Annual Report and Accounts 2006

report

centrica

Securing our customers' energy needs

Our vision is to become a leading integrated energy company in selected markets in order to maximise value to shareholders. In 2006 we focused on securing energy to meet our customers' future needs.

Our strategy

Our strategy is to create a distinctive business model that delivers sustained profitability through the commodity cycle. We will achieve this by focusing on the following clear priorities:

- Transform British Gas
- Sharpen up the organisation and reduce costs
- Reduce risk by adding new sources of gas and power
- Build on our multiple growth platforms

Our main activities

Our upstream business

We source energy internationally

We find and produce gas predominantly in the UK and have acquired licence blocks in Norway and north and west Africa. We trade energy in the UK, North America and Europe and secure contracts to bring gas to the UK.

We generate energy

We generate electricity through our gas-fired power stations in the UK and US and through a growing portfolio of wind assets and purchasing agreements.

We store and distribute energy

Our Rough storage facility is the UK's largest gas store, providing more than 70% of the country's storage capacity. The Rough facility stores gas under the North Sea for British Gas and for other customers.

Our downstream business

We supply energy to homes

We are Britain's largest gas and electricity retailer, supplying 49% of the residential gas market and 22% of residential electricity. We are a growing force in North America, serving customers in five Canadian provinces and 15 US states.

We supply energy to businesses

In Britain, we are a major supplier of gas and electricity to the commercial sector. We also have customers in Belgium, the Netherlands and Spain. In North America, we offer energy solutions to businesses in Canada and the US.

We provide home and energy services

We are Britain's biggest provider of central heating, gas appliance installation and maintenance. In North America, we deliver a range of heating, ventilation and air-conditioning services.

British Gas · British Gas Business · DYNO Part of British Gas · centrica energy · centrica storage · Direct Energy · luminus · Luseo · oxxio

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

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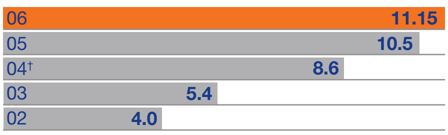
12 months ended 31 December	**2006**	2005
Financial highlights		
Group turnover^	**£16.5bn**	£13.4bn
Operating profit*^	**£1,442m**	£1,513m
Adjusted basic earnings* per share	**19.4p**	18.2p
Ordinary dividend per share	**11.15p**	10.50p
Statutory results		
Group turnover^	**£16.5bn**	£13.4bn
Operating profit^	**£180m**	£1,957m
Basic (loss)/earnings per share	**(4.3p)**	27.4p

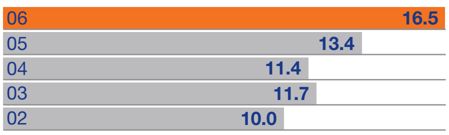
^ from continuing operations
* including joint ventures and associates, stated net of interest and taxation, and before exceptional items and certain re-measurements

Ordinary dividend
(pence)



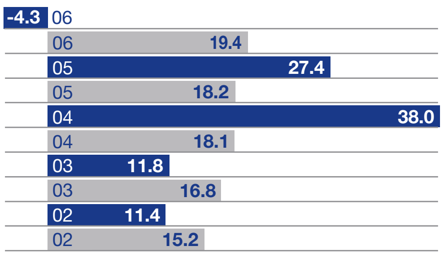
† excludes special dividend of 25p

Group turnover^
(£ billion)



^ from continuing operations

Earnings per share
(pence)



■ Basic earnings per share
■ Adjusted basic earnings per share (2004–06: before exceptional items and certain re-measurements, 2002–03: before goodwill amortisation and exceptional items)

Earnings and operating profit numbers are stated, throughout the commentary, before exceptional items and certain re-measurements where applicable – see note 2 for definitions. The Directors believe this measure assists with a better understanding of the underlying performance of the Group. The equivalent amounts after exceptional items and certain re-measurements are reflected in note 4 and are reconciled at Group level in the Group Income Statement. Certain re-measurements and exceptional items are described in note 6. Adjusted earnings and adjusted basic earnings per share are reconciled to their statutory equivalents in note 11. All current financial results listed are for the 12 months ended 31 December 2006.

The Group adopted IFRS with effect from 1 January 2005. The comparative data for 2004 has been restated accordingly. IAS 32 and IAS 39 were adopted with effect from 1 January 2005, and the comparative data for 2004 does not reflect the effect of these standards. Amounts in years prior to 2004 are presented in accordance with generally accepted accounting standards (GAAP) in the UK prevailing at the time. Turnover prior to 2004 excludes Accord trading revenue.

All references to 'the prior year', '2005' and 'last year' mean the 12 months ended 31 December 2005 unless otherwise specified.

Throughout this Report references to British Gas include Scottish Gas.

It is our intention to strike a fair balance between lower prices and sustainable profits* in order to reward both our customers and shareholders.

Securing shareholder value

Roger Carr
Chairman

"I look forward to 2007 with confidence in both our business model and the management team."

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

Performance review

We achieved good underlying financial performance despite the particularly challenging circumstances which prevailed throughout the year.

In the winter of 2005/06 gas shortages in the UK and increasing worldwide demand for energy drove wholesale prices to record levels necessitating price increases to many of our customers. The management team worked hard to minimise the effect of these increases by containing operating costs and developing innovative products designed to protect customers and preserve loyalty in increasingly competitive markets.

Regrettably, despite these actions, we lost one million residential energy accounts during the year. British Gas Residential returned to profit* by the end of the year which, together with continued good delivery in gas production, strong growth in North America and the lower tax charge, enabled the Group overall to deliver sound earnings* growth.

The high commodity prices in the first half of the year held up the price of assets and the Board continued to exercise financial discipline and invest only in additional sources of supply where returns met our rigorous financial hurdles.

In the latter part of the year, there was a fundamental change in the UK energy market. New gas supply pipelines from Norway and Holland, whose construction was made possible by long-term contracts entered into by British Gas, came on-stream at a time when the country was experiencing the warmest autumn since records began. This change in the balance of supply and demand, combined with a fall in global oil prices, reversed previous wholesale gas price trends. This enabled British Gas to announce price reductions from March 2007 when a portion of the more expensive gas supplies to which we are already committed will be exhausted.

Looking forward, it is our intention to strike a fair balance between lower prices and sustainable profits* in order to reward both our customers and shareholders.

Returns to shareholders

The Board is proposing a final dividend of 8.0 pence (2005: 7.4 pence) for payment in June 2007 bringing our full-year dividend to 11.15 pence (2005: 10.5 pence). This represents a 6% year-on-year increase, in line with our policy and commitment to real growth in the ordinary dividend. As we become more confident in the sustainability of more benign market conditions, we will be able to consider the reinstatement of our share buyback programme should surplus funds permit.

Corporate governance

Our reporting has always been open and transparent, and this year we have refined our approach to include the latest EU legislative requirements. We have integrated the key aspects of our corporate responsibility performance within our Business Review (formerly the Operating and Financial Review). Also in the Business Review is a section on the KPIs that the Board uses to measure progress against strategy, as well as a section on the main risks facing the Group.

Board changes

Sir Roy Gardner retired at the end of June. We are grateful to him for his material contribution and commitment, having led Centrica through a decade of considerable change.

In July, Sam Laidlaw was appointed Chief Executive of the Company bringing with him considerable experience in managing and developing large scale international energy businesses. Since taking up the appointment he has made real progress in developing the long-term vision for the Group and in sharpening the immediate focus on improving the current performance and efficiency of the organisation.

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Mark Clare left the Company in the summer to take up an appointment outside the industry, having made an important contribution to the Group both as Finance Director and, more recently, Managing Director of British Gas Residential. Patricia Mann OBE retired from the Group after nine years valuable service on the Board and her role of Senior Non-Executive Director was assumed by Mary Francis CBE. Sadly Patricia died later in the year having bravely fought a long-term illness.

Phil Bentley who has ably served as Finance Director and Managing Director, Europe will move to the role of Managing Director, British Gas following the appointment of Nick Luff as Group Finance Director. Nick brings with him significant commercial experience. Jake Ulrich has taken on responsibility for the continental European operations.

At the beginning of the year we established a main board committee to lead our corporate responsibility strategy. This is chaired by Mary Francis CBE and includes the managing directors of each business unit.

I am confident that this new team will bring renewed vigour and commitment to the successful development of Centrica in the years ahead.

Our employees

Our employees worked particularly hard throughout 2006 as they responded to the unusually demanding environment. External pressures arising from turbulence in the energy market were magnified by the degree of change in systems, working practices, organisation and management within the Company and I thank them all for their loyalty, hard work and dedication. The upstream team once again made a material contribution to our financial performance and demonstrated their absolute professionalism in both the operation of our offshore facilities and the rapid recovery of our Rough storage platform following a fire earlier in the year.

Tragically the risks of working offshore were again made evident when six people, four of them Centrica employees, were killed in a helicopter accident in Morecambe Bay at Christmas with a seventh person still missing, presumed dead. Our thoughts and deepest sympathies are with their families and our thanks go to all the employees who continue to help fulfil the UK's energy needs under arduous and challenging conditions.

The future

We are entering 2007 under new leadership but with continued commitment to the twin goals of customer service and shareholder value creation. Lower wholesale energy prices have provided us with the opportunity to reduce retail prices and we expect the completion of new systems to help address the service levels. We will also continue our search for cost-effective supply sources to rebalance our market exposure and sharpen our competitive edge.

Our investment programme will be driven by value and our cost structure will be the focus of continued stringent appraisal. Innovation will be key to our marketing effort and the application of our skills and service network to meet the growing consumer demand for energy efficiency will be at the heart of our endeavours. I look forward to 2007 with confidence in both our business model and the management team.

Roger Carr
Chairman
22 February 2007

Financially, the business performed well in a difficult year. While good progress is being made there is further work to be done to improve the British Gas service levels, reduce our cost base and develop our services, energy efficiency and international businesses.

Delivering our strategy

Sam Laidlaw
Chief Executive

"We are focusing firmly on the priority of reducing exposure to short-term movements in the wholesale gas price."

Overview of 2006

Against a backdrop of unprecedented volatility Centrica produced a solid set of financial results. During the year the UK experienced large fluctuations in wholesale gas costs, particularly in the first quarter when cold weather and fear of shortages pushed the wholesale gas price to 250 pence per therm (p/therm). The six main energy suppliers struggled to keep up with this rate of rise in commodity costs and implemented 13 separate tariff increases during the first 10 months of the year. Supply fears subsided in the second half of the year as good progress was made with the construction of the Langeled and BBL pipelines, both of which were underpinned by British Gas contracts, and wholesale gas prices started to fall.

The high wholesale prices in the first half of the year materially impacted the supply businesses. British Gas Residential made a significant loss* in the first six months of the year and stubbornly high forward wholesale prices forced us to follow other suppliers in increasing retail prices for a second time in September. The quantity and magnitude of tariff increases across all suppliers hit consumer sentiment and resulted in high levels of customer switching. Despite continuing to launch innovative products, including the very successful Fix and Fall offering, British Gas lost 1,029,000 energy accounts during the year. The tariff increase in September returned the business to profit* in the second half of the year. Once the outlook for wholesale prices became clearer British Gas took the lead in announcing a price reduction to residential customers of 17% in gas and 11% in electricity, effective from 12 March 2007.

British Gas Business delivered further customer growth and record profits* despite the extremely challenging commodity environment in the first half of the year.

British Gas Services suffered a difficult start to the year due to the exceptionally cold weather driving higher call outs. However the business finished the year strongly as the changes we made to systems, management and processes improved both operational and service measures.

Operationally the gas production business performed well but production volumes were restricted by maintenance work during an extended summer outage at the South Morecambe field and management's decision not to produce from the field for a large portion of the second half as a result of falling wholesale prices and weak demand due to the unusually warm weather. This fall in prices at the end of the year greatly improved the ongoing position of the industrial and commercial legacy contracts which were significantly loss-making* overall during the year.

Centrica Storage had a challenging year. In February 2006 a catastrophic failure and fire at the Rough storage field halted operations. However an exceptional effort by the team delivered reliable injection in time to refill the field before the start of the winter production season, enabling the asset to deliver another strong financial result.

In North America, Direct Energy had another year of record figures with turnover up 15% primarily due to strong growth in business markets and Texas. The Texas operation performed particularly well, providing a large portion of the 21% overall increase in North American profit*. This was due particularly to improved results in both the organic business, as it gained scale, and the incumbent business, as the competitive market structure, combined with our effective procurement, enabled us to implement proactive discounted price offerings to customers. Despite this strong overall growth, as part of a continual review of the efficiency of the business, decisive action was taken to reduce costs. This resulted in 450 job losses during the year, 9% of the total, primarily in Canada and in US home services.

The European business made considerable progress as, overall, it moved firmly into profit*. However the ongoing negotiations between major companies in France, Spain and Holland provided evidence of continued support within European Union member states for consolidation and the formation of national champions ahead of the existence of full competition.

The year ended on a tragic note with a helicopter accident in the Morecambe Bay area which claimed the lives of six people, four of them long-standing and highly committed Centrica employees with a seventh person still missing, presumed dead. Our thoughts are with all of their families and friends. Centrica regards safety as a top priority, and is committed to providing a healthy and safe environment for employees and the communities which it touches. We have a range of appropriate controls in place and these are subject to regular review by the Board.

Business outlook

Since taking over from Sir Roy Gardner as the Chief Executive of Centrica in July of 2006, I have spent a large part of my first six months assessing the strengths and weaknesses of the business and the priorities going forward. My initial observations are that the core businesses remain strong and we are in an enviable position in most of our chosen markets, with good growth being achieved internationally, particularly in North America. In addition, after a difficult few years, the wholesale pricing environment is starting to improve. However it is clear that the returns in our residential business in the UK have been low and that we have proven to be overly exposed to the rapidly rising wholesale cost of the commodities which we supply to our customers. We have also suffered dual running costs and delivered less than satisfactory customer service as we have moved to a new billing platform in British Gas, the efficacy and robustness of which is still in the proving stage.

We will now seek to build on our strengths, remove the weaknesses and overcome the challenges. To do this I have set out some clear priorities for the Company:

- Transform British Gas
- Sharpen up the organisation and reduce costs
- Reduce risk by adding new sources of gas and power
- Build on our multiple growth platforms

We made some progress on this agenda during the second half of the year. The price increase in British Gas Residential announced in July was followed later in the year by a softening in wholesale gas and power prices; this has returned this business to profit* and allowed us to be the first company to offer customers a price reduction, announced in February. We also launched our Essentials Tariff to provide protection to our most vulnerable customers. The service levels in our British Gas Services business have shown a significant improvement and our attention is now firmly focused on service levels in the residential business.

We carried out an initial review of the costs and processes in our business. As a result we took an exceptional non-cash charge of £196 million which reflects the write-down of our IT systems. We also took an exceptional cash charge of £87 million for the initial restructure of parts of the corporate centre, British Gas Residential and British Gas Services resulting in around 1,550 job losses. Together these charges reduce ongoing costs with around £50 million saved in 2007.

Our progress to date leaves me optimistic for 2007. We will continue to review the structure of our business and put in place internal operational metrics which will identify and drive further efficiencies. British Gas Residential is on track to return to a more sustainable operating margin* and to arrest the decline in customer numbers assisted by the price reduction, improving customer service and ongoing innovation in our product offerings.

We are also focusing firmly on the priority of reducing the exposure to short-term movements in the wholesale gas price. We continue to expect this to be achieved through a mixture of upstream asset acquisitions and contractual arrangements. We will leverage Centrica's unique market position on both sides of the Atlantic to secure liquefied natural gas for our customers and offer security of demand for producers.

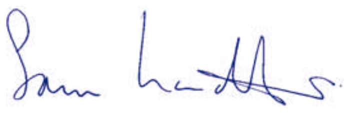
In Centrica Energy we expect gas production levels to be broadly flat on 2006. We renegotiated the terms of the inter-company sales contracts on the South and North Morecambe gas fields, with the agreement of HM Revenue and Customs, to establish a direct link to month-ahead gas prices. We will also commission the Maria, Thurne and Davy East fields. The industrial and commercial contracts are forecast to become profitable* as a result of lower wholesale prices.

We expect to see further growth in British Gas Business which is also benefiting from the fall in wholesale prices and is retaining strong customer renewal and loyalty levels. In British Gas Services we expect the investment we have made in new systems, management and processes to deliver significantly improved financial performance in 2007. In North America we expect to continue to grow both revenue and profit*, with further load growth in business markets focused primarily in the northeastern United States and increased profit* contribution from our energy wholesale and trading activities.

Further expansion in continental Europe remains an important element of our growth plans. However while welcoming the conclusions of the European Commission's Energy Review, that market mechanisms need to be put in place to encourage greater competition, we remain cautious about the potential for making further material inroads in the short term.

The recent publication of the Stern report was significant in the development of climate change policy in the UK. Climate change is probably the most significant environmental issue facing current and future generations. Accordingly, there is clear evidence that slowing or stabilising global warming is taking on greater importance for governments, companies and consumers alike. While Centrica already has the lowest carbon intensity profile of the major UK power suppliers we will continue to expand our investments in the area of renewable energy and promote the use of energy-efficient technology by consumers. We will also capitalise on our unique expertise and capability to deliver energy efficiency advice, services and products to both our business and residential customers.

I expect 2007 to be an important year in Centrica's development. Although some of our priorities will take longer to deliver fully, I anticipate making real progress during this year and delivering a step up in the performance of the business.



Sam Laidlaw
Chief Executive
22 February 2007

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

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Customers are central to all our operations. Our activities are focused on securing and delivering energy and offering a distinctive range of home and business energy solutions.

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Our businesses at a glance

	British Gas Residential	British Gas Business	British Gas Services
Business description	We are the biggest energy supplier in Britain's domestic market. Operating under our British Gas brand (Scottish Gas in Scotland and Nwy Prydain in Wales), we had 16 million gas and electricity accounts at the end of 2006.	We market gas and electricity to a full range of businesses under the British Gas Business banner. We offer a range of propositions from open tariffs to fixed price contracts to suit our customers' needs.	We are Britain's largest operator in the installation and maintenance of domestic central heating and gas appliances, employing more than 8,600 engineers. We offer services through our HomeCare product and Dyno-Rod.
Market	Retail energy margins have been put under intense pressure in 2006, with energy suppliers finding it difficult to keep pace with rapidly rising commodity costs. These are now falling and we anticipate that industry profit margins downstream will recover.	The business market is highly sophisticated with many larger companies operating through professional energy buyers. Brokers and consultants are increasingly a feature as the market becomes more competitive.	Competition has become more intense in the contract cover market, with industry players offering lower priced propositions that provide less cover. Climate change and high energy prices have led to increased interest in energy efficiency.
Opportunities	▸ 95% of customers are on our new billing system. ▸ Our innovative energy products will win and retain customers. ▸ Reducing our cost base will help us find additional value and improve our marketplace competitiveness.	▸ A 95% SME renewal rate in 2006 indicates the strength of our prospects for 2007. ▸ Smart metering and new, named account managers will improve customer service. ▸ We are developing propositions for customers who see energy efficiency as a key way of cutting costs.	▸ Our on-demand offerings are helping us access new markets. ▸ We are developing our online sales presence. ▸ The demand for energy efficiency technologies is opening new sales opportunities.
Brands	British Gas	British Gas Business	British Gas DYNO Part of British Gas
Web address	> www.house.co.uk	> www.britishgasbusiness.co.uk	> www.house.co.uk

	Turnover^ by business (£m)	Operating profit* by business (£m)
British Gas Residential	7,112	95
British Gas Business	2,303	87
British Gas Services	1,104	102
Centrica Energy	1,245	686
Centrica Storage	294	228
Centrica North America	4,097	223
Europe	295	7
Other	0	14

^ from continuing operations

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

Centrica Energy

We source gas and electricity from our own production and from third parties, principally to supply British Gas Residential. Investments include renewable generation and we are currently seeking secure supplies of gas from overseas sources as UK production gradually declines.

Gas prices are falling now more gas is arriving in the UK. Lower gas prices, retiring coal and nuclear plants and an increasingly stringent emissions trading scheme have improved the outlook for gas-fired power stations.

- Our construction of an 885MW combined cycle gas turbine power station at Langage in Devon began.
- We are developing an additional 252MW of wind generation and have secured a 600MW electricity supply contract linked to international coal prices.
- We acquired gas acreage in the UK, Norway, Nigeria and Egypt.

> www.centrica.com

Centrica Storage

Our Rough storage facility is the UK's largest. It is supported by a gas processing terminal at Easington, also managed by Centrica Storage. From October 2006, Centrica Storage became responsible for operating the adjacent terminal receiving gas from the Langeled pipeline.

With the decline of supplies from the UK's North Sea gas fields, the need for large volume storage has grown. Moving forward, the UK will require additional storage as traditional seasonal swing producing fields deplete.

- We are progressing a number of projects to increase the capacity of Rough to take advantage of the increased demand for gas storage.

> www.centrica-sl.co.uk

Centrica North America

Under our Direct Energy brand, we are North America's largest competitive energy solutions provider, serving residential and business customers in Canada and the US.

The regulatory landscape is fragmented, with robust competition in business markets across many states and provinces, and residential competition chiefly in Ontario, Alberta, Texas and the northeastern United States.

- We are growing our retail energy and services businesses in the deregulated markets.
- As a source of value creation we are developing our energy management capabilities.
- Where we see value, our intention is to acquire more assets to support the supply of energy to our customers.

> www.directenergy.com

Europe

We are involved in power generation, energy management and retail energy supply in Europe. We have operations in Belgium, Germany, the Netherlands and Spain.

Some EU states have been slow to make the legislative changes for the full opening of the market due in July 2007 but there are strong signs that the EU is keen to apply more pressure. North-west European energy markets are increasingly interconnected and with more open access greater competition will be possible.

- There are major opportunities in the Benelux and German markets, which are undergoing structural change.
- We intend to develop our generation assets, our mid-stream activities and our energy management solutions as the market dynamics in Europe change.

> www.luminus.be
> www.luseoenergia.com
> www.oxxio.nl
> www.centrica-energie.de

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In this section, as part of our commitment to enhanced narrative reporting, the Board and the Executive Committee have set out the key performance indicators (KPIs) that we use to monitor progress against our strategy.

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Measuring our performance

Financial

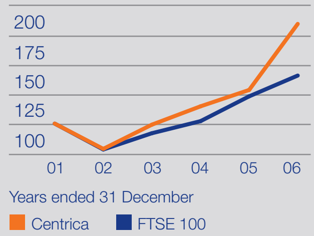
Adjusted basic earnings per share (EPS)

Adjusted basic earnings per share pence

Adjusted EPS is disclosed and reconciled in note 11 on page 64.

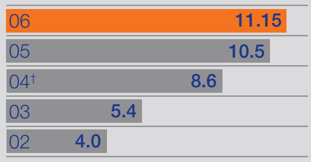
Total shareholder return (TSR)

Total shareholder return indices



Dividends per share

Ordinary dividend pence



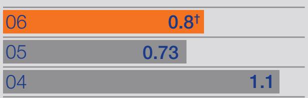
† excludes special dividend of 25p

	Adjusted basic earnings per share (EPS)	Total shareholder return (TSR)	Dividends per share
Description	This measure of performance is calculated as profit before 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.	Total shareholder return measures the return to shareholders in terms of the growth of an investment in the Company's shares, assuming that dividends and returns of capital are reinvested. We compare the Company's TSR with those of the other 99 members of the FTSE 100.	This is the total dividend per share (excluding special dividends) paid in respect of each financial year.
Target	To deliver growth in adjusted EPS. This measure is used as one of the performance conditions in the Company's Executive Share Option Scheme and Long Term Incentive Scheme, details of which are on page 35.	TSR is used as one of the performance conditions in the Company's Long Term Incentive Scheme, details of which are on page 35.	To deliver real growth per annum.
Analysis/comment	We have seen a 7% growth in adjusted EPS during a challenging year.	We have outperformed the FTSE 100 Index by 31% over a five year period.	The 2006 dividend shows an increase of 6% on the 2005 dividend which is in excess of the rise in the Retail Price Index.
Source/verification	The measure of adjusted EPS is reported on the Group Income Statement, part of the audited Financial Statements.	Alithos Ltd.	The dividend is reported as part of the audited Financial Statements.

Non-financial

Lost-time injuries (LTI)

Lost-time injuries
per 100,000 hours worked



† this measure includes the LTI consequences of the incident at Rough. See page 25 for commentary.

We measure lost time injuries per 100,000 hours worked. The majority of these are incurred through slips, trips, falls and manual handling. We use both incidence rates and active indicators to monitor the effectiveness of the health and safety (H&S) preventative programmes that we run throughout the Group.

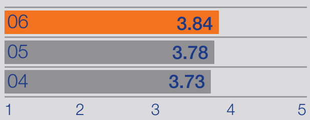
Continue to target the reduction and elimination of lost time injuries across our business and have increasingly sought to adopt a 'zero tolerance' approach on prevention.

We have established a solid track record of continual improvement and our underlying performance in 2006 continues to indicate the beneficial impact of our H&S strategy.

Measured internally.

Employee engagement

Engagement score



The Centrica annual employee survey measures engagement and commitment levels for every team at all levels across the Group. The overall engagement score reflects the attitudes and opinions of our employees and measures, on a scale of one to five, their feelings about working for Centrica.

To improve employee engagement as part of improving business performance.

Our score shows a year-on-year increase and several businesses have seen significant improvement.

The survey is managed by an external supplier.

Group carbon footprint

8.6m
tonnes of CO_2/ CO_2 equivalent**

**data tolerance level of 10%
A further 8.3 million tonnes of CO_2 emissions comes from UK purchased power.

We measure the carbon dioxide and other greenhouse gases emitted from our activities. This comprises emissions from power generation, gas production and storage, energy usage, fleet operations and business travel.

Continue to provide a range of energy efficiency services to help our customers reduce their carbon footprint. We will also look to deliver new energy saving programmes across the Group.

2006 was the first year that we have fully collated data to calculate our Group carbon footprint. We have the lowest carbon intensity profile of any large UK power supplier and intend to further improve efficiency at all levels.

Emissions data is collected internally. UK carbon intensity figures are calculated by www.electricityinfo.org.

Customer satisfaction
In 2006, we used a variety of measures across our business units to measure levels of customer satisfaction. During 2007, a Group customer KPI will be developed that recognises our position as a provider of energy and related services to both domestic and commercial markets. This information will be included in our 2007 Annual Report.

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British Gas Residential

- 800 more customer service staff
- 95% of customers now on new billing system
- Lost 1 million customer accounts

British Gas Residential performance indicators

For the period ended 31 December	2006	2005	Δ%
Customer numbers (period end)			
Residential gas ('000)	10,263	11,131	(8)
Residential electricity ('000)	5,759	5,920	(2.7)
Total	16,022	17,051	(6)
Estimated market share (%)			
Residential gas	49	54	(4.5)ppts
Residential electricity	22	23	(0.8)ppts
Average consumption			
Residential gas (therms)	569	597	(4.7)
Residential electricity (kWh)	4,069	4,146	(1.9)
Weighted average sales price			
Residential gas (p/therm)	78.66	61.16	29
Residential electricity (£/MWh)	95.63	75.36	27
Transportation & distribution costs (£m)			
Residential gas	1,110	1,146	(3.1)
Residential electricity	511	493	3.7
Total	1,621	1,639	(1.1)
Operating costs (£m)			
British Gas Residential	1,029	974	6
Turnover (£m)			
Residential gas	4,832	4,196	15
Residential electricity	2,280	1,836	24
Total	7,112	6,032	18
Operating profit/(loss) (£m)*			
British Gas Residential	95	90	6
Operating margin (%)*			
British Gas Residential	1.3	1.5	(0.2)ppts

Δ% has been used to express 'percentage change'
* including joint ventures and associates, net of interest and taxation, and before exceptional items and certain re-measurements.

This year saw commodity prices again reach record highs with demand weighted wholesale market gas and electricity up by 42% and 32% respectively on the previous year to 57.10p/therm and £47.13/MWh. This not only meant that the business made a loss* in the first half of the year but forced tariff increases across the industry.

These price increases resulted in an overall rise in customer churn. At the end of December we had 16.0 million energy accounts, a net loss of 1,029,000 accounts year-on-year. The effect of churn on our business was reduced by the launch of innovative product offerings, such as the 2009 fixed price product and Fix and Fall, which helped to maintain sales at around 60,000 per week.

Turnover increased by 18% to £7.1 billion (2005: £6.0 billion) due to price increases in March and September of 2006 and the full-year effect of the September 2005 price rise, partially offset by lower customer numbers and reduced consumption due mainly to an unseasonably warm autumn.

In the year we incurred a charge of £175 million (2005: £85 million) for our share of the imbalance costs of the national network. We believe that certain industry processes systematically disadvantage British Gas and we are working with the regulator to make sure that gas costs are more fairly allocated across the entire industry. Overall gross margin* increased by £59 million as the increase in turnover more than offset the higher commodity costs and the increase in transportation and distribution charges per customer.

Operating costs increased to £1,029 million (2005: £974 million) as underlying cost reductions were more than offset by training and backfilling costs associated with the migration of customers to the new billing system, increased bad debt costs and the cost of implementing two price rises during the year.

Operating profit* for the year increased by 6% to £95 million (2005: £90 million) as operating margins* recovered strongly in the second half.

We transferred 95% of our customer accounts onto our new billing system by the end of the year. We expect to have transferred all customers by the end of March 2007. The increase in calls around the times of the tariff increases, coupled with the ongoing system changes, meant that customer service levels dropped in the middle of the year. In the second half of the year we increased front-line staff by 800 to improve customer service.

We took a pre-tax exceptional cash charge of £36 million for restructuring the operation and the planned closure of the British Gas Residential headquarters building. These result in a benefit of £7 million in 2007 and around £16 million thereafter. We also took a pre-tax exceptional non-cash charge for systems write-down of £178 million, resulting in reduced amortisation charges, with around £28 million expected in 2007.

Under the UK Energy Efficiency Commitment British Gas installed more than 13 million energy efficiency measures, such as loft and cavity wall insulation and low energy light bulbs, with an equivalent carbon saving of 1 million tonnes, benefiting more than 6 million households. Beyond our legislative commitments, we have a range of energy efficiency services to help customers reduce their carbon footprint. These include our Energy Savers Report, a bespoke home energy efficiency audit which 1.5 million householders completed during the year.

