entities (including structured entities) over which the Group has control. Control is exercised over an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Transactions with non-controlling interests which relate to their ownership interests and do not result in a loss of control are accounted for as equity transactions.

The results of subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition (at which point the Group gains control over a business as defined by IFRS 3 (Revised (2008)) and applies the acquisition method to account for the transaction as a business combination) or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the Financial Statements of subsidiaries, associates and joint ventures to align the accounting policies with those used by the Group.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as a joint venture, associate or financial asset.

Segmental reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to and regularly reviewed by the Group's Executive Committee for the purposes of evaluating segment performance and allocating resources.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably. Revenue includes amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates, VAT and other sales-related taxes.

Energy supply: revenue is recognised on the basis of energy supplied during the year. Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity is estimated using historical consumption patterns, taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and is included in accrued energy income within trade and other receivables.

Proprietary energy trading: revenue comprises both realised (settled) and unrealised (fair value changes) net gains and losses from trading in physical and financial energy contracts.

Fixed-fee service and insurance contracts: revenue from these contracts is recognised in the Group Income Statement with regard to the incidence of risk over the life of the contract, reflecting the seasonal propensity of claims to be made under the contracts and the benefits receivable by the customer, which span the life of the contract as a result of emergency maintenance being available throughout the contract term.

Amounts paid in advance are treated as deferred income, with any amount in arrears recognised as accrued income. For one-off services, such as installations, revenue is recognised at the date of service provision.

Storage services: storage capacity revenues are recognised evenly over the contract period, whilst commodity revenues for the injection and withdrawal of gas are recognised at the point of gas flowing into or out of the storage facilities. Gas purchases and gas sales transactions entered into to optimise the performance of the gas storage facilities are presented net within revenue.

Upstream production: revenue associated with exploration and production sales (of natural gas, crude oil and condensates) is recognised when title passes to the customer. Revenue from the production of natural gas, oil and condensates in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production sharing arrangements (the entitlement method). Where differences arise between production sold and the Group's share of production, this is accounted for as an overlift or underlift (see separate accounting policy). Purchases and sales entered into to optimise the performance of production facilities are presented net within revenue.

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Power generation: revenue is recognised on the basis of power supplied during the period. Power purchases and sales entered into to optimise the performance of power generation facilities are presented net within revenue.

Interest income: interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

Cost of sales

Energy supply includes the cost of gas and electricity produced and purchased during the year taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and related transportation, distribution, royalty costs and bought-in materials and services.

Cost of sales relating to fixed-fee service and insurance contracts includes direct labour and related overheads on installation work, repairs and service contracts in the year.

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.

Employee share schemes

The Group operates a number of employee share schemes, detailed in the Remuneration Report on pages 65 to 82, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

The majority of the share-based payment charge arises from three schemes. More information is included in the Remuneration Report on pages 65 to 82.

Deferred Matching Share Scheme (DMSS):

- Applicable employees: Senior Executive Group.
- Vesting period of four years, comprising bonus year and three-year performance period.
- Participants must defer between 20% and 40% of annual pre-tax bonus into scheme (deferred shares) and can elect to invest additional amounts of annual bonus up to a maximum of 50% of total potential bonus (investment shares).
- Deferred and investment shares will be matched with conditional shares. On achievement of performance targets over three-year period, matching shares are either released immediately or delivered as nil cost options exercisable for seven years.
- Performance measured through Group and segment Economic Profit (EP) targets.
- Leaving prior to vesting date will normally mean forfeiting rights to deferred shares.

Long Term Incentive Scheme (LTIS):

- Applicable employees: senior management.
- Vesting period of three years following grant date.
- Grants after 2012: number of shares calculated according to EPS, Group EP, TSR and non-financial KPI's.
- Grants before 2012: number of shares calculated according to EPS growth and TSR.
- Following the end of the assessed performance period, and subject to continued employment at that date, shares are either released immediately or delivered as nil cost options exercisable for seven years.

Share Award Scheme (SAS):

- Applicable employees: middle management.
- Shares vest subject to continued employment within the Group in two stages: half after two years, the other half after three years.

Fair value is measured using methods appropriate to each of the different schemes as follows:

LTIS: EPS, EP and KPI awards	Market value on the date of grant
LTIS: TSR awards	A Monte Carlo simulation to predict the total shareholder return performance
SAS and DMSS	Market value on the date of grant

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S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currencies

The consolidated Financial Statements are presented in pounds sterling, which is the functional currency of the Company and the Group's presentation 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 Group Income Statement for the period. In previous periods, the Group utilised net investment hedging. Exchange differences on foreign currency borrowings that provided a hedge against a net investment in a foreign entity were taken directly to equity. Upon the disposal or partial disposal of the net investment, any related amounts are recognised in the Group Income Statement. The Group no longer uses net investment hedging but the historic exchange differences remain in equity until the disposal of the specific investment.

Non-monetary items that are measured in terms of historical cost in a currency other than the functional currency of the entity concerned are translated using the exchange rates as at the dates of the initial transactions.

For the purpose of presenting consolidated Financial Statements, the assets and liabilities of the Group's non-sterling functional currency subsidiary undertakings, jointly controlled entities and associates are translated into pounds sterling at exchange rates prevailing on the Balance Sheet date. The results of these (generally foreign) subsidiary undertakings, jointly controlled entities and associates are translated into pounds sterling at average rates of exchange for the relevant period. The relevant exchange rates are shown below:

Exchange rate per pound sterling (£)	Closing rate at 31 December		Average rate for the year ended 31 December	
	2013	2012	**2013**	2012
US dollars	**1.66**	1.62	**1.57**	1.59
Canadian dollars	**1.76**	1.62	**1.62**	1.59
Euro	**1.20**	1.23	**1.18**	1.23
Norwegian kroner	**10.04**	9.03	**9.22**	9.22

Exchange differences arising from the retranslation of the opening net assets and results of non-sterling functional currency operations are transferred to the Group's foreign currency translation reserve, a separate component of equity, and are reported in the Statement of Comprehensive Income. In the event of the disposal of an undertaking with assets and liabilities denominated in a foreign currency, the cumulative translation difference arising in the foreign currency translation reserve is charged or credited to the Group Income Statement on disposal.

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the acquisition method (at the point the Group gains control over a business as defined by IFRS 3 (Revised (2008)): business combinations). The cost of the acquisition is measured as the cash paid and the aggregate of the fair values, at the date of exchange, of other assets transferred, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement at the acquisition date.

Acquisition-related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (Revised (2008)): 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. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Goodwill arising on a business combination represents the excess of the consideration transferred, the amount of the non-controlling interest and the acquisition date fair value of any previously held interest in the acquiree over the Group's interest in the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of a stake in a joint venture or an associate represents the excess of the consideration transferred over the Group's interest in the fair value of the identifiable assets and liabilities of the investee at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The goodwill arising on an investment in a joint venture or in an associate is shown under 'interests in joint ventures and associate' in the Group Balance Sheet. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the Group Income Statement.

On disposal of a subsidiary, associate or joint venture entity, any amount of goodwill attributed to that entity is included in the determination of the profit or loss on disposal.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include contractual customer relationships, brands, application software, emissions trading schemes, renewable obligation certificates, and certain exploration and evaluation expenditures, the accounting policies for which are dealt with separately below. For purchased application software, for example investments in customer relationship management and billing systems, cost includes contractors' charges, materials, directly-attributable labour and directly-attributable overheads.

Capitalisation begins when expenditure for the asset is being incurred and activities necessary to prepare the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Amortisation commences at the point of commercial deployment. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset could be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for on a prospective basis by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from their use.

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the intangible asset could be impaired, either individually or at the CGU level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The amortisation periods for the principal categories of intangible assets are as follows:

Contractual customer relationships	up to 20 years
Strategic identifiable acquired brand	indefinite
Application software	up to 15 years
Licences	up to 20 years

EU Emissions Trading Scheme and renewable obligation certificates

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 at the market price of allowances ruling at the Balance Sheet date, with movements in the liability recognised in operating profit.

Forward contracts for the purchase or sale of carbon dioxide emissions allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the Group Income Statement. The intangible asset is surrendered and the liability is utilised at the end of the compliance period to reflect the consumption of economic benefits.

Purchased renewable obligation certificates are recognised initially at cost within intangible assets. A liability for the renewables obligation is recognised based on the level of electricity supplied to customers, and is calculated in accordance with percentages set by the UK Government and the renewable obligation certificate buyout price for that period.

The intangible asset is surrendered and the liability is utilised at the end of the compliance period to reflect the consumption of economic benefits. Any recycling benefit related to the submission of renewable obligation certificates is recognised in the Group Income Statement when received.

Exploration, evaluation, development and production assets

The Group uses the successful efforts method of accounting for exploration and evaluation expenditure. Exploration and evaluation expenditure associated with an exploration well, including acquisition costs related to exploration and evaluation activities, are capitalised initially as intangible assets. Certain expenditures such as geological and geophysical exploration costs are expensed. If the prospects are subsequently determined to be successful on completion of evaluation, the relevant expenditure including licence acquisition costs is transferred to PP&E 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 PP&E. Such costs relate to the acquisition and installation of production facilities and include development drilling costs, project-related engineering and other technical services costs. PP&E, including rights and concessions related to production activities, are depreciated from the commencement of production in the fields concerned, using the unit of production method, based on all of the 2P reserves of those fields. Changes in these estimates are dealt with prospectively.

The net carrying value of fields in production and development is compared on a field-by-field basis with the likely discounted future net revenues to be derived from the remaining commercial reserves. An impairment loss is recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues. Exploration assets are reviewed annually for indicators of impairment and production and development assets are tested annually for impairment.

Interests in joint arrangements and associates

Under IFRS 11, joint arrangements are those that convey joint control which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Associates are investments over which the Group has significant influence but not control or joint control, and generally holds between 20% and 50% of the voting rights. The Group's joint ventures and associates (as defined in note 6) are accounted for using the equity method.

Under the equity method, investments are carried at cost plus post-acquisition changes in the Group's share of net assets, less any impairment in value in individual investments. The Group Income Statement reflects the Group's share of the results of operations after tax and interest. Accounting policies of the joint ventures and associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Upon initial acquisition goodwill may arise and is recognised within 'interests in joint ventures and associates' in the Group Balance Sheet.

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The Group's interests in joint operations (e.g. exploration and production arrangements) are accounted for by recognising its assets (including its share of assets held jointly), its liabilities (including its share of liabilities incurred jointly), its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation and its expenses (including its share of any expenses incurred jointly).

Where the Group has an equity stake or a participating interest in operations governed by a joint arrangement for which it is acting as operator, an assessment is carried out to confirm whether the Group is acting as agent or principal. As the terms and conditions negotiated between business partners usually provide joint control to the parties over the relevant activities of the oil and gas fields and/or wind farms that are governed by joint arrangements, the Group is usually deemed to be an agent when it is appointed as operator and not a principal (as the contracts entered into do not convey control to the parties). Accordingly, the Group recognises its equity share of these arrangements in accordance with the above accounting policy.

Property, plant and equipment

PP&E is included in the Group Balance Sheet at cost, less accumulated depreciation and any provisions for impairment. The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Subsequent expenditure in respect of items of PP&E such as the replacement of major parts, major inspections or overhauls, are capitalised as part of the cost of the related asset where it is probable that future economic benefits will arise as a result of the expenditure and the cost can be reliably measured. All other subsequent expenditure, including the costs of day-to-day servicing, repairs and maintenance, is expensed as incurred.

Freehold land is not depreciated. Other PP&E, with the exception of upstream production assets (see above), are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives. The depreciation periods for the principal categories of assets are as follows:

Freehold and leasehold buildings	up to 50 years
Plant	5 to 20 years
Equipment and vehicles	3 to 10 years
Power stations and wind farms	up to 30 years
Gas storage	up to 40 years

Assets held under finance leases are depreciated over their expected useful economic lives on the same basis as for owned assets, or where shorter, the lease term.

The carrying values of PP&E are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Residual values and useful lives are reassessed annually and if necessary changes are accounted for prospectively.

Impairment of property, plant and equipment, intangible assets, investments in joint ventures and associates and goodwill

The Group reviews the carrying amounts of PP&E, intangible assets, interests in joint ventures and associates and goodwill annually, or more frequently if events or changes in circumstances indicate that the recoverable amounts may be lower than their carrying amounts. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount is the higher of value in use (VIU) and fair value less costs to sell (FVLCS).

At inception, goodwill is allocated to each of the Group's CGUs or groups of CGUs that expect to benefit from the business combination in which the goodwill arose. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. Any impairment is expensed immediately in the Group Income Statement. Any CGU impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

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, with the exception of goodwill impairment which is never reversed. Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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 (or CGU) in prior years. A reversal of an impairment loss is recognised in the Group Income Statement 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.

Value in use calculations have been used to determine recoverable amounts for all of the goodwill and indefinite-lived intangible asset balances with the exception of the impairment tests for the Centrica Energy – Upstream gas and oil CGUs, where fair value less costs to sell has been used as the basis for determining recoverable amount. This methodology is deemed to be more appropriate as it is based on the post-tax cash flows arising from the underlying assets and is consistent with the approach taken by management to evaluate the economic value of the underlying assets. Further details of the VIU and FVLCS calculation assumptions are provided below. The FVLCS section is also relevant to how the Upstream gas and oil property, plant and equipment impairments, as detailed in note 7, were calculated.

(a) VIU – Key assumptions used

The VIU calculations use pre-tax cash flow projections based on the Group's Board-approved three-year business plans. The Group's business plans are based on past experience, and adjusted to reflect market trends, economic conditions, key risks, the implementation of strategic objectives and changes in commodity prices, as appropriate. Commodity prices used in the planning process are based in part on observable market data and in

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part on internal estimates. The extent to which the commodity prices used in the business plans are based on observable market data is determined by the extent to which the market for the underlying commodity is judged to be active. Note S6 provides additional detail on the active period of each of the commodity markets in which the Group operates.

(i) VIU – Growth rates and discount rates

Cash flows beyond the three-year plan period have been extrapolated using long-term growth rates in the market where the CGU operates. Long-term growth rates are determined using a blend of publicly available historical data and long-term growth rate forecasts published by external analysts. Cash flows are discounted using a discount rate specific to each CGU. Discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital of each CGU. Additionally, risks specific to the cash flows of the CGUs are reflected within cash flow forecasts. Each CGU's weighted average cost of capital is then adjusted to reflect the impact of tax in order to calculate an equivalent pre-tax discount rate.

Long-term growth rates and pre-tax discount rates used in the VIU calculations for each of the Group's CGUs are provided in the table below:

2013	**British Gas – Business energy supply and services**	**British Gas – Residential services**	**Direct Energy – Residential energy supply (i)**	**Direct Energy – Business energy supply (i)**	**Direct Energy – Residential and business services (i)**
Growth rate to perpetuity	**2.1%**	**2.1%**	**2.2%**	**2.2%**	**2.2%**
Pre-tax discount rate	**7.4%**	**7.4%**	**8.4%/8.0%**	**8.4%/8.0%**	**8.4%/8.0%**

(i) US/Canada respectively.

2012	British Gas – Business energy supply and services	British Gas – Residential services	Direct Energy – Residential energy supply	Direct Energy – Business energy supply	Direct Energy – Residential and business services
Growth rate to perpetuity	1.9%	1.9%	2.0%	2.0%	2.0%
Pre-tax discount rate	7.5%	7.5%	8.5%	8.5%	8.5%

(ii) VIU – Inflation rates

Inflation rates used in the three-year business plan were based on a blend of a number of publicly available inflation forecasts for the UK, Canada and the US. Inflation rates used for the value in use calculations were as follows: UK: 2.2% (2012: 1.9%), Canada: 2.0% (2012: 2.0%) and the US: 2.2% (2012: 2.3%).

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(iii) Key operating assumptions by CGUs using VIU

The key operating assumptions across all CGUs are Gross margin, Revenues and Operating costs. Each of these assumptions is tailored to the specific CGU using management's knowledge of the environment, as shown in the table below:

CGU	Gross margin	Revenues	Operating costs
British Gas – Business energy supply and services	Existing customers: based on contractual terms. New customers and renewals: based on gross margins achieved in the period leading up to date of the business plan. Both adjusted for current market conditions and transportation cost inflation.	Market share: percentage immediately prior to business plan. Adjusted for: growth forecasts which are based on sales and marketing activity and recent customer acquisitions. Gas and electricity revenues based on forward market prices.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Credit losses: historical assumptions regarding provisions have been updated to reflect the current UK environment.
British Gas – Residential services	Future sales: based on percentages achieved in the period up to the approval of the business plan.	Market share: percentage immediately prior to business plan. Adjusted for: change in growth rates to reflect the current economic environment in the UK.	Wages: projected headcount in line with expected efficiency program.
Direct Energy – Residential energy supply	Existing customers: based on contractual terms. New customers and renewals: based on gross margins achieved in the period leading up to date of the business plan. Adjusted for: competitor data. Regulated gross margin percentages are based on regulatory applications submitted to the Alberta Utilities Commission in Canada.	Market share: average percentage immediately prior to business plan. Adjusted for: expectations of growth or decline to reflect regulatory or competitive differences. This includes a continued decline in Ontario revenues as a result of the challenging regulatory environment.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Future developments: slight reduction in costs to reflect planned business process efficiencies. Customer acquisition: based on experience of costs required to support acquisition, renewal and other servicing activities.
Direct Energy – Business energy supply	Existing customers: based on contractual terms. New customers and renewals: based on gross margins achieved historically.	Market share: based on historical growth trends and planned sales activities by individual market sector. Adjusted for: prices based on contractual terms for fixed price contracts and forward market curves for both gas and electricity in Canada and the US.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Future developments: reduction in costs to reflect expected savings. Customer acquisition: based on experience of costs required to support acquisition, renewal and other servicing activities.
Direct Energy – Residential and business services	New customers and renewals: based on gross margins achieved in the period leading up to date of the business plan. Adjusted for: current economic conditions including lower Canadian consumer confidence and weak housing markets in Canada and the US.	Market share: based on historical growth trends by individual market sector. Adjusted for: new product offerings and continued penetration into new markets.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Credit losses: historical assumptions regarding provisions have been updated to reflect the current North American environment.

(b) FVLCS discount rate and cash-flow assumptions, Centrica Energy – Upstream gas and oil production

FVLCS is determined by discounting the post-tax cash flows expected to be generated by the gas and oil production and development assets, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows are derived from projected production profiles of each field, taking into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on internal model inputs. Note S6 provides additional detail on the active period of each of the commodity markets in which the Group operates. The date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, production costs, the contractual duration of the licence area and the selling price of the gas and liquids produced. As each field has specific reservoir characteristics and economic circumstances, the post-tax cash flows for each field are computed using individual economic models. Post-tax cash flows used in the FVLCS calculation for the first three years are based on the Group's Board-approved three-year business plans and, thereafter, are based on long-term production and cash flow forecasts.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 9% (2012: 7.5% to 8.5%) to determine the FVLCS. The discount rate and inflation rate used in the FVLCS calculation are determined in the same manner as the rates used in the VIU calculations described above, with the exception of the adjustment required to determine an equivalent pre-tax discount rate.

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For goodwill, if the FVLCS of the relevant CGU, derived using the above assumptions, shows limited (or negative) impairment headroom, the FVLCS is then recalculated with reference to external analyst valuation reports. The FVLCS is taken as the higher of these figures.

Overlift and underlift

Off-take 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.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset or assets. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are capitalised and included in PP&E at their fair value, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within bank loans and other borrowings, with the amount payable within 12 months included in bank overdrafts and loans within current liabilities.

Lease payments are apportioned between finance charges and reduction of the finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Payments under operating leases are charged to the Group Income Statement on a straight-line basis over the term of the relevant lease.

Inventories

Inventories are valued on a weighted-average cost basis and at the lower of cost and estimated net realisable value after allowance for redundant and slow-moving items.

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning gas and oil production facilities at the end of the producing lives of fields, and storage facilities and power stations at the end of their useful lives, based on price levels and technology at the Balance Sheet date.

When this provision relates to an asset with sufficient future economic benefits, a decommissioning asset is recognised and included as part of the associated PP&E and depreciated accordingly. Changes in these estimates and changes to the discount rates are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset included within PP&E. The unwinding of the discount on the provision is included in the Group Income Statement within interest expense.

Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. No depreciation is charged in respect of non-current assets classified as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management are committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The profits or losses and cash flows that relate to a major component of the Group that has been sold or is classified as held for sale are presented separately from continuing operations as discontinued operations within the Group Income Statement and Group Cash Flow Statement.

Pensions and other post-employment benefits

The Group operates a number of defined benefit and defined contribution pension schemes. The cost of providing benefits under the defined benefit schemes is determined separately for each scheme using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in the period in which they occur in the Group Statement of Comprehensive Income.

The cost of providing retirement pensions and other benefits is charged to the Group Income Statement over the periods benefiting from employees' service. Past service cost is recognised immediately. Costs of administering the schemes are charged to the Group Income Statement. Net interest, being the change in the net defined benefit liability or asset due to the passage of time is recognised in the Group Income Statement net finance cost.

The net defined benefit liability or asset recognised in the Group Balance Sheet represents the present value of the defined benefit obligation of the schemes, and the fair value of the schemes' assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits are paid, and that have terms of maturity approximating to the terms of the related pension liability.