In addition, British Gas was selected as an accredited supplier for the government's Low Carbon Building Programme providing access to grant funding of up to 50%. We are the only company within this phase of the programme to gain accredited supplier status across all five microgeneration technologies – solar photovoltaic, ground source heat pumps, biomass, wind and solar thermal.

British Gas committed to provide £18.3 million of winter fuel rebates to vulnerable customers during the year. We also continued to tackle fuel poverty through our 'here to HELP' programme. It reached more than 117,000 homes during the year, installing free energy efficiency products and identifying over £2.2 million of unclaimed benefits.

British Gas Business

- Record profits*, up 13% to £87 million
- SME contract renewals topped 95%
- 'Named' point of contact for each customer

British Gas Business performance indicators

For the period ended 31 December	2006	2005	△%
Customer supply points (period end)			
Gas ('000)	**400**	394	1.5
Electricity ('000)	**532**	515	3.3
Total ('000)	**932**	909	2.5
Average consumption			
Gas (therms)	**3,990**	3,492	14
Electricity (kWh)	**29,844**	27,512	8
Weighted average sales price			
Gas (p/therm)	**69.86**	51.87	35
Electricity (£/MWh)	**74.87**	57.88	29
Transportation & distribution (£m)			
Gas	**149**	124	20
Electricity	**261**	217	20
Total	**410**	341	20
Turnover (£m)			
Gas	**1,115**	692	61
Electricity	**1,188**	818	45
Total	**2,303**	1,510	53
Operating profit (£m)*			
British Gas Business	**87**	77	13
Operating margin (%)*			
British Gas Business	**3.8**	5.1	(1.3)ppts

△% has been used to express 'percentage change'
* including joint ventures and associates, net of interest and taxation, and before exceptional items and certain re-measurements.

This year brought unprecedented highs in commodity prices with significant increases in input costs for both gas and electricity. Despite having to raise prices to customers, we increased our total supply points by 2.5% to 932,000 (2005: 909,000) as increases in gross churn rates in our tariff book were more than offset by strong sales performance, continued SME contract renewal levels of over 95% and further improvements in corporate customer retention.

Turnover increased by 53% to £2.3 billion (2005: £1.5 billion) due to price rises, higher customer numbers and higher average consumption in both fuels as a result of winning a number of large corporate accounts.

Operating profit* was up 13% to £87 million (2005: £77 million) despite a significant loss* being made in the tariff book prior to the price increase in March. Profit* in the second half was markedly higher as tariff increases took effect and fourth quarter wholesale costs reduced, improving margins across the customer base.

During the year operating costs increased, driven by investments in a new billing system, rising absolute cost of debt on higher turnover and higher sales and marketing costs. We made progress on a customer service initiative that will create a single named point of contact for each customer and the deployment of new technology and processes which will rationalise our invoicing and collection systems.

We also continued to establish our position as an industry leader in providing real-time consumption data to help customers improve energy efficiency.

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British Gas Services

- Service levels saw a marked improvement
- Turnover increased by 8%
- Product relationships up 4% to 7 million

British Gas Services performance indicators

For the period ended 31 December	2006	2005	Δ%
Customer product holdings (period end)			
Central heating service contracts ('000)	4,392	4,337	1.3
Kitchen appliances care (no. of customers) ('000)	387	365	6
Plumbing and drains care ('000)	1,384	1,307	6
Home electrical care ('000)	986	860	15
Home security ('000)	22	25	(12)
Total holdings ('000)	7,171	6,894	4.0
Central heating installations ('000)	91	92	(1.1)
Turnover (£m)			
Central heating service contracts	519	478	9
Central heating installations	264	251	5
Other	321	295	9
Total	1,104	1,024	8
Engineering staff employed	8,676	8,348	3.9
Operating profit (£m)*			
British Gas Services	102	111	(8)
Operating margin (%)*			
British Gas Services	9	11	(2)ppts

Δ% has been used to express 'percentage change'
* including joint ventures and associates, net of interest and taxation, and before exceptional items and certain re-measurements.

During the year British Gas Services made significant progress on fixing operational issues that were highlighted in the first half, when temperatures below the seasonal norm led to a record number of call outs. These call outs put additional pressure on operations and affected service levels. Operational performance improved considerably in the second half of the year as process and system changes were implemented. This resulted in a marked improvement in service levels in the latter part of the year. Most importantly we coped with the period covering the switch-on of central heating systems in the autumn, which results in high overall demand, without any significant issues with operations and customer service.

Turnover was up by 8% at £1.1 billion (2005: £1.0 billion) as the total number of product relationships increased by 4% over the prior year to just over 7 million. The average price of central heating care also increased reflecting initial structural changes to pricing based more accurately on the costs of servicing each customer.

In addition the second half of the year saw a stronger performance in the central heating installation business with a 9% increase in installation volumes on the second half of last year, recovering much of the fall in the first half. We installed around 90,000 energy-efficient boilers in the UK during the year and our engineers are now providing solar thermal products to domestic customers.

Operating profit* decreased by 8% to £102 million (2005: £111 million) due to the increased breakdown call outs and extra cost of parts required for the repairs in the first half of the year. The second half showed a year-on-year improvement of 12%.

During the year we significantly restructured operations to reduce cost and increase productivity, resulting in 390 job losses with an exceptional cash cost of £48 million. This will have a payback of just over three years. We also wrote-down certain unused functionality and capitalised development costs within the systems portfolio. This resulted in a pre-tax exceptional charge of £18 million.

Centrica Energy

- Completed new Langeled reception terminal
- Work started on £400 million 885MW Langage power station
- First green power from Barrow offshore wind farm

Centrica Energy performance indicators

For the period ended 31 December	2006	2005	Δ%
Gas Production			
Gas production volumes (mmth)			
Morecambe	1,207	2,445	(51)
Other	709	612	16
Total	1,916	3,057	(37)
Average gas sales price (p/therm)	53.1	39.4	35
Oil and condensate production volumes (MBOE)	5.6	3.8	47
Average oil and condensate sales price (£/BOE)	33.8	28.7	18
Turnover (£m)	1,291	1,365	(5)
External turnover (£m)	323	183	77
Operating costs (£m)			
Volume related production costs	293	215	36
Other production costs	139	130	7
Total	432	345	25
Operating profit (£m)*	864	1,020	(15)
Power stations			
Power generated (GWh)	10,541	11,641	(9)
Industrial & wholesale			
External sales volumes (mmth)	2,667	3,081	(13)
Average sales price (p/therm)	31.3	24.8	26
Turnover (£m)	883	786	12
Operating profit/(loss) (£m)*	(210)	(156)	n/m
Accord			
Operating profit (£m)*	32	39	(18)
Centrica Energy operating profit (£m)*	686	903	(24)

Δ% has been used to express 'percentage change'
* including joint ventures and associates, net of interest and taxation, and before exceptional items and certain re-measurements.

Centrica Energy faced a challenging year and operating profits* were down 24% at £686 million (2005: £903 million) due to lower gas production levels and the forecast increased losses* in the industrial and wholesale segment.

For the year, market month ahead gas prices rose by 36% to 50.22p/therm (2005: 36.82p/therm) and electricity rose 30% to £45.84/MWh (2005: £35.27/MWh). The UK experienced huge fluctuations in wholesale gas costs, particularly in the early part of the year when cold weather and fear of shortages pushed the wholesale price per therm to 250 pence. Gas prices reduced substantially in the second half of the year due to the increased flow of gas through the newly constructed Langeled and BBL pipelines.

Gas production

Operating profit* was down 15% to £864 million (2005: £1,020 million) due to a 37% reduction in gas volumes partially offset by a 35% increase in selling price. The 51% reduction in Morecambe production volumes was due to management decisions to carry out remedial work on South Morecambe's cooler units during an extended summer maintenance period and our decision to switch off the field in response to low intraday gas prices especially in the fourth quarter of the year.

This was partially offset by a 16% increase in other production volumes mainly due to the full-year effect of our 2005 acquisition of the Kerr McGee fields and the acquisition of an increased share in the Statfjord field. These fields contributed to the 47% increase in oil and condensates production which reached 5.6 million barrels of oil equivalent (MBOE) (2005: 3.8 MBOE) with average selling prices of £34/BOE (2005: £29/BOE). The 36% increase in variable production costs is due to the increased proportion of volumes from the newer fields where depreciation levels are higher.

In addition to the £153 million acquisition of a 4.84% stake in the Statfjord field we invested £100 million in maintaining and developing our upstream portfolio of assets during the year. Of this, we invested an initial £21 million in the Statfjord depressurisation project to increase the level of gas reserves and spent £46 million on the development of Maria, Thurne and Davy East. These new fields together with the Statfjord project add 1,348 million therms (mmth) of gas reserves and 11.6 million BOE for a total cost of £186 million.

We also spent around £17 million on our focused gas exploration programme in the UK as we farmed into four projects. We made a successful application under the 24th UK offshore licensing round for acreage around the Morecambe fields and opened an office in Stavanger to enable us to participate successfully in the Norwegian licensing round where we gained shares in four blocks in January 2007. We also have licence blocks in Egypt and Nigeria which we started to assess and have made an application under the Trinidad licensing round.

Industrial sales and wholesaling

The industrial sales and wholesaling segment made an operating loss* of £210 million (2005: £156 million loss*). Losses* from the legacy gas sales contracts remained broadly flat at £171 million (2005: £173 million loss*) as the increase in input commodity costs was offset by an increase in the weighted average sales price combined with a reduction in volumes. Volumes reduced as three contracts ended and the remaining customers chose to buy from the wholesale market when gas prices softened. This reporting segment includes certain operating costs of Centrica Energy; these increased to £66 million (2005: £34 million) as we continued to expand our upstream operations.

Electricity generation

We generated 10.5TWh of power (2005: 11.6TWh) from our 3.4GW fleet of gas-fired power stations in the period which was down on the prior year due to a number of extended outages in our fleet. Total fleet

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load factor was 41% (2005: 49%). We started work at Langage, Devon to build an 885MW gas-fired plant on our consented site. The total investment is expected to be around £400 million and commercial operations are due to start during winter 2008/09. This will be the first power station to be built in the UK for five years. In November we announced the acquisition of 85% of Coastal Energy Limited who are seeking planning permission to build the UK's first Integrated Gasification Combined Cycle (IGCC) power plant which would incorporate pre-combustion carbon capture technology, with the result of producing the lowest carbon emissions of any fossil fuel plant in the UK. We also acquired an interest in a company developing a carbon sequestration business.

We continued to participate in the European Union (EU) Emissions Trading Scheme. We believe it is the cornerstone mechanism for reducing emissions across the EU. In 2006 Centrica was involved in 15% of all EU carbon allowance trades. We also made a number of significant investments through the United Nations Clean Development Mechanism (CDM) and invested in the largest private fund in the carbon market. Centrica believes the CDM is crucial to engaging developing countries in emission reductions and has committed to further investments in this area.

Renewables

In March we produced the first green power from our 90MW joint venture Barrow offshore wind farm. In November, Airtricity started commissioning the 72MW Braes of Doune wind farm and subject to successful testing and handover from the construction contractor, we will acquire 50% of the equity from Airtricity for £42 million. The award of the main construction contracts for the two 90MW wind farms at Inner Dowsing and Lynn is almost complete. First power from this project is expected to be delivered in late 2008. We also submitted an application for planning consent for the 250MW Round Two Lincs offshore wind farm. If successful, first power from the project could be delivered in 2010.

Energy procurement

In April 2006 we agreed an innovative coal-linked power purchase agreement with Drax for the supply of 600MW of baseload power over a 5¼-year period starting October 2007, indexed to international traded coal prices and including a fixed clean seasonal dark spread.

We also completed an innovative three-year winter super peak electricity generation tolling agreement with Rolls-Royce Power Development to reduce Centrica's exposure to volatile short-term market prices during these periods. The contract commenced in October 2006, with a total capacity of 245MW from several small independent energy projects.

In the last quarter of the year two key pipeline projects, capable of meeting 40% of the UK demand, underpinned by British Gas purchase contracts, were commissioned. Langeled, underpinned by our 10 year 5.1BCM/year contract with Statoil, and BBL, underpinned by our 10 year 7.3BCM/year contract with Gasunie started to deliver significant amounts of gas to the UK.

Centrica Storage

- Restored operation after fire
- Recovery operation involved 500,000 man-hours, with no lost-time incidents
- Operating profit* up 48% to £228 million

Centrica Storage performance indicators

For the period ended 31 December	2006	2005	Δ%
Average SBU price (calendar year) (pence)	56.5	34.8	62
Turnover (£m)			
Standard SBUs	254	159	60
Extra space	30	19	58
Native gas sales	0	20	(100)
Gas sales	58	30	93
Other	16	25	(36)
Total	358	253	42
External turnover (£m)	294	195	51
Cost of gas (£m)	58	35	66
Operating profit (£m)*	228	154	48

Δ% has been used to express 'percentage change'
* including joint ventures and associates, net of interest and taxation, and before exceptional items and certain re-measurements.

The main focus for Centrica Storage in 2006 was the recovery of operations after the explosion and fire which caused significant damage to the main offshore platform of the Rough storage facility in February. Despite extensive damage, it took only 16 weeks to recommission injection at the facility. In restoring full production capability the processes offshore were simplified to export wet gas rather than using offshore dehydration. The production facilities were returned to operation less than 32 weeks after the original incident. The force majeure notice was lifted on 20 November, once final operational testing was complete.

The restoration project involved approximately 500,000 man hours and was completed without any health and safety lost-time incidents. The two employees hospitalised at the time of the incident have now recovered and are back working on the platform.

The cost of the repairs and payments made under the storage services contract resulted in an exceptional cash cost to the Group for the year of £48 million of which £24 million is recognised in the books of Centrica Storage.

Since recovery the reliability of the asset has been re-established. Both injection and production have experienced 99% availability, and the reservoir was filled by early November well in advance of the winter production season.

Operating profit* before the exceptional charge for the year was up 48% to £228 million (2005: £154 million). This was mainly due to a rise of 62% in the average SBU price to 56.5 pence (2005: 34.8 pence) and an increase in the realised price of space sales, partially offset by the 2005 sales of native gas of £20 million not being repeated in 2006.

Centrica North America

- Turnover topped £4 billion
- Operating profit* grew by 21% to £223 million
- Bought 244MW power station in Texas

Centrica North America performance indicators

For the period ended 31 December	2006	2005	△%
Customer numbers (period end)			
Canada energy ('000)	**2,090**	2,118	(1.3)
Texas energy ('000)	**948**	897	6
Other USA energy ('000)	**348**	331	5
Home services ('000)	**1,964**	1,885	4.2
Volumes:			
Gas production (mmth)	**304**	308	(1.3)
Electricity generation (GWh)	**4,450**	3,212	39
Turnover (£m)			
Canada residential & small commercial energy	**1,425**	1,533	(7)
Texas residential & small commercial energy	**1,120**	953	18
Other USA residential & small commercial energy	**247**	208	19
Home services	**371**	360	3.1
Business markets	**902**	481	88
Energy wholesale and trading	**32**	17	88
Total	**4,097**	3,552	15
Operating profit/(loss) (£m)*			
Canada residential & small commercial energy	**42**	47	(11)
Texas residential & small commercial energy	**117**	72	63
Other USA residential & small commercial energy	**12**	16	(25)
Home services	**68**	51	33
Business markets	**(21)**	(8)	n/m
Energy wholesale and trading	**5**	7	(29)
Total	**223**	185	21
Operating margin (%)*			
Total North America	**5.4**	5.2	0.2ppts

△% has been used to express 'percentage change'
* including joint ventures and associates, net of interest and taxation, and before exceptional items and certain re-measurements.

Our North American business has continued its strong growth. Overall turnover grew by 15% to £4.1 billion (2005: £3.6 billion) driven primarily by the continued growth in business markets and the organic residential business in Texas. Operating profit* grew by 21% to £223 million (2005: £185 million) primarily due to higher profits* in Texas and the home services business with adverse exchange rate movements in the second half negating the positive impact in the first six months.

Despite this strong overall growth, as part of a continual review of the efficiency of the business, decisive action was taken to reduce costs. This resulted in 450 job losses, 9% of the total, during the year, primarily in Canada and in US home services.

Canada residential and small commercial energy

Turnover decreased by 7% to £1,425 million (2005: £1,533 million) with increases in the deregulated business being more than offset by reductions in the regulated Alberta business. Operating profit* reduced by 11% to £42 million (2005: £47 million) as a result of the removal of the business protection plan rebate (BPPR) in Ontario, partially offset by increased profits* from equity gas production and a significant reduction in employee numbers.

Our Alberta business moved into profit* for the first time, although the competitive market is growing slowly. Here the regulated business has experienced a net customer decline to date of only 8%. We now have around 95,000 competitive customer accounts on-supply.

Recognising the need for greater incentives on power procurement, we have agreed a package with the regulator that now enables us to earn a return on the regulated electricity supply business.

Texas residential and small commercial energy

Turnover grew by 18% to £1,120 million (2005: £953 million). This was largely driven by growth in our organic customer base in areas of Texas outside our incumbent territory. In April we acquired approximately 100,000 customers from Entergy. In July, as part of a wider agreement with the Public Utility Commission we implemented a 5% discount to our residential customers in CPL/WTU which effectively removed those customers from Price-to-Beat (PtB), and then reduced prices by a further 6% at the start of 2007. The growth in scale of the organic business, allied with effective procurement across both businesses, including the positive impact of the three power stations, increased operating profit* by 63% to £117 million (2005: £72 million).

Customer numbers increased as a result of the acquisition of the customer base of Entergy and continued strong competitive sales in our organic business, partially offset by the ongoing churn in the incumbent customer base. In February we acquired the Paris power station in northern Texas and we completed three new wind power purchasing agreements, which together with the one signed in 2005, increased our total contractual wind power capacity to 643MW. These investments are enabling us to offer our customers innovative renewable energy plans.

Direct Energy continued to support the 'Neighbor-to-Neighbor' project in Houston, with a US$1million (£540,000) contribution. We work in partnership with 29 community agencies, which distribute funds to vulnerable customers who are unable to pay for their home electricity in emergency situations.

Other USA residential and small commercial energy

Turnover grew by 19% to £247 million (2005: £208 million) due to increased customer numbers and higher retail prices. We made encouraging progress in growing the customer base by 5%, with a strong performance in the New York market. This combination of rising prices and growing customer numbers was offset by expenditure on growth and lower consumption due to very warm weather at the end of 2006, resulting in a lower operating profit* of £12 million (2005:£16 million).

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Home services

Home services performed well during the year with a 33% growth in operating profit* to £68 million (2005: £51 million) on a turnover increase of 3%. This was achieved primarily in Canada through increased margins on heating, ventilation and air conditioning sales and ongoing operational efficiencies. The US home services business remained stable despite the backdrop of a severe downturn in the US housing market.

In June we disposed of our remaining 19.9% holding in The Consumers' Waterheater Income Fund for £65 million, recording a one-off pre-tax gain of £7 million. Although we no longer have an equity share in the fund, we are still required to consolidate the full financial results of the fund owing to the continuing close contractual relationship.

Business markets

We continue to invest heavily in this sector and have seen significant growth with volumes sold in gas and electricity rising by 11% to 557mmth and 127% to 11.2TWh respectively. Turnover grew by 88% to £902 million (2005: £481 million).

During the year we successfully entered 12 new utility areas. The costs of doing this, together with loss of the BPPR rebate in Ontario, caused an increased operating loss* of £21 million (2005: operating loss* of £8 million). However, underlying gross margins* remain healthy. This segment includes a services business which has been loss-making* and a turn-around plan for the services business has already been executed.

Energy wholesale and trading

During 2006 we widened the remit of our existing wholesale and trading business to encompass taking future capacity in natural gas transportation and storage and wind power contracts, so as to exploit the expert resources already in place to support retail procurement across the US and Canada. We will continue to develop these activities in the future. This segment registered an operating profit* of £5 million (2005: £7 million).

Europe

- Turned a £9 million operating loss* into a £7 million profit*
- Entered German market
- Full integration of SPE businesses in Belgium

The industry continues to consolidate in Europe with evidence of support for national champions in France, Spain and the Netherlands. While we continue to review opportunities for developing our business in continental Europe, this remains a challenge in the current climate and we will be robust in only pursuing those opportunities which can deliver long-term shareholder value. During the year our European segment performed well, delivering a £7 million operating profit* (2005: operating loss* £9 million).

In Belgium we achieved full integration of all previous businesses that made up SPE and we now operate nationally under the Luminus brand. We transferred 500,000 Wallonian residential customers on 1 January 2007, opened a new call centre in Liège and we approved investments in open cycle gas turbine (OCGT) generation in Ghent and two wind farms.

In the Netherlands, we continued to grow our customer base through our Oxxio brand. To support future growth we signed a tolling agreement with Intergen for the output of a 400MW new build combined cycle gas turbine (CCGT) at Rijnmond which we expect to begin operations in 2009. We made significant progress on the development and installation of smart meters.

Our Luseo operation in Spain reduced its supply operations due to the adverse regulatory environment in Spain. However, it continued to develop energy management services to special regime (renewable) generators and exploited other profitable energy management activities.

We continued to grow our footprint in Europe by creating a German subsidiary, Centrica Energie GmbH, based in Dusseldorf and recruited key staff. This is in response to positive developments in the legal and regulatory framework for competition in German energy markets. We are positioned to begin selling energy to the commercial supply market in 2007.

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

2006 was a year of extreme volatility in wholesale commodity costs. Still Centrica produced sound growth in earnings* and the share price rose by 39%, outperforming the FTSE 100 by 28 percentage points.

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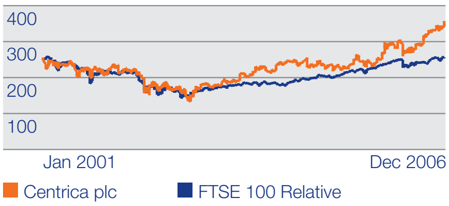
Phil Bentley
Group Finance Director

Centrica share performance
(pence)



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

Centrica's financial aim is to achieve a total shareholder return (TSR) ranking in the first quartile of UK FTSE 100 Index companies, taking account of share price growth and dividends received and reinvested over a sustained period. Centrica seeks to maximise the return on capital it achieves in excess of its cost of capital, within a prudent risk management framework. The Remuneration Report summarises our TSR performance over recent years against our comparator FTSE 100 Index group.

The Group's closing share price on 31 December 2006 was 354.50 pence (31 December 2005: 254.75 pence), an increase of 39%, outperforming the FTSE 100 Index by 28 percentage points in the year.

Financial statements

Group turnover
Group turnover from continuing operations was up 22% at £16.5 billion (2005: £13.4 billion). The increase was driven primarily by organic growth in the North American business markets and the residential business in Texas, and price increases in British Gas Residential and British Gas Business.

Group operating profit
Group operating profit* from continuing operations was down 5% at £1,442 million (2005: £1,513 million), with the strong growth in Centrica Storage and North America being more than offset by reduced profits* in gas production on lower volumes. The results include £20 million non-recurring profit* relating to the valuation of the Group's pension schemes due to the effect of new pension legislation, introduced by the Finance Act from April 2006, upon the increased estimate of future amounts of pension commuted for a lump sum.

Earnings
Group earnings* on a continuing basis were up by 8% to £715 million (2005: £661 million). The lower operating profits* were more than offset by the reduction in the Group tax rate to 43% (2005: 52%) due to the lower contribution from high tax rate upstream gas production. The statutory loss for the year was £155 million. The reconciling items between Group earnings* and the statutory loss are exceptional items and certain re-measurements that are explained below.

Earnings per share and dividends
Adjusted earnings per share* improved by 7% to 19.4 pence in 2006 from 18.2 pence in 2005. The Group reported a basic loss per share of 4.3 pence, down from basic earnings of 27.4 pence in 2005, reflecting the post-tax impact of exceptional charges and certain re-measurements.

In addition to the interim dividend of 3.15 pence per share, we propose a final dividend of 8.0 pence giving a total ordinary dividend of 11.15 pence for the year (2005: 10.5 pence).

Cash flow
Group operating cash flow before working capital adjustments was up from £1,936 million to £1,965 million but after working capital adjustments, operational interest, tax, exceptional charge and discontinued items was down 36% at £737 million (2005: £1,144 million) primarily due to the working capital investment required by significant movements in the wholesale prices. The net cash outflow from investing activities increased to £720 million (2005: £529 million), 36% higher than last year due to the receipt in 2005 of £184 million of disposal proceeds relating to the sale of British Gas Connections and Onetel. The net cash outflow from financing

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activities increased to £597 million (2005: £335 million), an increase of 78% on 2005, due mainly to a net increase in debt of £623 million in 2005, partially offset by the suspension of the share repurchase programme, announced in February 2006, resulting in a reduction in year-on-year cash outflow of £365 million.

Net debt and interest

The Group's net recourse debt level at 31 December 2006 was £1,527 million (2005: £1,060 million). This was up on 2005 due primarily to the increased working capital requirement. This debt includes £808 million of finance lease commitments on the Humber and Spalding power stations. Net interest payable was £183 million (2005: £145 million) and was covered seven times by operating profit* (2005: ten times).

Net assets

Net assets decreased by 33% to £1,642 million (2005: £2,442 million). This is primarily due to the movement in our derivative financial instruments which are marked-to-market, from an asset of £0.6 billion at the end of 2005 to a liability of £1.2 billion at the end of 2006. This resulted in a charge of £931 million (including joint ventures) arising on the net mark-to-market movement on our energy procurement activities recognised as certain re-measurements in the Income Statement, and a charge to reserves of £939 million, where certain contracts have achieved hedge accounting under IAS 39. After the related deferred tax credits, these movements account for a total reduction in net assets of £1.2 billion. Exceptional charges account for a further decrease in net assets of £238 million after tax. These are partially offset by a post-tax actuarial gain on our pension liability of £332 million.

Exceptional items

There is a pre-tax exceptional charge for the year of £331 million (post tax £238 million). There are three elements. Firstly, there is a non-cash charge of £196 million relating to the write-down of systems assets following a review of existing and required future functionality within the more focused Group. This will result in a reduction of £31 million in the 2007 amortisation charge. We also took an £87 million exceptional cash charge mainly relating to the streamlining of the British Gas Residential back-office, the planned closure of the British Gas headquarters building at Stockley Park, a restructuring of the British Gas Services team and a further streamlining of the group corporate structure including the outsourcing of parts of finance and HR, resulting in around 1,550 job losses. This will deliver benefits of £20 million in 2007 and approximately £39 million in 2008. Finally there is an exceptional cash cost of £48 million relating to the Rough incident in February.

Tax credits of £93 million have been recognised in respect of these costs.

Certain re-measurements

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

The statutory results include charges to operating profit relating to these re-measurements of £931 million (2005: net credit of £455 million), primarily from marking-to-market some contracts relating to our energy procurement activities. As gas and power were delivered under these contracts, the net in-the-money mark-to-market positions were unwound generating a net charge to the Income Statement in the period of £287 million (2005: net credit of £140 million). As the forward prices reduced in 2006 the portfolio of contracts fair valued under IAS 39 reported a net loss on revaluation of £638 million (2005: credit of £298 million). The remaining £6 million (2005: credit of £17 million) reflects the proprietary trading positions relating to cross-border capacity and storage contracts. The £37 million (2005: £nil) credit to interest income relates to the re-measurement of the publicly traded Units of The Consumers' Waterheater Income Fund.

Acquisitions and capital expenditure

During the year the Group acquired a further 4.84% interest in the Statfjord oil and gas field from BP for £153 million, and the Paris Energy Centre, a 244 MW gas fired combined cycle power plant in Texas, for £32 million, along with a number of smaller acquisitions.

Accounting policies

UK listed companies are required to comply with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS). The Group's significant accounting policies are explained in note 2 to the Financial Statements. Note 3 to the Financial Statements explains the critical accounting judgements and key sources of estimation uncertainty arising in the preparation of the Financial Statements. The Group has not made any material changes to its accounting policies in the year ended 31 December 2006.

Phil Bentley
Group Finance Director

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

Centrica, like all businesses, faces a number of risks and uncertainties as we conduct our operations. There are a number of risks that could impact the Group's long-term performance and steps are taken to understand and evaluate these in order to achieve our objective of creating long-term, sustainable returns for shareholders.

We have a risk management process in place, which is designed to identify, manage and mitigate business risk. Regular reporting of these risks and the monitoring of actions and controls is conducted by the Audit Committee, which reports its findings to the Board. This process is described in the Corporate Governance section on page 32.

The factors described below highlight risks and uncertainties which affect the Group but are not intended to be an exhaustive analysis of all the risks which may arise in the ordinary course of business or otherwise. Some risks may be unknown to the Group and other risks, currently regarded as immaterial, could turn out to be material.

Operational factors

UK customer service, brand and reputation

High wholesale prices and higher levels of price volatility in the commodity markets (see commodity prices below) have caused all suppliers to increase prices to customers which in turn have driven up customer churn and adversely affected customers' service levels. The Company has recently engaged additional staff and implemented a new billing system for residential customers to help improve levels of customer service. Further information on our approach to customer service is available in the Corporate Responsibility section on page 25.

Security of supply

As the indigenous gas reserves have declined, the UK, and so the Company, has become increasingly reliant on supplies from mainland Europe and other parts of the world. Accordingly, a key element of security of supply is access to these reserves and the reliability of the transmission and distribution networks operated by third parties both in the UK and abroad. The potential threat of terrorism in relation to certain markets and assets is an increasing risk.

To respond to this changing environment, the Company has supported new infrastructure development to bring gas to the UK. In addition we continue to take steps to acquire assets to replace our declining gas reserves. The Company will continue to secure and develop such gas and power assets in the UK and overseas and continually review the security arrangements to protect those assets.

Health, safety and the environment

The Company faces inherent health and safety risks due to the large scale onshore and offshore assets that we operate, and the millions of home visits our service businesses in the UK and North America make to customers each year. We are committed to maintaining high standards of health and safety, and our well developed processes reflect this risk. Further information on our approach to health and safety is available in the Corporate Responsibility section on page 25.