Payments to defined contribution retirement benefit schemes are recognised in the Group Income Statement as they fall due.

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Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the Balance Sheet date, and are discounted to present value where the effect is material.

Where discounting is used, the increase in the provision due to the passage of time is recognised in the Group Income Statement within interest expense. Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. Contracts to purchase or sell energy are reviewed on a portfolio basis given the fungible nature of energy, whereby it is assumed that the highest priced purchase contract supplies the highest priced sales contract and the lowest priced sales contract is supplied by the lowest priced purchase contract.

Taxation

Current tax, including UK corporation tax, UK petroleum revenue tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is recognised in respect of all temporary differences identified at the Balance Sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill (if amortisation of goodwill is not deductible for tax purposes) or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Group's assets and liabilities and their tax base.

Deferred tax liabilities may be offset against deferred tax assets within the same taxable entity or qualifying local tax group. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future, against which the deductible temporary difference can be utilised.

Deferred tax is provided on temporary differences arising on subsidiaries, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected from the manner in which the asset or liability is recovered or settled.

Financial instruments

Financial assets and financial liabilities are recognised in the Group Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Group no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires.

(a) Trade receivables

Trade receivables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group may not be able to collect the trade receivable. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less receivables are classified as current assets. If not they are presented as non-current assets.

(b) Trade payables

Trade payables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost. If payment is due within one year or less payables are classified as current liabilities. If not, they are presented as non-current liabilities.

(c) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are re-acquired (treasury or own shares) are deducted from equity. No gain or loss is recognised in the Group Income Statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

For the purpose of the Group Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(e) Interest-bearing loans and other borrowings

All interest-bearing loans and other borrowings with banks and similar institutions are initially recognised at fair value net of directly attributable transaction costs. After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost using the effective interest method, except when they are the hedged item in an effective fair value hedge relationship where the carrying value is also adjusted to reflect the fair value movements associated with the hedged risks. Such fair value movements are recognised in the Group Income Statement. Amortised cost is calculated by taking into account any issue costs, discount or premium.

(f) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, which are recognised initially at fair value within the Group Balance Sheet. Available-for-sale financial assets are re-measured subsequently at fair value with gains and losses arising from changes in fair value recognised directly in equity and presented in the Group Statement of Comprehensive Income, until the asset is disposed of or is

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the Group Income Statement for the period. Accrued interest or dividends arising on available-for-sale financial assets are recognised in the Group Income Statement.

At each Balance Sheet date the Group assesses whether there is objective evidence that available-for-sale financial assets are impaired. If any such evidence exists, cumulative losses recognised in equity are removed from equity and recognised in the Group Income Statement. The cumulative loss removed from equity represents the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the Group Income Statement.

Impairment losses recognised in the Group Income Statement for equity investments classified as available-for-sale are not subsequently reversed through the Group Income Statement. Impairment losses recognised in the Group Income Statement for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(g) Financial assets at fair value through profit or loss

The Group holds investments in gilts which it designates as fair value through profit or loss. Investments are measured at fair value on initial recognition and are re-measured to fair value in each subsequent reporting period. Gains and losses arising from changes in fair value are recognised in the Group Income Statement within interest income or interest expense.

(h) Derivative financial instruments

The Group routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. A portion of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the physical commodity in accordance with the Group's expected sale, purchase or usage requirements (own use), and are not within the scope of IAS 39. The assessment of whether a contract is deemed to be 'own use' is conducted on a Group basis without reference to underlying book structures, business units or legal entities.

Certain purchase and sales contracts for the physical delivery of gas, power and oil are within the scope of IAS 39 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IAS 39 and are recognised in the Group Balance Sheet at fair value. Gains and losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the Group Income Statement for the year.

The Group uses a range of derivatives for both trading and to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies which are approved by the Board of Directors. Further detail on the Group's risk management policies is included within the Strategic Report – Principal Risks and Uncertainties on pages 42 to 48 and in note S3.

The accounting treatment for derivatives is dependent on whether they are entered into for trading or hedging purposes. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Group in line with the Group's risk management policies and is in accordance with established guidelines, which require the hedging relationship to be documented at its inception, ensure that the derivative is highly effective in achieving its objective, and require that its effectiveness can be reliably measured. The Group also holds derivatives which are not designated as hedges and are held for trading.

All derivatives are recognised at fair value on the date on which the derivative is entered into and are re-measured to fair value at each reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and derivative liabilities are offset and presented on a net basis only when both a legal right of set-off exists and the intention to net settle the derivative contracts is present.

The Group enters into certain energy derivative contracts covering periods for which observable market data does not exist. The fair value of such derivatives is estimated by reference in part to published price quotations from active markets, to the extent that such observable market data exists, and in part by using valuation techniques, whose inputs include data which is not based on or derived from observable markets. Where the fair value at initial recognition for such contracts differs from the transaction price, a fair value gain or fair value loss will arise. This is referred to as a day-one gain or day-one loss. Such gains and losses are deferred (not recognised) and amortised to the Group Income Statement based on volumes purchased or delivered over the contractual period until such time observable market data becomes available. When observable market data becomes available, any remaining deferred day-one gains or losses are recognised within the Group Income Statement. Recognition of the gains or losses resulting from changes in fair value depends on the purpose for issuing or holding the derivative. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the Group Income Statement and are included within gross profit or interest income and interest expense. Gains and losses arising on derivatives entered into for speculative energy trading purposes are presented on a net basis within revenue.

Embedded derivatives: derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in the Group Income Statement. The closely-related nature of embedded derivatives is reassessed when there is a change in the terms of the contract which significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives, and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in the Group Income Statement.

(i) Hedge accounting

For the purposes of hedge accounting, hedges are classified as either fair value hedges or cash flow hedges. Note S5 details the Group's accounting policies in relation to derivatives qualifying for hedge accounting under IAS 39.

Nuclear activity

The Group's investment in Lake Acquisitions Limited (British Energy) is accounted for as an associate. The following accounting policies are specific to the accounting for the nuclear activity of this associate.

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S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Fuel costs – nuclear front end

Front end fuel costs consist of the costs of procurement of uranium, conversion and enrichment services and fuel element fabrication. All costs are capitalised into inventory and charged to the Group Income Statement in proportion to the amount of fuel burnt.

(b) Fuel costs – nuclear back end

Advanced Gas-cooled Reactors (AGR)

Spent fuel extracted from the reactors is sent for reprocessing and/or long-term storage and eventual disposal of resulting waste products. Back end fuel costs comprise a loading related cost per tonne of uranium and a rebate/surcharge to this cost dependent on the out-turn market electricity price in the year and are capitalised into inventory and charged to the Group Income Statement in proportion to the amount of fuel burnt.

Pressurised Water Reactor (PWR)

Back end fuel costs are based on wet storage in station ponds followed by dry storage and subsequent direct disposal of fuel. Back end fuel costs are capitalised into inventory on loading and charged to the Group Income Statement in proportion to the amount of fuel burnt.

(c) Nuclear property, plant and equipment and depreciation

The nuclear fleet are depreciated from the date of the Group acquiring its share of British Energy on a straight-line basis, with remaining depreciable periods currently of up to 22 years.

Expenditure on major inspection and overhauls of production plant is depreciated over the period until the next outage which for AGR power stations is three years and for the PWR power station is 18 months.

(d) Nuclear Liabilities Fund (NLF) funding arrangements

Under the arrangements in place with the Secretary of State, the NLF will fund, subject to certain exceptions, 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.

S3. FINANCIAL RISK MANAGEMENT

The Group's normal operating, investing and financing activities expose it to a variety of financial risks: market risk (including commodity price risk, currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall risk management processes are designed to identify, manage and mitigate these risks.

Further detail on the Group's overall risk management processes are included within the Strategic Report – Principal Risks and Uncertainties on pages 42 to 48.

Financial risk management is overseen by the GFRMC according to objectives, targets and policies set by the Board. Commodity price risk management is carried out in accordance with individual business unit Financial Risk Management Committees and their respective financial risk management policies, as approved by the GFRMC under delegated authority from the Board. Treasury risk management, including management of currency risk, interest rate risk, equity price risk and liquidity risk is carried out by a central Group Treasury function in accordance with the Group's financing and treasury policy, as approved by the Board.

The wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's credit risk policy and collateral risk policy. Downstream credit risk management is carried out in accordance with individual business unit credit policies.

Market risk management

Market risk is the risk of loss that results from changes in market prices (commodity prices, foreign exchange rates, 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) metrics in the UK and in North America 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.

S3. FINANCIAL RISK MANAGEMENT

(i) Energy procurement, upstream and downstream activities
The Group's energy procurement, upstream and downstream activities consist of equity gas and liquids production, equity power generation, bilateral procurement and sales contracts, market-traded purchase and sales contracts and derivative positions taken on with the intent of securing gas and power for the Group's downstream customers in the UK 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. There is also risk associated with ensuring there is sufficient commodity available to secure supply to customers.

In order to manage the exposure to market prices associated with the Group's energy procurement, upstream and downstream activities the Group uses a specific set of limits (including position, volumetric, VaR/PaR) established by the Executive Committee and governed by GFRMC oversight along with business unit market risk policies.

Volumetric limits are supported by PaR and VaR metrics in the UK and in North America to measure the Group's exposure to commodity price risk. Limits are also set on PaR and VaR measurements as a further control over exposure to market prices. PaR measures the estimated potential loss in a position or portfolio of positions associated with the movement of a commodity price for a given confidence level, over the remaining term of the position or contract portfolio. VaR measures the estimated potential loss for a given confidence level over a predetermined holding period. The standard confidence level used is 95%. In addition, stress tests are regularly performed to evaluate the impact of substantial movements in commodity prices.

The Group measures and manages the commodity price risk associated with the Group's entire energy procurement, upstream and downstream portfolio. Only certain of the Group's energy procurement, upstream and downstream contracts constitute financial instruments under IAS 39 (note S6).

As a result, while the Group manages the commodity price risk associated with both financial and non-financial energy procurement, upstream and downstream contracts, it is the notional value of energy contracts being carried at fair value that represents the exposure of the Group's energy procurement, upstream and downstream activities to commodity price risk according to IFRS 7, Financial Instruments: Disclosures. This is because energy contracts that are financial instruments under IAS 39 are accounted for on a fair value basis and changes in fair value immediately impact profit or equity. Conversely, energy contracts that are not financial instruments under IAS 39 are accounted for as executory contracts and changes in fair value do not immediately impact profit or equity, and as such, are not exposed to commodity price risk as defined by IFRS 7. So whilst the PaR or VaR associated with energy procurement and downstream contracts outside the scope of IAS 39 is monitored for internal risk management purposes, only those energy contracts within the scope of IAS 39 are within the scope of the IFRS 7 disclosure requirements.

(ii) Proprietary energy trading
The Group's proprietary energy trading activities consist of physical and financial commodity purchases and sales contracts taken on with the intent of benefiting in the short-term from changes in market prices or differences between buying and selling prices. The Group conducts its trading activities in the over-the-counter market and through exchanges in the UK, North America and continental Europe. The Group is exposed to commodity price risk as a result of its proprietary energy trading activities because the value of its trading assets and liabilities will fluctuate with changes in market prices for commodities.

The Group sets volumetric and VaR limits to manage the commodity price risk exposure associated with the Group's proprietary energy trading activities. 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. The VaR limits set for proprietary trading activities are relatively small compared to the Group's overall operations and are less than £15 million. The carrying value of energy contracts used in proprietary energy trading activities at 31 December 2013 is disclosed in note 19.

As with any modelled risk measure, there are certain limitations that arise from the assumptions used in the VaR analysis. VaR assumes that historical trends and behaviours will continue in the future and that the Group's trading positions can be unwound or hedged within the predetermined holding period. Furthermore, the use of a 95% confidence level, by definition, does not take into account changes in value that might occur beyond this confidence level.

(b) Currency risk management

The Group is exposed to currency risk on foreign currency denominated forecast transactions, firm commitments, monetary assets and liabilities (transactional exposure) and on its net investments in foreign operations (translational exposure).

IFRS 7 only requires disclosure of currency risk arising on financial instruments denominated in a currency other than the functional currency of the commercial operation transacting. As a result, for the purposes of IFRS 7, currency risk excludes the Group's net investments in North America and Europe as well as foreign currency denominated forecast transactions and firm commitments.

(i) Transactional currency risk
The Group is exposed to transactional currency risk on transactions denominated in currencies other than the underlying functional currency of the commercial operation transacting. The Group's primary functional currencies are pounds sterling in the UK, Canadian dollars in Canada, US dollars in the US, Norwegian kroner in Norway and euros in the Netherlands. 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

S3. FINANCIAL RISK MANAGEMENT

proportion of transactions are denominated in euros or US dollars and on certain capital commitments denominated in foreign currencies. In addition, in order to optimise the cost of funding, the Group has, in certain cases, issued foreign currency denominated debt, primarily in US dollars, euros, Japanese yen, Hong Kong dollars or New Zealand dollars.

It is the Group's policy to hedge material transactional exposures using forward contracts to fix the functional currency value of non-functional currency cash flows, except where there is an economic hedge inherent in the transaction. At 31 December 2013, there were no material unhedged non-functional currency monetary assets or liabilities, firm commitments or probable forecast transactions (2012: nil), other than transactions which have an inherent economic hedge and foreign currency borrowings used to hedge translational exposures.

(ii) Translational currency risk

The Group is exposed to translational currency risk as a result of its net investments in North America and Europe. The risk is that the pounds sterling value of the net assets of foreign operations will decrease with changes in foreign exchange rates. The Group's policy is to protect the pounds sterling book value of its net investments in foreign operations where possible, subject to certain parameters monitored by the GFRMC, by holding foreign currency debt, entering into foreign currency derivatives, or a mixture of both.

The Group manages translational currency risk taking into consideration the cash impact of any hedging activity as well as the risk to the net asset numbers in the Group's Financial Statements. The translation hedging programme including the potential cash impact is monitored by the GFRMC.

(c) Interest rate risk management

In the normal course of business the Group borrows to finance its operations. The Group is exposed to interest rate risk because the fair value of fixed rate borrowings and the cash flows associated with floating rate borrowings will fluctuate with changes in interest rates. The Group's policy is to manage the interest rate risk on long-term borrowings by ensuring the exposure to floating interest rates remains within a 30% to 70% range, including the impact of interest rate derivatives.

(d) Equity price risk management

The Group is exposed to equity price risk because certain available-for-sale financial assets, held in trust on behalf of the Group as security in respect of the Centrica Unfunded Pension Scheme, are linked to equity indices. Investments in equity indices are inherently exposed to less risk than individual equity investments because they represent a naturally diverse portfolio. Note 22 provides further details on the above and 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 2013 assuming that a reasonably possible change in the relevant risk variable had occurred at 31 December 2013 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 2013 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 2013 are all constant. Excluded from this analysis are all non-financial assets and liabilities and energy contracts that are not financial instruments under IAS 39. The sensitivity to foreign exchange rates relates only to monetary assets and liabilities denominated in a currency other than the functional currency of the commercial operation transacting, and excludes the translation of the net assets of foreign operations to pounds sterling, but includes the corresponding impact of financial instruments used in net investment hedges.

The sensitivity analysis provided is hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates is changing constantly as the Group's portfolio of commodity, debt and foreign currency contracts changes. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group. The sensitivity analysis provided excludes the impact of proprietary energy trading assets and liabilities because the VaR associated with the Group's proprietary energy trading activities is less than £5 million.

Transactional currency risk

The Group has performed an analysis of the sensitivity of the Group's financial position and performance to changes in the fair value or future cash flows of foreign currency denominated financial instruments. The Group deems 10% movements to US dollar, Canadian dollar and euro currency rates relative to pounds sterling, to be reasonably possible. The impact of such movements on profit and equity, both after taxation, is immaterial to the Group.

Interest rate risk

The Group has performed an analysis of the sensitivity of the Group's financial position and performance to changes in interest rates. The Group deems 1% movements to UK, US and euro interest rates, to be reasonably possible. The impact of such movements on profit and equity, both after taxation, is immaterial to the Group.

S3. FINANCIAL RISK MANAGEMENT

Commodity price risk

The impacts of reasonably possible changes in commodity prices on profit and equity, both after taxation, based on the assumptions set out above are as follows:

Energy prices	2013 Base price (i)	2013 Reasonably possible change in variable (ii)	2012 Base price (i)	2012 Reasonably possible change in variable (ii)
UK gas (p/therm)	**66**	**+/–6**	64	+/–5
UK power (£/MWh)	**55**	**+/–4**	51	+/–4
UK coal (US$/tonne)	**88**	**+/–7**	97	+/–13
UK emissions (€/tonne)	**5**	**+/–1**	7	+/–2
UK oil (US$/bbl)	**102**	**+/–8**	103	+/–17
North American gas (USc/therm)	**41**	**+/–3**	42	+/–6
North American power (US$/MWh)	**50**	**+/–4**	39	+/–4

Incremental profit/(loss)	2013 Impact on profit (ii) £m	2012 Impact on profit (ii) £m
UK energy prices (combined) – increase/(decrease)	**90/(97)**	92/(83)
North American energy prices (combined) – increase/(decrease)	**71/(71)**	93/(93)

(i) The base price represents the average forward market price over the duration of the active market curve used in the sensitivity analysis provided.
(ii) The reasonably possible change in variable and the impact on profit are calculated using both the active and inactive market curves for all UK energy prices.

The impact on equity of such price changes is immaterial.

Credit risk management

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Group continues to be vigilant in managing counterparty risks in accordance with its financial risk management policies. In 2013 there have been relatively few credit rating downgrades of financial institutions and European energy majors, compared with 2012. The Group has not altered its rating thresholds for counterparty credit limits and continues to operate within its limits. In the US and Europe, ongoing regulatory changes are resulting in increased trading over exchanges or via zero threshold margined contracts. This helps to reduce counterparty credit risk, but carries increased liquidity requirements.

The Group is exposed to credit risk in its treasury, trading, energy procurement and downstream activities. Credit risk from financial assets is measured by counterparty credit rating as follows:

	2013 Derivative financial instruments with positive fair values £m	2013 Receivables from treasury, trading and energy procurement counterparties £m	2013 Cash and cash equivalents £m	2012 Derivative financial instruments with positive fair values £m	2012 Receivables from treasury, trading and energy procurement counterparties £m	2012 Cash and cash equivalents £m
AAA to AA	**1**	**33**	**358**	1	78	550
AA– to A–	**533**	**576**	**349**	392	439	354
BBB+ to BBB–	**251**	**405**	**2**	85	108	2
BB+ to BB–	**5**	**140**	**1**	71	42	1
B or lower	**3**	**16**	**–**	–	5	–
Unrated (i)	**7**	**140**	**9**	32	182	24
	800	**1,310**	**719**	581	854	931

(i) The unrated counterparty receivables primarily comprise amounts due from subsidiaries of rated entities, exchanges or clearing houses.

Details of how credit risk is managed across the asset categories is provided below.

(a) Treasury, trading and energy procurement activities

Wholesale counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. The 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 (see S6 'Financial assets and liabilities subject to offsetting, master netting arrangements and similar arrangments' for details of amounts offset). In addition, the Group employs a variety of other methods to mitigate credit risk: margining, various forms of bank and parent company guarantees and letters of credit. See note 24(d) for details of cash pledged or received under margin/collateral agreements.

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.

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S3. FINANCIAL RISK MANAGEMENT

IFRS 7 requires disclosure of information about the exposure to credit risk arising from financial instruments only. Only certain of the Group's energy procurement contracts constitute financial instruments under IAS 39. As a result, whilst the Group manages the credit risk associated with both financial and non-financial energy procurement contracts, it is the carrying value of financial assets within the scope of IAS 39 (note S6) that represents the maximum exposure to credit risk in accordance with IFRS 7.

(b) Downstream activities

In the case of business customers, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing trade and during the business relationship. For residential customers, creditworthiness is ascertained normally before commencing trade to determine the payment mechanism required to reduce credit risk to an acceptable level. Certain customers will only be accepted on a prepayment basis or with a security deposit. In some cases, an ageing of receivables is monitored and used to manage the exposure to credit risk associated with both business and residential customers. In other cases, credit risk is monitored and managed by grouping customers according to method of payment or profile.

Liquidity risk management and going concern

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. The Group experiences significant movements in its liquidity position due primarily to the seasonal nature of its business and margin cash arrangements associated with certain wholesale commodity contracts. To mitigate this risk the Group maintains significant committed facilities and holds cash on deposit. See note 24 for further information. The Group's liquidity position has remained strong throughout 2013.