The Company's activities have an impact on the environment. Climate change presents risks and opportunities for our business. The need for action to tackle climate change was further emphasised in the Stern Review published in 2006. Further information on our approach to climate change is available in the Corporate Responsibility section on page 25.

Outsourcing and offshoring

Centrica has entered into a number of outsourcing contracts, some of which are offshore, in respect of certain support functions for its UK and North America businesses. As with any contractual relationship, including outsourcing and offshoring, there are significant inherent risks to be considered and mitigated.

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The oversight and effective management of complex contracts across multiple service providers in the UK, North America and India is a significant area of focus for Centrica's management team. An Outsourcing/Offshoring Governance Group coordinates the Group's approach to outsourcing initiatives to ensure these risks are properly managed.

Information systems

Large and effective information systems are critical for the efficient management and accurate billing of our customers and to support our upstream trading activities. Accordingly, the Company continues to invest in such systems, most notably the replacement of its UK customer management systems. These extensive change programmes are subject to implementation risks and require the application of strong project management and comprehensive business continuity plans.

External market factors

Commodity prices

The Company's energy requirements to serve its gas and electricity customers are dependent on the wholesale commodity markets for gas, oil, coal, carbon and power prices, all of which have been volatile during 2006. While the outlook for 2007 suggests a more stable market place, particularly in gas, driven by greater liquidity as new pipelines to the UK come into operation, this will always be subject to external market events and factors. Further consolidation particularly between companies with significant upstream resources could lead to a less liquid market due to the reduction in available counterparties with whom to trade.

To manage this risk, the Company optimises its asset and contract portfolio based on comprehensive market analysis and continuous assessment overseen by the Financial Risk Management Committee. The Company's policy is to hedge a proportion of the exposure for a number of years ahead matched to the underlying profiles of our customers' energy requirements supplemented by the use of financial instruments such oil and gas swaps, gas derivatives and bilateral agreements for gas and power.

Consumption

Gas sales volumes, and to a lesser extent electricity sales volumes, are affected by temperature and other weather factors. In addition, customers' demand behaviour will be influenced by the national economic climate, gas and electricity prices and an increasing awareness of the environmental impact of energy use. Furthermore, the development and application of new technologies, either from the use of domestic energy generating units e.g. micro-combined heat and power units, and/or greater use of demand-side management technology e.g. smart metering, could affect demand in the medium term. The Company monitors consumption trends, develops weather hedge strategies and seeks to inform customers through the provision of energy saving advice and products.

Level of competitive activity

The energy supply market in the UK is highly competitive and increasingly so in North America. The Company also operates in the competitive home services markets in both the UK and North America. In the UK, competitive pressures are increasing as existing energy providers and other service providers, such as insurance companies, seek to strengthen their market position.

Active monitoring of customer trends and competitor activity enables the Company to respond to changing circumstances by developing retention campaigns and innovative customer propositions.

Regulatory factors

The energy markets in the UK, North America and Continental Europe are subject to comprehensive operating requirements as defined by the relevant sector regulators and/or government departments. As participants in these markets, amendments to the regulatory regime could have an impact on the Company achieving its financial goals.

In the UK energy market, the regulator, Ofgem, is undertaking a supply licence review scheduled for completion in June 2007. The proposed changes were published for the first time in December 2006 and Ofgem has proposed to retain only a limited number of conditions that are necessary for the energy market to function properly and to protect the interests of customers, in particular those who are vulnerable. The final decision document together with the new licence conditions are expected in March 2007, with the new licence conditions coming into force in June 2007. The precise extent of the remaining requirements is therefore uncertain.

In January 2007, the regulated network companies accepted Ofgem's final proposals for the five-year price controls on gas and electricity transmission as well as a one-year price control on gas distribution. The new arrangements will apply to the network companies from 1 April 2007. The proposals are expected to result in an increase in transportation charges, and so final prices to customers, therefore potentially contributing to customer churn. Ofgem is also conducting a five-year gas distribution price control review process. This activity will set allowed revenues for the regulated gas distribution network companies for the period 2008 to 2013. As a supplier, Centrica will be subject to any revisions to policies or transportation charges resulting from this review. At this early stage of the process it is not possible to predict the outcomes, and while all users of the gas distribution networks would be affected, this could again feed into higher costs and customer prices.

In July 2006, the Government published its Energy Review entitled "The Energy Challenge, Energy Review Report 2006". Policy consultations are currently ongoing with an Energy White Paper expected in Spring 2007. Centrica has been active during this period of consultation to help define policy on issues such as the future of the Renewables Obligation and the Energy Efficiency Commitment, measures to improve the planning system for new energy infrastructure projects and proposals for changes to energy billing and metering. We also continue to press for a firm political commitment to the EU Emissions Trading Scheme post-2012 which is critical to new investment decisions being taken over the next few years. We have welcomed the Government introduction of a Climate Change Bill which sets in statute the Government's target to reduce carbon emissions by 60% by 2050. We are moving ahead with the commercial development and consenting of our Teesside Carbon Capture and Storage project. The final decision will need to take into account the support framework for low carbon technologies.

There are positive signs regarding the liberalisation of European energy markets. In June, the EU Energy Commissioner announced a strategic energy review that has the creation of competitive markets at its heart. The need for effective competition is emphasised by the current level of consolidation activity in Europe, with the potential emergence of national champions, which could not only impact our participation in Europe but also our ability to source and transport gas across continental Europe to the UK.

In North America, the risk of political or regulatory intervention remains an uncertainty. In Texas, electricity competition is currently under review by the Legislature which could potentially lead to changes in market structure. In Ontario, we face large scale electricity customer contract renewals in a regulatory climate that is somewhat uncertain (especially with respect to automatic renewals). In Alberta the Department of Energy is mandated to conduct a review regarding the progress of the current competitive arrangements.

In order to mitigate these risks, we continue to monitor political and regulatory developments/agendas and engage with the relevant stakeholders through comprehensive ongoing contact programmes in place with regulators, government ministers and senior officials.

Financial factors

Liquidity

Cash forecasts identifying the liquidity requirements for the Group are produced frequently. These are stress-tested for different scenarios and are reviewed regularly by the Board to ensure that sufficient headroom exists for at least a 12-month period. The Group's policy is to maintain a minimum level of committed facilities and ensure that a proportion of debt should be long-term and spread over a range of maturities. As at 31 December 2006, the Group had undrawn committed facilities of £1.3 billion, which were used to support the US commercial paper programme.

Currency

Through wholly-owned US and Canadian subsidiaries and wholly-owned and partly-owned European entities, the Group has operational exposure in US and Canadian dollars and euros. The Group's policy is to maintain the sterling value of its foreign currency investment through balance sheet hedging instruments. Canadian dollar and euro balance sheet translation exposure is hedged by maintaining a portfolio of foreign currency financial liabilities which approximate to the net asset value of the Canadian and euro-based operations. US dollar balance sheet translation exposure is hedged by borrowing on a short-term basis through a US commercial paper programme.

All debt raised in US dollars through the US commercial paper programme has been used as part of the translation hedging operations described above.

Interest rate

The Group's policy is to actively manage interest rate risk on long-term borrowings while ensuring that the exposure to fixed rates remains within a 30% to 70% range. This is achieved by using derivative financial instruments, such as interest rate swaps, to adjust the interest basis of the portfolio of long-term debt. At the year-end, debt had been raised on both a fixed and floating rate basis.

Counterparty

The Board's policy is to limit counterparty exposures by setting credit limits for each counterparty, where possible by reference to published credit ratings. Exposures are measured in relation to the nature, market value and maturity of each contract or financial instrument. Surplus cash is invested in short-term financial instruments and only deposited with counterparties with minimum credit rating of A3/A-/A-or P1/A-1F1 from any Moody's investors served/Standard & Poor's/Fitch Ratings long-term and short-term ratings respectively. Energy trading activities are undertaken with counterparties for whom specific credit limits are set. All contracted and potential exposures are reported to the Financial Risk Management Committee.

Pensions

The Group maintains a variety of pension schemes including defined benefit schemes. The pension fund liabilities are partially matched with a portfolio of assets, which leaves potential risk around the mortality rate, wage inflation and returns on assets. In addition, actions by the Pensions Regulators or the Trustees and/or any material revisions to the existing pension legislation could require increased contributions by the Group to the pension fund.

Credit rating

The current strong credit rating of the Group (long-term debt: A3 (Moody's Investors Service, Inc. (Moody's)), A negative outlook (Standard & Poor's Rating Services (S&P)); short-term debt: P-2 (Moody's), A-1 negative outlook (S&P)) means that it benefits from high levels of credit for its existing counterparty relationships. Any material deterioration of this rating will mean that the Group will need to increase its levels of security for existing energy procurement contracts which may have a material effect on its cash position or limit its ability to trade in commodity markets.

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Corporate Responsibility is integral to a business that is managed in the long-term interests of its shareholders.

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Mary Francis CBE
Senior Independent Non-Executive Director and Chair, Centrica Corporate Responsibility Committee

The Centrica Group engages with a wide range of stakeholders in the UK and overseas, so that we can more effectively manage the social, ethical and environmental impact of our business activities. We thereby seek to minimise risk, create sustainable value for our shareholders and contribute positively to wider economic development in the regions in which we operate.

The Group's business principles and policies set out the standards of behaviour we expect of our employees to ensure our business is conducted in an ethical way. We also encourage our business partners to respect and adhere to our standards.

Information on our corporate responsibility (CR) activities over the last year is included in the reports on each of our business units. This section provides a summary of key themes, as well as performance information on group-wide activities. More detail will be provided in our 2006 CR Report, which will be available at www.centrica.com/responsibility in May 2007.

	2006	2005	Δ%
Climate change			
Group carbon footprint (million tonnes of CO_2/CO_2e)*	**8.6**	–	–
Carbon intensity of power supplied in the UK (tonnes CO_2/MWh)**	**0.35**	0.37	(6)
Household energy efficiency products installed (million)	**13.5**	9.0	44
Lifetime carbon savings for household energy efficiency products installed (million tonnes)***	**1.0**	1.3	(23)
Vulnerable customers – 'here to HELP'			
Homes signed up	**117,438**	116,823	0.5
Homes completed (energy efficiency products installed)	**37,532**	28,212	33
Value of unclaimed government benefits identified (£m)	**2.2**	2.6	n/a
Average increase in claimable government benefits per household (£)****	**1,467**	1,542	n/a
Health and safety			
Lost-time injuries/1,000 employees	**14.3**	13.2	8
Lost-time injuries/100,000 hours worked	**0.8**	0.7	14
Total injuries/100,000 hours worked	**3.3**	3.1	6
Employees			
Human capital return on investment ratio*****	**2:1**	2.1: 1	(5)
Employee engagement score	**3.84**	3.78	2
Employees from ethnic minority groups (%)	**15.9**	17.2	(8)
Female/male employees (%)	**29.9/70.1**	30.9/69.1	n/a
Employees with a disability (%)	**2.7**	2.5	8
Communities			
Total community contribution (£m)	**7.4**	8.2	(10)

Δ% has been used to express 'percentage change'.
* Data tolerance level of 10%. A further 8.3m tonnes of CO_2 emissions comes from UK purchased power.
** Source: www.electricityinfo.org
*** Source: http://www.nef.org.uk/energyadvice/co2calculator.htm
**** Describes the average value of additional claimable benefits per vulnerable household identified by British Gas through our 'here to HELP' programme.
***** Source: PWC Saratoga – a measurement of financial return for investment in employee remuneration, benefits and training.

CR governance
At the beginning of the year, we changed our governance arrangements for CR, establishing a main board committee to lead our strategy. It is chaired by Mary Francis CBE, Centrica's Senior Independent Non-Executive Director, and its members include the Managing Director of each business unit. This reflects the importance we attach to integrating CR in the business, its risk management and strategic functions. During the year, we focused on identifying the areas of Group activity which have the greatest impact and which present the most significant risks to and opportunities for our business.

Tackling climate change

Centrica has the lowest carbon intensity profile of the major UK power suppliers today

The ever-growing need to address climate change presents risks and opportunities across our business. Upstream, we must balance the economic and regulatory aspects of emissions to ensure reliable power supplies; downstream, there is a significant and growing customer demand for energy efficiency products and services; and we know that whether or not we are perceived to be environmentally responsible, increasingly affects our reputation. Throughout our activities we aim to contribute to the creation of a sustainable, low-carbon future, while ensuring the security of energy supplies.

Mapping our carbon footprint
In order to develop a coordinated and effective response to climate change we undertook work to calculate the carbon footprint of our operations. Our footprint – comprising emissions from power generation, gas production and storage, energy usage, fleet operations and business travel – was 8.6 million tonnes of CO_2/CO_2e* in 2006. This work will underpin our climate change strategy and determine how Centrica can adapt to and mitigate against the effects of climate change on the Company and on society as a whole.

Carbon capture and storage
In addition to our ongoing investments in wind farm developments, we announced an acquisition with the opportunity to participate, alongside partners, in the UK's first complete clean coal power generation project. The project, in Teesside, would be the first to couple integrated gasification combined cycle technology with carbon capture and storage capabilities. The result would be a 'clean coal' power station supplying electricity for British Gas customers, together with a pipeline and storage to capture the CO_2 emissions.

Energy efficiency
We continued to develop a range of energy efficiency services to help customers reduce their own carbon emissions. The British Gas Energy Savers Report, a bespoke home energy efficiency audit, was completed by more than 1.5 million householders during the year. In the business to business market, both British Gas Business and Direct Energy have innovative programmes to help commercial customers reduce energy usage.

Serving our customers

British Gas announced the launch of a social tariff that will benefit 750,000 vulnerable customers

As a multi-national utility, providing essential services to millions of customers every day, understanding their evolving needs is very important. Being responsible and responsive in how we manage relationships with our customers is central to our business strategy.

Investing in new systems
In 2006, we made significant progress in installing a new multi-million pound billing and customer management system in British Gas. During the process of transferring customer accounts, we were unable to maintain the high standards of service we strive for. Returning to an industry-leading position is a high priority for us. Our investments in new systems, additional manpower and front-line training are now delivering benefits to our customers.

Pricing
High wholesale energy costs continued to dominate the first half of the year. In the UK this forced retail price increases from all the major suppliers, including British Gas. To lessen the impact, we created innovative fixed price propositions and developed a range of initiatives to help millions of our most vulnerable customers. For example, we committed to provide £18.3 million of winter fuel rebates to vulnerable customers. Our pricing policy throughout this period of volatility has been to protect customers by passing through only a proportion of the full wholesale market increases. We were pleased to be the first UK supplier to announce a price decrease for residential customers. From 12 March 2007, we will reduce our standard tariffs for gas by 17% and for electricity by 11%.

New social tariff
British Gas also introduced the UK's largest social energy tariff, aimed at cutting gas and electricity bills for 750,000 of our most vulnerable customers. The Essentials Tariff provides additional help to vulnerable customers, particularly those who use prepayment meters.

Ensuring health and safety

Lost-time injuries per 1,000 employees were 14.3

The health and safety of our employees, customers and others who could be affected by our activities are a top priority for us.

Our previously strong safety performance was marred by two major incidents during the year. The first occurred when a pressure vessel on our Rough storage facility failed catastrophically causing a gas release, explosion and residual fire. The crew evacuated but two people were injured. The Health and Safety Executive investigation concluded that this equipment failure could not have been foreseen and that the consequences of the failure were lessened by our substantial investment in the platform, its shutdown systems and incident response arrangements since acquisition in 2001.

The year ended on a tragic note with a helicopter accident in the Morecambe Bay area which claimed the lives of six people, four of them long-standing and highly committed Centrica employees with a seventh person still missing, presumed dead.

Investigation indicates that neither incident was the result of a defective safety management system within our own sphere of operations and that our emergency response capability was rapid and comprehensive. However, in both cases the impact on our employees and their families has been traumatic and tragic. We remain determined to keep safety at the top of our agenda and to be relentless in applying our zero tolerance programmes.

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Other than the two incidents described above, we have continued to maintain our underlying improvement in safety performance by reducing the injury frequency rates in most businesses and maintaining very low frequency rates in others. Our performance is underpinned by the application of a robust safety management system, comprehensive annual improvement plans, performance targets and KPIs, throughout our UK and international operations.

Valuing our people

British Gas Business recognised as the No.1 large employer in the UK by the Financial Times

The calibre and the conduct of our people are central to building successful relationships with our customers, shareholders, suppliers and the communities we serve. During 2006, the Group employed an average of 33,718 people: 28,489 were employed in the UK; 5,032 in North America; and 197 in the rest of the world.

Engagement

Employees are regularly updated on our performance against group strategy. Our annual engagement survey measures the attitudes and opinions of our employees. In 2006, our overall engagement score increased by 2% which, during a very challenging period for the business, demonstrates the commitment of our people. The Group maintains regular dialogue with representatives of local employee consultative bodies and recognised trade unions to ensure it fully understands employees' views.

Diversity and inclusion

The Group is committed to pursuing equality and diversity in all its employment activities and continues to support initiatives to provide employment for people from minority groups in the community, including people with a disability, carers and lone parents. To the extent possible, people with a disability are offered the same employment training, career development and promotion opportunities as other employees.

During the year we worked closely with the Employers' Forum on Age to prepare for the introduction of the new UK age regulations in October. An integrated communication and training programme was developed to support our employees and managers, and we reviewed our policies and procedures to maintain our position as an inclusive employer.

Development and talent management

We invested over 400,000 hours in training to equip our front-line employees with the skills to use our new British Gas customer management system. In addition we re-shaped our management learning programme benefiting 800 managers. Our British Gas Engineering Academy continued its work to recruit more women and people from minority ethnic groups into our engineering workforce. We raised awareness of careers in engineering amongst young people.

Reward

We continued to extend our flexible benefits package and more than 10,400 employees now benefit from the scheme. Our fourth annual equal pay audit showed that the gender pay gap in Centrica continues to narrow and compares very favourably with published national norms.

Centrica encourages employee share ownership by operating a number of all-employee share schemes. In the UK 12,042 employees participated in Sharesave and 6,031 participated in our Share Incentive Plan. In North America 1,012 employees participated in our Employee Share Purchase Plan.

Investing in communities

We contributed £7.4 million[1] to community causes through a combination of cash, time and in-kind support[2]

By understanding our impact on the communities in which we work, we can develop successful partnerships that benefit us both. We aim to deepen our understanding of current issues of social and environmental concern and contribute to action that addresses them. We do this by both supporting outside agencies and encouraging our own employees to get involved. In North America, Direct Energy employees continued to take part in our 'Dollars for Doers' programme, with paid time off to volunteer. In the UK, we launched an initiative called 'Centrica Get Involved' enabling employees to take advantage of volunteering opportunities with paid time off from the Company. During the year our people invested more than 13,000 hours of volunteering activities, which equates to around £300,000 of in-kind support.

Engaging stakeholders

Our stakeholder groups broadly concur with our identification of key impact areas

We must be attuned and responsive to the needs and opinions of our customers, employees, suppliers and wider stakeholder groups, and to emerging changes in society and government. This engagement is a continuous and dynamic process which at every level – from our Chief Executive meeting a senior politician, to one of our engineers talking with a customer – helps us shape our future business direction.

During 2006, we listened to our stakeholder groups through direct dialogue and a range of surveys. While approaching particular issues from varying perspectives, there was broad agreement with our identification of key CR impact areas. We will continue to listen to views and respond to any concerns.

Working with our suppliers

We made particular progress during the year on engaging with our suppliers. We ran a successful briefing session for our group commercial team on managing CR in our supply chain and hosted a round table discussion on current and future trends in supply chain responsibility with 11 of our main suppliers.

Helping to shape the policy environment

Centrica operates in highly regulated markets. Public policy decisions significantly affect all aspects of our business operations from investment decisions and entry into new markets, to consumer protection and employment relations. We are committed to playing a full and active role in the political process to support the creation of an optimal policy environment that will allow our business to thrive, move towards a low-carbon environment and deliver secure energy supplies for our customers.

During the year, we participated in numerous policy consultations, principally on energy and environmental matters. In addition, our sustained efforts to push for the creation of a fully liberalised European energy market were rewarded when the EU Energy Commissioner announced a strategic energy review that has the creation of competitive markets at its heart.

1 Cash donations in the UK during the year amounted to £6.1 million (2005: £6.7 million). This included a donation of £3 million to the British Gas Energy Trust, which supports vulnerable customers. In line with Group policy, no donations were made for political purposes. The Group, in the normal course of its business, has paid for its management to attend events at which politicians and other opinion-formers have been present, but does not consider these payments to be political donations.
2 London Benchmarking Group model

Board of Directors


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Senior Management Team


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1. Roger Carr
Chairman (60) N.R
Roger Carr joined the Board as a Non-Executive Director in 2001 and was appointed Chairman in May 2004. He is Chairman of Mitchells & Butlers plc, Deputy Chairman of Cadbury Schweppes plc and a senior adviser to Kohlberg Kravis Roberts & Co Ltd.

2. Sam Laidlaw
Chief Executive (51) D.E.N
Sam Laidlaw joined Centrica plc as Chief Executive in July 2006. Between October 2006 and the end of February 2007 he assumed direct responsibility for British Gas Residential. He was previously Executive Vice President of the Chevron Corporation, Chief Executive Officer at Enterprise Oil and President and Chief Operating Officer at Amerada Hess. He is a Non-Executive Director of Hanson plc, a Trustee of the medical charity RAFT and a Director of the Business Council for International Understanding.

3. Helen Alexander CBE
Non-Executive Director (50) A.N.R
Helen Alexander joined the Board in January 2003. She is Chief Executive of The Economist Group, a Trustee of the Tate Gallery and an Honorary Fellow of Hertford College, Oxford. Formerly, she was a Non-Executive Director of BT Group plc and Northern Foods plc.

4. Phil Bentley
Group Finance Director (48) D.E
Phil Bentley joined Centrica plc as Group Finance Director in 2000, a position he held until the end of February 2007 when he was appointed Managing Director, British Gas. He was also Managing Director, Europe between July 2004 and September 2006. Formerly, he was Finance Director of UDV Guinness from 1999 and Group Treasurer and Director of Risk Management of Diageo plc from 1997. Previously, he spent 15 years with BP plc in various international oil and gas exploration roles. He is also a Non-Executive Director and the Chairman of the audit committee of Kingfisher plc.

5. Mary Francis CBE
Senior Independent Non-Executive Director (58) A.C.N.R
Mary Francis joined the Board in June 2004 and was appointed Senior Independent Non-Executive Director in May 2006. She is a Non-Executive Director of the Bank of England, Aviva plc and St. Modwen Properties plc. She is a Director of Fund Distribution Ltd and a Trustee of the Almeida Theatre. She is a former Director General of the Association of British Insurers. She was previously a senior civil servant in the Treasury and the Prime Minister's Office.

6. Andrew Mackenzie
Non-Executive Director (50) A.N.R
Andrew Mackenzie joined the Board in September 2005. He is Chief Executive, Industrial Minerals, at Rio Tinto plc. Previously, he spent 22 years with BP plc in a range of senior technical and engineering positions, and ultimately as Group Vice President, BP Petrochemicals.

7. Paul Rayner
Non-Executive Director (52) A.N.R Australian citizen
Paul Rayner joined the Board in September 2004. He has been Finance Director of British American Tobacco plc since January 2002. In 1991 he joined Rothmans Holdings Ltd in Australia, holding senior executive appointments, and became Chief Operating Officer of British American Tobacco Australasia Ltd in September 1999.

8. Jake Ulrich
Managing Director, Centrica Energy (54) C.E US citizen
Jake Ulrich was appointed to the Board in January 2005. He was appointed Managing Director, Centrica Energy in 1997. He assumed responsibility for the Group's activities in continental Europe in September 2006. Between 1994 and 1997 he was Managing Director of Accord Energy Ltd, a joint venture between Natural Gas Clearinghouse (NGC) and British Gas plc. He previously worked for NGC, Union Carbide Corporation and the OXY/Mid Con/Peoples Energy Group.

9. Paul Walsh
Non-Executive Director (51) A.N.R
Paul Walsh joined the Board in March 2003. He is Chief Executive of Diageo plc, having previously been its Chief Operating Officer and having served in a variety of management roles. He is a Non-Executive Director of Federal Express Corporation, a Governor of the Henley Management Centre and Deputy Chairman of the Prince of Wales International Business Leaders Forum.

Key to membership of committees
A Audit Committee
C Corporate Responsibility Committee
D Disclosure Committee
E Executive Committee
N Nominations Committee
R Remuneration Committee

10. Grant Dawson
Group General Counsel and Company Secretary C.D.E
Grant Dawson has been Group General Counsel and Company Secretary of Centrica since the demerger from British Gas plc in February 1997, having joined British Gas in October 1996.

11. Deryk King
Managing Director, Centrica North America C.E
Deryk King is responsible for all of Centrica's activities in North America. He joined Centrica in 1998 as Senior Adviser and Projects Director, responsible for the Company's European initiatives.

12. Anne Minto OBE
Group Director, Human Resources C.E
Anne Minto was appointed Group Director, Human Resources in October 2002. Prior to that she was Director, Human Resources for Smiths Group plc, a position which she held since early 1998.

13. Chris Weston
Managing Director, British Gas Services C.E
Chris Weston was appointed Managing Director, British Gas Services in June 2005. Prior to this he was Managing Director, British Gas Business from January 2002.

14. Mark Crosbie
Director of Corporate Strategy, Development and M&A
Mark Crosbie was appointed Director of Corporate Strategy, Development and M&A in May 2003. Mark joined Centrica in August 2000 from UBS.

15. Lois Hedg-peth
Energy Director, British Gas Residential
Lois Hedg-peth joined Centrica in September 2002 as the President of U.S. Operations. In July 2005, she joined British Gas as Energy Director.

16. Catherine May
Group Director of Corporate Affairs C
Catherine May joined Centrica as Director of Corporate Affairs in September 2006 having previously been Group Director of Corporate Relations for Reed Elsevier.

17. Ian Peters
Managing Director, British Gas Business C
Ian Peters joined Centrica in 2002 to lead Goldfish, after extensive financial services experience. Ian became Managing Director, British Gas Business in June 2005.

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The Group is committed to the highest standards of corporate governance. Throughout the year, the Company fully complied with the provisions of the Combined Code on Corporate Governance (the 'Code') save for the early adoption of the 2006 revision to the Code as explained in the Remuneration Report on page 34. The Company applied the principles of the Code as set out in this report.

The Board

An effective Board of Directors leads and controls the Group. The Board, which met eight times during the year, has a schedule of matters reserved for its approval. This schedule and the terms of reference for the Executive, Audit, Remuneration, Nominations, Corporate Responsibility and Disclosure Committees are available on request and on our website www.centrica.com.

The Board is responsible for:

- the development of strategy and major policies;
- the review of management performance;
- the approval of the annual operating plan, the financial statements and major acquisitions and disposals;
- the system of internal control; and
- corporate governance.

One of its meetings each year is substantially devoted to the development of strategy. Comprehensive briefing papers, including financial information, are circulated to each Director a week prior to Board meetings. A procedure is in place for Directors to obtain independent-professional advice in respect of their duties. The Directors also have access to the advice and services of the General Counsel & Company Secretary.

Overall attendance by Directors at meetings during 2006 was: 96% for the Board; 82% for the Audit Committee; 80% for the Remuneration Committee; 92% for the Nominations Committee; 100% for the Corporate Responsibility Committee and 100% for the Disclosure Committee. The following Directors gave their apologies for absence in respect of one or more meetings: Helen Alexander (one Board, one Audit); Mary Francis (one Remuneration); Patricia Mann (two Audit, one Remuneration); Sam Laidlaw (one Nominations); Andrew Mackenzie (one Board, one Remuneration); Paul Rayner (two Remuneration); and Paul Walsh (one Board, one Audit, one Nominations, three Remuneration).

Non-attendance at meetings was due to prior business or personal commitments and illness. Directors unable to attend Board or Committee meetings reviewed the relevant papers and provided comments to the Chairman or Committee Chairman, as appropriate. Each of the Non-Executive Directors has given an assurance to the Chairman and the Board that they remain committed to their role as a Non-Executive Director of the Company and will ensure that they devote sufficient time to it, including attendance at Board and Committee meetings.

Board membership

The names of the Directors and their biographical details, including the Board Committee membership, appears on page 29.

Patricia Mann retired from the Board on 19 May 2006. On 1 July 2006, Sam Laidlaw was appointed to the Board, succeeding Sir Roy Gardner, who retired on 30 June, as Chief Executive. Mark Clare resigned from the Board on 30 September 2006. On 1 March 2007, Phil Bentley will be appointed as Managing Director, British Gas and Nick Luff will be appointed to the Board to replace him as Group Finance Director.

There is a clear division of responsibilities between the Chairman and the Chief Executive, which has been formalised in writing and agreed by the Board; and there is a balance of Executive and independent Non-Executive Directors.

Throughout the year, the Chairman and the other Non-Executive Directors were independent of management. In December 2006, as part of its annual review of corporate governance, the Board considered the independence of the Non-Executive Directors (other than the Chairman) against the criteria in the Code and determined that each remained independent. Patricia Mann remained independent until her retirement from the Board.

Mary Francis succeeded Patricia Mann as the Senior Independent Non-Executive Director on 19 May 2006. Responsibilities of the Senior Independent Non-Executive Director include being available to shareholders if they have concerns that contact through the normal channels has failed to resolve or for which such contact is inappropriate.

Throughout the year, the Non-Executive Directors, including the Chairman, met independently of management on a regular basis.

Full details of Directors' service contracts, emoluments and share interests can be found in the Remuneration Report on pages 34 to 41.

Board appointments, evaluation and training

There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. This is described in the section on the Nominations Committee below. All Directors joining the Board are required to submit themselves for election at the AGM following their appointment. Thereafter, they are subject to re-election every third year. The Non-Executive Directors are initially appointed for a three-year term and, subject to rigorous review and re-election, can serve up to a maximum of three such terms. In accordance with the Articles of Association, Roger Carr, Phil Bentley, Sam Laidlaw and Nick Luff will retire from office at the 2007 AGM. Upon the recommendation of the Nominations Committee, Roger Carr and Phil Bentley will be proposed for re-election to serve further three-year terms and, being their first AGM since their respective appointments to the Board, Sam Laidlaw and Nick Luff will be proposed for election to serve initial three-year terms.