Maturity profiles

Maturities of derivative financial instruments, provisions, borrowings, finance leases and trade and other payables are provided in the following tables (all amounts are remaining contractual undiscounted cash flows):

Due for payment 2013	<1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m
Energy and interest derivatives in a loss position that will be settled on a net basis	**(183)**	**(101)**	**(35)**	**(3)**	**(2)**	**–**
Gross energy procurement contracts and related derivatives carried at fair value (i)	**(15,459)**	**(6,836)**	**(3,783)**	**(1,601)**	**(1,419)**	**(10,783)**
Foreign exchange derivatives that will be settled on a gross basis:						
Outflow	**(4,991)**	**(1,193)**	**(7)**	**(7)**	**(7)**	**(440)**
Inflow	**4,994**	**1,179**	**4**	**4**	**4**	**335**
Financial liabilities within provisions	**(200)**	**(177)**	**(60)**	**(23)**	**(19)**	**(31)**
Borrowings (bank loans, bonds, commercial paper and interest)	**(986)**	**(295)**	**(553)**	**(237)**	**(727)**	**(6,881)**
Finance lease: (ii)						
Minimum lease payments	**(47)**	**(48)**	**(48)**	**(39)**	**(39)**	**(109)**
Capital elements of leases	**(32)**	**(35)**	**(38)**	**(30)**	**(32)**	**(102)**

Due for payment 2012	<1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m
Energy and interest derivatives in a loss position that will be settled on a net basis	(130)	(47)	(10)	(2)	(1)	(4)
Gross energy procurement contracts and related derivatives carried at fair value (i) (iii)	(13,881)	(6,565)	(4,007)	(2,276)	(198)	(701)
Foreign exchange derivatives that will be settled on a gross basis:						
Outflow	(3,741)	(823)	(25)	(7)	(7)	(447)
Inflow	3,689	820	22	5	4	363
Financial liabilities within provisions	(195)	(46)	(26)	(59)	(24)	(9)
Borrowings (bank loans, bonds, commercial paper and interest)	(685)	(621)	(255)	(512)	(195)	(5,976)
Finance lease: (ii)						
Minimum lease payments	(46)	(47)	(48)	(48)	(39)	(148)
Capital elements of leases	(30)	(32)	(35)	(38)	(30)	(134)

(i) Proprietary energy trades are excluded from this maturity analysis as we do not take physical delivery of volumes traded under these contracts. The associated cashflows are expected to be equal to the contract fair value at the balance sheet date, see note 19 for further details.
(ii) The difference between the total minimum lease payments and the total capital elements of leases is due to future finance charges.
(iii) Prior year comparatives have been restated to exclude certain proprietary trades.

S4. OTHER EQUITY

This section summarises the Group's other equity reserve movements.

	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Actuarial gains and losses reserve £m	Available-for-sale reserve (AFS) £m	Revaluation reserve £m	Treasury and own shares reserve £m	Share-based payments reserve £m	Merger and capital redemption reserve £m	Total £m
1 January 2012 (as previously reported)	(92)	76	(228)	6	26	(19)	112	483	364
Effect of adoption of IAS 19 (revised 2011) (i)	–	–	297	–	–	–	–	–	297
1 January 2012 (restated)	(92)	76	69	6	26	(19)	112	483	661
Revaluation of available-for-sale securities	–	–	–	7	–	–	–	–	7
Actuarial loss (i)	–	–	(293)	–	–	–	–	–	(293)
Employee share schemes:									
Increase in own shares	–	–	–	–	–	(21)	–	–	(21)
Exercise of awards	–	–	–	–	–	21	(45)	–	(24)
Value of services provided	–	–	–	–	–	–	43	–	43
Cash flow hedges:									
Net losses	(27)	–	–	–	–	–	–	–	(27)
Transferred to income and expense	108	–	–	–	–	–	–	–	108
Share of other comprehensive (loss)/income of joint ventures and associates net of taxation	(12)	–	44	–	–	–	–	–	32
Taxation on above items (i)	(20)	–	71	(2)	–	–	(1)	–	48
Exchange adjustments	–	(44)	–	–	1	–	–	–	(43)
31 December 2012	(43)	32	(109)	11	27	(19)	109	483	491
Revaluation of available-for-sale securities	–	–	–	3	–	–	–	–	**3**
Actuarial loss	–	–	(179)	–	–	–	–	–	**(179)**
Employee share schemes:									
Increase in own shares	–	–	–	–	–	(12)	–	–	**(12)**
Exercise of awards	–	–	–	–	–	75	(36)	–	**39**
Value of services provided	–	–	–	–	–	–	43	–	**43**
Purchase of treasury shares	–	–	–	–	–	(500)	–	–	**(500)**
Cash flow hedges:									
Net losses	(25)	–	–	–	–	–	–	–	**(25)**
Transferred to income and expense	34	–	–	–	–	–	–	–	**34**
Share of other comprehensive income/(loss) of joint ventures and associates net of taxation	18	–	(15)	–	–	–	–	–	**3**
Reversal of revaluation reserve (asset impairment) (ii)	–	–	–	–	(20)	–	–	–	**(20)**
Taxation on above items	(1)	–	31	–	5	–	(16)	–	**19**
Exchange adjustments	–	(209)	–	–	(2)	–	–	–	**(211)**
31 December 2013	**(17)**	**(177)**	**(272)**	**14**	**10**	**(456)**	**100**	**483**	**(315)**

(i) See note 1(a).
(ii) See note 7.

Merger reserve

During February 1997, BG plc (formerly British Gas plc) demerged certain businesses (grouped together under GB Gas Holdings Limited (GBGH)) to form Centrica plc. Upon demerger, the share capital of GBGH was transferred to Centrica plc and was recorded at the nominal value of shares issued to BG plc shareholders. In accordance with the Companies Act 1985, no premium was recorded on the shares issued. On consolidation, the difference between the nominal value of the Company's shares issued and the amount of share capital and share premium of GBGH at the date of demerger was credited to a merger reserve.

Capital redemption reserve

In accordance with the Companies Act 1985, the Company transferred to the capital redemption reserve an amount equal to the nominal value of shares repurchased and subsequently cancelled (£16 million).

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S4. OTHER EQUITY

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. In addition to the above, further revaluation reserves arose in 2009 on the revaluation of producing gas and oil assets located in Alberta, Canada, following the acquisition by the Group of additional interests. During the year an impairment charge was made against these gas and oil assets (see note 7), of which £20 million was recognised in the Group Statement of Comprehensive Income through the revaluation reserve (together with an offsetting £5 million deferred tax movement).

Own shares reserve
The own shares reserve reflects the cost of shares in the Company held in the Centrica employee share ownership trusts to meet the future requirements of the Group's share-based payment plans.

Treasury shares reserve
Treasury shares are reacquired equity instruments of the Company. During 2013, the Group purchased £500 million of its own shares on the market under the share repurchase programme.

Share-based payments reserve
The share-based payments reserve reflects the obligation to deliver shares to employees under the Group's share schemes in return for services provided.

Foreign currency translation reserve
The foreign currency translation reserve comprises exchange translation differences on foreign currency net investments. Historically the Group has hedged its foreign investments and so the opening balance of foreign currency translation reserve includes exchange translation differences on borrowings and derivatives classified as net investment hedges under the requirements of IAS 39.

Cash flow hedging reserve
The cash flow hedging reserve comprises fair value movements on instruments designated as cash flow hedges under the requirements of IAS 39. Amounts are transferred from the cash flow hedging reserve to the Group Income Statement or Group Balance Sheet as and when the hedged item affects the Group Income Statement or Group Balance Sheet which is, for the most part, on delivery of physical volumes for energy contracts and settlement of interest on debt instruments.

Note S5 provides further detail on cash flow hedging.

S5. HEDGE ACCOUNTING
For the purposes of hedge accounting, hedges are classified either as fair value hedges, cash flow hedges or, in previous periods, hedges of net investments in foreign operations.

The fair values of derivatives and primary financial instruments in hedge accounting relationships at 31 December were immaterial, except as follows:

31 December	**2013 Assets £m**	2012 Assets £m
Fair value hedges	**95**	160

The Group's accounting policies in relation to derivatives qualifying for hedge accounting under IAS 39 are described below.

Fair value hedges
A derivative is designated a hedging instrument and its relationship to a recognised asset or liability classified as a fair value hedge when it hedges the exposure to changes in the fair value of that recognised asset or liability. The Group's fair value hedges consist of interest rate swaps used to protect against changes in the fair value of fixed-rate, long-term debt due to movements in market interest rates. Any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the Group Income Statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Group Income Statement within net finance cost. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer qualifies for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the Group Income Statement. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Gains or losses arising on fair value hedges for the years ended 31 December 2013 and 31 December 2012 were immaterial.

Cash flow hedges
A derivative is classified as a cash flow hedge when it hedges exposure to variability in cash flows that is attributable to a particular risk either associated with a recognised asset, liability or a highly probable forecast transaction. The Group's cash flow hedges consist primarily of:

- 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;
- interest rate swaps used to protect against the variability in cash flows associated with floating-rate borrowings due to movements in market interest rates; and
- cross-currency interest rate swaps and forward foreign exchange contracts used to protect against the variability in cash flows associated with borrowings denominated in non-functional currencies.

S5. HEDGE ACCOUNTING

The portion of the gain or loss on the hedging instrument which is effective is recognised directly in equity while any ineffectiveness is recognised in the Group Income Statement. The gains or losses that are initially recognised in the cash flow hedging reserve in the Group Statement of Comprehensive Income are transferred to the Group Income Statement in the same period in which the highly probable forecast transaction affects income, 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 Group Income Statement.

Note S4 details movements in the cash flow hedging reserve. The ineffective portion of gains and losses on cash flow hedging are immaterial and are recognised immediately in the Income Statement.

Net investment hedges

Historically the Group engaged in net investment hedging (NIH) whereby it would obtain foreign currency debt issued in the same currency as the net investment. Such hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity; any gain or loss on the ineffective portion of the hedge is recognised in the Group Income Statement. In 2009 the Group ceased to NIH, however the opening balance of the foreign currency translation reserve includes cumulative exchange translation differences on borrowings and derivatives classified as a NIH under the requirements of IAS 39. These balances will be recycled to the Group Income Statement on disposal of the foreign operation.

S6. 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.

Fair value of financial assets and liabilities held at amortised cost

The carrying value of the Group's financial assets and liabilities measured at amortised cost are approximately equal to their fair value except as listed below:

31 December	Notes	**Carrying value £m**	**Fair value £m**	**2013 Fair value hierarchy**	Carrying value £m	Fair value £m	2012 Fair value hierarchy
Bank overdrafts and loans	24	**(321)**	**(357)**	**Level 2**	(367)	(388)	Level 2
Bonds	24	**(5,013)**	**(5,399)**	**Level 1**	(4,483)	(5,119)	Level 1
Obligations under finance leases	24	**(269)**	**(298)**	**Level 2**	(299)	(337)	Level 2

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 or loss

The fair values of foreign exchange and interest rate derivatives are determined by reference to closing market rates at the balance sheet date. The fair values of energy derivatives are determined using valuation techniques based in part on observable market data and in part on internal estimates not currently supported by observable market data. The extent to which fair values of energy derivatives are based on observable market data is determined by the extent to which the market for the underlying commodity is judged to be active.

The Group has judged each of the markets in which it operates as active for the purposes of accounting as follows:

Active period of markets	**Gas**	**Power**	**Coal**	**Emissions**	**Oil**
UK (years)	**3**	**3**	**3**	**3**	**3**
North America (years)	**5**	**Up to 5**	**n/a**	**Up to 5**	**3**

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 (2012: 1%). The fair values of derivative financial instruments in North America and Europe are based primarily on quoted market prices. In the UK and US, 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 2% per annum for 2013 (2012: 2%).

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S6. FAIR VALUE OF FINANCIAL INSTRUMENTS

Where the fair value at initial recognition for contracts which extend beyond the active period differs from the transaction price, a day-one gain or loss will arise. Such gains and losses are deferred and amortised to the Group Income Statement based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available (see note S2 for further detail). The amount that has yet to be recognised in the Group Income Statement relating to the differences between the transaction prices and the amounts that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is immaterial.

Fair value hierarchy

Financial assets and financial liabilities measured and held at fair value are classified into one of three categories:

31 December	Level 1 £m	Level 2 £m	Level 3 £m	**2013 Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	2012 Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	27	450	115	**592**	29	195	139	363
Interest rate derivatives	–	95	–	**95**	–	185	–	185
Foreign exchange derivatives	–	113	–	**113**	–	33	–	33
Treasury gilts designated at fair value through profit or loss	126	–	–	**126**	130	–	–	130
Debt instruments	52	–	3	**55**	56	–	2	58
Equity instruments	23	–	7	**30**	12	–	6	18
Total financial assets	**228**	**658**	**125**	**1,011**	227	413	147	787
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	(24)	(648)	(81)	**(753)**	(59)	(570)	(157)	(786)
Interest rate derivatives	–	(48)	–	**(48)**	–	(88)	–	(88)
Foreign exchange derivatives	–	(136)	–	**(136)**	–	(68)	–	(68)
Total financial liabilities	**(24)**	**(832)**	**(81)**	**(937)**	(59)	(726)	(157)	(942)

There were no significant transfers between Level 1 and Level 2 during 2013 and 2012.

The reconciliation of the Level 3 fair value measurements during the year is as follows:

	2013 Financial assets £m	**2013 Financial liabilities £m**	2012 Financial assets £m	2012 Financial liabilities £m
Level 3 financial instruments				
1 January	**147**	**(157)**	52	(206)
Total realised and unrealised (losses)/gains:				
Recognised in Group Income Statement	**–**	**(60)**	115	31
Purchases, sales, issuances and settlements (net)	**44**	**(53)**	(20)	–
Transfers from Level 3 to Level 2 (i)	**(63)**	**188**	–	18
Foreign exchange movements	**(3)**	**1**	–	–
31 December	**125**	**(81)**	147	(157)
Total gains/(losses) for the year for Level 3 financial instruments held at the end of the reporting year (ii)	**3**	**(50)**	100	34

(i) Transfers in 2013 primarily arise due to the extension of the active period of the UK gas and power markets. Transfers between levels are deemed to occur at the beginning of the reporting period.
(ii) £3 million gains (2012: £100 million gains) for the year for Level 3 financial assets held at the end of the reporting year were recognised within certain re-measurements and no gains or losses (2012: nil) were recognised in other comprehensive income. £50 million losses (2012: £34 million gains) for the year for Level 3 financial liabilities held at the end of the reporting year were recognised within certain re-measurements and no gains or losses (2012: nil) were recognised in other comprehensive income.

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 immaterial and 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 calculations only impact 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 is only hypothetical. This is 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.

S6. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities subject to offsetting, master netting arrangements and similar arrangements

31 December 2013	Gross amounts of recognised financial instruments £m	Gross amounts of recognised financial instruments offset in the Group Balance Sheet £m	Net amounts presented in the Group Balance Sheet £m	Related amounts not offset in the Group Balance Sheet (i) Financial Instruments £m	Collateral £m	Net amount £m
Derivative financial assets	**3,721**	**(2,921)**	**800**	**(201)**	**(53)**	**546**
Derivative financial liabilities	**(3,858)**	**2,921**	**(937)**	**201**	**188**	**(548)**
			(137)			**(2)**
Balances arising from commodity contracts (ii)						
Accrued energy income	**5,700**	**(3,445)**	**2,255**	**(255)**	**–**	**2,000**
Accruals for commodity costs	**(4,740)**	**3,445**	**(1,295)**	**255**	**–**	**(1,040)**
Cash and pooling arrangements						
Cash and cash equivalents	**866**	**(147)**	**719**	**–**	**–**	**719**
Bank overdrafts	**(147)**	**147**	**–**	**–**	**–**	**–**

31 December 2012	Gross amounts of recognised financial instruments £m	Gross amounts of recognised financial instruments offset in the Group Balance Sheet £m	Net amounts presented in the Group Balance Sheet £m	Related amounts not offset in the Group Balance Sheet (i) Financial Instruments £m	Collateral £m	Net amount £m
Derivative financial assets	2,604	(2,023)	581	(206)	(23)	352
Derivative financial liabilities	(2,965)	2,023	(942)	206	125	(611)
			(361)			(259)
Balances arising from commodity contracts (ii)						
Accrued energy income	3,714	(1,902)	1,812	(80)	–	1,732
Accruals for commodity costs	(2,735)	1,902	(833)	80	–	(753)
Cash and pooling arrangements						
Cash and cash equivalents	1,292	(361)	931	–	–	931
Bank overdrafts	(361)	361	–	–	–	–

(i) The Group has arrangements in place with various counterparties in respect of commodity trades which provide for a single net settlement of all financial instruments covered by the arrangement in the event of default or termination, or other circumstances arising whereby either party is unable to meet its obligations. The above table shows the potential impact of these arrangements being enforced by offsetting the relevant amounts within each Group Balance Sheet class of asset or liability, but does not show the impact of offsetting across Group Balance Sheet classes.

(ii) In addition to accrued energy income and accruals for commodity costs, the Group has trade receivable and trade payable balances which are also subject to the above arrangements, however, these balances are immaterial.

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S7. FIXED-FEE SERVICE AND INSURANCE CONTRACTS

This section includes fixed-fee service and insurance contract disclosures for services related to British Gas – Residential services and Direct Energy – Residential and business services.

Fixed-fee service (FFS) contracts in North America are entered into with home and business services customers.

FFS contracts in the UK are entered into with home services customers by British Gas Services Limited (BGSL). Insurance contracts in the UK are entered into with home services customers by British Gas Insurance Limited (BGIL), authorised by the PRA and regulated by the FCA and the PRA.

Product offerings include central heating, boiler and controls, plumbing and drains and electrical appliance insurance cover.

FFS contracts continue until cancelled by either party; insurance contracts normally provide cover for 12 months with the option of renewal.

The contracts protect policyholders against the risk of breakdowns, resulting in the transfer of an element of risk to the contract provider. Benefits provided to customers vary in accordance with terms and conditions of the contracts entered into; however, they generally include maintenance, repair and/or replacement of the items affected.

The levels of risk exposure and service provision to customers under contract terms are dependent on the occurrence of uncertain future events, in particular the nature and frequency of faults and the cost of repair or replacement of the items affected. Accordingly, the timing and amount of future cash outflows associated with the contracts is uncertain. The key terms and conditions that affect future cash flows are as follows:

- provision of labour and parts for repairs, dependent on the agreement and associated level of service;
- one safety and maintenance inspection either annually or in every continuous two-year period, as set out in the agreement;
- no limit to the number of call-outs to carry out repair work; and
- limits on certain maintenance and repair costs.

Revenue is recognised over the life of contracts having regard to the incidence of risk, in particular the seasonal propensity of claims which span the life of the contract as a result of emergency maintenance being available throughout the contract term. Costs incurred to settle claims represent principally the engineer workforce employed by Centrica within home services and the cost of parts utilised in repair or maintenance. These costs are accounted for over a 12-month period with adjustments made to reflect the seasonality of workload over a given year.

Weather conditions and the seasonality of repairs both affect the profile of the workload and associated costs incurred across the year. The risk exposure of these uncertain events is actively managed by undertaking the following risk mitigation activities:

- an initial service visit is provided to customers taking up most central heating contracts and in some instances pre-existing faults may lead to the contract being cancelled and no further cover being provided;
- an annual maintenance inspection is performed as part of most central heating contacts to help identify and prevent issues developing into significant maintenance or breakdown claims; and
- contract limits are applied to certain types of maintenance and repair work considered to be higher risk in terms of frequency and cost.

The costs of fixed-fee service claims and insurance claims incurred during the year were £97 million (2012: £92 million) and £356 million (2012: £342 million) respectively and are included in the table below in 'expenses relating to fixed-fee service and insurance contracts'. All claims are settled immediately and in full. Due to the short average lead time between claims occurrence and settlement, no material provisions were outstanding at the balance sheet date (2012: nil).

Year ended 31 December	2013 £m	2012 £m
Total revenue	**1,266**	1,239
Expenses relating to fixed-fee service and insurance contracts	**980**	954
Deferred income	**76**	84
Accrued income	**25**	35

The Group considers whether estimated future cash flows under the contracts will be sufficient to meet expected future costs. Any deficiency is charged immediately to the Group Income Statement. Claims frequency is sensitive to the reliability of appliances as well as the impact of weather conditions. The contracts are not exposed to any interest rate risk or significant credit risk and do not contain any embedded derivatives.

S8. RELATED PARTY TRANSACTIONS

The Group's principal related parties include its investments in wind farms and the existing UK nuclear fleet.

During the year, the Group entered into the following arms length transactions with related parties who are not members of the Group, and had the following associated balances:

	2013				2012			
	Sale of goods and services £m	Purchase of goods and services £m	Amounts owed from £m	Amounts owed to £m	Sale of goods and services £m	Purchase of goods and services £m	Amounts owed from £m	Amounts owed to £m
Joint ventures:								
Wind farms (as defined in note 6)	**23**	**110**	**475**	**69**	27	78	459	47
Associates:								
Nuclear (as defined in note 6)	**27**	**639**	**–**	**62**	157	598	8	73
Other	**2**	**7**	**21**	**–**	4	–	18	–
	52	**756**	**496**	**131**	188	676	485	120

Investment and funding transactions for joint ventures and associates are disclosed in note 14. 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. A provision against amounts receivable from related parties was recognised during the year resulting in an Income Statement charge of £21 million (2012: £nil). The balance of the provision at 31 December 2013 was £21 million (2012: £nil).

Key management personnel comprise members of the Board and Executive Committee, a total of 16 individuals at 31 December 2013 (2012: 14).

Remuneration of key management personnel Year ended 31 December	2013 £m	2012 £m
Short-term benefits	**8**	8
Post-employment benefits	**2**	2
Share-based payments	**6**	6
	16	16

Remuneration of the Directors of Centrica plc Year ended 31 December	2013 £m	2012 £m
Total emoluments (i)	**7**	8
Gains made by Directors on the exercise of share options	**0.3**	0.2
Amounts receivable under long-term incentive schemes	**–**	10
Contributions into money purchase pension schemes	**1**	1

(i) These emoluments were paid for services performed on behalf of the Group. No emoluments related specifically to services performed for the Company.

S9. AUDITORS' REMUNERATION

Year ended 31 December	2013 £m	2012 £m
Fees payable to the Company's auditors for the audit of the Company's individual and consolidated financial statements	**4.5**	4.2
Audit of the Company's subsidiaries	**1.1**	1.1
Total fees related to audit of parent and subsidiary entities	**5.6**	5.3
Fees payable to the Company's auditors and its associates for other services:		
Audit related assurance services	**1.0**	1.0
Tax advisory services	**0.2**	0.2
Corporate finance services	**1.4**	0.2
All other services	**0.5**	0.7
	8.7	7.4
Fees in respect of pension scheme audits	**0.1**	0.1

It is the Group's policy to seek competitive tenders for all major consultancy and advisory projects. Appointments are made taking into account factors including expertise, experience and cost. In addition, the Audit Committee has approved a detailed policy defining the types of work for which the Company's auditors can tender and the approvals required. In the past, the 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.

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S10. PRINCIPAL UNDERTAKINGS

The Group has a large number of subsidiaries principally in the UK, US, Norway, Canada and the Netherlands. The main subsidiaries are listed below.

All principal undertakings (including joint ventures and associates) listed below are held indirectly by Centrica plc. The principal undertakings shown here is a list of those companies which in the Directors' opinion principally affect the figures shown in the Group Financial Statements. A full list of related undertakings is included in Centrica plc's Annual Return submitted to the Registrar of Companies.

Subsidiary undertakings (i)

31 December 2013	Country of incorporation/formation	Principal activity
British Gas Trading Limited, British Gas Energy Procurement Limited (ii)	England	Energy supply
British Gas New Heating Limited	England	Electrical and gas installations
British Gas Services Limited	England	Home services
British Gas Insurance Limited	England	Insurance provision
Centrica Resources Limited, Hydrocarbon Resources Limited	England	Gas and/or oil exploration and production
Centrica Production Nederland B.V.	Netherlands	Gas and/or oil exploration and production
Centrica Resources (Norge) AS	Norway	Gas and/or oil exploration and production
Centrica North Sea Gas Limited, Centrica North Sea Oil Limited	Scotland	Gas and/or oil exploration and production
Centrica Langage Limited, Centrica SHB Limited	England	Power generation
Centrica LNG Company Limited	England	LNG trading
Centrica Energy Limited, Centrica Energy (Trading) Limited, Centrica Energy Marketing Limited (ii)	England	Wholesale energy trading
Centrica Storage Limited	England	Gas storage
GB Gas Holdings Limited	England	Holding company
Direct Energy Partnership	Canada	Energy supply
CPL Retail Energy LP, Direct Energy Business LLC, Direct Energy LP, Direct Energy Source LLC, Energetix DE LLC (iii), Energy America LLC, FCP Enterprises LLC (iv), Gateway Energy Services Corporation, NYSEG Solutions LLC (iii), WTU Retail Energy LP	US	Energy supply
Direct Energy Marketing Limited	Canada	Energy supply and home services
Direct Energy Services LLC	US	Energy supply and home services
Airtron Inc, Clockwork Inc, Direct Energy US Home Services Inc	US	Home and/or commercial services
Home Warranty Holding Corporation	US	Insurance provision
Direct Energy Resources Partnership	Canada	Gas production
Direct Energy Marketing Inc	US	Wholesale energy trading
Brae Canada Ltd (v)	Canada	Holding company
Hess Energy Marketing LLC (ii), Hess Energy New York Corporation (ii)	US	Energy supply
CQ Energy Canada Partnership (ii), CQ Energy Canada Resources Partnership (ii)	Canada	Gas and/or oil exploration and production

(i) Centrica holds 100% of the ordinary shares and net assets of all subsidiary undertakings in this list, except for CQ Energy Canada Partnership (60%) and CQ Energy Canada Resources Partnership (60%).
(ii) Acquired or established in 2013.
(iii) NYSEG Solution Inc and Energetix Inc were merged into two newly incorporated LLC's during 2013 - Energetix DE LLC and NYSEG Solutions LLC.
(iv) Previously called FCP Enterprises Inc.
(v) Brae Canada Ltd has a branch registered in England.

S10. PRINCIPAL UNDERTAKINGS

31 December 2013	Country of incorporation/formation (ii)	Percentage holding in ordinary shares and net assets	Principal activity
Joint ventures (i)			
Lincs Wind Farm Limited	Scotland	50	Power generation
Celtic Array Limited (Round 3)	England	50	Wind farm development
GLID Wind Farms TopCo Limited	England	50	Power generation
Associate (i)			
Lake Acquisitions Limited (British Energy)	England	20	Holding company

(i) Further information on the principal joint ventures and associate investments held by the Group is disclosed in note 6 and 14.
(ii) The principal country in which Lincs Wind Farm Limited conducts business is England. For all other joint ventures and associates the principal place of business is the country of incorporation.

The companies incorporated in England and Scotland principally operate in the UK. The companies incorporated in the US, Canada, Norway and the Netherlands principally operate within their country of incorporation.

The Directors have determined that the investments in Lake Acquisitions Limited and Lincs Wind Farm Limited are sufficiently material to warrant further disclosure on an individual basis. Accordingly, the Group presents summarised financial information for these investees, along with a reconciliation to the amounts included in the consolidated Financial Statements for these investees.

Further information regarding other joint ventures and associates is disclosed on an aggregated basis in notes 6 and 14.

Lake Acquisitions Limited

Summarised Statement of Total Comprehensive Income

Year ended 31 December	2013 Associate information reported to Group £m	2013 Unadjusted 20% share £m	2013 Fair value and other adjustments (i) £m	2013 Group share £m	2012 Associate information reported to Group £m	2012 Unadjusted 20% share £m	2012 Fair value and other adjustments (i) £m	2012 Group share £m
Revenue	**3,225**	**645**	**–**	**645**	2,962	592	–	592
Operating profit before interest and tax	**1,409**	**282**	**(61)**	**221**	1,262	252	(88)	164
Profit/(loss) for the year	**1,050**	**210**	**(20)**	**190**	902	181	(47)	134
Other comprehensive (loss)/ income	**(79)**	**(16)**	**4**	**(12)**	211	42	–	42
Total comprehensive income/(loss)	**971**	**194**	**(16)**	**178**	1,113	223	(47)	176

(i) Includes £61 million (2012: £66 million) relating to depreciation of fair value uplifts to PP&E on acquiring British Energy. The associated tax impact is £43 million credit (2012: £37 million credit).

Summarised Balance Sheet

31 December	2013 Associate information reported to Group £m	2013 Unadjusted 20% share £m	2013 Fair value and other adjustments (i) £m	2013 Group share £m	2012 Associate information reported to Group £m	2012 Unadjusted 20% share £m	2012 Fair value and other adjustments (i) £m	2012 Group share £m
Non-current assets	**12,323**	**2,464**	**1,065**	**3,529**	11,392	2,279	1,141	3,420
Current assets	**3,094**	**619**	**(1)**	**618**	3,087	617	17	634
Current liabilities	**(1,020)**	**(204)**	**(1)**	**(205)**	(898)	(180)	(7)	(187)
Non-current liabilities	**(7,857)**	**(1,571)**	**(257)**	**(1,828)**	(7,076)	(1,415)	(329)	(1,744)
Net assets	**6,540**	**1,308**	**806**	**2,114**	6,505	1,301	822	2,123

(i) These are principally fair value adjustments relating to PP&E.

During the year dividends of £187 million (2012: £102 million) were paid by the associate to the Group.

Financial Statements
Notes to the Financial Statements – Supplementary Information

S10. PRINCIPAL UNDERTAKINGS
Lincs Wind Farm Limited
Summarised Statement of Total Comprehensive Income

Year ended 31 December	Joint venture information reported to Group £m	Unadjusted 50% share £m	Fair value and other adjustments £m	2013 Group share £m	Joint venture information reported to Group £m	Unadjusted 50% share £m	Fair value and other adjustments £m	2012 Groups share £m
Revenue	**62**	**31**	**–**	**31**	–	–	–	–
Depreciation & Amortisation	**(24)**	**(12)**	**–**	**(12)**	–	–	–	–
Impairment	**(22)**	**(11)**	**6**	**(5)**	(4)	(2)	–	(2)
Other costs of sales and operating costs	**(20)**	**(10)**	**–**	**(10)**	(4)	(2)	–	(2)
(Loss)/profit before interest and tax	**(4)**	**(2)**	**6**	**4**	(8)	(4)	–	(4)
Net finance cost	**(40)**	**(20)**	**–**	**(20)**	(1)	(1)	–	(1)
(Loss)/profit for the year	**(44)**	**(22)**	**6**	**(16)**	(9)	(5)	–	(5)
Other comprehensive income/(loss)	**27**	**14**	**–**	**14**	(8)	(4)	–	(4)
Total comprehensive (loss)/income	**(17)**	**(8)**	**6**	**(2)**	(17)	(9)	–	(9)

Summarised Balance Sheet

31 December	Joint venture information reported to Group (i) £m	Unadjusted 50% share £m	Fair value and other adjustments £m	2013 Group share £m	Joint venture information reported to Group (i) £m	Unadjusted 50% share £m	Fair value and other adjustments £m	2012 Group share £m
Non-current assets	**1,247**	**624**	**3**	**627**	1,114	557	(7)	550
Current assets (i)	**93**	**47**	**–**	**47**	179	90	–	90
Current liabilities (i)	**(415)**	**(208)**	**–**	**(208)**	(474)	(237)	–	(237)
Non-current liabilities	**(717)**	**(359)**	**–**	**(359)**	(656)	(328)	–	(328)
Net assets	**208**	**104**	**3**	**107**	163	82	(7)	75

(i) Current assets includes £21 million (2012: £142 million) of cash and cash equivalents. Non-current liabilities and current liabilities include £686 million (2012: £639 million) and £303 million (2012: £299 million) of borrowings respectively.

Other material joint arrangements owned by the Group that are classified as joint operations and accounted for in accordance with IFRS 11 (see note S2) are detailed below. This list excludes interests in fields where there is no party with overall control but the arrangement does not fulfil the IFRS 11 definition of joint control.

Joint arrangements – fields/assets

31 December 2013	Location	Percentage holding in ordinary shares and net assets
Cygnus	UK North Sea	49
Seven Seas	UK North Sea	90
Eris	UK North Sea	54
SIP (self-installing platform)	Netherlands North Sea	58
Grove	Netherlands North Sea	93
Maria	Norway	20
NCMA 1	Trinidad	17
Block 22	Trinidad	90

Scottish Partnerships
The Group has an interest in four Scottish limited partnerships: Future Scotland CEPS Limited Partnership, Finance Scotland CPP Limited Partnership, Finance Scotland CPS Limited Partnership and Centrica Finance Limited Partnership. These partnerships are fully consolidated into the Group accounts and the Group has taken advantage of the exemption (as confirmed by regulation 7 of the Partnerships (Accounts) Regulations 2008) to not prepare or file separate accounts for these entities.

Company Balance Sheet

31 December	Notes	2013 £m	2012 (restated) (i) £m
Fixed assets			
Tangible assets	III	**23**	96
Investments	IV	**2,487**	2,434
		2,510	2,530
Current assets			
Debtors	V	**12,060**	11,897
Current asset investments	VI	**193**	192
Cash at bank and in hand		**210**	479
		12,463	12,568
Creditors (amounts falling due within one year)			
Borrowings	VII	**(851)**	(562)
Other creditors	VIII	**(5,948)**	(6,605)
		(6,799)	(7,167)
Net current assets		**5,664**	5,401
Total assets less current liabilities		**8,174**	7,931
Creditors (amounts falling due after more than one year)			
Borrowings	VII	**(4,935)**	(4,495)
Other creditors	VIII	**(82)**	(66)
Provisions for liabilities	IX	**(10)**	(16)
		(5,027)	(4,577)
Net assets excluding pension assets/(liabilities)		**3,147**	3,354
Defined benefit pension assets	X	**14**	9
Defined benefit pension liabilities	X	**(34)**	(37)
Net assets		**3,127**	3,326
Capital and reserves – equity interests			
Share capital	XI	**321**	321
Share premium	XI	**931**	929
Capital redemption reserve	XI	**16**	16
Profit and loss account	XI	**1,859**	2,060
Shareholders' funds	XI	**3,127**	3,326

(i) See note I 'Financial instruments and borrowings'.

The Financial Statements on pages 160 to 166 were approved and authorised for issue by the Board of Directors on 20 February 2014 and were signed on its behalf by:

SAM LAIDLAW
Chief Executive

NICK LUFF
Group Finance Director

The notes on pages 161 to 166 form part of these Financial Statements, along with note 25 to the Group Financial Statements.

Financial Statements

Notes to the Company Financial Statements

I. PRINCIPAL ACCOUNTING POLICIES OF THE COMPANY

Basis of preparation

The Company Financial Statements have been prepared under the historical cost convention as modified for the treatment of financial instruments in accordance with applicable UK Accounting Standards consistently applied and under the Companies Act 2006. The accounts have been prepared on a going concern basis. No Profit and Loss account is presented for the Company as permitted by the Companies Act 2006 (section 408). The Company profit after tax for the year was £1,127 million (2012: £625 million).

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 under which it makes equity-settled share-based payments as detailed in the Remuneration Report on pages 65 to 82 and in note S2 to the Group Financial Statements. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest and adjusted for the effect of non-market-based vesting conditions. The issue of share incentives by the Company to employees of its subsidiaries represents additional capital contributions. 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 detailed in note S2 to the Group Financial Statements.

Foreign currencies

The Company's functional and presentational currency is pounds sterling. Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at closing rates of exchange. Exchange differences on monetary assets and liabilities and transactions are taken to the Profit and Loss Account, unless hedge accounting is applied whereby the differences are taken to reserves until the hedged item is realised.

Tangible fixed assets

Tangible fixed assets are held at cost, less accumulated depreciation and any provisions for impairment. Cost includes the original purchase price of the asset and the cost attributable to bringing it to its working condition for its intended use. Tangible fixed assets are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives of up to ten years.

Leases

Rentals under operating leases are charged to the Profit and Loss Account on a straight-line basis over the lease term.

Investments

Fixed asset investments in subsidiaries' shares are held at cost, less any provision for impairment as necessary. Fixed asset investments in the form of loans are held at amortised cost using the effective interest rate method, less any provision for impairment as necessary. Current asset investments are stated at the lower of cost and net realisable value.

Pensions and other post-employment benefits

The Company's employees participate in a number of the Group's defined benefit pension schemes. The total Group cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in note 22 to the Group Financial Statements.

The Company's share of the total Group surplus or deficit at the end of the reporting period for each scheme is calculated in proportion to the Company's share of ordinary employer contributions in to that scheme during the year; ordinary employer contributions are determined by the pensionable pay of the Company's employees within the scheme and the cash contribution rates set by the scheme trustees. Current service cost is calculated with reference to the pensionable pay of the Company's employees. The Company's share of the total Group interest on scheme liabilities, expected return on scheme assets and actuarial gains or losses is calculated in proportion to ordinary employer contributions in the prior accounting period. Changes in the surplus or deficit arising as a result of the changes in the Company's share of total ordinary employer contributions are also treated as actuarial gains or losses.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is recognised in respect of all timing differences that have originated, but not reversed, at the Balance Sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the Balance Sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the Financial Statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the Financial Statements.

I. PRINCIPAL ACCOUNTING POLICIES OF THE COMPANY

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date. Deferred tax is measured on an undiscounted basis.

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 S2 to the Group Financial Statements. The Company's financial risk management policies are consistent with those of the Group and are described in the Strategic Report – Principal Risks and Uncertainties on pages 42 to 48 and in note S3 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 Financial Statements and its financial instruments are incorporated into the disclosures in the notes to the Group Financial Statements prepared under IFRS 7 Financial Instruments: Disclosures.

The Company has reclassified the interest accruals on bank overdrafts, loans and other borrowings from non-current liabilities to current liabilities because the amounts are due for payment within 12 months. The effect of this change has been to increase current liabilities and reduce non-current liabilities by £102 million as at 31 December 2013 and by £94 million as at 31 December 2012. The prior year comparatives have been restated accordingly.

Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation.

II. DIRECTORS AND EMPLOYEES

Details of Directors' remuneration, share-based payments and pension entitlements in the Remuneration Report on pages 65 to 82 form part of these Financial Statements. Information on the main employee share-based payments is given in note S2 to the Group Financial Statements. Details of the remuneration of key management personnel are given in note S8 to the Group Financial Statements.

III. TANGIBLE ASSETS

	2013 Plant, equipment and vehicles £m	2012 Plant, equipment and vehicles £m
Cost		
1 January	**195**	152
Additions	**30**	56
Disposals	**(116)**	(13)
31 December	**109**	195
Accumulated Depreciation		
1 January	**99**	88
Charge for the year	**5**	13
Disposals	**(18)**	(2)
31 December	**86**	99
NBV at 31 December	**23**	96

IV. INVESTMENTS

			2013			2012
	Loans (i) £m	Investments in subsidiaries' shares (ii) £m	**Total £m**	Loans (i) £m	Investments in subsidiaries' shares (ii) £m	Total £m
Cost						
1 January	247	2,187	**2,434**	–	2,154	2,154
Advances/additions	15	38	**53**	247	33	280
31 December	**262**	**2,225**	**2,487**	247	2,187	2,434

(i) Loan to Lincs Wind Farm Limited, a joint venture of the Centrica plc Group.
(ii) Additions include 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 S10 to the Group Financial Statements. The Directors believe that the carrying value of the investments is supported by their recoverable value or underlying net assets.

Financial Statements
Notes to the Company Financial Statements

V. DEBTORS

31 December	Due within one year £m	Due after more than one year £m	2013 Total £m	Due within one year £m	Due after more than one year £m	2012 Total £m
Amounts owed by Group undertakings (i)	11,923	8	**11,931**	11,667	8	11,675
Derivative financial instruments (ii)	35	82	**117**	21	173	194
Other debtors	1	–	**1**	6	–	6
Prepayments and other accrued income	6	5	**11**	14	8	22
	11,965	**95**	**12,060**	11,708	189	11,897

(i) The amounts receivable by the Company includes £5,047 million (2012: £3,292 million) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 2.05% and 4.6% per annum during 2013 (2012: 3.28% and 3.51%). The other amounts receivable from Group undertakings are interest-free. All amounts receivable from Group undertakings are unsecured and repayable on demand.
(ii) Derivative financial instruments comprise foreign currency derivatives held for trading of £15 million (2012: £8 million), interest rate derivatives held for hedging of £95 million (2012: £173 million) and foreign currency derivatives held for hedging of £7 million (2012: £13 million). The fair value of these derivatives is equivalent to the carrying value.

VI. CURRENT ASSET INVESTMENTS

31 December	2013 £m	2012 £m
Short-term investments	**193**	192

£67 million (2012: £61 million) of investments were held by the Law Debenture Trust, on behalf of the Company, as security in respect of the Centrica Unfunded Pension Scheme (refer to note X).

VII. BORROWINGS

Amounts falling due 31 December	2013 Due within one year £m	2013 Due after one year £m	2012 (restated) (i) Due within one year £m	2012 (restated) (i) Due after one year £m
Bank loans and overdrafts	**40**	**305**	57	338
Commercial paper	**325**	**–**	82	–
Bonds	**383**	**4,630**	326	4,157
Interest accruals	**103**	**–**	97	–
	851	**4,935**	562	4,495

(i) See note I 'Financial instruments and borrowings'.

The Company's financial instruments and related disclosures are included within the consolidated Group Financial Statements. 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 24 to the Group Financial Statements.

VIII. OTHER CREDITORS

31 December	2013 Due within one year £m	2013 Due after more than one year £m	2012 Due within one year £m	2012 Due after more than one year £m
Trade creditors	**23**	**5**	37	–
Amounts owed to Group undertakings (i)	**5,889**	**–**	6,454	–
Derivative financial instruments (ii)	**5**	**77**	63	60
Taxation and social security	**1**	**–**	2	–
Accruals and deferred income	**30**	**–**	49	6
	5,948	**82**	6,605	66

(i) The amounts payable by the Company includes £3,518 million (2012: £6,454 million) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 2.05% and 4.6% per annum during 2013 (2012: 3.28% and 3.51%).
(ii) Derivative financial instruments comprise foreign currency derivatives held for trading of £6 million (2012: £10 million), interest rate derivatives held for trading of £26 million (2012: £85 million), interest rate derivatives held for hedging of £22 million (2012: £2 million) and foreign currency derivatives held for hedging of £28 million (2012: £26 million). The fair value of these derivatives is equivalent to the carrying value.

IX. PROVISIONS FOR LIABILITIES

	1 January 2013 £m	Profit and loss charge £m	Utilised in the year £m	**31 December 2013 £m**
Other provisions	16	2	(12)	**6**
Deferred tax	–	4	-	**4**
	16	6	(12)	**10**

Unrecognised deferred corporation tax assets primarily relating to other timing differences amounted to £5 million (2012: £8 million). Other provisions principally represent estimated liabilities for contractual settlements, business restructuring and National Insurance in respect of employee share scheme liabilities. The National Insurance provision was based on a share price of 347.70 pence at 31 December 2013 (2012: 333.60 pence). The majority of the amounts are expected to be utilised by 2016.