During the year, the Board conducted, with the assistance of an independent external facilitator, JCA Group, a formal and rigorous evaluation of its own performance and that of its Committees and individual Directors. The Board evaluation built on the positive results and output from the previous year's evaluation and covered a number of topics including the effectiveness of the Chairman and the Board as a whole, the individual contributions of the Non-Executive and Executive Directors, the mix of skills on the Board, the development of our strategy, risk management, Board processes and links between the Board and the businesses.

The process adopted involved the same facilitator interviewing separately each of the Directors and the General Counsel & Company Secretary. In addition, the Senior Independent Non-Executive Director chaired a meeting of the independent Non-Executive Directors in the absence of the Chairman to appraise the Chairman's performance. The output from those interviews was compiled into a report prepared by the facilitator and this was presented to the Board at its meeting in November 2006, along with a number of recommendations to address the issues raised.

The evaluation report concluded that during the year, the Board had made significant progress in terms of addressing the key strategic challenges facing the Group, as well as the operational issues. The report also concluded that the appointment of a Chief Executive with extensive upstream experience would strengthen the workings of the Board.

The Board will continue to review its procedures, its effectiveness and development in the year ahead.

As part of the performance management system that applies to management at all levels across the Group, the Chief Executive's performance is reviewed regularly by the Chairman and that of the other Executive Directors by the Chief Executive. The Remuneration Committee assesses the performance of the Executive Directors in connection with its determination of remuneration levels as explained in the Remuneration Report on pages 34-41.

The Directors receive ongoing training including an induction programme tailored to meet the needs of the individual. At Board meetings, the Directors also receive regular updates on changes and developments to the business, and to the legislative and regulatory environments. During the year, the Board was briefed on: commodity risk and hedging strategy; the risks and opportunities of upstream exploration activities; directors' liabilities, including the new requirements relating to disclosure of information to the auditors; and the new narrative reporting requirements for the Annual Report and Accounts.

Board committees

The Board has delegated authority to a number of committees to deal with specific aspects of the management and control of the Group.

The minutes of the meetings of these committees are made available to all the Directors on a timely basis.

Board Committee membership was strengthened during the year, with all of the independent Non-Executive Directors now being members of the Audit, Remuneration and Nominations Committees. This membership structure gives the independent Non-Executive Directors detailed insight into the nature of the matters being discussed, brings continuity to membership and avoids undue reliance on particular individuals.

The Corporate Responsibility Committee, formerly a sub-committee of the Executive Committee, became a formal committee of the Board on 1 March 2006.

Executive Committee

During 2006, the Executive Committee comprised: the Executive Directors; the General Counsel & Company Secretary; the Managing Director, Centrica North America; the Group Human Resources Director; and the Managing Director, British Gas Services. Sam Laidlaw succeeded Sir Roy Gardner as Chairman of the Committee on 1 July. Mark Clare resigned from the Committee on 30 September. The Committee meets weekly to oversee the management of the Group and is the decision-making body for those matters not reserved to the Board and within the limits set out in the Group's delegated authority and expenditure control policy.

The following, with membership drawn from among Executive Directors and senior management, are sub-committees of the Executive Committee: the Group Risk Management Committee, the Group Financial Risk Management Committee and the Health, Safety and Environment Committee.

Audit Committee

During 2006, the Audit Committee comprised Paul Rayner (Chairman), Helen Alexander, Mary Francis, Andrew Mackenzie, Paul Walsh and Patricia Mann (until 19 May). Paul Rayner, the finance director of a FTSE 100 company, is identified as having recent and relevant financial experience, as required by the Code. The Audit Committee, which reports its findings to the Board, is authorised to:

- monitor the integrity of the interim and annual financial statements, including a review of the significant financial reporting judgements contained in them;
- review the Company's internal financial controls, internal control and risk management systems;
- monitor and review the effectiveness of the Company's internal audit function;
- establish and oversee the Company's relationship with the external auditors, including the monitoring of their independence; and
- monitor matters raised pursuant to the Company's whistleblowing arrangements.

In 2006, the Audit Committee met four times and discharged its responsibilities as set out in its terms of reference. It received comprehensive reports from the Director of Business Assurance, senior management and the external auditors. The Committee commissioned further reports in response to developing issues, as appropriate, and, in respect of all ongoing issues, requested clear objectives, timetables and achievement milestones against which performance could be monitored.

Significant areas of review during the year included the implementation of the new British Gas billing system, the risk control framework and risk mitigation, the risk profile of the Group's business model, information security, gas imbalance and debt management, and compliance with the undertakings in respect of Centrica Storage Ltd. At each of its meetings, the Committee met with the external auditors, and separately with the Director of Business Assurance, in the absence of management. The issues discussed by the Committee and the conclusions reached were reported by the Committee Chairman to the next Board meeting.

Note 5 to the Financial Statements on page 59 sets out the Group's policy to seek competitive tenders for all major consultancies and advisory projects. The Board has approved policies that restrict the types of non-audit work that can be undertaken by the external auditors and restrict the employment by the Group of former employees of the external audit firms. The award of non-audit work within categories that the external auditors are permitted to carry out under the Board-approved policies is subject to pre-clearance by the Audit Committee if the fee exceeds specified thresholds. All non-audit assignments awarded to the external auditors are reported to the Audit Committee on a quarterly basis, along with a full breakdown of non-audit fees incurred during the year.

As a matter of best practice and in accordance with International Standard on Auditing (UK & Ireland) 260 and Ethical Statement 1 issued by the Accounting Practices Board, the external auditors have held discussions with the Audit Committee on the subject of auditor independence and have confirmed their independence in writing.

Remuneration Committee

The composition and responsibilities of the Remuneration Committee, together with an explanation of how it applies the principles of the Code in setting Executive Directors' remuneration are included in the Remuneration Report on pages 34 to 41.

Nominations Committee

During 2006, the Nominations Committee comprised Roger Carr (Chairman), Helen Alexander, Paul Walsh, from 1 July, Sam Laidlaw and, from 19 May, Mary Francis, Andrew Mackenzie and Paul Rayner. Patricia Mann and Sir Roy Gardner were members of the Committee until 19 May and 30 June, respectively. Throughout the year, a majority of the Committee's members were independent Non-Executive Directors.

The Committee makes recommendations to the Board for the appointment of replacement or additional Directors. It is also responsible for succession planning and Board evaluation. The Committee reviews the balance of skills, knowledge and experience on the Board against current and future requirements of the Company and, as appropriate, draws up a list of required attributes.

During the year, the Committee met four times and considered the succession to Sir Roy Gardner as Chief Executive and Phil Bentley as Group Finance Director, for which external consultants were engaged. The Committee also considered the interim executive responsibilities prior to the commencement of a new Group Finance Director, the reappointment of Directors retiring by rotation at the AGM, the Board evaluation process (described above) and succession planning.

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Corporate Responsibility Committee

Since the Corporate Responsibility Committee became a committee of the Board on 1 March 2006, it has comprised Mary Francis (Chairman) and senior management drawn from across the Group. Phil Bentley has been appointed to the Committee, with effect from 1 March 2007 and Mark Clare was a member until 30 September 2006. The role of the Committee and details of the work it undertook during the year can be found on pages 24 to 26.

Disclosure Committee

The Disclosure Committee, which met regularly during the year, comprised the Chief Executive, the Group Finance Director and the General Counsel & Company Secretary. The Committee has responsibility for implementing and monitoring systems and controls in respect of the management and disclosure of inside information.

Relations with shareholders

The Company has a programme of communication with its shareholders. As well as share price information, news releases and annual reports, the Centrica website includes speeches from the AGM, presentations to the investment community and a section on shareholder services.

As the website contains a wealth of up-to-date information, the Company wishes to use this as a primary means of communication with shareholders and a resolution to that effect will be proposed at the 2007 AGM. Shareholders can register to receive all their communications online, benefiting both themselves and the Company.

The Board also believes that the AGM presents an important opportunity for dialogue with private shareholders, many of whom are also our customers. At the AGM, the Chairman and the Chief Executive present a review of the businesses of the Group. Representatives from across the Group are available to answer questions both before and after the meeting.

All shareholders have the opportunity to cast their votes in respect of proposed AGM resolutions by proxy, either electronically or by post. Shareholders can cast their votes online by logging onto www.sharevote.co.uk, further details of which are provided in the Notice of Meeting. Shareholders who hold their shares within CREST can cast their votes by proxy using the CREST electronic proxy appointment service.

The Company also holds regular meetings with its major shareholders. The Chairman attends the meetings at which the annual and interim results are presented to major investors and analysts. During the year, the Chairman met with a number of major institutional shareholders to gain a first-hand understanding of any issues or concerns they may have had. He reported his findings to the Board. This was in addition to the formal independent reports of investor feedback that are included with the papers for each Board meeting. An independent survey of shareholder opinion was also conducted during the year and the results of this survey were presented to the Board.

Internal control

The Board of Directors is responsible for the Group's system of internal control, which is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Identification, assessment and management of risks

The Company places great importance on internal control and risk management. A risk-aware and control-conscious environment is promoted and encouraged throughout the Group. The Board, either directly or through its committees, sets objectives, performance targets and policies for management of key risks facing the Group. Details of the principal risks and uncertainties are set out on pages 21 to 23 of this report. At each of its four meetings in 2006, the Audit Committee received a comprehensive internal control report, which allowed it to track a number of issues, monitor performance against objectives and ensure that necessary actions were taken to remedy any significant failings or weaknesses identified from those reports. The Chairman of the Audit Committee reported the issues discussed and conclusions reached at the following Board meeting.

Across the Group, each business has a Risk Management Committee that seeks to identify, assess and advise on the management of operational risks. In addition, the Group Risk Management Committee considers the risks that might affect the Company at Group level. The processes of newly-acquired companies are integrated with those of the Group. Centrica Storage Ltd, which is subject to undertakings given to the Secretary of State for Trade and Industry, operates separately but to the same standards of internal control and risk management as the rest of the Group.

Assurance

The business assurance function undertakes internal audit reviews according to a plan approved by the Audit Committee. The results of its work are reported to Audit Committee meetings.

The Board's review of the system of internal control

The Board, with the advice of the Audit Committee, has reviewed the effectiveness of the system of internal control operated, as described above, throughout the period from 1 January 2006 to the date of this report and is satisfied that the Group complies with the Turnbull Guidance on Internal Control.

Going concern

After making enquiries, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, we continue to adopt the going concern basis in preparing the Financial Statements, which are shown on pages 43 to 110.

Directors' Responsibility Statement

The Directors are responsible for preparing, in respect of each financial year, a Directors' Report, a Remuneration Report and Financial Statements in accordance with applicable law, regulations and accounting standards. In preparing the Financial Statements, the Directors are responsible for ensuring that they give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and the profit or loss of the Group for that period.

The Group Financial Statements have been prepared in accordance with the Companies Act 1985 and International Financial Reporting Standards (IFRS) pursuant to Article 4 of the IAS Regulations. The Parent Company Financial Statements have been prepared in accordance with the Companies Act 1985 and United Kingdom Generally Accepted Accounting Practice. The Directors' Report and the Remuneration Report have been prepared in accordance with the Companies Act 1985 and the UK Listing Authority Listing Rules.

In preparing the Financial Statements the Directors are required to:

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

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

Each of the Directors who held office at the date of approval of this Directors' Report confirm that: so far as he/she is aware, there is no relevant audit information of which the Company's auditors are unaware; and he/she has taken all steps that he/she ought to have taken as a Director to make him/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Other Statutory Information

Directors

Full details of Directors' service contracts, emoluments and share interests can be found in the Remuneration Report on pages 34 to 41.

Directors' indemnities

In accordance with the Company's Articles of Association, the Company entered into a deed of indemnity to the extent permitted by law with each of the Directors and the General Counsel & Company Secretary in 2006.

The Company purchased and maintained directors' and officers' liability insurance throughout 2006, which was renewed for 2007. Neither the indemnity nor insurance provide cover in the event that the Director or the General Counsel & Company Secretary is proved to have acted fraudulently.

Major acquisitions and disposals

Full details of acquisitions and disposals are disclosed in the Business Review on pages 5 to 26 and note 28 on page 85.

Events after the balance sheet date

Events after the balance sheet date are disclosed in note 35 on page 102.

Related party transactions

Related party transactions are set out in note 32 on pages 91 to 92.

Creditor payment policy

It is the Group's policy to:

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

The number of days' purchases outstanding as at 31 December 2006 was 32 (2005: 34) for the Group (excluding Accord Energy Ltd) and 32 (2005: 36) for the Company.

Share capital

The Company's authorised and issued share capital as at 31 December 2006, together with details of shares issued and repurchased during the year, is set out in note 24 on page 77.

Authority to purchase shares

The Company was authorised at the 2006 AGM to purchase its own shares, within certain limits and as permitted by the Articles of Association. A renewal of this authority will be proposed at the 2007 AGM. Shares repurchased may be cancelled or retained as treasury shares to accommodate requirements for shares under the Group's share incentive schemes.

As part of a share repurchase programme a total of 8,950,000 shares, each with a nominal value of $6\frac{14}{81}$ pence, were repurchased and cancelled during the year for an aggregate consideration of £23 million. This comprised 0.2% of the issued share capital. The programme was suspended in February 2006.

Material shareholdings

At 21 February 2007, Centrica had received notice of the following material shareholdings pursuant to the Companies Act 1985:

Legal & General Group	171,048,880	4.67%
Petronas	145,000,000	3.96%

As at that date, no notifications had been received in respect of voting rights attaching to Centrica shares pursuant to the Disclosure and Transparency Rules.

Auditors

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

This Directors' Report comprising pages 5 to 33 has been approved by the Board and signed on its behalf by:

Grant Dawson
General Counsel and Company Secretary
22 February 2007

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire SL4 5GD
Company registered in England and Wales
No. 3033654

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Composition and role of the Remuneration Committee

During 2006, the Remuneration Committee comprised Helen Alexander (Chairman), Mary Francis, Paul Rayner, Paul Walsh and, from 21 February, Andrew Mackenzie. Patricia Mann was a member of the Committee until 19 May and, by way of early adoption of the 2006 revision to the Combined Code on Corporate Governance (the 'Code'), Roger Carr was a member from 26 July. The Committee met seven times during 2006. The Remuneration Committee's terms of reference are available at www.centrica.com.

The Committee makes recommendations to the Board, within formal terms of reference, on the policy and framework of executive remuneration and its cost to the Company. The Committee is also responsible for the implementation of remuneration policy and determining specific remuneration packages for each of the Executive Directors. It has access to the advice and views of the Group Reward Director (Cathy Aldwinckle), the Group Human Resources Director (Anne Minto), the General Counsel & Company Secretary (Grant Dawson), the Chief Executive (Sam Laidlaw, who replaced Sir Roy Gardner in July 2006) and external consultants.

During the year, Kepler Associates (Kepler) acted as independent executive remuneration adviser to the Company and the Committee, having been formally appointed in 2005. The Committee also consulted, but did not formally appoint, Towers Perrin. Both remuneration consultants provided advice on executive compensation to assist in the formulation of the Committee's recommendations.

This report, which will be submitted to the forthcoming AGM for approval, explains how the Company has applied the principles of the Code that relate to Directors' remuneration during the year. No Director is involved in the determination of, or votes on any matter relating to, his or her own remuneration.

Executive Directors' remuneration policy and framework

It is the role of the Committee to ensure that the Group's remuneration policy and framework provides competitive reward for its Executive Directors and other senior executives, taking into account the Company's performance, the markets in which it operates and pay and conditions elsewhere in the Group.

In constructing the remuneration packages, the Committee aims to achieve an appropriate balance between fixed and variable compensation for each executive. Accordingly, a significant proportion of the remuneration package depends on the attainment of demanding performance objectives, both short- and long-term. The annual bonus scheme is designed to incentivise and reward the achievement of demanding financial and business related objectives. Long-term share-based incentives are designed to align the interests of Executive Directors and other senior executives with the longer-term interests of shareholders by rewarding them for delivering sustained increased shareholder value.

In agreeing the level of base salaries and the performance-related elements of the remuneration package, the Committee considers the potential maximum remuneration that executives could receive. The Committee reviews the packages and varies individual elements when appropriate from year to year.

The Committee, assisted by Kepler and the internal advisers named above, conducted a thorough review of the Group's executive incentive arrangements in late 2005 and early 2006. The purpose of this review was to ensure that the incentive arrangements: provided a strong alignment with the delivery of value to shareholders; reflected current best practice, while meeting the Group's particular business needs; and would enable the Group to continue to attract, retain and motivate high-calibre management in a highly-challenging business environment.

Following this review, the Committee proposed changes to the future policy and framework of executive remuneration arrangements in line with the above objectives and these were endorsed by shareholders upon the approval of new share-based incentive schemes at the 2006 AGM.

In 2006, executive remuneration comprised base salary, annual performance bonus, an allocation of shares under the new Long Term Incentive Scheme (LTIS), which was approved at the 2006 AGM and, as part of the transitional arrangements to the new policy, a grant of options in April under the Executive Share Option Scheme (ESOS). In 2007, executive remuneration will comprise the above, but participation in the new Deferred and Matching Share Scheme (DMSS), based on the annual performance bonus in respect of 2006, will replace the ESOS.

No further ESOS grants will be made on a regular basis, although the Committee will retain the discretion to make grants under the ESOS in the future if there are exceptional circumstances in which it considers it appropriate to do so.

As a result of the changes under the new policy, the Committee expects that total remuneration for median performance will remain unchanged, but that total remuneration for upper quartile performance will be increased in line with market practice.

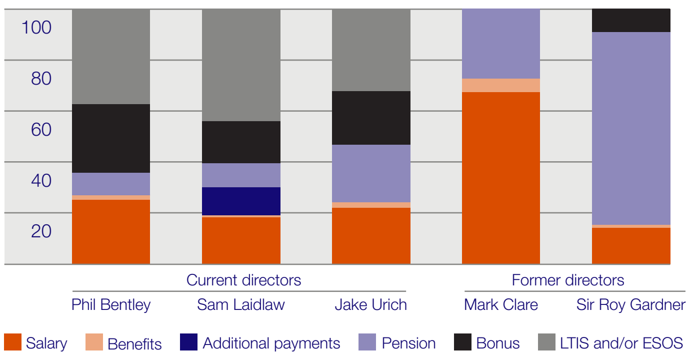
A minimum shareholding policy requires the retention of a value of shares as follows: the Chief Executive – twice his base salary; all other Executive Directors – 1.25 times their base salary; and those senior executives immediately below Board level – base salary.

The Centrica Management Pension Scheme (a contributory final salary arrangement) was closed to new employees on 30 June 2003. Executive Directors in office prior to this date participated in that scheme during 2006. Alternative arrangements are made for new employees, including Executive Directors, after that date. Full disclosure of the pension arrangements for the Executive Directors are given on page 41.

The Committee believes that these arrangements, which are further explained below, are important in providing a potential remuneration package that will attract, retain and continue to motivate Executive Directors and other senior executives in a marketplace that is challenging and competitive in both commercial and human resource terms. It is intended that this remuneration policy and framework, which is fully endorsed by the Board, will continue for 2007 and succeeding years.

In 2006, the total compensation of the Executive Directors, detailed on page 37, consisted of components in the following proportions:

Relative proportions of the components of each Executive Director's remuneration (%): 2006



Note: Salary and benefits are the actual amounts received during 2006; other payments include an initial payment and salary supplement in lieu of pension paid to Sam Laidlaw – see page 41; pension, for those directors in the Centrica Management Pension Scheme, is the increase in actual transfer value for 2006 over the notional transfer value for 2005 less the Director's contributions during 2006; pension for Sam Laidlaw is the actual amount of the contribution made by the Company to his personal pension; performance bonus is that payable in respect of 2006; and ESOS and LTIS are the estimated value, based on a Black-Scholes model, of the awards made in 2006, provided that all performance conditions are met in full at the end of the relevant performance periods.

The total emoluments of the Executive Directors are disclosed on page 37. The total emoluments of the four senior executives immediately below Board level for 2006, calculated on the same basis as those of the Executive Directors, fell into the following bands:

Bands £000	No. of senior executives
900–1,000	1
800–900	–
700–800	–
600–700	2
500–600	1

Components of remuneration

Base salary

The Committee seeks to establish a base salary for each Executive Director and other senior executives, determined by individual performance and having regard to market salary levels for similar positions in comparable companies derived from independent sources. Base salaries are reviewed annually. Base salary is the only element of remuneration that is pensionable.

Annual performance bonus

At the beginning of each year, the Committee reviews the annual performance bonus scheme to ensure that it remains competitive in the marketplace, continues to incentivise the Executive Directors and other senior executives and aligns their interests with those of shareholders. For 2006, the maximum bonus payable to Executive Directors, should every element of every objective be achieved in full, was 125% of base salary. The maximum bonus payable to other senior executives immediately below Board level, assuming all objectives are achieved in full, ranges between 100% and 125%. In 2006, the maximum achievable bonus related to financial performance targets and business-related targets split, 64% and 36% respectively for Executive Directors and 60% and 40% respectively for executives immediately below Board level. 20% of any annual bonus paid in 2007 will be deferred automatically and invested in the DMSS (see below). In line with current policy, a bonus will be forfeited if overall performance is deemed to be unsatisfactory.

Deferred and Matching Share Scheme (DMSS)

The initial award under the DMSS will be made in 2007 based on the 2006 annual bonus. 20% of the annual bonus payable to Executive Directors and other senior executives will be deferred automatically for a period of three years and invested in Centrica shares (deferred shares), during which time they cannot be withdrawn. Participants may elect to invest an additional amount in Centrica shares (investment shares) to be funded from actual bonus payable or the release of LTIS shares only which, when added to the value of the deferred shares, will bring the total amount invested up to 50% of the individual's maximum bonus entitlement in respect of the preceding year. Deferred and investment shares will be matched with conditional shares (matching shares), which will be released upon the achievement, over a three-year period, of demanding three-year cumulative group economic profit performance targets. The number of matching shares that vest will be determined on a straight-line basis from a zero match for no growth in economic profit to a two-times match for growth of 25% or above. To provide a closer alignment with the interests of shareholders, the number of matching shares that are released following the satisfaction of the performance condition will be increased to reflect the dividends that would have been paid during the three-year performance period. In the event of a change of control the number of matching shares that vest will be subject to time apportionment in line with best practice.

Executive Share Option Scheme (ESOS)

As part of the transitional arrangements from the old remuneration policy adopted in 2001 and the new policy as outlined above and adopted in 2006, a grant of options was made in April, equal to 200% of base salary and, at the same or lower rates, to certain other senior executives. Details of options granted to Executive Directors are shown on page 40.

If, and to the extent that, performance conditions are satisfied, options normally become exercisable three years after the date of grant and remain so until the tenth anniversary of grant. Performance conditions are based on the extent to which growth in the Company's adjusted earnings per share (EPS growth) exceeds growth in the Retail Prices Index (RPI growth) over a three-year performance period.

In respect of each grant of options, the Committee has determined that, for the option to be exercisable in full, EPS growth must exceed RPI growth by 18 percentage points or more over the three-year performance period. No part of the option grant will be exercisable if EPS growth fails to exceed RPI growth by at least 9 percentage points over the performance period. The proportion of the option grant exercisable by the executive will increase on a sliding scale between 40% and 100% if EPS growth exceeds RPI growth by between 9 and 18 percentage points over the performance period.

Options granted from 2001 to March 2004 under the ESOS permitted the Company's EPS to be measured annually for a further two years from the date of grant of the options, with the performance conditions increasing proportionately. Having reviewed market practice regarding the retesting of performance measures, the Committee removed this element in respect of all option grants from September 2004.

Long Term Incentive Scheme (LTIS)

Following shareholder approval at the 2006 AGM, a new LTIS was introduced pursuant to which conditional allocations of shares up to a maximum of 200% of base salary may be made to Executive Directors and other senior executives.

In 2006, LTIS allocations equal to 150% of base salary were awarded to Executive Directors and, at lower rates, to certain other senior executives. The maximum number of shares that could be transferred to each Executive Director upon satisfaction of the performance conditions in full appears on page 39.

The release of allocations will be subject to performance conditions over a three-year period:

- half the shares in each allocation are subject to a performance condition based on the Company's EPS growth relative to the growth in RPI. To vest in full, EPS growth must exceed RPI growth by 30 percentage points or more over the performance period. No part of the award will vest if EPS growth fails to exceed RPI growth by at least 9 percentage points over the performance period. The proportion of the award that will vest will increase on a straight-line basis between 25% and 100% if EPS growth exceeds RPI growth by between 9 and 30 percentage points over the performance period; and
- the other half of the shares in each allocation are subject to a performance condition based on the Company's Total Shareholder Return (TSR) performance relative to the other 99 companies in the FTSE 100 on the date of award with vesting reducing on a straight-line basis from 100% for upper quintile ranking to 25% for median ranking performance.

To create a closer alignment with the interests of shareholders, the number of shares that are released following the satisfaction of the performance conditions will be increased to reflect the dividends that would have been paid during the three-year performance period. In the event of a change of control the number of shares that vest will be subject to time apportionment in line with best practice.

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Prior to 2006, allocations of shares were made annually to Executive Directors and other senior executives under the old LTIS, in accordance with the remuneration policy adopted in 2001.

Such allocations are released to the participant under normal circumstances after the three-year performance period, provided, and to the extent that, the performance conditions have been met.

The actual number of shares released to the participant depends on the Company's TSR over the performance period relative to the LTIS comparator group. The maximum annual allocation of shares only vests and is released to the executive if the Company's TSR over the performance period is ranked in 25th position or above relative to the 99 other companies in the LTIS comparator group. No shares vest if the TSR over the performance period is ranked below 50th position in the LTIS comparator group. Between 25th and 50th position, shares vest on a sliding scale from 100% to 40%.

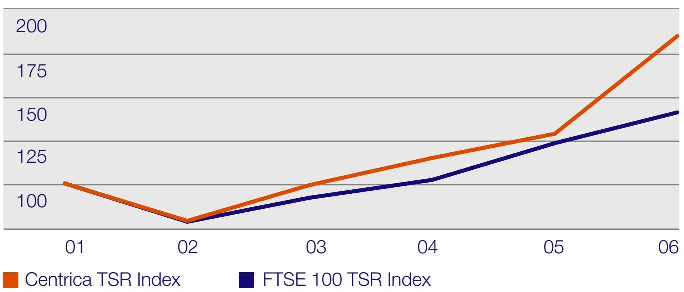
The Committee has determined that, for the pre 2006 LTIS and for that part of the new LTIS subject to the comparative TSR performance conditions, the most appropriate comparator group for the Company is the companies comprising the FTSE 100 at the start of the relevant performance period (the LTIS comparator group). The Committee reviews the appropriateness of the performance measures and the specific targets set when considering each new allocation of shares under the LTIS.

Prior to the release of share allocations under both the old and new LTIS arrangements, the Committee reviews whether the extent to which the performance conditions have been achieved is a genuine reflection of the Company's financial performance. In assessing the extent of satisfaction of the performance conditions, the Committee uses data provided by Alithos Ltd (an independent third party) in respect of comparative TSR and audited figures in respect of adjusted EPS.

Performance conditions under IFRS

Following the adoption of IFRS in 2005, the Committee agreed, having taken advice from Kepler and having consulted with the ABI and the RREV, to continue with the financial target of economic profit in respect of the annual performance bonus and new DMSS and EPS in respect of the ESOS and the new LTIS, subject to certain adjustments to the figures calculated in accordance with IFRS. It was agreed that for the purposes of determining performance in respect of those schemes the relevant figures produced under IFRS should be adjusted for exceptional items and certain re-measurements arising on the application of IAS 32 and IAS 39.

Total Shareholder Return Indices – Centrica and FTSE 100 index
for the five years ended 31 December 2006



Source: Alithos Ltd
31 December 2001 = 100

The above table compares the Company's TSR performance with that of the FTSE 100 Index for the five years ended 31 December 2006.

As required by Schedule 7A of the Companies Act 1985, a rolling definition of the FTSE 100 has been used, whereas the definition used for the purposes of the LTIS is the FTSE 100 as constituted at the beginning of the period. In order to demonstrate the delivery of shareholder value during the relevant performance period, the TSR graph for the LTIS award that vested in April 2006 is shown on page 39.

Funding of share schemes

In order to satisfy the release of shares under the LTIS and meet the requirements of the ESOS in 2006 newly-issued shares were used.

It is the Company's current intention to satisfy the requirements of its share schemes, in a method best suited to the interests of the Company, either by acquiring shares in the market or, subject to institutional guidelines, issuing new shares or using shares held in treasury.

Pension

The pension arrangements of the Executive Directors are fully disclosed on page 41.

Other employment benefits

In common with other senior management, Executive Directors are entitled to a range of benefits, including a company car, life assurance, private medical insurance and a financial counselling scheme. Such benefits are subject to financial limits as set out in appropriate policies. They are also eligible to participate in the Company's HMRC-approved Sharesave Scheme and Share Incentive Plan, which are open to all eligible employees on the same basis, providing a long-term savings and investment opportunity.

Service contracts

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

In the case of new external appointments to the Board, the Committee retains a level of flexibility, as permitted by the Code, in order to attract and retain suitable candidates. It therefore reserves the right to offer contracts which contain an initial notice period in excess of one year, provided that after the first such period the notice reduces to one year. The Committee exercised this discretion in respect of the appointment of Sam Laidlaw, whose service contract allows for an initial notice period of two years. His notice period will reduce to one year in July 2008.

The dates of the Executive Directors' service contracts are set out in the table on page 37.

External appointments of Executive Directors

The Board believes that experience of other companies' practices and challenges is valuable both for the personal development of its Executive Directors and for the Company. It is therefore the Company's policy to allow each Executive Director to accept one non-executive directorship of another company, although the Board retains the discretion to vary this policy. Fees received in respect of external appointments are retained by the individual Director.