X. PENSIONS

(a) Summary of main schemes

The Company's employees participate in the following Group defined benefit pension schemes: Centrica Pension Plan (CPP), Centrica Pension Scheme (CPS), and Centrica Unfunded Pension Scheme. Its employees also participate in the defined contribution section of the Centrica Pension Scheme. Information on these schemes is provided in note 22 to the Group Financial Statements.

Together with the Centrica Engineers Pensions Scheme (CEPS), CPP and CPS form the significant majority of the Group's and Company's defined benefit obligation and are referred to below and in the Group Financial Statements as the 'Registered Pension Schemes'.

(b) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes are provided in note 22 to the Group Financial Statements.

(c) Movements in the year

		2013		2012
	Pension liabilities £m	**Pension assets £m**	Pension liabilities £m	Pension assets £m
1 January	**(262)**	**234**	(283)	270
Items included in the Profit and Loss Account:				
Current service cost	**(3)**	**–**	(3)	–
Interest on scheme liabilities	**(13)**	**–**	(15)	–
Expected return on scheme assets	**–**	**14**	–	16
Other movements:				
Actuarial gain/(loss)	**104**	**(133)**	30	(56)
Employer contributions	**–**	**27**	–	14
Plan participants' contributions	**–**	**–**	(1)	1
Benefits paid from schemes	**7**	**(7)**	11	(11)
Transfers from other Group companies	**(126)**	**134**	(1)	–
31 December	**(293)**	**269**	(262)	234

31 December	**2013 £m**	2012 £m
Net pension deficit	**(24)**	(28)
Related deferred tax asset	**4**	-
Net pension liability after deferred tax	**(20)**	(28)

Presented in the Balance Sheet as:

31 December	**2013 £m**	2012 £m
Defined benefit pension assets	**14**	9
Defined benefit pension liabilities	**(34)**	(37)
	(20)	(28)

Financial Statements
Notes to the Company Financial Statements

X. PENSIONS

Of the pension schemes liabilities, £42 million (2012: £37 million) relate to the Centrica Unfunded Pension Scheme.

(d) Analysis of the actuarial (losses)/gains recognised in reserves (note XI)

Year ended 31 December	2013 £m	2012 £m
Actuarial loss (actual return less expected return on pension scheme assets)	**(133)**	(56)
Experience gain arising on the scheme liabilities	**2**	3
Changes in assumptions underlying the present value of the schemes' liabilities	**102**	27
Actuarial loss recognised in Statement of Total Recognised Gains and Losses, before adjustment for taxation	**(29)**	(26)
Cumulative actuarial (losses)/gains recognised in reserves at 1 January, before adjustment for taxation	**(14)**	12
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	**(43)**	(14)

(e) Pension scheme contributions

Note 22 to the Group Financial Statements provides details of the triennial review carried out at 31 March 2012 in respect of the UK Registered Pension Schemes and the asset-backed contribution arrangements set up in 2012 and 2013. During the year the Group made a £0.3 million deficit payment and a contribution of £360 million via the asset-backed contribution arrangement, of which the Company's share was £0.3 million and £23 million respectively. Under FRS 17, Retirement Benefits, the Company's contribution and trustee interest in the Scottish Limited Partnerships are recognised as scheme assets.

The Company estimates that it will pay £3 million of employer contributions during 2014 at an average rate of 25% of pensionable pay.

(f) Pension scheme assets

31 December	2013 £m	2012 £m
Equities	**1,766**	1,844
Diversified asset funds	**403**	246
Corporate bonds	**1,571**	1,411
High-yield debt	**362**	324
Liability matching assets	**1,241**	997
Property	**264**	204
Cash pending investment	**8**	12
Asset-backed contribution assets	**379**	84
Group pension scheme assets (i)	**5,994**	5,122

	2013	2012
Company share of the above (£m)	**269**	234
Expected long-term rate of return on assets per annum	**5.5%**	5.6%

(i) Total pension scheme assets for the UK pension schemes.

The overall expected rate of return on assets is a weighted average based on the actual plan assets held in each class and the expected returns on separate asset classes less costs of administering the plan and taxes paid by the plan itself. The returns on separate asset classes are based on the expected median return over a 10-year period (for equities, high-yield debt and property) and appropriate market indices (for fixed-interest bonds and inflation-linked assets). These returns are calculated by the independent company actuary, and adjusted for factors specific to the investment portfolio of the Centrica Combined Common Investment Fund.

(g) Histories

History of deficit	2013 £m	2012 £m	2011 £m
Plan assets	**269**	234	270
Defined benefit obligations	**(293)**	(262)	(283)
Pension deficit	**(24)**	(28)	(13)
Difference between the expected and actual return on scheme assets	**(133)**	(56)	5
Experience gains on scheme liabilities	**2**	3	2

XI. SHAREHOLDERS' FUNDS AND RESERVES

	Profit and loss account									
	Cash flow hedging reserve £m	Treasury and own shares £m	Share-based payments reserve £m	Retained earnings £m	**Profit and loss account £m**	Share capital £m	Share premium £m	Capital redemption reserve £m	**2013 Total £m**	2012 Total £m
1 January	(16)	(19)	88	2,007	**2,060**	321	929	16	**3,326**	3,454
Profit for the year [(i)]	–	–	–	1,127	**1,127**	–	–	–	**1,127**	625
Gains on revaluation of cash flow hedges (net of taxation)	6	–	–	–	**6**	–	–	–	**6**	10
Dividends	–	–	–	(864)	**(864)**	–	–	–	**(864)**	(816)
Employee share schemes:										
Increase in own shares	–	(12)	–	–	**(12)**	–	–	–	**(12)**	(21)
Value of services provided	–	–	43	–	**43**	–	–	–	**43**	43
Exercise of awards	–	75	(36)	(15)	**24**	–	–	–	**24**	(12)
Purchase of treasury shares	–	(500)	–	–	**(500)**	–	–	–	**(500)**	–
Gains on revaluation of available-for-sale securities (net of taxation)	–	–	–	3	**3**	–	–	–	**3**	6
Actuarial losses net of taxation	–	–	–	(28)	**(28)**	–	–	–	**(28)**	(20)
Share issue	–	–	–	–	**–**	–	2	–	**2**	57
Net movement for the financial year	**6**	**(437)**	**7**	**223**	**(201)**	**–**	**2**	**–**	**(199)**	(128)
31 December	**(10)**	**(456)**	**95**	**2,230**	**1,859**	**321**	**931**	**16**	**3,127**	3,326

(i) As permitted by section 408(3) of the Companies Act 2006, no Profit and Loss Account is presented.

The Directors propose a final dividend of 12.08 pence per share (totalling £614 million) for the year ended 31 December 2013. Details of the dividends are given in note 11 to the Group Financial Statements.

Details of the Company's share capital are provided in the Group Statement of Changes in Equity and note 25 to the Group Financial Statements.

XII. COMMITMENTS

At 31 December 2013, the Company had commitments of £125 million (2012: £148 million) relating to contracts with outsource service providers.

At 31 December 2013, lease commitments over land and buildings included non-cancellable operating lease payments due under one year of nil (2012: nil), within one to five years of £2 million (2012: £2 million) and guaranteed operating commitments of a subsidiary undertaking of £6 million (2012: £7 million).

The Company's commitment in respect of its agreement with Cheniere is detailed in note 23 to the Group Financial Statements.

XIII. RELATED PARTIES

The Company has taken advantage of the exemption in FRS 8 not to disclose transactions with its wholly owned subsidiaries. During the year the Company received interest and fees on its loan to Lincs Wind Farm Limited of £13 million (2012: £7 million). The loan balance outstanding is analysed in note IV.

Financial Statements
Gas and Liquids Reserves (Unaudited)

The Group's estimates of reserves of gas and liquids are reviewed as part of the half year and full year reporting process and updated accordingly.

A number of factors affect the volumes of gas and liquids reserves, including the available reservoir data, commodity prices and future costs. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

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

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

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

The principal fields in Europe are Kvitebjorn, Statfjord, Cygnus, South Morecambe, Maria, Chiswick, Valemon, Butch, Rhyl, Grove and York. The principal field in Trinidad and Tobago is NCMA-1. The principal field in Centrica Storage is the Rough field. The European and Trinidad and Tobago reserves estimates are consistent with the guidelines and definitions of the Society of Petroleum Engineers, the Society of Petroleum Evaluation Engineers and the World Petroleum Council's Petroleum Resources Management System using accepted principles.

The principal fields in North America are Foothills, Hanlan and Medicine Hat in the province of Alberta, Canada. The Canadian field reserves estimates have been evaluated in accordance with the Canadian Oil and Gas Evaluation Handbook (COGEH) reserves definitions and are consistent with the guidelines and definitions of the Society of Petroleum Engineers and the World Petroleum Council.

Estimated net 2P reserves of gas (billion cubic feet)	Europe	Canada	Trinidad and Tobago (v)	Centrica Energy	Centrica Storage	**Total**
1 January 2013 (i)	2,236	581	140	**2,957**	182	**3,139**
Revisions of previous estimates (ii)	(32)	10	7	**(15)**	–	**(15)**
(Disposals)/purchases of reserves in place (iii)	(43)	567	–	**524**	–	**524**
Extensions, discoveries and other additions (iv)	107	33	–	**140**	–	**140**
Production (vi)	(257)	(61)	(19)	**(337)**	–	**(337)**
31 December 2013	**2,011**	**1,130**	**128**	**3,269**	**182**	**3,451**

Estimated net 2P reserves of liquids (million barrels)	Europe	Canada	Trinidad and Tobago (v)	Centrica Energy	Centrica Storage	**Total**
1 January 2013 (i)	129	11	–	**140**	–	**140**
Revisions of previous estimates	(1)	(1)	–	**(2)**	–	**(2)**
(Disposals)/purchases of reserves in place	(2)	11	–	**9**	–	**9**
Extensions, discoveries and other additions (iv)	38	2	–	**40**	–	**40**
Production (vi)	(19)	(1)	–	**(20)**	–	**(20)**
31 December 2013	**145**	**22**	**–**	**167**	**–**	**167**

Estimated net 2P reserves (million barrels of oil equivalent)	Europe	Canada	Trinidad and Tobago (v)	Centrica Energy	Centrica Storage	**Total**
31 December 2013 (vii)	480	210	21	**711**	30	**741**

(i) See note 4(a).
(ii) Revision of previous estimates including those associated with Seven Seas and Ensign.
(iii) Reflects our share of the acquisition of producing assets in Canada from Suncor Energy, and the disposals of Babbage and assets in the Heimdal area.
(iv) Recognition of reserves including the Kvitebjorn, Statfjord and Whitehaven fields in Centrica Energy.
(v) The Trinidad and Tobago reserves are subject to a production sharing contract and accordingly have been stated on an entitlement basis (including tax barrels).
(vi) Represents total sales volumes of gas and oil produced from the Group's reserves.
(vii) Includes the total of estimated gas and liquid reserves at 31 December 2013 in million barrels of oil equivalent.

Liquids reserves include oil, condensate and natural gas liquids.

Five Year Summary (Unaudited)

Year ended 31 December	2009 (restated) (v) £m	2010 (restated) (v) £m	2011 (restated) (v) £m	2012 (restated) (v) £m	**2013 £m**
Group revenue from continuing operations	21,963	22,423	22,824	23,942	**26,571**
Operating profit from continuing operations before exceptional items and certain re-measurements:					
British Gas	1,011	1,216	1,005	1,093	**1,030**
Direct Energy (v)	146	227	287	310	**276**
Centrica Energy (v)	532	778	1,048	1,251	**1,326**
Centrica Storage	168	169	75	89	**63**
Adjusted operating profit – operating profit before exceptional items, certain re-measurements and impact of fair value uplifts from the Strategic Investments acquired in 2009	1,857	2,390	2,415	2,743	**2,695**
Share of joint ventures' and associates' interest and taxation	(11)	(78)	(102)	(85)	**(111)**
Other	(5)	–	–	–	**–**
Depreciation of fair value uplifts to property, plant and equipment (i)	(27)	(118)	(105)	(96)	**(66)**
	1,814	2,194	2,208	2,562	**2,518**
Operating (loss)/profit from discontinued operations:					
European operations	105	(2)	13	–	**–**
Exceptional items and certain re-measurements after taxation	(288)	726	(844)	(77)	**(383)**
Profit attributable to owners of the parent (v)	824	1,894	385	1,245	**950**
	Pence	Pence	Pence	Pence	**Pence**
Earnings per ordinary share (v)	16.1	36.8	7.5	24.0	**18.4**
Adjusted earnings per ordinary share (ii) (v)	21.3	24.4	25.1	26.6	**26.6**
Dividend per share declared in respect of the year	12.8	14.3	15.4	16.4	**17.0**

Assets and liabilities

31 December	2009 (restated) (iii) (v) £m	2010 (restated) (iii) (v) £m	2011 (restated) (iii) (v) £m	2012 (restated) (iii) (v) £m	**2013 £m**
Goodwill and other intangible assets	2,822	3,454	3,739	4,122	**4,724**
Other non-current assets	9,650	9,815	10,234	11,690	**10,993**
Net current assets/(liabilities) (v)	267	217	(739)	(446)	**(470)**
Non-current liabilities (v)	(8,612)	(7,754)	(7,634)	(9,439)	**(10,192)**
Net assets of disposal groups held for sale	128	87	–	–	**202**
Net assets	4,255	5,819	5,600	5,927	**5,257**
Debt, net of cash, cash equivalents and securities:					
Net debt (iii)	(3,055)	(3,195)	(3,292)	(4,047)	**(5,049)**

Cash flows

Year ended 31 December	2009 (restated) (iv) £m	2010 (restated) (iv) £m	2011 £m	2012 £m	**2013 £m**
Cash flow from operating activities before exceptional payments (iv)	2,430	2,651	2,531	3,086	**3,164**
Payments relating to exceptional charges	(203)	(223)	(194)	(266)	**(224)**
Net cash flow from investing activities (iv)	(4,100)	(1,584)	(1,400)	(2,558)	**(2,351)**
Cash flow before cash flow from financing activities	(1,873)	844	937	262	**589**

(i) The depreciation of British Energy fair value uplifts is shown net of taxation.
(ii) Adjusted earnings per ordinary share excludes depreciation of fair value uplifts to PP&E from the Strategic Investments acquired in 2009 after taxation and certain re-measurements and exceptional items.
(iii) The 2009–2012 comparatives have been restated to include mark-to-market values on derivative financial instruments used to hedge offsetting changes in borrowings.
(iv) The 2009–2010 comparatives have been restated for a change in presentation of emission certificate/allowance cash flows.
(v) See note 1(a) and 4(a).

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INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF CENTRICA PLC AND ITS LICENSEES

We have audited the accompanying statement (the 'Consolidated Segmental Statement' or 'CSS') of Centrica plc and its Licensees (as listed in footnote[ii]) as at 31 December 2013 in accordance with the terms of our agreement dated 12 December 2013 which was updated on 15 February 2014. The CSS has been prepared by the Directors of Centrica plc and its Licensees based on the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences (together, the 'Licences') and the basis of preparation on pages 174 to 176.

Directors' Responsibility

The Directors are responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 174 to 176 and for maintaining the underlying accounting records and such internal control as the Directors determine is necessary to enable the preparation of the CSS that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the CSS based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the CSS is free from material misstatement. The materiality level that we used in planning and performing our audit is set at £30 million for each of the segments.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the CSS. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the CSS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the CSS in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the CSS.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the attached CSS of Centrica plc and its Licensees as at 31 December 2013 is prepared, in all material respects, in accordance with:

(i) the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by the Regulator Ofgem; and

(ii) the basis of preparation on pages 174 to 176.

Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to pages 174 to 176 of the CSS, which describes the basis of preparation. The CSS is prepared in order for Centrica plc and its Licensees to meet the Licence requirements of the Regulator Ofgem rather than in accordance with a generally accepted accounting framework. The CSS should therefore be read in conjunction with both the Licences and the basis of preparation on pages 174 to 176. This basis of preparation is not the same as segmental reporting under IFRS and/or statutory reporting. As a result, the schedule may not be suitable for another purpose.

This report, including our conclusions, has been prepared solely for the Directors of Centrica plc and its Licensees as a body in accordance with the agreement between us, to assist the Directors in reporting on the CSS to the Regulator Ofgem. We permit this report to be disclosed in the Annual Report and Accounts of Centrica plc for the year ended 31 December 2013 and the website[i] www.centrica.com/prelims2013, to enable the Directors to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and Centrica plc and its Licensees for our work or this report except where terms are expressly agreed between us in writing.

Other Matter

The CSS for the year ended 31 December 2012, forming the corresponding figures of the CSS for the year ended 31 December 2013, are unaudited.

PricewaterhouseCoopers LLP

London

20 February 2014

(i) The maintenance and integrity of the Centrica plc website is the responsibility of the Directors of Centrica plc; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the CSS since it was initially presented on the website.
(ii) British Gas Trading Limited, Centrica Langage Limited, Centrica SHB Limited, Centrica Brigg Limited, Centrica Barry Limited, Centrica KPS Limited, Centrica RPS Limited, Centrica PB Limited and Centrica KL Limited.

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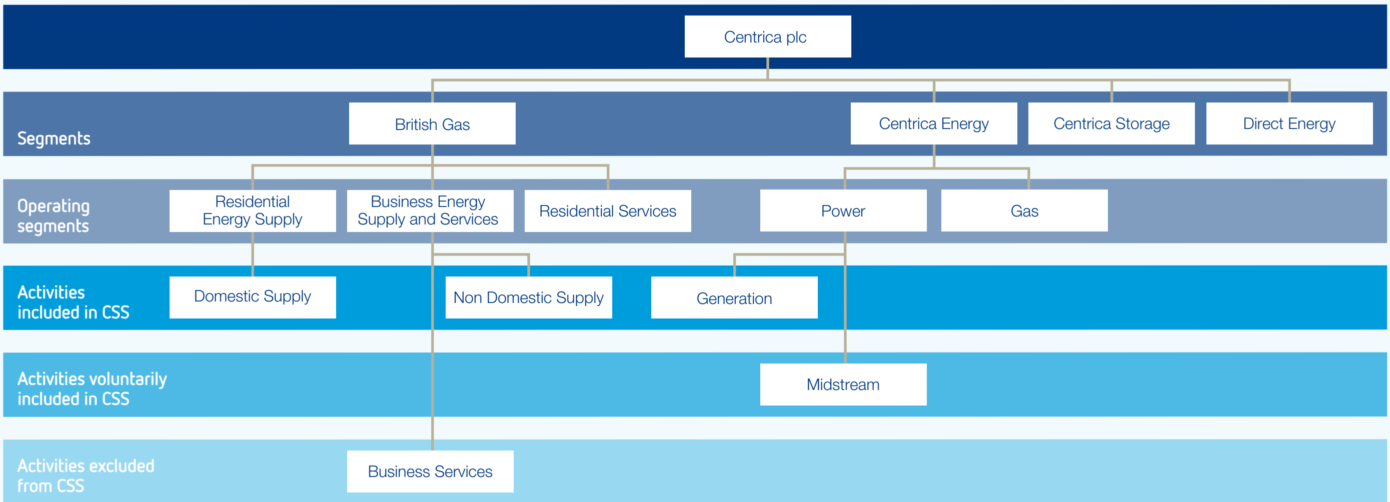
INTRODUCTION

The Ofgem Consolidated Segmental Statement (CSS) and required regulatory information on pages 170 to 178 are provided in order to comply with Standard Condition 16B of Electricity Generation Licences and Standard Condition 19A of the Electricity and Gas Supply Licences.

The CSS and supporting information are prepared by the Directors in accordance with the Segmental Statements Guidelines issued by Ofgem. The CSS has been derived from and reconciled to the consolidated Centrica plc Annual Report and Accounts for the year ended 31 December 2013 which have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation and the Companies Act 2006.

Centrica plc operational reporting structure

Below is a summary of the Centrica plc group's (Group) operational reporting structure. The CSS financial data has been extracted from the Centrica plc Annual Report and Accounts 2013 operating segments rather than with reference to specific legal entities. Certain activities included in the Group's operating segments have been excluded from the Generation and Supply segments of the CSS on the basis they are non-licenced activities (eg Midstream and Business Services) as illustrated below. However, to aid transparency, the Midstream result has been voluntarily included in the CSS. The Centrica plc Annual Report and Accounts 2013 provides operating segment results for 'British Gas – Residential energy supply', 'British Gas – Business energy supply and services' and 'Centrica Energy – Power' in note 4. A full reconciliation between these results and those disclosed for 'Domestic Supply', 'Non-Domestic Supply' and 'Generation' in this CSS is provided at the end of the report.