In 2006, Phil Bentley received £57,417 as a Non-Executive Director of Kingfisher plc, and in respect of the period they were a director of the Company, Sam Laidlaw received £29,000 as a Non-Executive Director of Hanson plc, Mark Clare received £28,250 as a Non-Executive Director of BAA plc and Sir Roy Gardner received £50,000 as a Non-Executive Director of Compass Group plc.

Non-Executive Directors

Non-Executive Directors including the Chairman do not hold service contracts. Their appointment is subject to the Articles of Association and the dates they joined the Board are shown in the table below. Roger Carr's letter of appointment contains a six-month notice period. The fees of the Non-Executive Directors are approved by the Board upon the recommendation of the Executive Committee, whose members are: the Executive Directors (Sam Laidlaw, Phil Bentley and Jake Ulrich); and four other senior executives (Grant Dawson, General Counsel & Company Secretary; Deryk King, Managing Director, North America; Anne Minto, Group Human Resources Director; and Chris Weston, Managing Director, British Gas Services).

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

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

Chairman	£375,000
Other Non-Executive Directors:	
Base fee	£50,000
Chairman of Audit Committee	£15,000
Chairman of Remuneration Committee	£10,000
Chairman of Corporate Responsibility Committee and Senior Independent Director	£10,000

The fees are normally reviewed every two years. The Non-Executive Directors, including the Chairman, do not participate in any of the Company's share schemes, incentive plans or pension schemes.

The Remuneration Report from page 34 to page 37 up to this statement has not been audited. From this point until the end of the report on page 41, the disclosures, with the exception of the graph on page 39, have been audited by the Company's auditors, PricewaterhouseCoopers LLP.

Directors' emoluments

		Base salary/fees £000	Annual performance bonus (i) £000	Additional payments (ii) £000	Benefits (iii) £000	**Total emoluments (iv) 2006 £000**	Total emoluments (iv) 2005 £000
Executive Directors	Date of service contract						
Phil Bentley	13 September 2000	533	566	–	37	**1,136**	932
Mark Clare (v)	21 March 2001	383	–	–	29	**412**	868
Sir Roy Gardner (v)	21 March 2001	457	289	–	38	**784**	1,616
Sam Laidlaw (v)	1 July 2006	425	384	255	15	**1,079**	–
Jake Ulrich (vi)	1 January 2005	536	512	–	54	**1,102**	881
		2,334	1,751	255	173	**4,513**	4,297
Non-Executive Directors	Date of appointment						
Helen Alexander	1 January 2003	60	–	–	–	**60**	55
Roger Carr	1 January 2001	344	–	–	–	**344**	250
Mary Francis	22 June 2004	56	–	–	–	**56**	50
Andrew Mackenzie	1 September 2005	50	–	–	–	**50**	17
Patricia Mann (v)	4 December 1996	21	–	–	–	**21**	55
Paul Rayner	23 September 2004	65	–	–	–	**65**	65
Paul Walsh	1 March 2003	50	–	–	–	**50**	50
		646	–	–	–	**646**	542
Total emoluments		2,980	1,751	255	173	**5,159**	4,839

(i) 20% of the annual performance bonus paid in respect of 2006 (other than the bonus paid to Sir Roy Gardner) will be deferred automatically and invested as deferred shares in the Deferred and Matching Share Scheme – see page 35.

(ii) On joining the Company, Sam Laidlaw received a payment of £300,000 of which £215,000 was paid by the Company into his personal pension plan, and is disclosed in the notes on page 41, and the balance of £85,000 is included above under the heading Additional payments. A further £170,000 was also paid to him during the year, being a salary supplement of 40% of base pay in lieu of any pension provisions.

(iii) Benefits include all taxable benefits arising from employment by the Company, including the provision of a car, financial counseling, medical insurance and life assurance premiums.

(iv) The following are excluded from the table above:
  (a) pensions – see page 41;
  (b) share options – see page 40. The aggregate of the amount of gains made by Executive Directors on the exercise of share options was £3,462,389 (2005: £nil); and
  (c) Long Term Incentive Scheme (LTIS) – see pages 38 and 39. The aggregate value of shares vested to Executive Directors under the LTIS was £2,352,203 (2005: £2,906,606).

(v) Patricia Mann served as a Non-Executive Director until 19 May 2006. Sir Roy Gardner retired on 30 June 2006 and Mark Clare resigned on 30 September 2006. Sam Laidlaw joined the Company on 1 July 2006.

(vi) The 2006 benefits figure in respect of Jake Ulrich includes an amount of £22,000 that was paid to him in 2006 in respect of the non-payment of a car allowance for 2005 that he was contractually entitled to.

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Directors' interests in shares

The following table and the tables on pages 39 and 40 show the beneficial interests of the Directors who held office at the end of the year in the ordinary shares of the Company and the interests of the Executive Directors who served during the year in the Company's share schemes:

Directors as at 31 December 2006	**Shareholdings as at 31 December 2006**	Shareholdings as at 1 January 2006 or on appointment (i)	**LTIS total allocations as at 31 December 2006**	LTIS total allocations as at 1 January 2006 or on appointment (i)
Executive Directors				
Phil Bentley (ii)	**460,880**	342,789	**606,064**	556,106
Sam Laidlaw (ii)	**200,106**	200,000	**431,837**	–
Jake Ulrich (ii)	**719,341**	693,871	**613,998**	574,213
Non-Executive Directors				
Helen Alexander	**2,520**	2,520	**–**	–
Roger Carr	**19,230**	19,230	**–**	–
Mary Francis	**981**	981	**–**	–
Andrew Mackenzie	**21,000**	21,000	**–**	–
Paul Rayner	**5,000**	5,000	**–**	–
Paul Walsh	**4,500**	4,500	**–**	–

(i) Shareholdings and LTIS allocations are shown as at 1 January 2006 or, in the case of Sam Laidlaw, 1 July 2006, his date of appointment.

(ii) As at 22 February 2007, the beneficial shareholdings of Phil Bentley and Jake Ulrich had each increased by 102 shares and Sam Laidlaw had increased by 101 shares acquired through the Share Incentive Plan.

As at 31 December 2006, 12,255 shares and 4,009 shares (1 January 2006: nil and 2,591) were held by the respective Trustees of employee share trusts for the purposes of the LTIS and the Share Incentive Plan. As with other employees, the Directors are deemed to have a potential interest in those shares, being beneficiaries under the trust. As at 21 February 2007, 12,255 shares and 12,371 shares were held by the respective trustees.

From 1 January 2006 to 22 February 2007, none of the Directors had any beneficial interests in the Company's securities other than ordinary shares, nor any non-beneficial interests in any of the Company's securities, nor in those of its subsidiary or associated undertakings.

The following table gives details of the LTIS allocations held by Executive Directors who served during the year:

	Vested during 2006	In performance period			
Date of allocation	1 April 2003 (i)	1 April 2004 (ii)	1 April 2005 (ii)	3 April 2006 (iii)(vi)	4 September 2006 (iii)
Phil Bentley	171,668	161,569	165,646	278,849	–
Mark Clare (iv)	173,575	162,898	164,006	270,957	–
Sir Roy Gardner (v)	301,373	287,566	292,258	–	–
Sam Laidlaw	–	–	–	–	431,837
Jake Ulrich	179,298	166,223	168,926	278,849	–
Market price at allocation date	148.00p	232.00p	228.00p	284.00p	302.50p
End of performance period	31 Mar 06	31 Mar 07	31 Mar 08	31 Mar 09	31 Aug 09
Market price at vesting date (i)	284.8p				

(i) At the end of the performance period to 1 April 2006, the Company ranked 40th in the relevant comparator group. Accordingly, 75% of the original allocations were released to participants on 6 April 2006. The released shares were subject to income tax at the individual's marginal rate and National Insurance contributions (NICs) at the rate of 1%, based on the market value of the shares at the date of vesting. The income tax and NICs liability was satisfied by the sale of sufficient shares and, accordingly, the Executive Directors only received the net number of shares following disposal, which, to the extent retained, is reflected in the shareholdings as at 31 December 2006 on page 38.

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

(iii) The percentage of the allocation eventually to vest is dependent on the satisfaction of performance criteria over a three-year performance period: half of the shares (EPS shares) will be subject to a performance condition based on Centrica's EPS growth relative to the growth in RPI (All Items) over three financial years. EPS growth will be calculated by comparing the Company's adjusted EPS figure for the financial period preceding the date of allocation with that for the financial period three years later; and half of the shares will be determined by the Company's Total Shareholder Return (TSR) performance relative to the other companies comprising the LTIS comparator group – the FTSE 100 at the start of the three-year performance period (the TSR shares). At the end of the performance period, the TSR performance condition will be measured, the same calculation made for all the other 99 companies in the LTIS comparator group and a ranking list will be compiled.

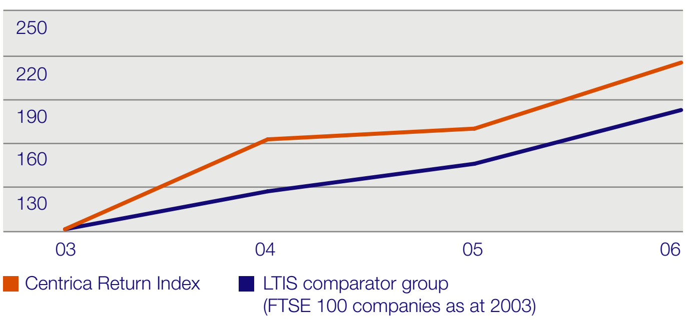
(iv) Following the resignation of Mark Clare on 30 September 2006, his LTIS awards made on 1 April 2004, 1 April 2005 and 3 April 2006 were automatically forfeited.

(v) Sir Roy Gardner did not receive an award of LTIS in 2006 due to his impending retirement. Having retired on 30 June 2006 the LTIS allocations made to him on 1 April 2004 and 1 April 2005 will be transferred at the end of their respective performance periods, subject to the achievement of performance conditions and they will be time-apportioned in accordance with the rules of the LTIS.

(vi) As explained in the Notice of Meeting to convene the AGM held on 19 May 2006 (at which approval was sought and given by shareholders in respect of the new LTIS) the first awards under the new LTIS were made to participants other than the Executive Directors on 3 April 2006 (on the date that allocations would normally be made under the previous LTIS and within the 42 day period following the release of the Company's annual results). The awards to the Executive Directors then in office could only be made after shareholder approval, but in order to align their awards with those of other participants, their first awards were deemed to have been made on 3 April 2006 for all purposes of the new LTIS, including the calculation of the number of shares, the adjusted EPS and relative TSR performance tests and the three-year vesting period.

The following graph, provided by Alithos Ltd. (an independent third party), shows the TSR performance of the Company and that of the relevant TSR comparator group. It has not been audited by the Company's auditors, PricewaterhouseCoopers LLP. It relates to the 2003 LTIS allocations that vested in 2006:

TSR Indices – Centrica and LTIS comparator group
April 2003 LTIS allocation – period from 1 April 2003 to 1 April 2006



Source: Alithos Ltd
1 April 2003 = 100

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Directors' interests in share options

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

	Options held as at 1 January 2006	Options granted during year	Options exercised during year	Options lapsed during the year	**Options held as at 31 December 2006**	Exercise price (pence)	Date from which exercisable	Expiry date
Phil Bentley								
ESOS (i)	308,269	–	–	–	**308,269**	240.05	Jun 2004	May 2011
ESOS (i)	364,768	–	–	–	**364,768**	224.80	Apr 2005	Apr 2012
ESOS (i)	559,345	–	–	–	**559,345**	146.60	Mar 2006	Mar 2013
ESOS (i)	401,875	–	–	–	**401,875**	223.95	Mar 2007	Mar 2014
ESOS (i)	441,723	–	–	–	**441,723**	228.65	Apr 2008	Apr 2015
ESOS (i)	–	371,799	–	–	**371,799**	281.50	Apr 2009	Apr 2016
Sharesave (ii)	5,161	–	–	–	**5,161**	182.60	Jun 2007	Nov 2007
	2,081,141	371,799	–	–	**2,452,940**			
Mark Clare (iii)								
ESOS (i)	329,098	–	329,098	–	**–**	240.05	Jun 2004	Sept 2006
ESOS (i)	378,113	–	378,113	–	**–**	224.80	Apr 2005	Sept 2006
ESOS (i)	579,809	–	579,809	–	**–**	146.60	Mar 2006	Sept 2006
ESOS (i)	406,340	–	–	406,340	**–**	223.95	Lapsed	
ESOS (i)	437,349	–	–	437,349	**–**	228.65	Lapsed	
ESOS (i)	–	361,276	–	361,276	**–**	281.50	Lapsed	
Sharesave (ii)	9,318	–	–	–	**9,318**	177.60	Oct 2006	Mar 2007
	2,140,027	361,276	1,287,020	1,204,965	**9,318**			
Sir Roy Gardner (iv)								
ESOS (i)	508,227	–	508,227	–	**–**	240.05	Jun 2004	Dec 2006
ESOS (i)	622,775	–	622,775	–	**–**	224.80	Apr 2005	Dec 2006
ESOS (i)	954,979	–	954,979	–	**–**	146.60	Mar 2006	Dec 2006
ESOS (i)	705,514	–	705,514	–	**–**	223.95	Jul 2006	Dec 2006
ESOS (i)	779,357	–	–	779,357	**–**	228.65	Lapsed	
Sharesave (ii)	9,318	–	8,090	1,228	**–**	177.60	Jul 2006	Dec 2006
	3,580,170	–	2,799,585	780,585	**–**			
Jake Ulrich								
ESOS (i)	337,429	–	–	–	**337,429**	240.05	Jun 2004	May 2011
ESOS (i)	387,010	–	–	–	**387,010**	224.80	Apr 2005	Apr 2012
ESOS (i)	593,451	–	–	–	**593,451**	146.60	Mar 2006	Mar 2013
ESOS (i)	419,736	–	–	–	**419,736**	223.95	Mar 2007	Mar 2014
ESOS (i)	450,470	–	–	–	**450,470**	228.65	Apr 2008	Apr 2015
ESOS (i)	–	371,799	–	–	**371,799**	281.50	Apr 2009	Apr 2016
Sharesave (ii)	8,823	–	8,823	–	**–**	107.10	Jun 2006	Nov 2006
	2,196,919	371,799	8,823	–	**2,559,895**			

(i) Executive Share Option Scheme (ESOS)
Options were granted to the Executive Directors under the terms of the ESOS on 31 May 2001, 2 April 2002, 24 March 2003, 18 March 2004, 1 April 2005 and 3 April 2006. Details of the operation of the scheme are provided on page 35.

(ii) Sharesave Scheme
The Company operates an HMRC-approved all-employee savings-related share option scheme in the UK. The scheme is designed to provide a long-term savings and investment opportunity for employees.

(iii) Mark Clare
Mark Clare resigned on 30 September 2006. In accordance with the rules of the ESOS his outstanding options at this date lapsed. In accordance with the rules of the Sharesave his outstanding Sharesave option is exercisable within 6 months of his leave date as the options had been held for more than three years at the date of resignation. Mark Clare may only exercise those options to the extent of the savings made and interest due.

(iv) Sir Roy Gardner
Sir Roy Gardner retired on 30 June 2006. In accordance with the rules of the ESOS he exercised all his options except for those granted in 2005 which had not met the relevant performance conditions. Under the rules of the Sharesave, he was able to exercise his options to the extent of the savings made and interest due.

The closing price of a Centrica ordinary share on the last trading day of 2006 (29 December) was 354.50 pence. The range during the year was 248.25 pence (low) and 359.75 pence (high).

Directors' pensions

The pension arrangements for the Executive Directors all of whom are members of the Centrica Management Pension Scheme, are shown below (with the exception of the Sam Laidlaw who joined the Company during the year and is not a member of any of Centrica's pension schemes). The Centrica Management Pension Scheme is a funded, HMRC-registered, final salary, occupational pension scheme. Its rules provide for the following main features:

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

All registered scheme benefits are subject to HMRC limits. Where these limits would restrict the pension promise due the Centrica Unapproved Pension Scheme (CUPS) provides benefits on the salary in excess of the Scheme earnings cap to the level that would otherwise have been paid by the registered scheme. The benefits that arise under this are treated as being subject to the same rules as apply in respect of the registered portion of members' benefits. No individual will receive benefits from Centrica which, when added to their retained benefits elsewhere, exceed two-thirds of their final pensionable earnings. CUPS is unfunded but the benefits are secured by a charge over certain Centrica assets. An appropriate provision in respect of their accrued value has been made in the Company's balance sheet.

Finance Act 2004

As a result of the changes brought about by the Finance Act 2004, Centrica transferred a portion of the unregistered element of Executive Directors' pension benefits in CUPS to the registered Centrica Management Pension Scheme, thereby delivering some of the benefits previously provided via CUPS through the registered arrangement, up to the new Lifetime Allowance (LTA). Centrica did not however transfer any CUPS liabilities in excess of the LTA, which would have resulted in a higher tax rate being paid on the value of the benefits at 5 April 2006. With effect from 6 April 2006, the contributions made by the Executive Directors are not restricted to the rate of 15% of the earnings cap and are based on the rate of 6% of their total pensionable earnings.

Pension benefits earned by Directors (£)

	Accrued pension as at 31 December 2006 (i)	Accrued pension as at 31 December 2005	Increase in accrued pension less inflation (ii)	**Transfer value as at 31 December 2006**	Transfer value as at 31 December 2005	**Contribution paid in 2006 (iv)**	Difference in transfer value less contributions	Transfer value of the increase in accrued pension excluding inflation (ii)
Phil Bentley	**107,500**	85,800	18,611	**978,700**	764,500	**28,365**	185,835	123,300
Mark Clare	**151,200**	138,100	8,128	**1,395,600**	1,221,100	**19,410**	155,090	48,100
Sir Roy Gardner (iii)	**424,000**	382,900	27,316	**10,189,200**	7,740,100	**17,985**	2,431,115	609,500
Jake Ulrich	**186,800**	154,400	26,842	**2,312,600**	1,735,600	**28,365**	548,635	276,100

(i) Accrued pension is that which would be paid annually on retirement at age 62, based on eligible service to and pensionable salary at 31 December 2006, with the exception of the values shown for Sir Roy Gardner and Mark Clare, which represent the total of their accrued pension at their dates of leaving of 30 June 2006 and 30 September 2006 respectively. The pension accrual rates for 2006 as a percentage of pensionable salary are as follows for Phil Bentley, Mark Clare, Sir Roy Gardner and Jake Ulrich were 2.65%, 2.46%, 4.11% and 3.71% respectively.

(ii) The increase in accrued pension has been adjusted to exclude inflation by revaluing the accrued pension as at 31 December 2005 by the rate of inflation (3.6%) and deducting this from the accrued pension as at 31 December 2006. The rate of inflation used was 3.6%, the annual rate to 30 September 2006, the date used for pension increases under the scheme.

(iii) Sir Roy Gardner retired on 30 June 2006. The transfer value as at 31 December 2006 includes an uplift of £1,062,100 as a result of a change in the method of calculation of the transfer value for pensioners which did not apply at 31 December 2005 when he was still in service.

(iv) Member contributions paid in the year were restricted to the maximum rate of 15% of the earnings 'cap' up to 5 April 2006. This restriction was removed from 6 April 2006 so that contributions were deducted against total uncapped pensionable salary.

Sam Laidlaw does not participate in the Centrica pension scheme. Under the terms of his contract of employment, he is entitled to a salary supplement of 40% of base salary in lieu of any pension provisions. On joining the Company, a payment of £215,000 was made to his personal pension arrangements.

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

Grant Dawson
General Counsel and Company Secretary
22 February 2007

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Independent Auditors' report to the members of Centrica plc

We have audited the Group Financial Statements of Centrica plc for the year ended 31 December 2006 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These Group Financial Statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent Company Financial Statements of Centrica plc for the year ended 31 December 2006 and on the information in the Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Group Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group Financial Statements give a true and fair view and whether the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether, in our opinion the information given in the Directors' Report (comprising the Directors' Report – Business Review and the Directors' Report – Governance) is consistent with the Group Financial Statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Report reflects the Company's compliance with the nine provisions of the Combined Code (2003) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group Financial Statements. The other information comprises only the Chairman's Statement, the Directors' Report, the unaudited part of the Remuneration Report, the Gas and Liquid Reserves, Five Year Record and Shareholder Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group Financial Statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group Financial Statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group Financial Statements.

Opinion

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its loss and cash flows for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group Financial Statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
22 February 2007

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Group Income Statement

Year ended 31 December	Notes	2006 Results for the year before exceptional items and certain re-measurements (i) £m	2006 Exceptional items and certain re-measurements (i) £m	2006 Results for the year £m	2005 Results for the year before exceptional items and certain re-measurements (i) £m	2005 Exceptional items and certain re-measurements (i) £m	2005 Results for the year £m
Continuing operations							
Group revenue	4	16,450	–	16,450	13,448	–	13,448
Cost of sales	5	(12,649)	–	(12,649)	(9,793)	–	(9,793)
Re-measurement of energy contracts (i)	4,6	–	(916)	(916)	–	456	456
Gross profit		3,801	(916)	2,885	3,655	456	4,111
Operating costs before exceptional items		(2,362)	–	(2,362)	(2,180)	–	(2,180)
Systems write-down	6	–	(196)	(196)	–	–	–
Business restructuring costs	6	–	(87)	(87)	–	(100)	(100)
Rough storage incident	6	–	(48)	(48)	–	–	–
Profit on disposal of British Gas Connections Limited	6	–	–	–	–	47	47
Contract renegotiation	6	–	–	–	–	42	42
Operating costs	5	(2,362)	(331)	(2,693)	(2,180)	(11)	(2,191)
Share of profits/(losses) in joint ventures and associates, net of interest and taxation (i)	4,16	3	(15)	(12)	38	(1)	37
Group operating profit	4,5	1,442	(1,262)	180	1,513	444	1,957
Interest income (i)	8	103	37	140	102	–	102
Interest expense	8	(286)	–	(286)	(247)	–	(247)
Net interest expense	8	(183)	37	(146)	(145)	–	(145)
Profit from continuing operations before taxation		1,259	(1,225)	34	1,368	444	1,812
Taxation on profit from continuing operations	9	(543)	363	(180)	(706)	(138)	(844)
Profit/(loss) from continuing operations after taxation		716	(862)	(146)	662	306	968
Profit from discontinued operations	4	–	–	–	11	–	11
(Loss)/gain on disposal of discontinued operations	28	(8)	–	(8)	–	34	34
Discontinued operations		(8)	–	(8)	11	34	45
Profit/(loss) for the year		708	(862)	(154)	673	340	1,013
Attributable to:							
Equity holders of the parent		707	(862)	(155)	672	340	1,012
Minority interests	27	1	–	1	1	–	1
		708	(862)	(154)	673	340	1,013
		Pence		Pence	Pence		Pence
(Loss)/earnings per ordinary share							
From continuing and discontinued operations:							
Basic	11			(4.3)			27.4
Adjusted basic	11	19.4			18.2		
Diluted	11			(4.3)			27.0
From continuing operations:							
Basic	11			(4.1)			26.2
Adjusted basic	11	19.6			17.9		
Diluted	11			(4.1)			25.8
Interim dividend paid per share	10			3.15			3.10
Final dividend proposed per share	10			8.00			7.40

(i) Certain re-measurements (note 2) included within operating profit comprise re-measurement arising on our energy procurement activities and re-measurement of proprietary trades in relation to cross-border transportation or capacity contracts. Certain re-measurements included within interest comprise re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund. All other re-measurement is included within results before exceptional items and certain re-measurements.

The notes on pages 48 to 103 form part of these Financial Statements.

Group Balance Sheet

31 December	Notes	2006 £m	2005 £m
Non-current assets			
Goodwill	12	**1,055**	1,170
Other intangible assets	13	**422**	569
Property, plant and equipment	15	**3,679**	3,670
Interests in joint ventures and associates	16	**220**	223
Deferred tax assets	22	**226**	296
Trade and other receivables	18	**16**	25
Financial assets:			
Derivative financial instruments	33	**17**	231
Other financial assets		**37**	45
		5,672	6,229
Current assets			
Inventories	17	**270**	196
Current tax assets	22	**98**	–
Trade and other receivables	18	**3,590**	3,421
Financial assets:			
Derivative financial instruments	33	**760**	2,159
Other financial assets		**49**	46
Cash and cash equivalents	19	**640**	1,239
		5,407	7,061
Total assets		**11,079**	13,290
Current liabilities			
Trade and other payables	21	**(3,291)**	(3,541)
Current tax liabilities		**(180)**	(269)
Financial liabilities:			
Bank overdrafts and loans	20	**(181)**	(655)
Derivative financial instruments	33	**(1,737)**	(1,787)
Provisions for other liabilities and charges	23	**(130)**	(143)
		(5,519)	(6,395)
Net current (liabilities)/assets		**(112)**	666
Non-current liabilities			
Trade and other payables	21	**(55)**	(102)
Financial liabilities:			
Bank loans and other borrowings	20	**(2,555)**	(2,267)
Derivative financial instruments	33	**(220)**	(52)
Deferred tax liabilities	22	**(241)**	(743)
Retirement benefit obligation	30	**(296)**	(807)
Provisions for other liabilities and charges	23	**(551)**	(482)
		(3,918)	(4,453)
Net assets		**1,642**	2,442
Equity			
Called up share capital	24	**226**	224
Share premium account	26	**657**	595
Merger reserve	26	**467**	467
Capital redemption reserve	26	**16**	15
Other reserves	26	**219**	1,085
Shareholders' equity	26	**1,585**	2,386
Minority interests in equity	27	**57**	56
Total minority interests and shareholders' equity		**1,642**	2,442

The Financial Statements on pages 44 to 103 were approved and authorised for issue by the Board of Directors on 22 February 2007 and were signed below on its behalf by:

Sam Laidlaw
Chief Executive

Phil Bentley
Group Finance Director

The notes on pages 48 to 103 form part of these Financial Statements.

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Group Statement of Recognised Income and Expense

Year ended 31 December	Notes	2006 £m	2005 £m
(Loss)/profit for the year		(154)	1,013
Gains on revaluation of acquired assets	26	–	14
Gains on revaluation of available-for-sale investments	26	–	2
(Losses)/gains on cash flow hedges	26	(645)	408
Exchange differences on translation of foreign operations	26	(23)	13
Actuarial gains/(losses) on defined benefit pension schemes	26	475	(126)
Tax on items taken directly to equity	26	73	(109)
Net (expense)/income recognised directly in equity		(120)	202
Transferred to income and expense on cash flow hedges	26	(294)	(74)
Tax on items transferred from equity	26	96	25
Transfers		(198)	(49)
Total recognised income and expense for the year		(472)	1,166
Change in accounting policy: adoption of IAS 39 and IAS 32		–	(343)
Total recognised income and expense since last report		(472)	823
Total income and expense recognised in the year is attributable to:			
Equity holders of the parent		(473)	1,165
Minority interests		1	1
		(472)	1,166

The notes on pages 48 to 103 form part of these Financial Statements.

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Group Cash Flow Statement

Year ended 31 December	Notes	2006 £m	2005 £m
Operating cash flows before movements in working capital	29	**1,965**	1,936
Increase in inventories		**(83)**	(22)
Increase in receivables		**(260)**	(269)
(Decrease)/increase in payables		**(149)**	299
Cash generated from continuing operations		**1,473**	1,944
Interest received		**13**	16
Interest paid		**(9)**	(13)
Tax paid		**(627)**	(768)
Payments relating to exceptional charges		**(113)**	(48)
Net cash flow from continuing operating activities	29	**737**	1,131
Net cash flow from discontinued operating activities	29	**–**	13
Net cash flow from operating activities		**737**	1,144
Purchase of interests in subsidiary undertakings and businesses net of cash and cash equivalents acquired	28	**(97)**	(130)
Disposal of interests in subsidiary undertakings and businesses net of cash and cash equivalents disposed	28	**(6)**	184
Purchase of intangible assets		**(144)**	(160)
Disposal of intangible assets		**13**	36
Purchase of property, plant and equipment		**(537)**	(593)
Disposal of property, plant and equipment		**18**	13
Dividends received from joint ventures and associates		**–**	16
Investments in joint ventures and associates		**(16)**	(122)
Disposal of interests in associates and other investments		**4**	11
Interest received		**40**	70
Net sale of other financial assets		**5**	146
Net cash flow from investing activities	29	**(720)**	(529)
Re-purchase of ordinary share capital		**(23)**	(388)
Issue of ordinary share capital		**56**	17
Interest paid in respect of finance leases		**(43)**	(95)
Other interest paid		**(151)**	(66)
Distribution to unit holders of The Consumers' Waterheater Income Fund		**(27)**	(20)
Interest paid		**(221)**	(181)
Cash inflow from additional debt		**897**	799
Cash outflow from payment of capital element of finance leases		**(21)**	(50)
Cash outflow from repayment of other debt		**(880)**	(126)
Net cash flow from (decrease)/increase in debt		**(4)**	623
Realised net foreign exchange loss on cash settlement of derivative contracts		**(21)**	(66)
Equity dividends paid		**(384)**	(340)
Net cash flow from financing activities	29	**(597)**	(335)
Net (decrease)/increase in cash and cash equivalents		**(580)**	280
Cash and cash equivalents at 1 January (i)		**1,177**	885
Effect of foreign exchange rate changes		**(5)**	12
Cash and cash equivalents at 31 December (i)	19	**592**	1,177

(i) Cash and cash equivalents are stated net of overdrafts of £48 million (2005: £62 million).

The notes on pages 48 to 103 form part of these Financial Statements.

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1. General information

Centrica plc is a Company domiciled and incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 33. The nature of the Group's operations and its principal activities are set out in note 4 and in the Directors' Report - Business Review on pages 6 to 26.

The consolidated Financial Statements of Centrica plc are presented in sterling. Foreign operations are included in accordance with the policies set out in note 2.

At the date of authorisation of these Financial Statements, the following Standards and Interpretations which have not been applied in these Financial Statements were in issue, but not yet effective:

- IFRS 7, Financial Instruments: Disclosures, and the related amendment to IAS 1 on capital disclosures (effective for annual periods beginning on or after 1 January 2007); this Standard will require additional disclosures on capital and financial instruments; and
- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009); this Standard replaces IAS 14 Segment Reporting and requires segmental information reported to be based on that which management uses internally for evaluating the performance of operating segments and requires increased disclosure relating to reportable segments.

The Directors anticipate that the following Standards and Interpretations, which were also in issue but not effective at the date of authorisation of these Financial Statements, will have no material impact on the Financial Statements of the Group:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 May 2006);
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);
- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007); and
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

2. Summary of significant accounting policies

Basis of preparation

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

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

The Group's Income Statement and segmental note separately identifies 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.

Certain re-measurements

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

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

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

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

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

These arrangements are managed separately from proprietary energy trading activities where trades are entered into speculatively for the purpose of making profits in their own right. These proprietary trades are included in the results before certain re-measurements.

Certain re-measurements included within interest comprise re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund.

2. Summary of significant accounting policies continued

Exceptional items

As permitted by IAS 1, Presentation of Financial Statements, certain items are presented separately as exceptional, where they are material to the result for the period and are of a non-recurring nature. Items which may be considered material and non-recurring in nature include disposals of businesses, business restructuring, the renegotiation of significant contracts and asset write-downs. We intend to follow such a presentation on a consistent basis in future periods. Items are considered material if their omission or mis-statement could, in the opinion of the Directors, individually or collectively, affect the true and fair presentation of the Financial Statements.

Basis of consolidation

The Group Financial Statements consolidate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year, and incorporate the results of its share of jointly controlled entities and associates using the equity method of accounting.

Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary adjustments are made to the financial statements of subsidiaries, associates and jointly controlled entities to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Interests in joint ventures

A jointly controlled entity is a joint venture which involves the establishment of an entity to engage in economic activity, which the Group jointly controls with its fellow venturers. Under the equity method, investments in jointly controlled entities are carried at cost plus post-acquisition changes in the Group's share of net assets of the jointly controlled entity, less any impairment in value in individual investments. The Income Statement reflects the Group's share of the results of operations after tax of the jointly controlled entity (the equity method).

Certain of the Group's exploration and production activity is conducted through joint ventures where the venturers have a direct interest in and jointly control the assets of the venture. The results, assets, liabilities and cash flows of these jointly controlled assets are included in the consolidated Financial Statements in proportion to the Group's interest.

Interests in associates

An associate is an entity in which the Group has an equity interest and over which it has the ability to exercise significant influence. Under the equity method, investments in associates are carried at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in value in individual investments. The Income Statement reflects the Group's share of the results of operations after tax of the associate.

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 reliably measured. Revenue includes amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Energy supply: Revenue is recognised on the basis of energy supplied during the period. Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity is estimated using historical consumption patterns, taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and is included in accrued energy income within debtors.

Proprietary energy trading: Revenue comprises net gains and losses (both realised/settled and unrealised/fair value changes) from trading in physical and financial energy contracts.

Storage services: Storage capacity revenues are recognised evenly over the contract period, whilst commodity revenues for the injection and withdrawal of gas are recognised at the point of gas flowing into or out of the storage facilities.

Home services and fixed fee service contracts: Where the Group has an ongoing obligation to provide services, revenues are apportioned on a time basis and amounts billed in advance are treated as deferred income and excluded from current revenue. For one-off services, such as installations, revenue is recognised at the date of service provision. Revenue from fixed fee service contracts is recognised on a straight-line basis over the life of the contract, reflecting 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.

Gas production: Revenue associated with exploration and production sales (of natural gas, crude oil and condensates) is recognised when title passes to the customer. Revenue from the production of natural gas, oil and condensates in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production sharing arrangements (the entitlement method). Differences between production sold and the Group's share of production are not significant.

Interest income: Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

Cost of sales

Energy supply includes the cost of gas and electricity produced and purchased during the period taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and related transportation, distribution, royalty costs and bought in materials and services.

Home services' and fixed fee service contracts cost of sales includes direct labour and related overheads on installation work, repairs and service contracts in the period.

Employee share schemes

The Group has a number of employee share schemes, detailed in the Directors' Report – Corporate Responsibility on page 26, the Remuneration Report on pages 35 to 36 and in note 25, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using methods appropriate to each of the different schemes as follows:

LTIS: awards up to 2005	A Black-Scholes valuation augmented by a Monte Carlo simulation to predict the total shareholder return performance
LTIS: 2006 EPS awards	Market value on the date of grant
LTIS: 2006 TSR awards	A Monte Carlo simulation to predict the total shareholder return performance
Sharesave	Black-Scholes
ESOS	Black-Scholes using an adjusted option life assumption to reflect the possibility of early exercise
Share Award Scheme	Market value on the date of grant

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2. Summary of significant accounting policies continued

Foreign currencies

The consolidated Financial Statements are presented in sterling, which is the functional currency of the Company and the Group's presentational currency. Each entity in the Group determines its own functional currency and items included in the Financial Statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are included in the Income Statement for the period with the exception of exchange differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the Income Statement. Non-monetary items that are measured in terms of historical cost in a currency other than the functional currency of the entity concerned are translated using the exchange rates as at the dates of the initial transactions.

For the purpose of presenting consolidated Financial Statements, the assets and liabilities of the Group's foreign subsidiary undertakings, jointly controlled entities and associates are translated into sterling at exchange rates prevailing on the balance sheet date. The results of foreign subsidiary undertakings, jointly controlled entities and associates are translated into sterling at average rates of exchange for the relevant period. Exchange differences arising from the re-translation of the opening net assets and the results are transferred to the Group's foreign currency translation reserve, a separate component of equity, and are reported in the Statement of Total Recognised Income and Expense. In the event of the disposal of an undertaking with assets and liabilities denominated in a foreign currency, the cumulative translation difference arising in the foreign currency translation reserve is charged or credited to the Income Statement on disposal.

Exchange differences on foreign currency borrowings, foreign currency swaps and forward exchange contracts used to hedge foreign currency net investments in foreign subsidiary undertakings, jointly controlled entities and associates are taken directly to reserves and are reported in the Statement of Recognised Income and Expense. All other exchange movements are recognised in the Income Statement for the period.

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the cash paid and the aggregate of the fair values, at the date of exchange, of other assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, Business Combinations are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on a business combination represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, jointly controlled entity or associate at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. If, after re-assessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the Income Statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill which is recognised as an asset is reviewed for impairment, annually, or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Any impairment is recognised immediately in the Income Statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units that expect to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit or groups of cash-generating units is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. 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 that are 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 over the asset's estimated useful economic life. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for on a prospective basis by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from their use or disposal.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether 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.

2. Summary of significant accounting policies continued

The amortisation period for the principal categories of intangible assets are as follows:

Application software	up to 10 years
Licences	up to 20 years
Consents	up to 25 years
Contractual customer relationships	up to 10 years
Identifiable acquired brand – Dyno	Indefinite

Emissions trading scheme and renewable obligations certificates

Granted CO_2 emissions allowances received in a period are initially recognised at nominal value (nil value). Purchased CO_2 emissions allowances are initially recognised at cost (purchase price) within intangible assets. A liability is recognised when the level of emissions exceed the level of allowances granted. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date, with movements in the liability recognised in operating profit. Forward contracts for the purchase or sale of CO_2 emissions allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the Income Statement. The intangible asset is surrendered at the end of the compliance period reflecting the consumption of economic benefit. As a result no amortisation is recorded during the period.

Purchased renewable obligation certificates are initially recognised at cost within intangible assets. A liability for the renewables obligation is recognised based on the level of electricity supplied to customers, and is calculated in accordance with percentages set by the UK government and the renewable obligation certificate buyout price for that period. The intangible asset is surrendered at the end of the compliance period reflecting the consumption of economic benefit. As a result no amortisation is recorded during the period.

Property, plant and equipment

Property, plant and equipment is included in the Balance Sheet at cost, less accumulated depreciation and any provisions for impairment.

The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Freehold land is not depreciated. Other property, plant and equipment, except exploration and production assets, are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives. The depreciation periods for the principal categories of assets are as follows:

Freehold and leasehold buildings	up to 50 years
Plant	5 to 20 years
Power stations	up to 30 years
Equipment and vehicles	3 to 10 years
Storage	up to 28 years

Assets held under finance leases are depreciated over their expected useful economic lives on the same basis as for owned assets, or where shorter, the lease term.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Residual values and useful lives are re-assessed annually and if necessary changes are accounted for prospectively.

Exploration, evaluation and production assets

Exploration and evaluation costs are capitalised using the successful efforts method. Acquisition costs related to exploration and evaluation activities are capitalised. Exploration wells are initially capitalised and certain expenditure such as geological and geophysical exploration costs is expensed. If the prospects are subsequently determined to be unsuccessful on completion of evaluation, the associated costs are expensed in the period in which that determination is made.

All field development costs are capitalised as property, plant and equipment. Such costs relate to the acquisition and installation of production facilities and include development drilling costs, project-related engineering and other technical services costs. Property, plant and equipment, including rights and concessions related to production activities, are depreciated from the commencement of production in the fields concerned, using the unit of production method, based on all of the proven and probable reserves of those fields. Changes in these estimates are dealt with prospectively. The net carrying value of fields in production and development is compared on a field-by-field basis with the likely discounted future net revenues to be derived from the remaining commercial reserves. An impairment loss is recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues. Exploration and production assets are reviewed annually for indicators of impairment.

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning gas production facilities at the end of the producing lives of fields, and storage facilities and power stations at the end of the useful life of the facilities, based on price levels and technology at the balance sheet date.

Changes in these estimates and changes to the discount rates are dealt with prospectively. When this provision gives access to future economic benefits, a decommissioning asset is recognised and included within property, plant and equipment. For gas production facilities and off-shore storage facilities the decommissioning asset is amortised using the unit of production method, based on proven and probable reserves. For power stations the decommissioning asset is amortised on a straight-line basis over the useful life of the facility. The unwinding of the discount on the provision is included in the Income Statement within interest expense.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are capitalised and included in property, plant and equipment at their fair value, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within bank loans and other borrowings, with the amount payable within 12 months included in bank overdrafts and loans within short-term 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.

Rentals under operating leases are charged to the Income Statement on a straight-line basis over the term of the relevant lease.

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2. Summary of significant accounting policies continued

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its intangible assets and property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

An impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately. After such a reversal the depreciation/amortisation charge, where relevant, is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Non-current assets held for sale and discontinued operations

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. No depreciation is charged in respect of non-current assets classified as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Inventories

Inventories, excluding inventories of gas and oil, are valued on a first-in, first-out basis, at the lower of cost or estimated net realisable value, after allowance for redundant and slow moving items. Inventories of gas and oil are valued on a weighted average basis, at the lower of cost or estimated net realisable value, after allowance for redundant and slow moving items.

Take-or-pay contracts

Where payments are made to external suppliers under take-or-pay obligations for gas not taken, they are treated as prepayments and included within other receivables, as they generate future economic benefits.

Pensions and other post-retirement benefits

The Group operates a number of defined benefit pension schemes. The cost of providing benefits under the defined benefit schemes is determined separately for each scheme using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the Income Statement and presented in the Statement of Recognised Income and Expense.

The cost of providing retirement pensions and other benefits is charged to the Income Statement over the periods benefiting from employees' service. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. The difference between the expected return on scheme assets and the change in present value of scheme obligations resulting from the passage of time is recognised in the Income Statement within interest expense.

The retirement benefit obligation recognised in the Balance Sheet represents the present value of the defined benefit obligation of the schemes as adjusted for unrecognised past service cost, and as reduced by the fair value of the schemes' assets.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, that can be reliably measured, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material. Where discounting is used, the increase in the provision due to the passage of time is recognised in the Income Statement included within interest expense.

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 substantially 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 substantially enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected to fall from the manner in which the asset or liability is recovered or settled.

2. Summary of significant accounting policies continued

Financial instruments

Financial assets and financial liabilities are recognised in the Group Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Group no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires.

(a) Trade receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

(b) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in the Income Statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

For the purpose of the consolidated Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(d) Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at fair value plus directly attributable transaction costs.

After initial recognition, interest-bearing loans and 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 adjusted to reflect the fair value movements associated with the hedged risks and the fair value movements are recognised in the Income Statement. Amortised cost is calculated by taking into account any issue costs, and any discount or premium.

(e) Units issued by The Consumers' Waterheater Income Fund

Units issued by The Consumers' Waterheater Income Fund which contain redemption rights providing unit holders with the right to redeem units back to the Fund, for cash or another financial asset, are treated as a financial liability and recorded at the present value of the redemption amount. Gains and losses related to changes in the carrying value of the financial liability are recognised in the Income Statement as interest income or interest expense.

(f) Other financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale, and are initially recognised at fair value, and are included within other financial assets within the Balance Sheet. Available for sale financial assets are subsequently recognised at fair value with gains and losses arising from changes in fair value recognised directly in equity and presented in the Statement of Recognised Income and Expense, until the asset is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the Income Statement for the period.

Impairment losses recognised in the Income Statement for equity investments classified as available for sale are not subsequently reversed through the Income Statement. Impairment losses recognised in the Income Statement for debt instruments classified as available for sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(g) Derivative financial instruments

The Group routinely enters into sale and purchase transactions for physical gas, power and oil. The majority 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 position in accordance with the Group's expected sale, purchase or usage requirements, and are not within the scope of IAS 39.

Certain physical gas, power and oil purchase and sales contracts are within the scope of IAS 39 because they net settle or contain written options. Such contracts are accounted for as derivatives under IAS 39 and are recognised in the Balance Sheet at fair value. Gains and losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the Income Statement for the year.

The Group uses a range of derivatives for both trading and to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies approved by the Board of Directors. Further detail on the Group's risk management policies is included within the Directors' Report – Principal Risks and Uncertainties on pages 21 to 23 and in note 33 to the Financial Statements.

The accounting treatment for derivatives is dependent on whether they are entered into for trading or hedging purposes. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Group in line with the Group's risk management policies and is in accordance with established guidelines, which require that the hedging relationship is 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 derivatives that 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 from observable markets. Where the fair value at initial recognition for such contracts differs from the transaction price, a fair value gain or fair value loss will arise. This is referred to as a day-one gain or day-one loss. Such gains and losses are deferred and amortised to the Income Statement based on volumes purchased or delivered over the contractual period until such time observable market data becomes available. At such time observable market data becomes available, any remaining deferred day one gains or losses are recognised within the Income Statement. Recognition of the gain or loss that results from changes in fair value depends on the purpose for issuing or holding the derivative. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the Income Statement and are included within gross profit or interest income and interest expense. Gains and losses arising on derivatives entered into for speculative energy trading purposes are presented on a net basis within revenue.

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2. Summary of significant accounting policies continued

Embedded derivatives: Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or loss reported in the Income Statement. The closely related nature of embedded derivatives is re-assessed when there is a change in the terms of the contract which significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in the Income Statement.

(h) Hedge accounting

For the purposes of hedge accounting, hedges are classified either as fair value hedges, cash flow hedges or hedges of net investments in foreign operations.

Fair value hedges: A derivative is classified as a fair value hedge when it hedges the exposure to changes in the fair value of a recognised asset or liability. Any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the Income Statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Income Statement. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer qualifies for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the Income Statement. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash flow hedges: A derivative is classified as a cash flow hedge when it hedges exposure to variability in cash flows that is attributable to a particular risk either associated with a recognised asset, liability or highly probable forecast transaction. The portion of the gain or loss on the hedging instrument which is effective, is recognised directly in equity while any ineffectiveness is recognised in the Income Statement. The gains or losses that are recognised directly in equity are transferred to the Income Statement in the same period in which the highly probable forecast transaction affects income, for example when the future sale of physical gas or physical power actually occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, no longer qualifies for hedge accounting or the Group revokes the designation.

At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the highly probable forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the Income Statement.

Net investment hedges: Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity, any gain or loss on the ineffective portion of the hedge is recognised in the Income Statement. On disposal of the foreign operation, the cumulative value of any gains or losses recognised directly in equity is transferred to the Income Statement.

3. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies as described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the Financial Statements (apart from those involving estimations which are dealt with below).

Finance lease – Third-party power station tolling arrangement

The Group has entered into a long-term tolling arrangement with the Spalding power station and has determined that, based on the substance of the contractual terms, the arrangement is a finance lease.

Subsidiary – The Consumers' Waterheater Income Fund

The Group holds a nil interest (2005: 19.9%) in The Consumers' Waterheater Income Fund (the Fund), through its wholly owned subsidiary, Direct Energy Marketing Limited. The Fund's units are traded on the Toronto Stock Exchange. The Group has determined that the Fund is a subsidiary, due to the substance of the arrangements and has included the Fund on a consolidated basis within the Group's Financial Statements. Units in the Fund held by third parties contain redemption rights providing the holder of such units with the rights to put the units back to the Fund for cash or another financial asset. The Group has determined that units issued by the Fund, which contain such redemption rights are financial liabilities.

Emissions trading scheme

The Group has been subject to the European Emissions Trading Scheme (EU ETS) since 1 January 2005. IFRIC 3, Emission Rights was withdrawn by the IASB in June 2005, and has not yet been replaced by definitive guidance. The Group has adopted an accounting policy, which recognises CO_2 emissions liabilities when the level of emissions exceeds the level of allowances granted by the Government in the period. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at market price of allowances ruling at the balance sheet date. Movements in the liability are reflected within operating profit. Forward contracts for sales and purchases of allowances are measured at fair value.

Petroleum revenue tax (PRT)

The definitions of an income tax in IAS 12, Income Taxes, have led management to judge that PRT should be treated consistently with other taxes. The charge for the year, is presented within taxation on profit from continuing operations in the Income Statement. Deferred amounts are included within deferred tax assets and liabilities in the Balance Sheet.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill and indefinite lived intangible assets

The Group determines whether goodwill and indefinite lived intangible assets are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which goodwill and indefinite lived intangibles are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further detail on the assumptions used in determining value in use calculations is provided in note 14.

3. Critical accounting judgements and key sources of estimation uncertainty continued

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 is estimated applying industry standards and using historical consumption patterns taking into account the industry reconciliation process for total gas and total electricity usage by supplier. Management apply judgement to the measurement of the estimated energy supplied to customers and to the valuation of that energy consumption. The judgements applied, and the assumptions underpinning these judgements are considered to be appropriate. However, a change in these assumptions would impact upon the amount of revenue recognised.

Industry Reconciliation Process – cost of sales

The industry reconciliation process is 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 the industry system operator deems the individual suppliers, including the Group, to have supplied to customers. This difference in deemed supply is referred to as imbalance. The reconciliation process can result in either a higher or lower value of industry deemed supply than has been estimated as being supplied to customers by the Group, but in practice tends to result in a higher value of deemed supply. The Group then reviews the difference to ascertain whether there is evidence that its estimate of amounts supplied to customers is inaccurate or whether the difference arises from other causes. The Group's share of the resulting imbalance is included within commodity costs charged to cost of sales.

Management estimate the level of recovery of imbalance which will be achieved either through subsequent customer billing or through the developing industry settlement process.

Determination of fair values – energy derivatives

Derivative contracts are carried in the Balance Sheet at fair value, with changes in fair value recorded in the Income Statement. Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. More detail on the assumptions used in determining fair valuations is provided in note 33 (ii).

Pensions and other post-retirement benefits

The Group operates a number of defined benefit pension schemes. The cost of providing benefits under the defined benefit schemes is determined separately for each scheme under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in note 30.

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on proven and probable reserves, price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be between 2007 and 2042.

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4. Segmental analysis

Primary reporting format – business segments

The Group's business segments are distinguished on the basis of the internal management reporting system, and reflect the day-to-day management of the business. The products and services included within each segment are described in the Directors' Report – Business Review, on pages 6 to 26.

	2006			2005 (restated)		
(a) Revenue	**Gross segment revenue £m**	**Less inter-segment revenue (i), (ii), (iii) £m**	**Group revenue £m**	Gross segment revenue £m	Less inter-segment revenue (i), (ii), (iii) £m	Group revenue £m
Continuing operations:						
British Gas Residential	**7,112**	**–**	**7,112**	6,032	–	6,032
British Gas Business	**2,303**	**–**	**2,303**	1,510	–	1,510
British Gas Services	**1,104**	**–**	**1,104**	1,024	–	1,024
Industrial sales and wholesaling	**1,035**	**(152)**	**883**	871	(85)	786
Gas production	**1,291**	**(968)**	**323**	1,365	(1,182)	183
Accord energy trading (iv)	**39**	**–**	**39**	42	–	42
Centrica Energy	**2,365**	**(1,120)**	**1,245**	2,278	(1,267)	1,011
Centrica Storage	**358**	**(64)**	**294**	253	(58)	195
North American Energy and Related Services	**4,097**	**–**	**4,097**	3,552	–	3,552
European Energy	**295**	**–**	**295**	119	–	119
Other operations	**–**	**–**	**–**	5	–	5
	17,634	**(1,184)**	**16,450**	14,773	(1,325)	13,448
Discontinued operations:						
Onetel	**–**	**–**	**–**	344	(2)	342
	–	**–**	**–**	344	(2)	342

(i) Inter-segment revenue is derived from recharges of energy procurement costs between Centrica Energy and other Group segments. Gas purchase costs are appropriately allocated to the revenue generating streams using a method which best reflects the consumption of gas within the Group. Electricity costs are recharged using a method which reflects the actual cost within the Group.

(ii) Inter-segment revenue arising within Centrica Storage represents the provision of storage facilities to other Group companies, on an arm's length basis.

(iii) Accord energy trading carries out certain sales transactions on behalf of the Group's Industrial sales and wholesaling segment. The Group considers that it is not reflective of the trading relationship between the segments to present these transactions as inter-segment revenue within the Industrial sales and wholesaling segment. The comparative information has been restated accordingly. The effect of the restatement is to reduce gross segment revenue and inter-segment revenue for Industrial sales and wholesaling by £589 million for the year ended 31 December 2005. There is no effect on Group revenue or segment operating profit.

(iv) The revenue presented for Accord energy trading comprises net gains and losses (both realised and unrealised/fair value changes) from trading in physical and financial energy contracts. Included within its net gains and losses is £18 million arising on fees charged to other Group segments (2005: £8 million). It is not representative of the transactions to present this amount within inter-segment revenue because the result is stated net within revenue.

Group revenue is derived from the following activities:

	2006 £m	2005 £m
Sales of goods	**14,840**	11,996
Rendering of services	**1,586**	1,452
Other income	**24**	–
Group revenue	**16,450**	13,448

4. Segmental analysis continued

(b) Operating profit	Operating profit/(loss) before exceptional items and certain re-measurements year ended 31 December 2006 £m	2005 £m	Exceptional items (note 6) year ended 31 December 2006 £m	2005 £m	Certain re-measurements (note 6) year ended 31 December 2006 £m	2005 £m	Operating profit/(loss) after exceptional items and certain re-measurements year ended 31 December 2006 £m	2005 £m
Continuing operations:								
British Gas Residential	**95**	90	**(214)**	(14)	**(724)**	584	**(843)**	660
British Gas Business	**87**	77	**–**	(1)	**(408)**	167	**(321)**	243
British Gas Services	**102**	111	**(66)**	(15)	**–**	–	**36**	96
Industrial sales and wholesaling	**(210)**	(156)	**–**	42	**440**	(424)	**230**	(538)
Gas production	**864**	1,020	**–**	–	**32**	(28)	**896**	992
Accord energy trading	**32**	39	**–**	–	**6**	17	**38**	56
Centrica Energy	**686**	903	**–**	42	**478**	(435)	**1,164**	510
Centrica Storage	**228**	154	**(24)**	–	**2**	1	**206**	155
North American Energy and Related Services	**223**	185	**–**	–	**(264)**	138	**(41)**	323
European Energy	**7**	(9)	**–**	–	**(15)**	–	**(8)**	(9)
Other operations (i)	**14**	2	**(27)**	(23)	**–**	–	**(13)**	(21)
	1,442	1,513	**(331)**	(11)	**(931)**	455	**180**	1,957
Discontinued operations: (ii)								
The AA	**–**	–	**–**	39	**–**	–	**–**	39
Onetel	**(11)**	12	**–**	(5)	**–**	–	**(11)**	7
	(11)	12	**–**	34	**–**	–	**(11)**	46

(i) Operating profit before exceptional items and certain re-measurements includes a £20 million gain arising on revisions to the assumptions made in calculating the Group's defined benefit pension liability. The Schemes' rules were amended from 1 April 2006 to allow employees to commute a larger amount of their pension to a cash lump sum on retirement, in line with changes in the Finance Act. Future revisions to the assumption will be reflected within the Statement of Recognised Income and Expense.

(ii) The results of discontinued operations before (losses)/profits on disposal of the business included costs of £11 million (2005: £330 million) and a tax credit of £3 million (2005: £1 million charge).

(c) Included within operating profit	Share of results of joint ventures and associates net of interest and taxation year ended 31 December 2006 £m	2005 £m	Depreciation of property, plant and equipment year ended 31 December 2006 £m	2005 £m	Amortisation of intangibles year ended 31 December 2006 £m	2005 £m
Continuing operations:						
British Gas Residential	**–**	2	**17**	16	**35**	48
British Gas Business	**–**	–	**1**	5	**14**	1
British Gas Services	**–**	–	**13**	16	**–**	4
Industrial sales and wholesaling	**–**	29	**95**	81	**1**	–
Gas production	**–**	–	**252**	193	**–**	–
Accord energy trading	**–**	–	**–**	–	**–**	–
Centrica Energy	**–**	29	**347**	274	**1**	–
Centrica Storage	**–**	–	**23**	19	**–**	1
North American Energy and Related Services	**–**	–	**87**	76	**10**	13
European Energy	**(12)**	6	**1**	–	**10**	9
Other operations	**–**	–	**17**	–	**3**	–
	(12)	37	**506**	406	**73**	76
Discontinued operations:						
Onetel	**–**	–	**–**	6	**–**	1
	–	–	**–**	6	**–**	1

4. Segmental analysis continued

(d) Assets and liabilities	Segment assets (i) 31 December 2006 £m	Segment assets (i) 31 December 2005 £m	Segment liabilities (ii) 31 December 2006 £m	Segment liabilities (ii) 31 December 2005 £m	Capital expenditure on property, plant and equipment (note 15) year ended 31 December 2006 £m	Capital expenditure on property, plant and equipment (note 15) year ended 31 December 2005 £m	Capital expenditure on other intangible assets (note 13) year ended 31 December 2006 £m	Capital expenditure on other intangible assets (note 13) year ended 31 December 2005 £m
Continuing operations:								
British Gas Residential	**1,531**	1,948	**(665)**	(621)	**–**	14	**33**	58
British Gas Business	**807**	981	**(196)**	(141)	**4**	7	**54**	16
British Gas Services	**249**	466	**(192)**	(191)	**18**	10	**6**	19
Industrial sales and wholesaling	**3,876**	5,459	**(2,338)**	(3,797)	**92**	77	**61**	62
Gas production	**1,170**	1,052	**(2,156)**	(1,556)	**263**	391	**–**	1
Accord energy trading	**1,239**	1,533	**(1,288)**	(1,831)	**–**	–	**–**	–
Centrica Energy	**6,285**	8,044	**(5,782)**	(7,184)	**355**	468	**61**	63
Centrica Storage	**479**	451	**(116)**	(93)	**14**	17	**–**	–
North American Energy and Related Services	**2,546**	3,046	**(1,041)**	(941)	**107**	109	**3**	6
European Energy	**104**	67	**(80)**	(59)	**7**	–	**9**	2
Corporate and unallocated assets/(liabilities)	**4,024**	2,543	**(6,311)**	(5,874)	**4**	18	**18**	10
Total continuing operations	**16,025**	17,546	**(14,383)**	(15,104)	**509**	643	**184**	174
Discontinued operations:								
Onetel	**–**	–	**–**	–	**–**	7	**–**	–
Total discontinued operations	**–**	–	**–**	–	**–**	7	**–**	–
Less inter-segment (receivables)/payables	**(4,946)**	(4,256)	**4,946**	4,256				
	11,079	13,290	**(9,437)**	(10,848)	**509**	650	**184**	174

(i) Segment assets consist primarily of property, plant, equipment, goodwill, other intangible assets, inventories, derivatives, receivables and operating cash. Unallocated assets comprise deferred tax attached to unallocable assets and liabilities, investments and derivatives designated as hedges of borrowings. The aggregate investment in each joint venture for each segment is analysed in note 16.

(ii) Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as taxation, corporate borrowings, the Group pension deficit (which is not allocable between segments on a reasonable basis) and deferred tax attached to unallocable assets and liabilities.

Corporate overheads are allocated to reportable segments for Group reporting purposes based on an assessment of the key drivers of each allocable cost.

Secondary reporting format – geographical segments

The Group operates in three main geographical areas:

	Revenue year ended 31 December 2006 £m	Revenue year ended 31 December 2005 £m	Total assets (based on location of assets) 31 December 2006 £m	Total assets (based on location of assets) 31 December 2005 £m	Capital expenditure on property, plant and equipment (note 15) (based on location of assets) year ended 31 December 2006 £m	Capital expenditure on property, plant and equipment (note 15) (based on location of assets) year ended 31 December 2005 £m	Capital expenditure on other intangible assets (note 13) (based on location of assets) year ended 31 December 2006 £m	Capital expenditure on other intangible assets (note 13) (based on location of assets) year ended 31 December 2005 £m
Continuing operations:								
UK	**11,934**	9,643	**8,382**	9,866	**388**	534	**172**	166
North America	**4,097**	3,552	**2,579**	3,182	**107**	109	**3**	6
Rest of World	**419**	253	**118**	242	**14**	–	**9**	2
	16,450	13,448	**11,079**	13,290	**509**	643	**184**	174
Discontinued operations:								
UK	**–**	342	**–**	–	**–**	7	**–**	–

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5. Costs of continuing operations

Analysis of costs by nature	2006 £m	2005 £m
Revenue	**16,450**	13,448
Re-measurement of energy contracts (note 6)	**(916)**	456
Transportation, distribution and metering costs	**(2,658)**	(2,556)
Commodity cost	**(8,547)**	(5,996)
Depreciation and amortisation included within cost of sales	**(407)**	(256)
Staff and staff-related costs included within cost of sales	**(366)**	(329)
Other costs relating to energy consumption and provision of services	**(671)**	(656)
Total cost of sales	**(12,649)**	(9,793)
Exceptional items (note 6)	**(331)**	(11)
Depreciation and amortisation included within operating costs	**(172)**	(226)
Staff and staff-related costs included within operating costs	**(1,076)**	(906)
Profit on disposal of property, plant and equipment	**17**	13
Profit on disposal of other intangible assets and other investments	**3**	4
Write-down of inventory	**(1)**	(3)
Impairment of trade receivables (i)	**(181)**	(83)
Foreign exchange gains	**3**	3
Other operating costs	**(955)**	(982)
Total operating costs	**(2,693)**	(2,191)
Share of (losses)/profits in joint ventures and associates, net of interest and taxation (note 4)	**(12)**	37
Operating profit from continuing operations	**180**	1,957

(i) Impairment of trade receivables relates to bad debt write-offs and excludes any recovery or related administrative costs.