Centrica plc is the ultimate parent company of all 100% owned licensees. The individual supply and generation licences are held in legal entities whose licenced activities are reported as part of the Centrica plc Annual Report and Accounts 2013 within the operating segments shown above. The individual supply and generation licences held in subsidiaries, joint ventures or associates of Centrica plc during 2013 are detailed below:

Licensee	Licence	Ownership
British Gas Trading Limited	Supply	100%
Centrica Langage Limited	Generation	100%
Centrica SHB Limited	Generation	100%
Centrica Brigg Limited	Generation	100%
Centrica Barry Limited	Generation	100%
Centrica KPS Limited	Generation	100%
Centrica RPS Limited	Generation	100%
Centrica PB Limited	Generation	100%
Centrica KL Limited	Generation	100%
Lincs Wind Farm Limited	Generation	50% Joint Venture
Braes of Doune Wind Farm (Scotland) Limited	Exemption (i)	50% Joint Venture
Barrow Offshore Wind Limited	Exemption (i)	50% Joint Venture
Glens of Foudland Wind Farm Limited	Not Required (ii)	50% Joint Venture
Centrica (LW) Limited	Exemption (i)	50% Joint Venture
Centrica (IDW) Limited	Exemption (i)	50% Joint Venture
Rhiannon Wind Farm Limited	Generation	50% Joint Venture
EDF Energy Nuclear Generation Limited	Generation (iii)	20% Associate

(i) Certain wind farms have received an exemption from the requirement to have a generation licence.
(ii) The capacity of Glens of Foudland is 26MW and therefore does not require a generation licence or an exemption from having a generation licence.
(iii) Centrica plc holds a 20% investment in Lake Acquisitions Limited which indirectly owns 100% of EDF Energy Nuclear Generation Limited.

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OFGEM CONSOLIDATED SEGMENTAL STATEMENT

Year ended 31 December 2013

		Generation				Electricity Supply		Gas Supply			
	Unit	Nuclear	Thermal	Renewables	**Aggregate Generation (i)**	Domestic	Non-Domestic	Domestic	Non-Domestic	**Aggregate Supply Business**	**Midstream (ii)**
Total revenue	**£m**	**628**	**590**	**157**	**1,375**	**3,497**	**1,951**	**6,091**	**904**	**12,443**	**111**
Sales of electricity & gas	£m	622	576	51	**1,249**	3,458	1,941	6,052	904	**12,355**	71
Other revenue	£m	6	14	106	**126**	39	10	39	–	**88**	40
Total operating costs	**£m**	**(324)**	**(630)**	**(105)**	**(1,059)**	**(3,441)**	**(1,897)**	**(5,512)**	**(804)**	**(11,654)**	**(79)**
Direct fuel costs	£m	(99)	(475)	–	**(574)**	(1,554)	(1,010)	(3,282)	(538)	**(6,384)**	-
Direct costs	£m	(202)	(99)	(54)	**(355)**	(1,382)	(681)	(1,500)	(157)	**(3,720)**	(69)
Network costs	£m	*(32)*	*(36)*	*(3)*	***(71)***	*(903)*	*(442)*	*(1,159)*	*(140)*	***(2,644)***	–
Environmental and social obligation costs	£m	–	–	–	**–**	*(479)*	*(211)*	*(341)*	–	***(1,031)***	–
Other direct costs	£m	*(170)*	*(63)*	*(51)*	***(284)***	–	*(28)*	–	*(17)*	***(45)***	*(69)*
Indirect costs	£m	(23)	(56)	(51)	**(130)**	(505)	(206)	(730)	(109)	**(1,550)**	(10)
WACOF/E/G	**£/MWh, P/th**	**(8.18)**	**(53.37)**	N/A	N/A	**(61.91)**	**(58.38)**	**(75.6)**	**(68.6)**	N/A	N/A
EBITDA	**£m**	**304**	**(40)**	**52**	**316**	**56**	**54**	**579**	**100**	**789**	**32**
DA	**£m**	(54)	(93)	(27)	**(174)**	(28)	(5)	(36)	(3)	**(72)**	(3)
EBIT	**£m**	**250**	**(133)**	**25**	**142**	**28**	**49**	**543**	**97**	**717**	**29**
Volume	**TWh, MThms**	**12.1**	**8.9**	**0.7**	**21.7**	**25.1**	**17.3**	**4,342**	**784**	N/A	

		Electricity Supply Domestic	Electricity Supply Non-Domestic	Gas Supply Domestic	Gas Supply Non-Domestic	Aggregate Supply Business
Supply EBIT margin		**0.8%**	**2.5%**	**8.9%**	**10.7%**	**5.8%**
Supply PAT	**£m**	**21**	**39**	**402**	**78**	**540**
Supply PAT margin		**0.6%**	**2.0%**	**6.6%**	**8.6%**	**4.3%**

2012 Summarised CSS – Unaudited

Year ended 31 December 2012

		Generation				Electricity Supply		Gas Supply			
	Unit	Nuclear	Thermal	Renewables	Aggregate Generation re-presented (iii)	Domestic	Non-Domestic	Domestic	Non-Domestic	Aggregate Supply Business	Midstream (ii) (iii)
Total revenue	£m	603	598	96	1,297	3,237	1,841	5,884	1,014	11,976	142
EBIT	£m	237	(4)	56	289	(53)	65	659	119	790	22

		Electricity Supply Domestic	Electricity Supply Non-Domestic	Gas Supply Domestic	Gas Supply Non-Domestic	Aggregate Supply Business
Supply EBIT margin		(1.6)%	3.5%	11.2%	11.7%	6.6%
Supply PAT	£m	(40)	48	497	88	593
Supply PAT margin		(1.2)%	2.6%	8.4%	8.7%	5.0%

(i) The Generation Segment was granted no free carbon allowances in 2013.
(ii) Midstream includes results from non-licenced activities related to power trading and bilateral arrangements with third party owners of power generation assets in the UK and Europe (included in the 'Centrica Energy – Power' segment as defined in the Centrica plc Annual Report and Accounts 2013 (Note 4)).
(iii) The Aggregate Generation segment has been re-presented to separately disclose the certain non-licenced Midstream activities previously included in the Generation segment in the 2012 CSS (Total revenue £34 million, EBIT £2 million). These results are now presented within the Midstream segment.

OFGEM CONSOLIDATED SEGMENTAL STATEMENT

Glossary of terms

- 'WACOF/E/G' is weighted average cost of fuel (nuclear), electricity (supply) and gas (thermal and supply) calculated by dividing direct fuel costs by volumes.
- 'EBITDA' is earnings before interest, tax, depreciation and amortisation, and is calculated by subtracting total operating costs from revenue.
- 'DA' is depreciation and amortisation.
- 'EBIT' is earnings before interest and tax, and is calculated by subtracting total operating costs, depreciation and amortisation from total revenue.
- 'Supply EBIT margin' is a profit margin expressed as a percentage and calculated by dividing EBIT by total revenue and multiplying by 100 for the Supply segment.
- 'Supply PAT' is profit after tax but before interest and is calculated by subtracting Group adjusted tax from EBIT for the Supply segment.
- 'Supply PAT margin' is a profit margin expressed as a percentage and calculated by dividing Supply PAT by total revenue and multiplying by 100 for the Supply segment.
- 'Volume' for Supply is supplier volumes at the meter point (ie net of losses); Generation volume is the volume of power that can actually be sold in the wholesale market (ie generation volumes after losses up to the point where power is received under the Balancing and Settlement Code but before subsequent losses).

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BUSINESS FUNCTIONS TABLE
Year ended 31 December 2013 – analysis of business function's performance [i]

The table below illustrates where the business functions reside.

	Generation	Supply	Another part of business
Operates and maintains generation assets	✓	–	–
Responsible for scheduling decisions	✓	–	–
Responsible for interactions with the Balancing Market	✓	✓	–
Responsible for determining hedging policy	✓ (output)	✓ (demand)	–
Responsible for implementing hedging policy/makes decision to buy and sell energy	✓ (output)	✓ (demand)	–
Interacts with wider market participants to buy/sell energy	✓ (bilateral)	✓ (market and bilateral)	✓ (market and bilateral)[ii]
Holds unhedged positions (either short or long)	✓	✓	✓[ii]
Procures fuel for generation	✓	–	–
Procures allowances for generation	✓	–	–
Holds volume risk on positions sold (either internal or external)	✓	✓	–
Matches own generation with own supply	–	✓[iii]	✓[ii]/[iii]
Forecasts total system demand	–	✓	–
Forecasts wholesale price	✓[iv]	✓[iv]	✓[iv]
Forecasts customer demand	–	✓	–
Determines retail pricing and marketing strategies	–	✓	–
Bears shape risk after initial hedge until market allows full hedge	✓	✓	–
Bears short-term risk for variance between demand and forecast	–	✓	–

(i) The table reflects the business functions that impact our UK segments.
(ii) The Group's Supply and Generation businesses are separately managed. Both businesses independently enter into commodity purchases and sales with the market via Centrica Energy Limited (CEL), our market facing legal entity. CEL forms part of our non-licenced Midstream function and also conducts trading for the purpose of making profits in its own right. The Supply segment is also able to enter into market trades directly as part of its within day balancing activities (as well as external bilateral contracts).
(iii) There are a small number of bilateral off-take contracts between wind farm joint ventures and Domestic and Non-Domestic Electricity Supply segments. Other than this small number of bilateral contracts, 'Matches own generation with own supply' is undertaken in 'Another part of the business' (by CEL at market referenced prices), outside of the Generation and Supply segments.
(iv) A separate team forecasts the wholesale price for the benefit and use of the entire Group. This team does not formally reside in any particular segment but their costs are recharged across the Group.

Key:

✓ Function resides and profit/loss recorded in segment
– Neither function nor profit/loss reside in segment

Glossary of terms

- 'Scheduling decisions' means the decision to run individual generation units.
- 'Responsible for interactions with the Balancing Market' means interactions with the Balancing Mechanism in electricity.
- 'Interacts with wider market participants to buy/sell energy' means the business unit is responsible for interacting with wider market participants to buy/sell energy, not the entity responsible for the buy/sell decision itself, which falls under 'Responsible for implementing hedging policy/makes decisions to buy/sell energy'.
- 'Matches own generation with own supply' means where there is some internal matching of generation and supply before either generation or supply interact with the wider market.
- 'Forecasts total system demand' means forecasting total system electricity demand or total system gas demand.
- 'Forecasts customer demand' means forecasting the total demand of own supply customers.
- 'Bears shape risk after initial hedge until market allows full hedge' means the business unit which bears financial risk associated with hedges made before the market allows fully shaped hedging.
- 'Bears short-term risk for variance between demand and forecast' means the business unit which bears financial risk associated with too little or too much supply for own customer demand.

Ofgem Consolidated Segmental Statement

BASIS OF PREPARATION

The following notes provide a summary of the basis of preparation of the 2013 submission.

The Ofgem CSS segments our Supply and Generation activities and provides a measure of profitability, weighted average cost of fuel, and volumes, in order to increase energy market transparency for consumers and other stakeholders.

These statements have been prepared by the Directors of Centrica plc and its Licensees in accordance with Standard Condition 16B of Electricity Generation Licences and Standard Condition 19A of the Electricity and Gas Supply Licences and the basis of preparation. Throughout the basis of preparation the first paragraph number relates to the generation licence and the second to the supply licence conditions respectively.

The financial data provided has been taken from the relevant licensee's and affiliate's financial information for the year ended 31 December 2013, included in the Centrica plc Annual Report and Accounts 2013 which has been prepared under International Financial Reporting Standards (in accordance with paragraph 3/19A.3).

For the Generation segment, we have included the financial results from all activities that relate to our generation licences. For clarity the following judgements have been made:

- Where a sub-segment (eg Nuclear, Thermal or Renewables) has undertaken trades to optimise the result of their underlying generation, the net revenue and result from these trades has been included in the CSS sub-segment as they are considered to be related to our generation licences.
- The Group has a long-term tolling contract in respect of the Spalding power station, but does not specifically hold the generation licence. This arrangement provides the Group with the right to nominate 100% of the plant capacity in return for a mix of capacity payments and operating payments. We do not own the power station and the Group does not control the physical dispatch of the asset. This contractual arrangement has been accounted for as a finance lease (under IFRS) and therefore the financial result and volume has been included in the Thermal sub-segment, within the Generation segment.
- The Group has a 20% equity interest in eight nuclear power stations (through its indirect investment in EDF Energy Nuclear Generation Limited). Although we do not specifically hold a generation licence for any of the nuclear stations, our share of the financial result from this business (including any contractual arrangements) has been included in the Nuclear sub-segment and hence within the Generation segment.
- The Group has equity interests in a number of wind farm joint ventures. Although we do not specifically hold a generation licence for any of the wind farms owned by these entities, our gross share of the financial result from these businesses (including any contractual arrangements) has been included in the Renewables sub-segment and hence within the Generation segment.
- As a voluntary disclosure, to aid transparency, the Midstream trading result (including immaterial overseas activities) has been reported in a separate column of the CSS ('Midstream'). Midstream includes the result of trading in physical and financial energy contracts (power only) for the purpose of making profits in their own right and other non-licenced activities (see below). This does not form part of either the Generation or Supply segment. This means our CSS discloses all of the activities that have been included in the 'Centrica Energy – Power' segment of the Centrica plc Annual Report and Accounts 2013 (note 4).
- Where power is purchased from third parties (eg from wind farms, power stations or other bilateral arrangements) and we do not have an equity interest in, or a finance leasing arrangement (from an IFRS perspective) over the assets that generate this power, the result related to these activities is excluded from the Generation segment (but is included in our 'Midstream' disclosure). In all cases, the direct fuel costs and generation volumes are reported on a consistent basis (ie if the purchase cost is a direct fuel cost, then the electricity generated is reported in volume).

As a voluntary disclosure, to aid comparability, a summarised 2012 CSS with margins has been included with the report. The 2012 CSS is unaudited.

Revenues

Revenues, costs and profits of the Licensee have been defined below and prepared in compliance with the Group's accounting policies as detailed in notes 2, 3 and S2 of the Centrica plc Annual Report and Accounts 2013, except for joint ventures and associates which are presented gross (in accordance with paragraph 4(a)/19A.4(a)).

- Revenue from Sales of electricity and gas for the Supply segment is recognised on the basis of gas and electricity supplied during the period to both domestic and non-domestic customers.
- Revenue from Sales of electricity and gas includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). For the respective Supply segments this means electricity and gas sales. Revenue for domestic supply is after deducting dual fuel discounts where applicable, with the discount split evenly between electricity and gas. All social costs (eg Warm Home Discount[1], Winter Top-Up[1] and British Gas Energy Trust (BGET)[1]) are included in Environmental and social obligation costs and therefore are not deducted from revenue.
- Revenue from Sales of electricity for the Generation segment is recognised on the basis of power supplied during the period. Power purchases and sales entered into to optimise the performance of each of the power Generation segments are presented net within revenue.
- LEC revenues associated with Renewables are included within Sales of electricity and gas because the certificates must be sold with the electricity.
- Revenue from Sales of electricity and gas in Midstream relate to the sale of power procured under non-licenced activities' power purchasing agreements (PPAs) and from overseas generation.
- No tolling agreements exist between business segments. The financial risks and rewards of owning and using the Group's power stations reside in the Generation segment.

1 In compliance with Ofgem's additional guidance, social discounts have not been netted against revenue but included in Environmental and social obligation costs.

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Ofgem Consolidated Segmental Statement

BASIS OF PREPARATION

- Other respective segmental revenues not related to the sale of gas or power have been separately disclosed. Other revenues include:
  - £106 million in Renewables principally relating to the sale of ROCs, services provided to joint ventures and from sub-leasing a turbine installation ship;
  - £10 million in Non-Domestic Electricity Supply relating to connections and metering installations;
  - £39 million in both Domestic Gas and Electricity Supply respectively relating to New Housing Connections and a variety of new technology investments including smart meter installations; and
  - £40 million in Midstream predominantly relating to the net result of trading in physical and financial energy contracts (both realised (settled) and unrealised (fair value changes)) for the purpose of making profits in their own right, net of broker costs.

Direct fuel costs

Direct fuel costs for both Generation and Supply include electricity, gas, carbon, nuclear fuel and imbalance costs.

- Energy supply to Domestic and Non-Domestic energy customers is procured at a market referenced price, through a combination of Bilateral, OTC and Exchange based trades/contracts (see table below). Where energy is procured from within the Group it is also at a market referenced price on an OTC basis (except for a small number of bilateral off-take[2] contracts between wind farm joint ventures and the Supply segments). The market referenced prices used are those prevailing at the time of procurement, which may differ from the price prevailing at the time of supply.
- Domestic and Non-Domestic fixed price products are hedged based upon anticipated demand at the start of the contract period. The majority of the gas and power for Non-Domestic energy and Domestic energy tariff products is purchased in advance (see table below).
- The exact purchasing patterns vary in response to the outlook for commodity markets and commercial factors.
- The Generation segment purchases gas and sells all of its energy at market referenced prices. Gas for CCGTs is procured at market referenced prices through a combination of OTC and Exchange based trades/contracts. The cost to the power stations will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply.
- For the Midstream segment, any procurement of gas for overseas generation is reported as part of direct costs and not within direct fuel costs.

How we procure electricity, gas and carbon:

Long form bilateral contracts ('Bilateral')	Individually negotiated contracts with non-standardised terms and conditions which may relate to size, duration or flexibility. Pricing is predominantly indexed to published market referenced prices, adjusted for transfer of risks, cost of carry and administration.
Over-the-counter ('OTC')	Broker supported market of standardised products, predominantly performed via screen based trading. These transactions are between two parties, leaving both parties exposed to the other's default with no necessary intermediation of any exchange. An internal over-the-counter price may be provided where market liquidity prevents external trading, with prices that are reflective of market conditions at the time of execution.
Exchange ('Exchange')	Regulated electronic platform (notably ICE, APX, and N2EX) where standardised products are traded on exchange through the intermediary of the clearing house which becomes the counterparty to the trade. Membership of a clearing house is required which entails posting of cash or collateral as margin.

WACOF / WACOE / WACOG:

- For Generation this represents the weighted average input cost of gas, carbon and nuclear fuel, shown as £/MWh, used by the generation business. Gas for CCGTs is procured at market referenced prices through a combination of OTC and Exchange based trades/contracts. The cost to the power stations will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply.
- For Supply this covers the wholesale energy cost (including the costs associated with the EU ETS and the Carbon Price Floor), the energy element of Reconciliation-by-Difference (RBD) costs and balancing and shaping costs incurred by the Supply licensees. Again, gas and electricity is procured at market referenced prices through a combination of Bilateral, OTC and Exchange based trades/contracts. The cost for the Supply business will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply. Where gas is procured using (predominantly indexed) Bilateral contracts, the fuel cost is then allocated between Domestic and Non-Domestic Supply using a consistent, fixed percentage based on the historic split of tariff book volumes. Gas and Electricity balancing costs are allocated between Domestic and Non-Domestic Supply based on their respective volumes multiplied by an appropriate industry referenced price (eg APX or SAP).

Direct costs

Direct costs for Supply and Generation are broken down into network costs, environmental and social obligation costs and other direct costs.

- Network costs for Supply and Generation include transportation costs, BSUOS and the transport element of RBD costs.

2 Internal power off-take contracts – long-term power and associated renewable certificate sales from Generation owned assets to Domestic and Non-Domestic Electricity Supply. Pricing is indexed to published market prices, adjusted for the transfer of risks specific to the asset.

Ofgem Consolidated Segmental Statement

BASIS OF PREPARATION

- Environmental and social obligation costs for Domestic Supply include ROCs, CERT, CESP, FIT, ECO, Warm Home Discount[1], Winter Top-Up[1] and BGET[1]. Non-Domestic Supply includes the cost of LECs, ROCs and FIT. Within the Domestic and Non-Domestic segments, the costs of LECs, FIT and ROCs are included within Electricity, and ECO, CERT and CESP are allocated between Electricity and Gas based on the relevant legislation. Warm Home Discount, Winter Top-Up and BGET are charged specifically to each fuel.
- Other direct costs for Generation include employees, maintenance and ship charter costs.
- Other direct costs for Supply relate to broker costs and sales commissions in Non-Domestic Gas and Electricity Supply.
- Other direct costs for Midstream principally relate to the costs of purchasing power under other non-licenced activities' PPAs and from procuring gas for overseas generation.

Indirect costs

Indirect costs for Supply and Generation include operating costs such as sales and marketing, bad debt, credit balances, costs to serve, IT, staffing and billing and metering costs (including smart meter costs).

- Indirect costs for the Generation, Domestic and Non-Domestic Supply segments (including corporate and business unit recharges) are allocated based on relevant drivers which include turnover, headcount, operating profit, net book value of fixed assets and proportionate use/benefit. For Supply, indirect costs (including corporate recharges) are primarily allocated between Electricity and Gas on the basis of customer numbers (Domestic) and sites (Non-Domestic).
- Indirect costs for Midstream relate to employee, IT and property costs.

Other

- For Supply, depreciation and amortisation is allocated between Electricity and Gas on the basis of customer numbers (Domestic) and sites (Non-Domestic).
- Generation segment EBIT excludes £61 million of depreciation of fair value uplifts to property, plant and equipment relating to the strategic investment in British Energy (referred to as Lake Acquisitions Limited in this document). For further details of this adjustment see notes 2, 4, 6 and 10 of the Centrica plc Annual Report and Accounts 2013.
- For the purposes of Supply PAT, tax is allocated between Gas and Electricity within both Domestic and Non-Domestic Supply based on their relative proportions of EBIT. Note 4(c) of the Centrica plc Annual Report and Accounts 2013 provides details of the adjusted operating profit after tax of the 'British Gas – Residential energy supply' and 'British Gas – Business energy supply and services' operating segments.

Transfer pricing for electricity, gas and generation licensees (in accordance with paragraph 4(d)/19A.4(d)):

There are no specific energy supply agreements between the Generation and Supply segments (apart from a small number of bilateral off-take[2] contracts between wind farm joint ventures and Domestic and Non-Domestic Electricity Supply segments).