Auditors' remuneration	2006 £m	2005 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts and Group consolidation	**2.2**	1.5
Fees payable to the Company's auditor and its associates for other services:		
The auditing of other accounts within the Group pursuant to legislation (including that of countries and territories outside Britain)	**1.2**	1.1
Other services pursuant to legislation	**0.5**	1.6
Other services relating to taxation	**0.1**	0.1
Services relating to corporate finance transactions	**–**	0.6
All other services	**0.7**	1.0
	4.7	5.9
Fees in respect of UK GAAP pension scheme		
Audit	**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 other factors including expertise and experience. In addition, the Board has approved a detailed policy defining the types of work for which the auditors can tender and the approvals required. In the past, the auditors have been engaged on assignments additional to their statutory audit duties where their expertise and experience with the Group are particularly important, including tax advice and due diligence reporting on acquisitions.

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6. Exceptional items and certain re-measurements

(a) Exceptional items	2006 £m	2005 £m
Exceptional items recognised in continuing operations		
Systems write-down (i)	(196)	–
Business restructuring costs (ii), (iii)	(87)	(100)
Rough storage incident (iv)	(48)	–
Profit on disposal of British Gas Connections Limited	–	47
Contract renegotiation (v)	–	42
Total exceptional items recognised in continuing operations	(331)	(11)
Exceptional items recognised in discontinued operations		
Loss on disposal of Onetel	–	(5)
Adjustment to profit on disposal of the AA	–	39
Total exceptional items recognised in discontinued operations	–	34

(i) The Group has written down certain of its recent major systems developments following a review of their existing and required future functionality. The cost comprises write-downs in British Gas Residential (£178 million) and British Gas Services (£18 million). A tax credit of £59 million was recognised in respect of these costs.
(ii) Business restructuring costs comprise £67 million from staff reductions at the corporate centre (£3 million), British Gas Residential (£16 million), and British Gas Services (£48 million), and £20 million relating to the closure of the head office of British Gas Residential. A tax credit of £20 million was recognised in respect of these costs.
(iii) Business restructuring costs in 2005 comprised £100 million resulting from staff reductions at the corporate centre (£23 million), British Gas Residential (£43 million), British Gas Services (£15 million), British Gas Business (£1 million) and £18 million relating to changes to the property portfolio. A tax credit of £23 million was recognised in respect of these costs.
(iv) Centrica Storage operations at Rough suffered a major interruption caused by a fire in February 2006. Our investment in new emergency shutdown systems and prompt management action mitigated the damage to ensure no loss of life. Following a full assessment of the work needed to restore operations, the costs of the incident have resulted in an exceptional charge before taxation of £48 million (of which £24 million is recognised within Other operations). A tax credit of £14 million has been recognised in respect of the charge.
(v) The profit in 2005 arose on the renegotiation of certain long-term take-or-pay contracts during the period.

(b) Certain re-measurements (note 2)	2006 £m	2005 £m
Certain re-measurement recognised in relation to energy contracts (iv)		
Net (losses)/gains arising on delivery of contracts (i)	(287)	140
Net (losses)/gains arising on market price movements and new contracts (ii)	(623)	299
Net (losses)/gains arising on proprietary trades in relation to cross-border transportation or capacity contracts (iii)	(6)	17
Net re-measurement of energy contracts included within gross profit	(916)	456
Net losses arising on re-measurement of joint ventures' energy contracts (v)	(15)	(1)
Net re-measurement included within Group operating profit	(931)	455
Gains arising on re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund (note 8) (iv), (v)	37	–
Total certain re-measurements	(894)	455

(i) As energy is delivered or consumed from previously contracted positions, the related fair value recognised in the opening balance sheet (representing the difference between forward energy prices at the opening balance sheet date, and the contract price of energy to be delivered) is charged or credited to the Income Statement.
(ii) Represents fair value (losses)/gains arising from the change in fair value of future contracted sales and purchase contracts as a result of changes in forward energy prices between reporting dates (or date of inception and the reporting date, where later).
(iii) Comprises movements in fair value arising on proprietary trades in relation to cross-border transportation or storage capacity, on which economic value has been created which is not wholly accounted for under the provisions of IAS 39.
(iv) A tax credit of £284 million has been recognised in respect of re-measurement of energy contracts. A tax charge of £14 million has been recognised in respect of re-measurement of the units of The Consumers' Waterheater Income Fund.
(v) Certain re-measurements included within Group operating profit also include the Group's share of the certain re-measurements relating to the energy procurement activities of joint ventures. Certain re-measurements included within interest comprise re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund. All other re-measurement is included within results before exceptional items and certain re-measurement.

7. Directors and employees

(a) Employee costs	2006 £m	2005 £m
Wages and salaries	1,038	1,031
Social security costs	90	83
Other pension and retirement benefits costs (note 30)	141	136
Executive Share Option Scheme	3	3
Long Term Incentive Scheme	9	7
Sharesave Scheme	8	10
Share Incentive Plan	2	2
Share Award Scheme	1	–
	1,292	1,272

Details of Directors' remuneration, share options, Long Term Incentive Scheme interests and pension entitlements in the Remuneration Report on pages 34 to 41 form part of these Financial Statements. Details of employee share schemes are given on pages 26, 34, 35, and 36 and in note 25. Details of the remuneration of key management personnel are given in note 32.

Wages and salaries exclude redundancy costs of £50 million (2005: £68 million) which have been classified as restructuring costs included within exceptional items. Other pension and retirement benefits includes a £17 million (2005: £13 million) loss on curtailments which has been classified as an exceptional restructuring cost in the Income Statement.

(b) Average number of employees during the year	2006 Number	2005 Number
British Gas Residential	10,044	11,321
British Gas Business	1,617	1,438
British Gas Services	14,355	13,626
Centrica Energy	968	884
Centrica Storage	193	182
North American Energy and Related Services	5,032	5,261
European Energy	195	201
Other operations	1,529	1,580
Onetel (to disposal on 30 December 2005)	–	917
	33,933	35,410
UK	28,704	29,948
North America	5,032	5,261
Rest of World	197	201
	33,933	35,410

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8. Net interest

	2006			2005		
	Interest expense £m	Interest income £m	Total £m	Interest expense £m	Interest income £m	Total £m
Cost of servicing net debt (excluding non-recourse debt)						
Interest income	–	38	38	–	60	60
Interest expense on bank loans and overdrafts [(i)]	(175)	–	(175)	(87)	–	(87)
Interest expense on finance leases (including tolling agreements)	(47)	–	(47)	(97)	–	(97)
Fair value (losses)/gains on hedges [(ii)]	(1)	3	2	(5)	5	–
Fair value (losses)/gains on other derivatives	(8)	25	17	(11)	25	14
	(231)	66	(165)	(200)	90	(110)
Interest arising on non-recourse debt						
Interest expense on non-recourse debt	(13)	–	(13)	(11)	–	(11)
Distributions to unit holders of The Consumers' Waterheater Income Fund	(27)	–	(27)	(20)	–	(20)
Fair value gains arising on Units of The Consumers' Waterheater Income Fund	–	37	37	–	–	–
	(40)	37	(3)	(31)	–	(31)
Other interest						
Notional interest arising on discounted items	(15)	26	11	(14)	–	(14)
Interest on supplier early payment arrangements [(iii)]	–	11	11	–	12	12
Interest on customer finance arrangements	–	–	–	(2)	–	(2)
	(15)	37	22	(16)	12	(4)
Interest (expense)/income	(286)	140	(146)	(247)	102	(145)

(i) Includes £66 million (2005: £19 million) interest payable on borrowings related to the Centrica Gas Production LP as described in note 33 (c) (xiv).
(ii) Includes fair value (losses)/gains on both derivatives designated into fair value hedging relationships and bonds designated as the hedged item.
(iii) Interest on supplier early payment arrangements arose on the prepayment of gas transportation charges.

9. Taxation

(a) Analysis of tax charge for the year	2006 £m	2005 £m
The tax charge comprises:		
Current tax		
UK corporation tax	199	368
UK petroleum revenue tax	234	400
Tax on exceptional items and certain re-measurements [(i), (ii), (iii), (iv)]	(20)	(23)
Foreign tax	51	22
Adjustments in respect of prior years	(25)	(62)
Total current tax	439	705
Deferred tax		
Current year	79	10
Prior year	10	(22)
Change in UK tax rate [(v)]	9	–
Tax on exceptional items and certain re-measurements [(i), (ii), (iii), (iv)]	(343)	161
UK petroleum revenue tax	(7)	(27)
Foreign deferred tax	(7)	17
Total deferred tax	(259)	139
Total tax on profit from continuing operations	180	844

9. Taxation continued

(i) The tax credit arising on the systems write-down in 2006 was £59 million (note 6 (a) (i)).
(ii) The tax credit arising on the business restructuring costs in 2006 was £20 million (note 6 (a) (ii)).
(iii) The tax credit arising on costs related to the Rough Storage incident was £14 million (note 6 (a) (iv)).
(iv) The tax credit arising on re-measurement of energy contracts was £284 million. The tax charge relating to gains arising on re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund was £14 million (note 6 (b) (iv)).
(v) The effect of the increase of 10% to the UK supplementary charge from 1 January 2006 on the relevant temporary differences at 31 December 2005 was £9 million.
(vi) Tax on items taken directly to equity is disclosed in note 26.
(vii) In 2005, tax credits relating to exceptional items amounted to £11 million, and the tax charge relating to certain re-measurements amounted to £149 million.

Corporation tax is charged at 30% (2005: 30%) of the estimated assessable profit for the year. The Group earns its profits primarily in the UK, therefore the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, currently 30%. A supplementary charge of 20% is also currently applicable on the Group's UK upstream profits. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

(b) Factors affecting the tax charge for the year

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

			2006 £m			2005 £m
	Results for the year before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Results for the year £m	Results for the year before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Results for the year £m
Profit from continuing operations before tax	1,259	(1,225)	34	1,368	444	1,812
Less share of (profits)/losses in joint ventures and associates, net of interest and taxation	(3)	15	12	(38)	1	(37)
Group profit from continuing operations before tax	1,256	(1,210)	46	1,330	445	1,775
Tax on profit from continuing operations at standard UK corporation tax rate of 30% (2005: 30%)	377	(363)	14	399	134	533
Effects of:						
(Income)/expenses not (chargeable)/deductible for tax purposes	(20)	6	(14)	3	6	9
Adjustments in respect of prior years	(15)	–	(15)	(84)	–	(84)
Movement in unrecognised deferred tax assets	(71)	–	(71)	63	–	63
UK petroleum revenue tax rates	159	–	159	261	–	261
Overseas tax rates	6	(12)	(6)	3	12	15
Supplementary charge applicable to upstream profits	107	6	113	61	–	61
Exceptional profit on disposal of British Gas Connections Limited	–	–	–	–	(14)	(14)
Group tax charge on profit from continuing operations	543	(363)	180	706	138	844

10. Dividends

	2006 £m	2005 £m
Prior year final dividend of 7.4 pence (2005: 6.1 pence) per ordinary share (paid on 14 June 2006)	269	220
Interim dividend of 3.15 pence (2005: 3.1 pence) per ordinary share (paid on 15 November 2006)	115	120
	384	340

The Directors propose a final dividend of 8.0 pence per share (totalling £293 million) for the year ended 31 December 2006. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 14 May 2007. These Financial Statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2007.

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11. Earnings per ordinary share

Basic earnings per ordinary share has been calculated by dividing the loss attributable to equity holders of the Company for the year of £155 million (2005: earnings of £1,012 million) by the weighted average number of ordinary shares in issue during the year of 3,643 million (2005: 3,688 million). The number of shares for 2005 excluded 3 million ordinary shares being the weighted average number of the Company's own shares held in the employee share trust which were treated as treasury shares.

There was a share repurchase programme in operation during the year as described in note 24.

The Directors believe that the presentation of an adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for certain re-measurements and exceptional items assists with understanding the underlying performance of the Group. The reconciliation of basic to adjusted basic earnings per ordinary share is as follows:

	2006		2005	
(a) Continuing and discontinued operations	**£m**	**Pence per ordinary share**	£m	Pence per ordinary share
(Loss)/earnings – basic	**(155)**	**(4.3)**	1,012	27.4
Net exceptional items after tax (note 6)	**238**	**6.6**	(34)	(0.9)
Certain re-measurement gains and losses after tax (note 6)	**624**	**17.1**	(306)	(8.3)
Earnings – adjusted basic	**707**	**19.4**	672	18.2
(Loss)/earnings – diluted	**(155)**	**(4.3)**	1,012	27.0

	2006		2005	
(b) Continuing operations	**£m**	**Pence per ordinary share**	£m	Pence per ordinary share
(Loss)/earnings – basic	**(147)**	**(4.1)**	967	26.2
Net exceptional items after tax (note 6)	**238**	**6.6**	–	–
Certain re-measurement gains and losses after tax (note 6)	**624**	**17.1**	(306)	(8.3)
Earnings – adjusted basic	**715**	**19.6**	661	17.9
(Loss)/earnings – diluted	**(147)**	**(4.1)**	967	25.8

	2006		2005	
(c) Discontinued operations	**£m**	**Pence per ordinary share**	£m	Pence per ordinary share
(Loss)/earnings – basic	**(8)**	**(0.2)**	45	1.2
(Loss)/earnings – diluted	**(8)**	**(0.2)**	45	1.2

Certain re-measurements (note 2) included within operating profit comprise re-measurement arising on our energy procurement activities and re-measurement of proprietary trades in relation to cross-border transportation or capacity contracts. Certain re-measurements included within interest comprise re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund. All other re-measurement is included within results before exceptional items and certain re-measurements.

In addition to basic and adjusted earnings per ordinary share, information is presented for diluted earnings per ordinary share. Under this presentation, no adjustments are made to the reported earnings for either 2006 or 2005, but the weighted average number of shares used as the denominator is adjusted, for potentially dilutive ordinary shares. In 2006, no outstanding awards or options are considered to be potentially dilutive, because they would decrease the loss per share.

	2006 million shares	2005 million shares
Weighted average number of shares used in the calculation of basic earnings per ordinary share	**3,643**	3,688
Estimated vesting of Long Term Incentive Scheme shares	**–**	24
Dilutive effect of shares to be issued at a discount to market value under the Sharesave Schemes	**–**	34
Potentially dilutive shares issuable under the Executive Share Option Scheme	**–**	5
Estimated vesting of Share Award Scheme shares	**–**	–
Weighted average number of shares used in the calculation of diluted earnings per ordinary share	**3,643**	3,751

12. Goodwill

	£m
Cost and net book value	
1 January 2006	**1,170**
Acquisitions	**4**
Exchange adjustments	**(119)**
31 December 2006	**1,055**

Goodwill arising of £4 million relates to adjustments to deferred consideration on prior year acquisitions.

	£m
Cost and net book value	
1 January 2005	1,049
Acquisitions	109
Disposals	(97)
Exchange adjustments	109
31 December 2005	1,170

The net book value of goodwill at 31 December related to the following acquisitions:

	2006 £m	2005 £m
Direct Energy	**288**	328
Energy America	**23**	26
Enron Direct/Electricity Direct	**133**	133
Enbridge Services	**177**	205
CPL/WTU	**188**	210
ATCO	**40**	46
Dyno-Rod	**17**	17
Residential Services Group	**68**	77
Oxxio	**83**	84
Other	**38**	44
	1,055	1,170

13. Other intangible assets

	Application software (i) £m	Renewable obligation certificates £m	Brands (ii) £m	Customer relationships £m	Consents £m	Other £m	Total £m
Cost							
1 January 2006	535	48	57	41	29	5	**715**
Additions – acquired from a third party	15	60	–	4	–	30	**109**
Additions – directly attributable costs	71	–	–	–	–	4	**75**
Acquisitions (note 28)	–	–	–	27	–	–	**27**
Disposals	(20)	–	–	–	–	(2)	**(22)**
Surrenders	–	(81)	–	–	–	–	**(81)**
Write-downs (iii)	(196)	–	–	–	–	–	**(196)**
Exchange adjustments	(7)	–	–	(3)	–	–	**(10)**
31 December 2006	**398**	**27**	**57**	**69**	**29**	**37**	**617**
Aggregate amortisation and impairment							
1 January 2006	135	–	–	10	–	1	**146**
Charge for the year	48	–	–	11	–	14	**73**
Disposals	(18)	–	–	–	–	–	**(18)**
Exchange adjustments	(5)	–	–	(1)	–	–	**(6)**
31 December 2006	**160**	**–**	**–**	**20**	**–**	**15**	**195**
Net book value							
31 December 2006	**238**	**27**	**57**	**49**	**29**	**22**	**422**

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13. Other intangible assets continued

Amortisation arising on application software and other intangible assets is charged to operating costs in the Income Statement.

(i) Included within application software are amounts for billing and customer relationship management systems. At 31 December 2006 the net book value of these systems is £101 million (2005: £323 million). The remaining amortisation periods of these systems range from five to 10 years.

(ii) Brands represent the Dyno-Rod brand, acquired on the acquisition of the Dyno group of companies during 2004. In accordance with IAS 38 paragraph 88, management has ascribed the brand an indefinite useful life because there is no foreseeable limit to the period over which the Dyno brand is expected to generate net cash inflows. In reaching this determination, management have reviewed potential threats from competition, the risks of technological obsolescence and the expected usage of the brand by management.

(iii) The Group has written down certain of its major systems developments following a review of existing and required systems functionality. The reduced functionality has occurred as a result of changes to the Group structure since the beginning of the development projects and recognition of the reduced benefits arising from the systems as ultimately implemented. Costs associated with functionality no longer in use have been written off. The charge to intangible assets includes write-downs in British Gas Residential of £178 million and £18 million in British Gas Services.

(iv) There are no internally generated intangible assets (2005: £nil).

	Application software £m	Renewable obligation certificates £m	Brands £m	Customer relationships £m	Consents £m	Other £m	Total £m
Cost							
1 January 2005	419	71	57	8	29	2	586
Additions – acquired from a third party	41	55	–	–	–	3	99
Additions – directly attributable costs	75	–	–	–	–	–	75
Acquisitions	1	–	–	32	–	–	33
Disposals	(5)	–	–	–	–	–	(5)
Surrenders	–	(78)	–	–	–	–	(78)
Disposal of subsidiary	(3)	–	–	–	–	–	(3)
Exchange adjustments	7	–	–	1	–	–	8
31 December 2005	535	48	57	41	29	5	715
Aggregate amortisation and impairment							
1 January 2005	67	–	–	–	–	1	68
Charge for the year	67	–	–	10	–	–	77
Disposals	(4)	–	–	–	–	–	(4)
Disposal of subsidiary	(1)	–	–	–	–	–	(1)
Exchange adjustments	6	–	–	–	–	–	6
31 December 2005	135	–	–	10	–	1	146
Net book value							
31 December 2005	400	48	57	31	29	4	569

14. Impairment testing of goodwill and intangibles with indefinite useful lives

Goodwill acquired through business combinations and indefinite lived intangibles have been allocated to cash-generating units as follows:

		2006			2005 (restated) (i)		
Cash-generating unit	**Acquisition to which goodwill relates**	**Carrying amount of goodwill £m**	**Carrying amount of indefinite lived brand £m**	**Total £m**	Carrying amount of goodwill £m	Carrying amount of indefinite lived brand £m	Total £m
British Gas Business	Enron Direct/Electricity Direct	**133**	**–**	**133**	133	–	133
British Gas Services	Dyno-Rod	**17**	**57**	**74**	17	57	74
Texas residential energy	CPL/WTU	**188**	**–**	**188**	210	–	210
Canada mass markets (ii)	Direct Energy/ATCO	**253**	**–**	**253**	287	–	287
Canada Direct Energy business services (ii)	Direct Energy/ATCO	**75**	**–**	**75**	87	–	87
Canada home services	Enbridge Services	**177**	**–**	**177**	205	–	205
US home services	Residential Services Group	**68**	**–**	**68**	77	–	77
Europe – Oxxio	Oxxio	**83**	**–**	**83**	84	–	84
Other (iii)	Various	**61**	**–**	**61**	70	–	70
		1,055	**57**	**1,112**	1,170	57	1,227
Europe – SPE	Luminus	**26**	**–**	**26**	26	–	26

(i) In accordance with IFRS 3, Business Combinations, the provisional fair values assigned to the assets and liabilities of Segebel SA were reassessed within 12 months of the acquisition date, and the comparative information restated. The goodwill arising on acquisition has reduced by £23 million as a result of the restatement.

14. Impairment testing of goodwill and intangibles with indefinite useful lives continued

(ii) During 2006, the aggregation of assets comprising certain cash-generating units within North America, specifically the Canada region, changed from a regional to a product method of aggregation. This resulted from reporting hierarchy changes and will allow management to more effectively monitor those businesses. The impact of this change is that the 2005 cash-generating units Canada residential energy – west and Canada residential energy – east have been replaced by cash generating units Canada mass markets and Canada Direct Energy business services in the current year.

(iii) Comprises goodwill balances allocated across multiple cash-generating units. The amount of goodwill allocated to each cash-generating unit is not significant compared to the aggregate carrying value of goodwill reported within the Group.

Goodwill and indefinite lived intangibles are tested for impairment annually, or more frequently if there are indications that amounts might be impaired. The impairment test involves determining the recoverable amount of the cash-generating units, which corresponds to the fair value less costs to sell or the value in use. Value in use calculations have been used to determine recoverable amounts for the cash-generating units noted above. These are determined using cash flow budgets, which are based on business plans for a period of five years. These business plans have been approved by the Board and are valid when the impairment test is performed. The plans are based on past experience as well as future expected market trends. Cash flows beyond the five-year plan period used in the value in use calculations are increased in line with historic long-term growth rates in the UK, or where applicable the US, Canada, Belgium and the Netherlands. Discount rates applied to the cash flow forecasts in determining recoverable amounts are derived from the Group's weighted average cost of capital and for North American cash-generating units range from 9.4% to 9.5%, and for UK and Europe cash-generating units range from 8.5% to 11.1% on a pre-tax basis. Growth rates used to extrapolate cash flow projections beyond the period covered by the most recent forecasts range from 0% to 3%.

The key assumptions in the value in use calculations determining recoverable amounts for the specific cash-generating units noted above are:

British Gas Business

- Budgeted gross margin: for existing contract customers this is based on contracted margins. For new and renewal contract customers this is based on achieved gross margin in the period prior to the approval of the business plan, adjusted in some areas to reflect market conditions. For tariff customers this is based on current prices in the period prior to the approval of the business plan, adjusted for Centrica's view of the forward energy curve.
- Budgeted market share: based on the average market share achieved immediately prior to the approval of the business plan, adjusted for growth forecasts based on sales and marketing activity.

British Gas Services – Dyno-Rod

- Budgeted franchise fee income: based on the average income achieved immediately prior to the approval of the business plan, adjusted for growth forecasts based on sales and marketing activity.
- Budgeted cost growth: based on the cost growth in the period prior to the approval of the business plan.

Texas residential energy

- Budgeted gross margin: based on the average gross margin achieved prior to the approval of the business plan, adjusted for management's expectations of a post-price to beat environment.
- Budgeted customer numbers: based on past experience in the three years prior to the approval of the business plan, adjusted for an expected marginal decline in customer numbers.
- Budgeted consumption: based on past experience of the average consumption per customer prior to the approval of the business plan.
- Budgeted prices: based on a combination of Centrica's view of forward gas and power prices in Texas immediately prior to the approval of the business plan and the price impact of targeted margins.

Canada mass markets

- Budgeted gross margin: for existing customers this is based on contracted margins. For new or renewal customers this is based on achieved gross margin in the period immediately prior to the approval of the business plan.
- Budgeted market share: based on average market share achieved in the period immediately prior to the approval of the business plan, adjusted for growth and decline assumptions specific to each of the competitive and regulated businesses.
- Budgeted market prices: for existing customers this is based on contracted prices. For new or renewal customers, this is based on Centrica's view of forward gas and power prices in Canada.
- Budgeted consumption: based on past experience of the average consumption per customer prior to the approval of the business plan.

Canada Direct Energy business services

- Budgeted gross margin: for commodity gross margin, this is based on Centrica's view of forward gas and power curves, immediately prior to the approval of the business plan while adding historically known gross margin targets by business line. For services gross margin, this is based on past experience immediately prior to the approval of the business plan.
- Budgeted market share: based on average market share achieved in the period prior to the approval of the business plan, adjusted for growth forecasts supported by sales and marketing activity.
- Budgeted churn: based on past experience of the average churn prior to the approval of the business plan.
- Budgeted consumption: based on past experience of the average consumption per customer prior to the approval of the business plan.
- Budgeted market prices: based on Centrica's view of forward gas and power curves immediately prior to the approval of the business plan.

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14. Impairment testing of goodwill and intangibles with indefinite useful lives continued

Canada home services

- Budgeted gross margin: based on achieved gross margin in the period immediately prior to the approval of the business plan.
- Budgeted revenue growth: based on the average achieved revenue growth for the three-year period prior to the approval of the business plan, uplifted for additional product offerings.

US home services

- Budgeted gross margin: based on achieved gross margin in the period immediately prior to the approval of the business plan.
- Budgeted revenue growth: based on the average achieved revenue growth in the Canada home services group over the last three years prior to the approval of the business plan, uplifted for growth targets based on expected market penetration in certain key US state markets.

Europe – Oxxio

- Budgeted revenue growth: based on revenue in the period immediately prior to the approval of the business plan, uplifted for expected growth in customer base, cross selling of products and reduction of customer churn.
- Budgeted gross margin: based on the average gross margin in periods prior to the approval of the business plan, adjusted for the expected impact arising from the unbundling of the gas and electricity markets going forward.
- Budgeted operating expenditure: based on historical trends adjusted for cost improvement programmes including process optimisation implemented.

Europe – SPE

- Budgeted gross margin: based on the achieved gross margins in the period immediately prior to the approval of the business plan.
- Budgeted customer numbers: based on customer numbers prior to the approval of the business plan adjusted for improvements resulting from further liberalisation of the Belgian energy market.
- Budgeted market price: based on management's view of forward gas and power prices in Belgium immediately prior to the approval of the Business plan.
- Budgeted consumption: based on the average consumption per customer prior to the approval of the business plan.

Centrica is of the opinion that, based on current knowledge, expected changes in the aforementioned key assumptions on which the determination of the recoverable amounts are based would not cause the carrying amounts of the cash-generating units to exceed the recoverable amounts.

15. Property, plant and equipment

	Land and buildings (i) £m	Plant, equipment and vehicles (ii), (iii) £m	Power generation (iii), (iv) £m	Storage, exploration and production (iii), (iv), (v), (vi), (vii) £m	**Total £m**
Cost					
1 January 2006	45	646	1,632	4,570	**6,893**
Additions	–	75	107	327	**509**
Acquisitions (note 28)	–	–	31	3	**34**
Disposals	(7)	(144)	(12)	(28)	**(191)**
Revisions and additions to decommissioning liability	–	–	–	87	**87**
Exchange adjustments	–	(62)	(26)	(55)	**(143)**
31 December 2006	**38**	**515**	**1,732**	**4,904**	**7,189**
Aggregate depreciation and impairment					
1 January 2006	17	168	143	2,895	**3,223**
Charge for the year	1	87	107	311	**506**
Disposals	(2)	(135)	(3)	(26)	**(166)**
Exchange adjustments	–	(31)	(3)	(19)	**(53)**
31 December 2006	**16**	**89**	**244**	**3,161**	**3,510**
Net book value					
31 December 2006	**22**	**426**	**1,488**	**1,743**	**3,679**

15. Property, plant and equipment continued

	Land and buildings (i) £m	Plant, equipment and vehicles (ii), (iii) £m	Power generation (iii), (iv) £m	Storage, exploration and production (iii), (iv), (v), (vi), (vii) £m	Total £m
Cost					
1 January 2005	59	648	1,379	4,030	6,116
Additions	–	94	100	456	650
Acquisitions	1	1	181	4	187
Transfers from joint ventures	–	–	249	–	249
Revaluation	–	–	14	–	14
Disposals	(15)	(58)	(315)	(3)	(391)
Disposal of subsidiary	–	(86)	–	–	(86)
Revisions and additions to decommissioning liability	–	–	7	34	41
Exchange adjustments	–	47	17	49	113
31 December 2005	45	646	1,632	4,570	6,893
Aggregate depreciation and impairment					
1 January 2005	30	159	112	2,646	2,947
Charge for the year	1	84	90	237	412
Disposals	(14)	(54)	(60)	(2)	(130)
Disposal of subsidiary	–	(33)	–	–	(33)
Exchange adjustments	–	12	1	14	27
31 December 2005	17	168	143	2,895	3,223
Net book value					
31 December 2005	28	478	1,489	1,675	3,670

(i) The net book value of land and buildings comprises the following:

	2006 £m	2005 £m
Freeholds	**14**	10
Long leaseholds	**1**	10
Short leaseholds	**7**	8
	22	28

(ii) The net book value of the fixed assets of The Consumers' Waterheater Income Fund (the Fund) within plant, equipment and vehicles was £197 million (2005: £210 million). Debt issued by a subsidiary of the Fund, without recourse to the Group, is secured on these assets.