Treatment of joint ventures and associates

The share of results of joint ventures and associates for the year ended 31 December 2013 principally arises from its interests in the entities listed on page 170.

Under paragraph 5 of the Conditions, the information provided in the CSS includes our share of revenues, costs, profits and volumes of joint ventures and associates. In preparing the CSS, joint ventures and associates (which hold a UK generation licence or exemption) are accounted for as follows:

- our proportionate share of revenues of joint ventures and associates has been included within revenue;
- our proportionate share of the profit before tax of joint ventures and associates has been included within EBIT and EBITDA; and
- our proportionate share of the generation volumes of joint ventures and associates has been included within the generation volumes.

For each of the above items, our share of the income and expenses of the joint ventures or associates has been combined line by line within the relevant item of the CSS.

The Supply segment has an investment in an associate but because the investee's business does not relate to the sale of gas and electricity, the share of result (£8 million revenue, EBIT loss of £7 million) has been included net within indirect costs rather than gross, on a line by line basis.

Exceptional items and certain re-measurements

Mark to market adjustments, profits or losses on disposal, restructuring costs, and impairment charges that have been identified in the Centrica plc Annual Report and Accounts 2013 are excluded from the CSS. For further details of excluded exceptional items and certain re-measurements see note 7 in the Centrica plc Annual Report and Accounts 2013.

The Renewables sub-segment result includes a net £11 million loss; being a net £23 million profit on disposal of Braes of Doune Wind Farm (Scotland) Limited and Centrica (RBW) Limited, offset by a £25 million impairment of the Group's investment in Celtic Array Limited and a £9 million impairment in our Renewable joint venture businesses. These results have been included in the Generation segment as they are not exceptional in size, nature or incidence, and do not materially change the Generation result. This is in line with the Group's established wind farm strategy to realise value, share risk and reduce our capital requirements as individual projects develop, which may involve bringing in partners at an appropriate stage or full disposal.

The Supply segment includes a number of impairment losses totalling £18 million. These losses have been included in the Supply results as they are not exceptional in size, nature or incidence, and do not materially change the result.

A reconciliation of the Segmental Statement revenue, EBIT and depreciation to the 2013 audited Centrica plc Annual Report and Accounts has been included in accordance with paragraph 4(b) & (c)/19A.4 (b) & (c) and 6/19A.6.

1 In compliance with Ofgem's additional guidance, social discounts have not been netted against revenue but included in Environmental and social obligation costs.
2 Internal power off-take contracts – long-term power and associated renewable certificate sales from Generation owned assets to Domestic and Non-Domestic Electricity Supply. Pricing is indexed to published market prices, adjusted for the transfer of risks specific to the asset.

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Ofgem Consolidated Segmental Statement

RECONCILIATION TO CENTRICA PLC ANNUAL REPORT AND ACCOUNTS

The reconciliation refers to the segmental analysis of the 2013 Centrica plc Annual Report and Accounts in note 4 and the performance measures section in the appendix to the Directors' Report

			Supply segment			
			Domestic		Non-Domestic	
		Generation Segment	Electricity	Gas	Electricity	Gas
	Notes	2013	2013	2013	2013	2013
Revenue (£ million)						
Centrica plc Annual Report and Accounts Segmental Analysis (i)		1,386	9,487		3,084	
Gas and Electricity Allocation	1	–	3,454	6,033	2,180	904
Include share of JVs and Associates	2	727	–	–	–	–
Exclude intra-segment revenues	3	(627)	–	–	–	–
Exclude midstream revenues	4	(111)	–	–	–	–
Exclude non-domestic services revenues	5	–	–	–	(229)	–
Reclassification of social costs	6	–	43	58	–	–
Ofgem Consolidated Segmental Statement		1,375	3,497	6,091	1,951	904
EBIT (£ million)						
Centrica plc Annual Report and Accounts Segmental Analysis (i)	1	171	571		141	
Gas and Electricity Allocation		–	28	543	44	97
Exclude midstream EBIT	4	(29)	–	–	–	–
Exclude non-domestic services loss	5	–	–	–	5	–
Ofgem Consolidated Segmental Statement		142	28	543	49	97
Depreciation (£ million)						
Centrica plc Annual Report and Accounts Segmental Analysis (i)	1	(97)	(64)		(9)	
Gas and Electricity Allocation		–	(28)	(36)	(6)	(3)
Include share of JVs and Associates depreciation	7	(80)	–	–	–	–
Exclude midstream depreciation	4	3	–	–	–	–
Exclude non-domestic services depreciation	5	–	–	–	1	–
Ofgem Consolidated Segmental Statement		(174)	(28)	(36)	(5)	(3)
PAT (£ million)						
Centrica plc Annual Report and Accounts Segmental Analysis (i)	1		423		113	
Gas and Electricity Allocation			21	402	35	78
Exclude non-domestic services loss	5		–	–	4	–
Ofgem Consolidated Segmental Statement			21	402	39	78

(i) The table above reconciles the Generation segment to 'Centrica Energy – Power', the Domestic Supply segment to 'British Gas – Residential energy supply' and the Non-Domestic Supply segment to 'British Gas – Business energy supply and services' in note 4 to the 2013 Centrica plc Annual Report and Accounts. Also included in note 4 is a reconciliation to the IFRS compliant statutory result reported by the Centrica plc Group.

Ofgem Consolidated Segmental Statement

RECONCILIATION TO CENTRICA PLC ANNUAL REPORT AND ACCOUNTS

Notes:

1. The share of Domestic and Non-Domestic Revenues, Operating Profit (EBIT), Depreciation (including amortisation) and PAT (adjusted operating profit after tax) is provided in the Performance Measures section in the appendix to the Directors' Report section or note 4 of the Centrica plc Annual Report and Accounts 2013.
2. £727 million of revenues relating to the Group's share of joint ventures and associates in Generation are included in the CSS – £645 million relating to Nuclear revenues and £82 million relating to Wind revenues. £282 million of EBIT in the Generation segment relates to profit from joint ventures (£259 million relating to Nuclear and £23 million relating to Wind). Additionally, costs relating to the Group's share of joint ventures and associates – £99 million direct fuel costs, £218 million direct costs, £48 million indirect costs and £80 million depreciation and amortization are included. The results of joint ventures and associates are shown separately in the Centrica plc Annual Report and Accounts 2013 in notes 6 and 14.
3. £627 million of intra-segment revenues between the joint ventures and associates and the Generation segment (included in the £727 million of joint venture and associate revenues) are excluded from the CSS.
4. £111 million of revenues, £29 million of operating profit and £3 million of depreciation relating to Centrica's Midstream non-licenced activities ('Midstream') are excluded from the Generation segment of the CSS (but have been voluntarily disclosed as 'Midstream').
5. £229 million of revenues, £5 million of operating loss, £1 million of depreciation and £4 million of operating loss after tax relate to non-domestic services and are excluded from the CSS.
6. £43 million and £58 million related to Warm Home Discounts and other social discounts in the Domestic Supply segment are reclassified in the CSS submission from revenues to direct costs (Environmental and social obligation costs).
7. £80 million of depreciation relating to the Group's share of joint venture and associates in Generation is included in depreciation cost in the CSS. £61 million of depreciation relating to the fair value uplifts to property, plant and equipment relating to the strategic investment in British Energy is excluded from this number. The Centrica plc Annual Report and Accounts 2013 provides further information on our joint ventures and associates in notes 6 and 14.

Performance Measures

This provides more detailed performance measures for the business units and corporate responsibility.

Business Units

International Downstream – British Gas

TOTAL BRITISH GAS

For the year ended 31 December	FY 2013	FY 2012	Δ%	H2 2013	H2 2012	Δ%
Total customer accounts (period end) ('000)	**24,395**	24,944	(2)	**24,395**	24,944	(2)
Total customer households (period end) ('000)	**11,120**	11,379	(2)	**11,120**	11,379	(2)
Joint product households (period end) ('000)	**2,257**	2,393	(6)	**2,257**	2,393	(6)
Gross revenue (£m)	**14,226**	13,857	3	**6,314**	6,650	(5)
Operating cost (excluding bad debt) (£m)	**1,392**	1,353	3	**706**	672	5
Operating profit (£m)	**1,030**	1,093	(6)	**461**	530	(13)
Operating profit after taxation (£m)	**777**	823	(6)	**nm**	nm	nm

FY 2012 residential energy customer accounts have been restated to exclude 38,000 accounts subsequently reclassified as dormant.
FY 2012 total customer households and joint product households have been restated to reflect a revised alignment of products to households following the implementation of a new customer database.
FY 2012 operating costs have been restated to reflect the reallocation of certain costs from operating costs to cost of sales.

RESIDENTIAL ENERGY SUPPLY

For the year ended 31 December	FY 2013	FY 2012	Δ%	H2 2013	H2 2012	Δ%
Customer accounts (period end)						
Gas ('000)	**8,603**	8,872	(3)	**8,603**	8,872	(3)
Electricity ('000)	**6,653**	6,746	(1)	**6,653**	6,746	(1)
Total ('000)	**15,256**	15,618	(2)	**15,256**	15,618	(2)
Estimated market share (%)						
Gas	**38.2**	39.9	(1.7) ppts	**38.2**	39.9	(1.7) ppts
Electricity	**24.5**	25.1	(0.6) ppts	**24.5**	25.1	(0.6) ppts
Average consumption						
Gas (therms)	**492**	494	(0)	**181**	218	(17)
Electricity (kWh)	**3,688**	3,794	(3)	**1,752**	1,875	(7)
Total consumption						
Gas (mmth)	**4,342**	4,460	(3)	**1,579**	1,945	(19)
Electricity (GWh)	**25,078**	25,683	(2)	**11,932**	12,696	(6)
Gross revenue (£m)						
Gas	**6,033**	5,884	3	**2,307**	2,668	(14)
Electricity	**3,454**	3,237	7	**1,694**	1,646	3
Total	**9,487**	9,121	4	**4,001**	4,314	(7)
Operating profit (£m)	**571**	606	(6)	**215**	261	(18)
Operating profit after taxation (£m)	**423**	457	(7)	**nm**	nm	nm
Post-tax margin (%)	**4.5**	5.0	(0.5) ppts	**nm**	nm	nm

FY2012 residential energy customer accounts have been restated to exclude 38,000 accounts subsequently reclassified as dormant.
Further detail on costs can be found in the Ofgem Consolidated Segmental Statement on page 169 and at centrica.com.

International Downstream – British Gas continued

RESIDENTIAL SERVICES

For the year ended 31 December	FY 2013	FY 2012	Δ%	H2 2013	H2 2012	Δ%
Customer product holdings (period end)						
Central heating service contracts ('000)	**4,575**	4,663	(2)	**4,575**	4,663	(2)
Kitchen appliances care (no. of customers) ('000)	**453**	465	(3)	**453**	465	(3)
Plumbing and drains care ('000)	**1,683**	1,714	(2)	**1,683**	1,714	(2)
Home electrical care ('000)	**1,420**	1,444	(2)	**1,420**	1,444	(2)
Other contracts ('000)	**96**	116	(17)	**96**	116	(17)
Total holdings ('000)	**8,227**	8,402	(2)	**8,227**	8,402	(2)
Domestic central heating installations ('000)	**101**	94	7	**55**	50	10
Gross revenue (£m)						
Central heating service contracts	**841**	839	0	**430**	435	(1)
Central heating installations	**263**	258	2	**142**	137	4
Other	**551**	577	(5)	**278**	291	(4)
Total	**1,655**	1,674	(1)	**850**	863	(2)
Operating profit (£m)	**318**	312	2	**183**	187	(2)
Operating profit after taxation (£m)	**241**	236	2	**nm**	nm	nm
Post-tax margin (%)	**14.6**	14.1	0.5 ppts	**nm**	nm	nm

BUSINESS ENERGY SUPPLY AND SERVICES

For the year ended 31 December	FY 2013	FY 2012	Δ%	H2 2013	H2 2012	Δ%
Customer supply points (period end)						
Gas ('000)	**310**	322	(4)	**310**	322	(4)
Electricity ('000)	**602**	602	0	**602**	602	0
Total ('000)	**912**	924	(1)	**912**	924	(1)
Average consumption						
Gas (therms)	**2,476**	2,737	(10)	**996**	1,156	(14)
Electricity (kWh)	**28,852**	27,521	5	**14,201**	14,014	1
Total consumption						
Gas (mmth)	**784**	940	(17)	**312**	399	(22)
Electricity (GWh)	**17,260**	17,110	1	**8,504**	8,581	(1)
Gross revenue (£m)						
Gas	**904**	1,014	(11)	**373**	443	(16)
Electricity	**1,951**	1,841	6	**968**	929	4
Business Services	**229**	207	11	**122**	101	21
Total	**3,084**	3,062	1	**1,463**	1,473	(1)
Operating profit (£m)	**141**	175	(19)	**63**	82	(23)
Operating profit after taxation (£m)	**113**	130	(13)	**nm**	nm	nm
Post-tax margin (%)	**3.7**	4.2	(0.5) ppts	**nm**	nm	nm

Further detail on costs can be found in the Ofgem Consolidated Segmental Statement on page 169 and at centrica.com.

Performance Measures
Business Units continued

International Downstream – Direct Energy

TOTAL DIRECT ENERGY

For the year ended 31 December	FY 2013	FY 2012	Δ%	H2 2013	H2 2012	Δ%
Total residential energy and services accounts (period end) ('000)	**5,967**	5,856	2	**5,967**	5,856	2
Gross revenue (£m)	**7,325**	5,684	29	**4,134**	2,921	42
Operating profit (£m)	**276**	310	(11)	**111**	155	(28)
Operating profit after taxation (£m)	**189**	203	(7)	**nm**	nm	nm

RESIDENTIAL ENERGY SUPPLY

For the year ended 31 December	FY 2013	FY 2012	Δ%	H2 2013	H2 2012	Δ%
Customer accounts (period end) ('000)	**3,360**	3,455	(3)	**3,360**	3,455	(3)
Gross revenue (£m)	**2,517**	2,357	7	**1,209**	1,147	5
Operating profit (£m)	**163**	156	4	**64**	55	16
Operating profit after taxation (£m)	**111**	103	8	**nm**	nm	nm
Post-tax margin (%)	**4.4**	4.4	0.0 ppts	**nm**	nm	nm

BUSINESS ENERGY SUPPLY

For the year ended 31 December	FY 2013	FY 2012	Δ%	H2 2013	H2 2012	Δ%
Gas sales (mmth)	**1,839**	793	132	**1,345**	372	262
Electricity sales (GWh)	**63,919**	51,378	24	**35,920**	27,443	31
Gross revenue (£m)	**4,238**	2,795	52	**2,629**	1,495	76
Operating profit (£m)	**77**	121	(36)	**24**	78	(69)
Operating profit after taxation (£m)	**53**	78	(32)	**nm**	nm	nm
Post-tax margin (%)	**1.3**	2.8	(1.5) ppts	**nm**	nm	nm
Post-tax underlying margin (%)	**1.8**	2.8	(1.0) ppts	**nm**	nm	nm

FY 2013 post-tax underlying margin (%) excludes £25m (£36m pre-tax) relating to amortisation of customer intangibles and integration costs associated with the Hess Energy Marketing acquisition.

RESIDENTIAL AND BUSINESS SERVICES

For the year ended 31 December	FY 2013	FY 2012	Δ%	H2 2013	H2 2012	Δ%
Contract relationships (period end) ('000)	**2,608**	2,401	9	**2,608**	2,401	9
On demand and installation jobs ('000)	**748**	670	12	**398**	360	11
Gross revenue (£m)	**570**	532	7	**296**	279	6
Operating profit (£m)	**36**	33	9	**23**	22	5
Operating profit after taxation (£m)	**25**	22	14	**nm**	nm	nm
Post-tax margin (%)	**4.4**	4.1	0.3 ppts	**nm**	nm	nm

DIRECT ENERGY (WITH COMPARATOR YEAR OF 2012 RESTATED TO REMOVE EFFECT OF FOREIGN EXCHANGE MOVEMENTS)

For the year ended 31 December	FY 2013	FY 2012	Δ%	H2 2013	H2 2012	Δ%
Revenue (£m)						
Residential energy supply	**2,517**	2,360	7	**1,209**	1,132	7
Business energy supply	**4,238**	2,989	42	**2,629**	1,594	65
Residential and business services	**570**	534	7	**296**	276	7
Direct Energy revenue	**7,325**	5,883	25	**4,134**	3,002	38
Operating profit (£m)						
Residential energy supply	**163**	157	4	**64**	55	16
Business energy supply	**77**	121	(36)	**24**	77	(69)
Residential and business services	**36**	33	9	**23**	22	5
Direct Energy operating profit	**276**	311	(11)	**111**	154	(28)

2012 figures restated at 2013 weighted average exchange rate.

International Upstream – Centrica Energy

TOTAL CENTRICA ENERGY

For the year ended 31 December	FY 2013	FY 2012	Δ%	H2 2013	H2 2012	Δ%
Operating profit (£m)	**1,326**	1,251	6	**524**	558	(6)
Operating profit after taxation (£m)	**468**	441	6	**nm**	nm	nm

INTERNATIONAL GAS

For the year ended 31 December	FY 2013	FY 2012	Δ%	H2 2013	H2 2012	Δ%
Gas production volumes (mmth)						
East Irish Sea	**718**	740	(3)	**374**	378	(1)
Other UK and Netherlands	**1,071**	883	21	**530**	403	32
Norway	**828**	557	49	**392**	381	3
North America	**701**	549	28	**449**	270	66
Trinidad & Tobago	**239**	261	(8)	**116**	131	(11)
Total	**3,557**	2,990	19	**1,861**	1,563	19
Liquids production volumes (mmboe)						
UK and Netherlands	**6.3**	7.4	(15)	**2.8**	3.5	(20)
Norway	**11.0**	8.9	24	**5.2**	5.9	(12)
North America	**1.4**	1.1	27	**0.9**	0.5	80
Total	**18.7**	17.4	7	**8.9**	9.9	(10)
Total production volumes (mmboe)	**77.3**	66.8	16	**39.7**	35.9	11
Average achieved gas price (p/therm)						
Europe	**65.0**	57.6	13	**64.2**	59.3	8
North America and Trinidad & Tobago	**20.9**	23.2	(10)	**21.2**	22.4	(5)
Total	**53.7**	49.0	10	**51.8**	50.9	2
Average oil and condensate sales price (£/boe)						
Europe	**62.9**	62.8	0	**60.6**	63.4	(4)
North America and Trinidad & Tobago	**43.3**	45.5	(5)	**41.3**	46.9	(12)
Total	**61.6**	61.7	0	**58.8**	62.5	(6)
DDA costs (£/boe)						
Europe	**12.9**	10.2	26	**13.0**	10.5	24
North America and Trinidad & Tobago	**6.1**	6.2	(2)	**5.5**	5.8	(5)
Total	**11.4**	9.3	23	**11.0**	9.6	15
Lifting and other cash production costs (£/boe)						
Europe	**13.5**	13.8	(2)	**14.0**	15.0	(7)
North America and Trinidad & Tobago	**9.7**	7.4	31	**10.4**	8.0	30
Total	**12.6**	12.4	2	**13.0**	13.6	(4)
Exploration & appraisal costs (£m)	**154**	143	8	**107**	110	(3)
Operating profit (£m)	**1,155**	940	23	**472**	421	12
Operating profit after taxation (£m)	**325**	198	64	**nm**	nm	nm
Return on total capital employed (%)	**8.3**	5.6	2.7 ppts	**nm**	nm	nm
Total net proven and probable reserves (mmboe)	**711**	633	12	**nm**	nm	nm

To align with a new organisational structure, the North American Upstream gas business is now reported in Centrica Energy. Prior year comparatives have been restated accordingly.
Lifting and other cash production costs include all cash costs except exploration and appraisal costs and the impact of underlift/overlift. Prior year comparatives have been restated.
Centrica's share of proven and probable reserves excludes Rough cushion gas of 30mmboe and includes the 60% share of Canadian assets acquired from Suncor.

International Upstream – Centrica Energy continued

UK POWER

For the year ended 31 December	FY 2013	FY 2012	Δ%	H2 2013	H2 2012	Δ%
Power generated (GWh)						
Gas-fired	**8,897**	8,952	(1)	**4,366**	4,046	8
Renewables	**753**	533	41	**463**	287	61
Nuclear	**12,097**	12,004	1	**6,334**	6,050	5
Total	**21,747**	21,489	1	**11,163**	10,383	8
Achieved clean spark spread (£/MWh)	**11.7**	10.7	9	**13.4**	11.2	20
Achieved power price (including ROCs) (£/MWh) – renewables	**114.5**	105.7	8	**120.9**	111.3	9
Achieved power price (£/MWh) – nuclear	**51.9**	49.6	5	**51.7**	49.8	4
Operating profit/(loss) (£m)						
Gas-fired	**(133)**	(4)	nm	**(69)**	0	nm
Renewables	**25**	56	(55)	**(10)**	11	nm
Nuclear	**250**	237	5	**128**	119	8
Midstream	**29**	22	32	**3**	7	(57)
Operating profit (£m)	**171**	311	(45)	**52**	137	(62)
Operating profit after taxation (£m)	**143**	243	(41)	**nm**	nm	nm
Return on total capital employed (%)	**3.8**	6.7	(2.9) ppts	**nm**	nm	nm

Midstream includes results from trading and from bilateral arrangements with third party owners of power generation assets in the UK and Europe.

Centrica Storage

For the year ended 31 December	FY 2013	FY 2012	Δ%	H2 2013	H2 2012	Δ%
Average SBU price (in period) (pence)	**26.7**	31.0	(14)	**23.3**	33.9	(31)
Gross revenue (£m)						
Standard SBUs	**121**	141	(14)	**52**	77	(32)
Optimisation / other	**67**	61	10	**29**	34	(15)
Total	**188**	202	(7)	**81**	111	(27)
Operating profit (£m)	**63**	89	(29)	**16**	53	(70)
Operating profit after taxation (£m)	**48**	67	(28)	**nm**	nm	nm
Return on total capital employed (%)	**11.0**	13.0	(2.0) ppts	**nm**	nm	nm

Performance Measures

Corporate Responsibility

Unless where noted, the following 2013 corporate responsibility performance measures have been assured by Deloitte LLP. To view Deloitte's assurance statement and the Basis of Reporting, visit centrica.com/CRassurance.

Treating customers fairly

Metric	Unit	2013 target	2013 performance	2012 performance	What's next
British Gas net promoter score (NPS)	See glossary	Achieve high performance range	+15 (low performance range)	+30 [i] (high performance range)	Return to the high performance range
Direct Energy net promoter score (NPS)		Achieve high performance range	+40 (high performance range)	+39 [i] (high performance range)	Remain within the high performance range
Vulnerable households helped by British Gas initiatives	Number	Measure only	1.8 million	2.1 million [i]	Continue to support our most vulnerable customers through the British Gas Energy Trust and obligations such as the Warm Home Discount

(i) Assured by Deloitte LLP for the 2012 Annual Report. See centrica.com/report2012/assurance to view Deloitte's 2012 assurance statement and the 2012 Basis of Reporting.

Safeguarding the environment

Metric	Unit	2013 target	2013 performance	2012 performance	What's next
Total carbon emissions [i]	Tonnes CO_2 equivalent	Measure only	7,146,412	7,128,491 [ii]	Continue to adopt best practice in monitoring and reporting our global carbon emissions and analyse the impacts of our strategic plans
Scope 1 emissions	Tonnes CO_2 equivalent	Measure only	7,031,658	7,008,906	Continue to take proactive steps to reduce our carbon emissions through innovation, technology and cultural change
Scope 2 emissions	Tonnes CO_2 equivalent	Measure only	114,753	119,585	Continue to reduce emissions associated with our use of electricity, particularly as part of our internal carbon footprint target
Total carbon intensity by revenue [iii]	Tonnes CO_2 equivalent /£m	Measure only	269	298	Embed the reporting of this new metric and start to analyse developing trends as we deliver on our strategic priorities
Internal carbon footprint (property, fleet and travel)	Tonnes CO_2 equivalent	Reduce the carbon footprint of our core offices, company vehicles and travel by 20% by 2015	91,464	91,521 [iv]	Continue to work to our 2015 target By the end of 2013 we had achieved a 19% reduction from 2007 base year
Carbon intensity of power generation	gCO_2/kWh	Reduce our power generation carbon intensity to 260 by end of 2020	200	200 [v]	Reduce our Group power generation carbon intensity to 260 by end of 2020
Smart meter installations (residential and business customers)	Number of meters installed (cumulative since 2009)	Measure only	1,297,656 [vi]	882,983 [vii]	Continue to be the UK leader in smart meter installations

(i) Comprises Scope 1 and Scope 2 emissions as defined by the Greenhouse Gas Protocol.
(ii) Restated following subsequent validation carried out on the data.
(iii) This measure was not assured by Deloitte LLP in 2013 or 2012.
(iv) Restated due to change in emission factors and improved data.
(v) Restated due to new scope (equity only) for carbon intensity target.
(vi) Only data representing 930,344 smart meter installations was assured by Deloitte due to the historical nature of the data.
(vii) Restated following subsequent accounting for manually inputted data.

Corporate Responsibility continued

Caring for our people and communities

Metric	Unit	2013 target	2013 performance	2012 performance	What's next
EMPLOYEES					
Employee engagement	Mean score out of 6	Implement action plans driven out of the 2012 engagement survey	4.81 (median performance range)	4.72(i) (median performance range)	To continue to strive towards top quartile performance, measured against an independent high performance benchmark range
Diversity – female and male(ii)	Percentage	Continue to promote diversity in leadership roles and recruitment	29 female 71 male	28 female 72 male	Continue to promote diversity in leadership roles and recruitment
Retention	Percentage	Measure only	90.9	88.3(iii)	Encourage and maintain healthy retention levels
Absence	Days per full time employee	Measure only	7.5	7.0(iv)	Focus on driving down absence in British Gas
SAFETY					
Lost time injury frequency rate (LTIFR)	Per 100,000 hours worked	Achieve a high performance range	0.11	0.20(i)	Continue to grow a best practice safety culture and at least maintain and if possible further improve our LTIFR performance
Total recordable injury rate (TRIR)	Per 100,000 hours worked	Measure only	0.76	1.42	
Significant process safety event	Number	0	0	0(i)	Continue to improve process safety awareness and performance metrics
Road safety incidents rate – low severity	Per 1 million km driven	Measure only	4.9	5.0	We aim to continue the reduction in road safety incidents through proactive driver safety programmes
Road safety – number of high severity incidents	Number	Measure only	1	6	
Fatalities	Number	Measure only	0	0	
COMMUNITY					
Total community contributions(v)	£ million	Measure only	392.4(vi)	309.2(iii)	Continue to seek ways we can make a positive contribution to the communities in which we work
Total employee volunteering hours(vii)	Number of hours	Measure only	48,697	43,488(iv)	

(i) Assured by Deloitte LLP for the 2012 Annual Report. See centrica.com/report2012/assurance to view Deloitte's 2012 assurance statement and the 2012 Basis of Reporting.
(ii) This measure was not assured by Deloitte LLP in 2013 or 2012.
(iii) Restated due to a change in calculation methodology.
(iv) Restated due to subsequent review of historical data.
(v) Includes charitable donations calculated through the London Benchmarking Group methodology, combined with the cost of voluntary and mandatory programmes to support vulnerable customers in the UK.
(vi) Comprising £380.8 million in mandatory and more than £365,000 in voluntary contributions for vulnerable customers and £11.2 million in charitable contributions.
(vii) Includes volunteering time during business working hours as well as outside of working hours when enabled by the business.

Working with our partners

Metric	Unit	2013 target	2013 performance	2012 performance	What's next
Average CR risk rating of assessed suppliers(i)	Risk score	Measure only	49	49	Continue to assess the CR risks among our strategic and high risk suppliers

(i) This measure was not assured by Deloitte LLP in 2013 or 2012.

Shareholder Information

If you need help with managing your shareholding or you want to know more about our financial calendar and share register, then this information can be found here.

Financial Calendar

APR 2014

23 April 2014
Ex-dividend date for 2013 final dividend

25 April 2014
Record date for 2013 final dividend

MAY 2014

12 May 2014
AGM, Queen Elizabeth II Conference Centre, London SW1 (2.00 pm) and Q1 Interim Management Statement

14 May 2014
Last date for DRIP elections for the 2013 final dividend

JUN 2014

11 June 2014
Payment date for 2013 final dividend

16 June 2014
DRIP statements dispatched to shareholders for the 2013 final dividend DRIP purchase

JUL 2014

31 July 2014
2014 Half Year Results

AUG 2014

SEP 2014

24 September 2014*
Ex-dividend date for 2014 interim dividend

26 September 2014*
Record date for 2014 interim dividend

OCT 2014

15 October 2014*
Last date for DRIP elections for the 2014 interim dividend

NOV 2014

12 November 2014*
Payment date for 2014 interim dividend

17 November 2014*
DRIP statements dispatched to shareholders for the 2014 interim dividend DRIP purchase

20 November 2014*
Q3 Interim Management Statement

DEC 2014

JAN 2015

FEB 2015

February 2015
Preliminary Results announcement for 2014

*Provisional dates

Shareholder Information

Shareholder Information

MANAGING YOUR SHARES

Please contact our Registrar, Equiniti, to manage your shareholding. Information is also available through the Shareholder Centre on our website, including frequently asked questions and forms available to download to help you to:

- register for electronic communications;
- transfer your shares;
- change your registered name or address;
- register a lost share certificate and obtain a replacement;
- consolidate your share certificates;
- manage your dividend payments;
- buy, sell or transfer shares through Centrica FlexiShare; and
- notify the death of a shareholder.

You can also manage your shareholding online by registering for Shareview via the electronic communications section of the Shareholder Centre.

When contacting Equiniti or registering online, you should have your shareholder reference number at hand. This can be found on your share certificate or dividend tax voucher.

If you hold less than 2,500 shares, you will be able to change your registered address or set up a dividend mandate instruction over the phone. For security, if you hold more than 2,500 shares, you will need to put this in writing.

Please note, if you receive more than one copy of documents that we send you, it is likely that you have more than one account on the share register, perhaps with a slightly different name or address. If you write to Equiniti and give them the shareholder reference numbers, they will be able to combine your accounts into one. This helps us to reduce our environmental impact and save paper.

ProSearch

We work with a specialist tracing agency, ProSearch, to identify shareholders whose details are not up to date and who have outstanding cash entitlements. Please notify Equiniti when you move house to ensure you continue to receive all our communications.

Centrica FlexiShare

FlexiShare is an easy way to hold Centrica shares without a share certificate. Your shares are held by a nominee company, Equiniti Corporate Nominees Limited, however, you are able to attend and vote at general meetings as if the shares were held in your own name. Holding your shares in this way is free and comes with a number of benefits:

- low cost share dealing rates, full details of which are available on the Shareholder Centre together with dealing charges;
- quicker settlement periods for buying and selling shares; and
- the opportunity to join the Dividend Reinvestment Plan.

Dividends

Dividends on Centrica shares are usually paid in June and November. Details of the dividends for the year ended 31 December 2013 can be found in note 11 to the Financial Statements on page 110.

You are encouraged to have your dividends paid directly to your bank or building society account. This means that you will receive the money on the day it is paid which avoids any risk of missing cheques. If you do choose to receive your dividends in this way, a consolidated tax voucher will be sent to you in March each year.

If you do not have a UK bank or building society account, Equiniti are able to pay dividends in local currencies in over 30 countries. For a small fee, you could have your dividends converted from sterling and paid into your designated bank account, usually within five days of the dividend being paid.

Buying and selling shares with a share certificate

If you wish to buy or sell Centrica shares and hold a share certificate, you can do this:

- by using the services of a stockbroker or high street bank; or
- through telephone or online services.

In order to sell your shares in this way, you will need to present your share certificate at the time of sale.

SHAREHOLDER COMMUNICATION

Changes in legislation have meant it is now possible for us to communicate to a greater extent with shareholders using our website. We strongly encourage our shareholders to receive communications electronically as it allows us to make considerable savings, both environmentally and financially and allows you to:

- view the Annual Report and Annual Review on the day they are published;
- receive an email alert when shareholder communications are available;
- cast your AGM vote; and
- manage your shareholding quickly and securely.

Together with Equiniti, we have introduced an electronic queries service to enable our shareholders to manage their investment 24/7.

Details of this service can be found at shareview.co.uk.

A wealth of other information is available on our website, including:

- regular updates about our business;
- comprehensive share price information;
- financial results; and
- dividend payment dates and amounts.

SHARE REPURCHASE PROGRAMME

Further details on the 2013 share repurchase programme can be found on page 64. On 18 December 2013, the Company announced a £420 million expansion to its share repurchase programme, which will be conducted over the course of 2014.

Further information is available from the Shareholder Centre on our website.

Shareholder Information continued

AMERICAN DEPOSITARY RECEIPTS (ADR)

We have an ADR programme, trading under the symbol CPYYY. Centrica's ratio is one ADR being equivalent to four ordinary shares. Further information is available from the Shareholder Centre or please contact:

ADR Depositary

BNY Mellon Shareowner Services
PO Box 30170
College Station, TX 77842-3170
Email: shrrelations@cpushareownerservices.com
Website: mybnymdr.com
Telephone: 1-888-269-2377

SHAREGIFT

It may be that you have a small number of shares which would cost you more to sell than they are worth. It is possible to donate these to ShareGift, a registered charity, who provide a free service to enable you to dispose charitably of such shares. More information on this service can be obtained from sharegift.org or call +44 (0) 207 930 3737.

CENTRICA SHARE HISTORY

Centrica's shares were first traded on the London Stock Exchange on 17 February 1997 following the demerger from British Gas plc. Since then there have been three events affecting the share capital, as shown below, with full details available from Equiniti and on our website:

- 1999 share consolidation;
- 2004 share consolidation; and
- 2008 rights issue.

BEWARE OF SHARE FRAUDSTERS

Shareholders are cautioned to be very wary of any unsolicited advice, offers to buy shares at a discount, sell your shares at a premium or offers of free company reports.

Centrica is aware that some of its shareholders have recently received unsolicited phone calls or letters from individuals or companies offering to buy or sell Centrica shares on very favourable terms. These communications imply a connection with Centrica and are often from overseas based brokers who are very persuasive and extremely persistent, with professional websites to support their activities.

The Financial Conduct Authority (FCA) reports that such scams cost investors in excess of £200 million each year.

If you do receive such an approach, you are encouraged to take the following steps:

- obtain the full name of the person and organisation and make a record of any other information they give you, for example telephone number, address, web address;
- if the caller persists, simply hang up; and
- report the matter to the FCA so that they can investigate. You are able to do this online at fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams/reporting-form or by calling them on 0800 111 6768.

You are advised to deal only with financial services firms that are authorised by the FCA. Check the firm is properly authorised by the FCA before getting involved by visiting fca.org.uk/register. If you do deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme if anything goes wrong.

Details of any share dealing services that Centrica endorses are available on our website and are included in Company mailings.

Manage more online

You can view and manage your shareholding online. Go to the electronic communications section of the Shareholder Centre on our website at centrica.com/shareholdercentre.

Contact Equiniti

Contact details for our registrar:

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex
BN99 6DA, United Kingdom

Telephone: 0871 384 2985* and outside the UK +44 121 415 7061

Textphone: 0871 384 2255* and outside the UK +44 121 415 7028

Online: help.shareview.co.uk

* Calls to this number cost 8 pence per minute plus network extras. Lines are open from 8.30 am to 5.30 pm, Monday to Friday, UK time.

ANALYSIS OF SHAREHOLDERS AS AT 31 DECEMBER 2013

Distribution of shares by type of holder	Number of holdings	Number of shares
Nominees and institutional investors	17,854	4,756,923,100
Individuals	637,647	323,868,357
Total (excluding treasury shares)	**655,501**	**5,080,791,457**
Treasury shares	1	119,138,235
Total (including treasury shares)	**655,502**	**5,199,929,692**

Size of holding	Number of holdings	Number of shares
1–500	477,391	108,884,290
501–1,000	99,780	69,281,459
1,001–5,000	69,976	131,237,216
5,001–10,000	5,064	35,175,009
10,001–50,000	2,080	38,437,160
50,001–100,000	233	17,149,647
100,001–1,000,000	582	219,778,725
1,000,001 and above	395	4,460,847,951
Total (excluding treasury shares)	**655,501**	**5,080,791,457**

As at 31 December 2013 there were 70,582 participants in FlexiShare, with an aggregate shareholding of 124,155,292 shares registered in the name of Equiniti Corporate Nominees Limited.

ONLINE

This Annual Report can be viewed online. To see more go to centrica.com/report2013.

Financial conduct authority

Check if financial services firms are authorised by the FCA by visiting fca.org.uk/register

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 cost 8 pence per minute plus network extras. Lines are open from 8.30 am to 5.30 pm, Monday to Friday, UK time.

Glossary

$	Refers to US dollars unless specified otherwise
<1 year	Less than one year
>1 year	Greater than one year
2C resource base	Discovered contingent resources that have not yet been allocated as proven and probable reserves
2P reserves	Proven and probable reserves
AFS	Available-for-sale
AGR	Advanced gas-cooled reactor
Associate	An entity in which the Group has an equity interest and over which it has the ability to exercise significant influence
bbl	Barrels of oil
BCF	Billion cubic feet
BSUOS	Balancing services use of system
CCGT	Combined cycle gas turbine
CERT	The Carbon Emissions Reduction Target (CERT) was a UK Government programme that concluded in 2012. It was an obligation on energy suppliers to provide energy efficiency measures to households in order to achieve carbon savings
CESP	The Community Energy Saving Programme (CESP) was a UK Government programme that concluded in 2012. It was an obligation on UK power generators and energy suppliers to install energy efficiency measures in areas of severe social deprivation
CGU	Cash generating unit
CO_2e	Universal unit of measurement of the global warming potential (GWP) of greenhouse gases (GHG) expressed in terms of the GWP of one unit of CO_2e (carbon dioxide equivalent)
CPI	Consumer Price Index
CRM	Customer relationship management
DECC	Department of Energy and Climate Change
E&P	Exploration and production
EBITDA (adjusted)	Earnings from business performance before share of results of joint ventures and associates and before interest, tax, depreciation, impairments and amortisation
ECO	The Energy Company Obligation (ECO) is a UK Government programme that requires energy suppliers to insulate and install energy efficiency measures to reduce heating costs across the UK. It replaced the CERT and CESP, which concluded in 2012
Employee engagement	Employee engagement is an emotional state driven by employees' perception of what it is like to work for an organisation. What they think and feel will drive how they behave and this in turn has a measurable impact on business performance
EP	Economic profit is adjusted operating profit (after share of joint venture interest) less a tax charge based on the tax rate relevant to the business segments and after deduction of a capital charge
EPS	Earnings per share. 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
EUA	European Union allowance (carbon emissions certificate)
EU ETS	European Union Emission Trading Sheme
FCA	Financial Conduct Authority
FIT	Feed-in Tariff
FTSE 100	Financial Times Stock Exchange 100 share index, an average of share prices in the 100 most actively traded companies on the London Stock Exchange, with the highest market capitalisation
FVLCS	Fair value less costs to sell
gCO_2/kWh	Grammes of carbon dioxide per kilowatt hour
GFRMC	Group Financial Risk Management Committee
GHG	Greenhouse gas emissions
GWh	Gigawatt hour
IAS 19	The International Accounting Standard related to Employee Benefits. These financial reporting rules include requirements related to pension accounting
IAS 39	The International Accounting Standard related to financial instruments (recognition & measurement)
IFRS	International Financial Reporting Standard

Jointly controlled entity	A joint venture which involves the establishment of an entity to engage in economic activity, which the Group controls jointly with its fellow venturers
kWh	Kilowatt hour
Level 1 fair value	Fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities, 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	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 market-based data
Level 3 fair value	Fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value, for example energy contracts within the inactive period valued using in-house valuation techniques
LNG	Liquefied natural gas
LTIFR	Lost time injury frequency rate. 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 occurs
mmboe	Million barrels of oil equivalent
mmth	Million therms
MWh	Megawatt hour
NBP	National Balancing Point
NBV	Net book value
NGO	Non-governmental organisation
nm	Not material
NPS	Net Promoter Score. NPS measures customer advocacy by responses to the question 'How likely would you be to recommend us (0–10 scale)?' The score is calculated by the percentage of customers defined as promoters (scoring 9–10) minus the percentage defined as detractors (0–6)
PP&E	Property, plant and equipment
ppts	Percentage points
PRA	Prudential Regulation Authority
Process safety	A significant process safety event is an uncontrolled release of flammable gas, steam or hot water under pressure causing a major injury or fatality; or the uncontrolled release of an environmentally hazardous substance causing significant impairment of sensitive receivers
PRT	Petroleum Revenue Tax
QPI	Qatar Petroleum International
ROC	Renewable Obligation Certificate
ROCE	Return on capital employed
RPI	Retail Price Index
Scope 1 emissions	The greenhouse gas (GHG) emissions associated with combustion of fossil fuels in the power stations, gas and oil assets, offices, vehicles, equipment and machinery owned/controlled by the reporting entity, as well as the leakage or escape of GHG emissions. For more information see the Basis of Reporting at centrica.com/CRassurance
Scope 2 emissions	The greenhouse gas (GHG) emissions associated with the electricity, heat and steam we import for use in our power stations, gas and oil assets, offices, vehicles, equipment and machinery. For more information see the Basis of Reporting at centrica.com/CRassurance
Securities	Comprised of Treasury gilts designated at fair value through profit or loss on initial recognition and available-for-sale financial assets. The fair values of securities are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using observable market data
Spark spread	The difference between the price of a unit of electricity and the cost of the gas used to generate it
tCO_2e	Tonnes of carbon dioxide equivalent
TSR	Total shareholder return measures the return to shareholders in terms of the growth of a £100 investment in the Company's shares, assuming that dividends and returns of capital are reinvested. We compare our TSR with those of the other 99 members of the FTSE 100
TWh	Terawatt hour
VAT	Value added tax
VIU	Value in use
Vulnerable customer	A customer is vulnerable if for reasons of age, health, disability or severe financial insecurity, they are unable to safeguard their personal welfare or the personal welfare of other members of the household

CENTRICA PLC
Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Company registered in
England and Wales
No. 3033654

centrica.com

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

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

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