(iii) Assets in the course of construction capitalised during the year are included within the following categories of property, plant and equipment:

	2006 £m	2005 £m
Plant, equipment and vehicles	**11**	2
Power generation	**45**	16
Storage, exploration and production	**52**	13

(iv) Assets held under finance leases	**2006 £m**	2005 £m
Cost at 1 January	**1,302**	1,200
Additions	**–**	413
Disposals	**(5)**	(311)
Cost at 31 December	**1,297**	1,302
Aggregate depreciation at 1 January	**390**	396
Charge for the year	**45**	54
Disposals	**(2)**	(60)
Aggregate depreciation at 31 December	**433**	390
Net book value at 31 December	**864**	912

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15. Property, plant and equipment continued

The net book value of property, plant and equipment held under finance leases and the associated depreciation charge for the year is included in the following categories of property, plant and equipment:

	Net book value £m	Depreciation charge £m
Power generation	793	39
Storage, exploration and production	71	6
	864	45

Power generation assets are subject to the following restrictions:

	2006 £m	2005 £m
Net book value of assets to which title is restricted (Spalding finance lease asset)	407	434
Net book value of assets pledged as security for liabilities	386	411

(v) The net book value of decommissioning costs included within storage, exploration and production assets was £124 million (2005: £85 million).

(vi) Additions within storage, exploration and production include the purchase of a further 4.84% interest in the UK Statfjord oil and gas field from BP for £153 million. This transaction was completed on 30 June 2006. The consideration paid was allocated to the assets and liabilities acquired. In addition to fixed assets of £150 million, a £31 million provision and asset for decommissioning and £3 million for working capital were recognised.

(vii) Exploration for and evaluation of natural gas resources	2006 £m	2005 £m
Net book value of exploration and evaluation costs included within storage, exploration and production assets at 1 January	16	16
Exploration and evaluation costs capitalised during the year	34	36
Exploration and evaluation costs transferred to producing assets and becoming subject to depreciation	(2)	(2)
Exploration and evaluation costs depreciated in the year	(20)	(34)
Exchange adjustments	(4)	–
Net book value of exploration and evaluation costs included within storage, exploration and production assets at 31 December	24	16

16. Interests in joint ventures and associates

	Investments in joint ventures and associates			
(a) Share of net assets/cost	Investments £m	Goodwill £m	Shareholder loans £m	Total £m
1 January 2006	185	26	12	223
Increase in shareholder loans	–	–	11	11
Share of losses for the year	(12)	–	–	(12)
Exchange adjustments	(2)	–	–	(2)
31 December 2006	171	26	23	220

16. Interests in joint ventures and associates continued

	Investments in joint ventures and associates: Investments £m	Investments in joint ventures and associates: Goodwill £m	Shareholder loans £m	Restated (i) Total £m
31 December 2004	131	51	24	206
Adoption of IAS 39	(14)	–	–	(14)
1 January 2005 as restated	117	51	24	192
Additions (i)	137	–	–	137
Increase in shareholder loans	–	–	24	24
Conversion of shareholder loans to equity shares	36	–	(36)	–
Disposals (i), (iii)	(14)	(25)	–	(39)
Transfer to subsidiaries (ii)	(112)	–	–	(112)
Dividends received	(16)	–	–	(16)
Share of profits less losses for the year	37	–	–	37
31 December 2005	185	26	12	223

(i) On 28 September 2005, the Group entered into a 50/50 joint venture (Segebel SA) with Gaz de France. Segebel SA holds a controlling stake of 51% in SPE SA, a Belgian energy company. At the time of the acquisition, SPE SA acquired the Group's 50/50 joint venture energy supply business, Luminus NV, for shares. The acquisition of Luminus NV by SPE SA was treated as a partial (24.5%) disposal by the Group, resulting in a loss of £1 million. In accordance with IFRS 3, Business Combinations, the provisional fair values assigned to the assets and liabilities of Segebel SA were reassessed within 12 months of the acquisition date, and the comparative information restated. The goodwill arising on acquisition has reduced by £23 million, and the share of net assets acquired at acquisition has increased by £23 million as a result of the restatement.

(ii) On 19 September 2005, the Group acquired the remaining 40% stake in Humber Power Limited, and accordingly Humber Power Limited has been treated as a subsidiary of the Group from that date. The Group's 60% share of the assets and liabilities of Humber Power Limited were consolidated in the Group Balance Sheet at the date of acquisition.

(iii) On 11 October 2005 the Group disposed of its 49% share holding in AccuRead Limited for cash consideration of £11 million, resulting in a pre-tax profit on disposal of £8 million.

(b) Share of joint ventures' assets and liabilities

The Group's share of joint ventures' gross assets and gross liabilities at 31 December 2006 principally comprises its interests in Barrow Offshore Wind Limited (renewable power generation) and Segebel SA (energy supply). The Group also acquired a 55% joint venture interest in Coots Limited (CO_2 pipeline construction) during the year. The Group's share of the assets and liabilities of Coots Limited at 31 December 2006 is £nil.

	2006: Barrow Offshore Wind Limited £m	2006: Segebel SA £m	2006: **Total £m**	2005 (restated (i)): Total £m
Share of current assets	8	101	**109**	136
Share of non-current assets	63	236	**299**	321
	71	337	**408**	457
Share of current liabilities	(30)	(67)	**(97)**	(96)
Share of non-current liabilities	(6)	(108)	**(114)**	(150)
	(36)	(175)	**(211)**	(246)
Shareholder loans	23	–	**23**	12
Interests in joint ventures and associates	58	162	**220**	223
Net (debt)/cash included in share of net assets	(22)	17	**(5)**	(4)

(i) In accordance with IFRS 3, Business Combinations, the provisional fair values assigned to the assets and liabilities of Segebel SA were reassessed within 12 months of the acquisition date, and the comparative information restated. The effect of the restatement is to increase share of current assets by £27 million, to increase share of non-current assets by £12 million, to increase share of current liabilities by £27 million, and to increase share of non-current liabilities by £12 million.

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16. Interests in joint ventures and associates continued

(c) Share of joint ventures' result	Barrow Offshore Wind Limited £m	Segebel SA £m	2006 Total £m	2005 Total £m
Income	4	340	**344**	382
Expenses	(4)	(359)	**(363)**	(335)
	–	(19)	**(19)**	47
Tax	–	7	**7**	(10)
Share of post-tax results of joint ventures and associates	–	(12)	**(12)**	37

The Group's share of the investment in and results of Barrow Offshore Wind Limited is included within the Centrica Energy segment, within the Industrial and wholesaling sub-segment. The Group's share of the investment in and results of Segebel SA are included within the European Energy segment.

17. Inventories

	2006 £m	2005 £m
Gas in storage and transportation	**168**	108
Other raw materials and consumables	**77**	74
Finished goods and goods for resale	**25**	14
	270	196

Inventories include £41 million which is carried at fair value less cost to sell, being lower than cost (2005: £77 million). The Group consumed £390 million of inventories (2005: £184 million) during the year.

18. Trade and other receivables

	2006 Current £m	2006 Non-current £m	2005 Current £m	2005 Non-current £m
Trade receivables, net of provisions for impairment	**1,192**	**13**	944	25
Accrued energy income	**1,762**	**–**	1,968	–
Other receivables	**334**	**3**	244	–
Prepayments and other accrued income	**302**	**–**	265	–
	3,590	**16**	3,421	25

19. Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank, in transit and in hand	**29**	21
Short-term deposits	**611**	1,218
Cash and cash equivalents	**640**	1,239

Cash and cash equivalents included £38 million (2005: £30 million) held by the Group's insurance subsidiary undertakings and £17 million (2005: £25 million) held by The Consumers' Waterheater Income Fund. These amounts are not readily available to be used for other purposes within the Group.

20. Bank overdrafts and loans

Amounts falling due:	2006 Current £m	2006 Non-current £m	2005 Current £m	2005 Non-current £m
(a) Businesses' recourse borrowings (vi), (vii)				
Bank overdrafts and loans (i)	**56**	**105**	259	504
Other bank loans:				
Bonds (ii)	**–**	**1,181**	–	422
Commercial paper (iii)	**100**	**–**	377	–
Loan notes	**–**	**3**	–	–
Obligations under finance leases (including power station tolling arrangements) (viii)	**25**	**783**	19	809
	181	**2,072**	655	1,735
(b) Businesses' non-recourse borrowings (vi), (vii)				
Canadian dollar bonds (iv)	**–**	**218**	–	250
Units of The Consumers' Waterheater Income Fund (v)	**–**	**265**	–	282
	181	**2,555**	655	2,267

The Group's management of exposures to financial instruments, and an analysis of effective interest rates is detailed in note 33.

(i) The Group issued a £65 million dual currency loan on 19 December 2006.
(ii) The Group made a number of note issues during the year: £250 million notes issued on 9 March 2006, £150 million notes on 4 September 2006, £67 million floating rate note on 8 September 2006 and £300 million notes on 24 October 2006.
(iii) Commercial paper has a face value of £102 million (2005: £382 million).
(iv) Canadian dollar bonds have a face value of £218 million (2005: £250 million). This debt is issued by The Consumers' Waterheater Trust, a wholly owned subsidiary of The Consumers' Waterheater Income Fund (the Fund), which is consolidated in the Group Financial Statements. The debt is secured solely on the assets of the Fund and its subsidiaries, without recourse to the Group. These bonds were issued in two series and have a maturity date of greater than five years bearing interest between 4.700% and 5.245% respectively.
(v) Units of the Fund are traded on the Toronto Stock Exchange and are treated as debt in the Group Financial Statements.
(vi) Maturity profile of the Group's borrowings:

	2006 £m	2005 £m
(a) Businesses' recourse borrowings:		
Within one year	**181**	655
Between one and two years	**107**	386
Between two and five years	**404**	171
After five years	**1,561**	1,178
	2,253	2,390
(b) Businesses' non-recourse borrowings:		
After five years	**483**	532
	2,736	2,922

Businesses' recourse borrowings include amounts repayable on demand of £48 million (2005: £62 million). At 31 December 2006, the Group had undrawn committed bank borrowing facilities of £1,300 million (2005: £1,000 million) which mature in 2010.

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20. Bank overdrafts and loans continued

(vii) Currency composition of the Group's borrowings:

(a) Businesses' recourse borrowings:	2006 £m	2005 £m
Sterling	1,979	1,911
US dollars	162	417
Euros	68	–
Canadian dollars	3	47
Japanese yen	41	15
	2,253	2,390
(b) Businesses' non-recourse borrowings:		
Canadian dollars	483	532
	2,736	2,922

The businesses' borrowings are denominated in a number of foreign currencies and are either swapped into sterling or maintained in the foreign currency as a hedge for foreign currency investments, in accordance with Group policy for management of exposures (note 33).

	2006		2005	
(viii) Future finance lease commitments	Minimum lease payments £m	Present value of minimum lease payments £m	Minimum lease payments £m	Present value of minimum lease payments £m
Amounts payable:				
Within one year	51	25	49	19
Between one and five years	248	153	219	110
After five years	767	630	849	699
	1,066	808	1,117	828
Less future finance charges	(258)		(289)	
Present value of lease obligations	808		828	

In addition to the minimum lease payments, tolling charges are payable, calculated based on effective operating hours of the station. In the year, £18 million of tolling charges were paid in respect of the Spalding tolling contract (2005 included the Humber tolling contract up to the date of the Group's acquisition of the remaining stake in Humber Power Limited: £20 million). The Group has an option to extend the Spalding tolling arrangement. To exercise this option, notice must be given to the operator, prior to 30 September 2020. Should this option be exercised, by serving further notice the Group has an option to purchase the station. At this time, the generator has the option to retain the station and terminate the tolling contract. Valuation of these options will be determined by an expert panel, appointed by both parties. The minimum lease payments and the tolling charges based on equivalent operating hours are subject to escalation based on a market of indices. There are no restrictions under the finance leases in either the current or prior year.

21. Trade and other payables

	2006		2005	
	Current £m	Non-current £m	Current £m	Non-current £m
Trade payables	982	–	1,400	–
Other payables	849	47	1,134	89
Transportation	16	–	34	–
Other accruals	1,259	–	874	–
Accruals	1,275	–	908	–
Deferred income	185	8	99	13
	3,291	55	3,541	102

22. Deferred and current corporation tax liabilities and assets

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period:

	Accelerated tax depreciation (petroleum revenue tax) £m	Deferred corporation tax effect thereon £m	Decommissioning (petroleum revenue tax) £m	Deferred corporation tax effect thereon £m	Retirement benefit obligation and other provisions £m	Accelerated tax depreciation (corporation tax) £m	Other timing differences including losses carried forward £m	Mark-to-market £m	**Total £m**
1 January 2005	229	(92)	(62)	25	(212)	418	(93)	(44)	**169**
Charge/(credit) to income	(30)	20	3	(1)	–	(3)	(11)	161	**139**
Charge/(credit) to equity	–	–	–	–	(37)	–	4	117	**84**
Acquisition/disposal of subsidiary	–	–	–	–	–	54	–	–	**54**
Transfers	(19)	–	–	–	–	–	–	–	**(19)**
Exchange adjustments	–	–	–	–	–	11	–	9	**20**
31 December 2005	180	(72)	(59)	24	(249)	480	(100)	243	**447**
Change to rate on UK upstream profits	–	(18)	–	6	–	32	(11)	–	**9**
Charge/(credit) to income	(3)	1	(4)	2	17	95	(110)	(266)	**(268)**
Charge/(credit) to equity	–	–	–	–	143	–	–	(312)	**(169)**
Exchange adjustments	–	–	–	–	–	–	–	(4)	**(4)**
31 December 2006	**177**	**(89)**	**(63)**	**32**	**(89)**	**607**	**(221)**	**(339)**	**15**

Certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2006 £m	2005 £m
Deferred tax liabilities	**241**	743
Deferred tax assets	**(226)**	(296)
	15	447

At the balance sheet date the Group had certain deductible temporary differences of £318 million (2005: £576 million) available for utilisation against future profits. No deferred tax asset has been recognised in respect of these temporary differences, due to the unpredictability of future profit streams. These assets may be carried forward indefinitely.

At the balance sheet date temporary differences of £36 million (2005: £66 million) existed in respect of the Group's overseas investments. The deferred tax liability arising on these temporary differences is estimated to be £8 million (2005: £8 million), which has been provided. At the balance sheet date there were current deferred tax assets of £32 million (2005: £nil) and liabilities of £34 million (2005: £nil).

Current tax assets of £98 million (2005: £nil) include £94 million of recoverable petroleum revenue tax (PRT). This sum is a refund of instalment payments made during the second half of 2006 which are in excess of the final liability. PRT instalment payments are calculated by reference to the previous period's profitability not the profits of the period in which they are paid. The excess will be repaid in March 2007.

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23. Provisions for other liabilities and charges

Current provisions for other liabilities and charges	1 January 2006 £m	Acquisitions and disposals (vi) £m	Charged in the year £m	Unused and reversed in the year £m	Revisions and additions £m	Transferred from non-current £m	Utilised £m	**31 December 2006 £m**
Restructuring costs (i)	104	–	87	(23)	–	7	(73)	**102**
Sales contract loss provision (ii)	4	–	–	–	27	–	(15)	**16**
Other (v)	35	(19)	34	(3)	–	6	(41)	**12**
	143	**(19)**	**121**	**(26)**	**27**	**13**	**(129)**	**130**

Non-current provisions for other liabilities and charges	1 January 2006 £m	Acquisitions and disposals (vi) £m	Charged in the year £m	Unused and reversed in the year £m	Revisions and additions £m	Transferred to current £m	Exchange adjustments £m	**31 December 2006 £m**
Restructuring costs (i)	30	–	26	(3)	–	(7)	–	**46**
Decommissioning costs (iii)	326	(24)	10	–	87	–	(4)	**395**
Renegotiation provisions (iv)	91	–	5	(11)	–	–	–	**85**
Other (v)	35	(8)	4	–	–	(6)	–	**25**
	482	**(32)**	**45**	**(14)**	**87**	**(13)**	**(4)**	**551**

(i) During the year the Group undertook a significant restructuring programme to achieve its stated cost reduction targets. The restructure involved a reduction in roles of 1,544 and the exit of the British Gas Residential head office. The provision represents costs relating to surplus properties, redundancy and other costs relating to reorganisations. The element relating to surplus properties was calculated with reference to the expected cost to the date of the exit of the lease, including costs for dilapidations and marketing for the vacant building. The charge to income for the year included £87 million for exceptional redundancy and other reorganisation costs (note 6). The exceptional charge comprises staff reduction costs at the corporate centre (£3 million), British Gas Residential (£16 million), British Gas Services (£48 million), and changes to the property portfolio (£20 million). The majority of these sums are expected to be utilised during 2007. Included within the provision for 2005 were liabilities arising in the pension schemes of £13 million in respect of redundancy costs. In 2006 such liabilities of £17 million have been included within the pension liability on the Balance Sheet.

(ii) The sales contract loss provision relates to the acquisition of a portfolio of gas customers by the Group. Certain of the contracts acquired were identified as being out of the money at the date of acquisition, and the sales contract loss provision was established in respect of them. The acquisition was not considered to constitute a business combination under the requirements of IFRS 3.

(iii) Provision has been made for the estimated net present cost of decommissioning gas production and storage facilities at the end of their useful lives. The estimate has been based on proven and probable reserves, price levels and technology at the balance sheet date. The timing of decommissioning payments are dependent on the lives of the facilities but are anticipated to occur between 2007 and 2042. The charge to income includes £10 million of notional interest (2005: £10 million).

(iv) In previous years, the Group renegotiated certain long-term take-or-pay contracts which would have resulted in commitments to pay for gas that would be excess to requirements and/or at prices above likely market rates. The provision represents the net present cost of estimated payments due to suppliers as consideration for the renegotiations, which are due for settlement in 2008 based on the reserves in a group of third-party fields. The movement in the year included £11 million released to the Income Statement following a revision of the estimated future payments. The charge for the year includes £5 million of notional interest.

(v) Other provisions include outstanding litigation for a number of items (none of which are individually significant) and provision for National Insurance payable in respect of Long Term Incentive Scheme liabilities. The National Insurance provision was based on a share price of 354.50 pence at 31 December 2006 (31 December 2005: 254.75 pence) and is expected to be utilised between 2007 and 2009.

(vi) Acquisitions and disposals of other provisions included utilisation of provisions relating to the cost of disposal of the AA (£15 million) and Onetel (£2 million), and release of a provision in respect of the disposal of Onetel (£10 million, note 28). Acquisitions and disposals of decommissioning provisions wholly related to the disposal of the Hewett gas field.

24. Called up share capital

	2006 £m	2005 £m
Authorised share capital of the Company		
4,455,000,000 ordinary shares of $6^{14}/_{81}$p each		
(2005: 4,455,000,000 ordinary shares of $6^{14}/_{81}$p each)	275	275
100,000 cumulative redeemable preference shares of £1 each	–	–
Allotted and fully paid share capital of the Company		
3,662,721,068 ordinary shares of $6^{14}/_{81}$p each		
(2005: 3,623,982,266 ordinary shares of $6^{14}/_{81}$p each)	226	224

The movement in allotted and fully paid share capital of the Company for the year was as follows:

	2006 Number	2005 Number
1 January	3,623,982,266	3,775,817,747
Shares repurchased (i)	(8,950,000)	(164,654,278)
Shares issued under employee share schemes (ii)	47,688,802	12,818,797
31 December	3,662,721,068	3,623,982,266

The closing price of a Centrica ordinary share on 31 December 2006 was 354.50 pence (2005: 254.75 pence).

(i) During the year, the Company purchased, and subsequently cancelled, 8.95 million ordinary shares at prices ranging from 248.43 pence per share to 254.98 pence per share, with an average of 250.30 pence per share. The total cost of the purchases including expenses was £23 million which has been charged against distributable reserves, of which £0.6 million related to the nominal value and has been recognised in the capital redemption reserve. The share repurchase programme is currently suspended.

(ii) The Centrica Employees Share Trust was established to acquire ordinary shares in the Company by subscription or purchase, with funds provided by way of interest-free loans or by capital contribution from the Company to satisfy rights to shares on the vesting of allocations made under the Company's long-term incentive arrangements. Dividends due on shares held in trust are waived in accordance with the trust deed. All administration costs are borne by the Group. During the year 7.6 million shares were issued to the Trust and subsequently released in order to satisfy exercises of awards under employee share schemes. The Trust received a capital contribution from the Company in order to fund the subscription. The Company has deemed the consideration received for the shares to be equivalent to the fair value of the shares vesting (£9 million). There were nil million shares held by the Trust at 31 December 2006 (2005: nil million).

	2006			2005		
	Number of shares million	Cost £m	Market value £m	Number of shares million	Cost £m	Market value £m
1 January	–	–	–	6.4	15	15
Shares purchased	–	–	–	1.3	3	3
Shares subscribed	7.6	22	22	–	–	–
Shares released under Long Term Incentive Scheme	(7.6)	(22)	(22)	(7.7)	(18)	(18)
31 December	–	–	–	–	–	–

Ordinary shares were also allotted and issued to satisfy the exercise of share options and the matching element of the Share Incentive Plan as follows:

	2006	2005
Number	47,688,802	12,818,797
Nominal value (£m)	2.9	0.8
Consideration (£m) (net of issue costs £nil (2005: £nil))	56	22

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25. Share-based payments

Centrica operates six employee share schemes – the Executive Share Option Scheme (ESOS), the Long Term Incentive Scheme (LTIS), Sharesave, the Share Award Scheme (SAS), the Share Incentive Plan (SIP) and the Employee Share Purchase Plan (ESPP). These are described in the Directors' Report – Corporate Responsibility on page 26 and in the Remuneration Report on pages 34 to 36. There were no other share-based payment transactions during the period.

ESOS

Under the ESOS the Board may grant options over shares in Centrica plc to employees of the Group. Options are granted with a fixed exercise price equal to the market price of the shares at the date of grant. The contractual life of an option is ten years. Awards under the ESOS are generally reserved for employees at senior management level and above and 77 employees are currently eligible to participate. Options granted under the ESOS will become exercisable on the third anniversary of the date of grant, subject to the growth in earnings per share over that period exceeding RPI growth by more than 18 percentage points. The number of options becoming exercisable is reduced on a sliding scale if EPS growth exceeds RPI growth by between nine and 18 percentage points. Options granted up to March 2004 also permit retesting of EPS growth annually for a further two years. Exercise of options is subject to continued employment within the Group. Options were valued using the Black-Scholes option pricing model. No performance conditions were included in the fair value calculations. Early exercise has been taken into account by estimating the expected life of the options. The fair values and the related assumptions used in the calculations are as follows:

Grant date	27 April 2006	23 September 2005	1 April 2005	1 September 2004	18 March 2004	1 September 2003	24 March 2003
Share price at grant date	£2.99	£2.46	£2.28	£2.46	£2.28	£1.80	£1.47
Exercise price	£2.85	£2.51	£2.29	£2.45	£2.24	£1.78	£1.47
Number of options originally granted	6,220,098	291,235	8,339,818	195,795	8,815,399	635,599	13,319,276
Vesting period	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Expected volatility (i)	24%	30%	30%	27%	27%	35%	35%
Contractual option life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Expected life	5 yrs	5 yrs	5 yrs	5 yrs	5 yrs	5 yrs	5 yrs
Risk-free rate	4.70%	4.80%	4.70%	5.00%	5.01%	4.45%	4.44%
Expected dividend yield	4.10%	4.37%	4.37%	4.82%	4.82%	3.09%	3.09%
Expected forfeitures	25%	25%	25%	25%	25%	25%	25%
Fair value per option	£0.59	£0.50	£0.49	£0.47	£0.45	£0.51	£0.41

(i) The expected volatility is based on historical volatility over the last three years, except in the case of options granted in 2003, where historical volatility over the preceding three years was 43%. This was felt to be unrepresentative because it included a significant period of exceptionally high volatility in 1999/2000. In this case the volatility was reassessed ignoring this period. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life. A reconciliation of option movements is as follows:

	2006 Number	2006 Weighted average exercise price £	2005 Number	2005 Weighted average exercise price £
Outstanding at start of period	34,542,481	£2.05	28,289,511	£1.99
Granted	6,220,098	£2.85	8,631,053	£2.30
Exercised	(13,063,314)	£1.86	(1,807,513)	£2.23
Forfeited	(3,610,597)	£2.31	(570,570)	£2.10
Outstanding at the end of the period	24,088,668	£2.33	34,542,481	£2.05
Exercisable at the end of the period	6,454,131	£1.94	8,569,410	£2.31

For options outstanding at the end of the period, the range of exercise prices and average remaining life was as follows:

2006 Range of exercise prices	2006 Weighted average exercise price	2006 Number of shares	2006 Average remaining contractual life Years	2005 Range of exercise prices	2005 Weighted average exercise price	2005 Number of shares	2005 Average remaining contractual life Years
£1.40 – £1.49	£1.47	2,799,139	6.3	£1.40 – £1.49	£1.47	9,738,428	7.3
£2.20 – £2.29	£2.27	13,690,124	7.4	£1.70 – £1.79	£1.78	406,061	7.7
£2.40 – £2.49	£2.40	1,515,850	4.7	£2.20 – £2.29	£2.26	20,320,269	8.2
£2.50 – £2.59	£2.51	291,235	8.8	£2.40 – £2.49	£2.40	3,786,488	5.6
£2.80 – £2.89	£2.85	5,792,320	9.3	£2.50 – £2.59	£2.51	291,235	9.7
	£2.33	24,088,668	7.6		£2.05	34,542,481	7.7

For options exercised during the period the weighted average share price was £2.92 (2005: £2.39).

25. Share-based payments continued

LTIS

Under the LTIS, allocations of shares in Centrica plc are made to employees of the Group. Awards under the LTIS are generally reserved for employees at senior management level and above and 259 employees are currently eligible to participate. For awards made up to 2005, the number of shares that are to be released to participants is calculated subject to the Company's total shareholder return (TSR) during the three years following the grant date, compared to the TSR of other shares in the FTSE 100 Index over the same period. The number of shares released is reduced on a sliding scale if Centrica's TSR is ranked between 50th and 25th. Shares are released to participants immediately following the end of the period in which TSR performance is assessed, but release of shares is subject to continued employment within the Group at the date of release. Allocations were valued using the Black-Scholes option pricing model. Performance conditions were included in the fair value calculations, through the use of a Monte Carlo simulation model. For awards made from 2006, the vesting of only half of each award is made on the basis of TSR performance. For this half of the award, the calculation of TSR performance as compared to the TSR of other FTSE 100 Index shares is consistent with awards made to the end of 2005, except that allocations are valued using a Monte Carlo simulation model. The number of shares released is increased on a sliding scale between 25% and 100% if Centrica's TSR is ranked between 50th and 20th. The vesting of the remaining half of awards made since 2006 is dependent on earnings per share (EPS) growth. This is considered a non-market condition under IFRS 2 and dividends attach to the awards, requiring the shares to be fair valued at market value on the date of grant. The likelihood of achieving the performance conditions is taken into account in calculating the number of awards expected to vest. For shares that vest on awards made from 2006 (for both TSR and EPS portions) the cash payment is increased to reflect the dividends that would have been paid on them during the performance period. The fair values and the related assumptions used in the calculations are as follows:

Grant date	4 September 2006	19 May 2006	2 May 2006	23 September 2005	1 April 2005	1 September 2004	1 April 2004	1 September 2003	1 April 2003
Share price at grant date	£3.03	£2.65	£3.01	£2.46	£2.28	£2.46	£2.30	£1.80	£1.47
Exercise price	£nil	£nil	£nil	£nil	£nil	£nil	£nil	£nil	£nil
Number of shares originally granted	654,396	1,456,064	6,153,355	456,421	8,408,130	310,460	9,765,341	665,696	13,573,547
Vesting period	3 yrs	2.9 yrs	2.9 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Expected volatility (i)	22%	22%	21%	30%	30%	27%	27%	35%	35%
Contractual life	3 yrs	2.9 yrs	2.9 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Expected life	3 yrs	2.9 yrs	2.9 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Risk-free rate	4.80%	4.80%	4.70%	4.80%	4.68%	5.00%	5.04%	4.31%	3.88%
Expected dividend yield	n/a	n/a	n/a	4.37%	4.37%	4.82%	4.82%	3.09%	3.09%
Expected forfeitures	20%	20%	20%	20%	20%	20%	20%	20%	20%
Average volatility of FTSE 100	30%	30%	30%	30%	30%	30%	30%	30%	30%
Average cross-correlation of FTSE 100	(ii)	(ii)	(ii)	(ii)	(ii)	30%	30%	30%	30%
Fair value per share allocated – TSR awards	£1.66	£1.38	£1.80	£1.20	£1.03	£1.25	£1.17	£0.99	£0.89
Fair value per share allocated – EPS awards	£3.03	£2.65	£3.01	n/a	n/a	n/a	n/a	n/a	n/a

(i) The expected volatility is based on historical volatility over the last three years, except in the case of options granted in 2003, where historical volatility over the preceding three years was 43%. This was felt to be unrepresentative because it included a significant period of exceptionally high volatility in 1999/2000. In this case the volatility was reassessed ignoring this period. The expected life is the contract life. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life. A reconciliation of movements in allocations is shown below:

	2006 Number	2005 Number
Outstanding at start of period	26,434,295	28,002,488
Granted	8,263,815	8,864,551
Exercised	(7,538,399)	(7,715,506)
Forfeited – performance related	(2,342,414)	(1,223,789)
Forfeited – non performance related	(3,827,703)	(1,493,449)
Outstanding at the end of the period	20,989,594	26,434,295
Exercisable at the end of the period	–	157,276

(ii) From 2005, the cross-correlation of the FTSE 100 has been obtained from a model which calculates the correlation between Centrica's historical share price and each of the FTSE 100 over the period commensurate with the performance period of the awards.

For shares released during the period the weighted average share price was £2.89 (2005: £2.40).

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25. Share-based payments continued

Sharesave

Under Sharesave the Board may grant options over shares in Centrica plc to UK-based employees of the Group. Options are granted with a fixed exercise price equal to 80% of the average market price of the shares for the three days prior to invitation which is three to four weeks prior to the grant date. Employees pay a fixed amount from salary into a savings account each month, and may elect to save over three or five years. At the end of the savings period, employees have six months in which to exercise their options using the funds saved, including interest earned. If employees decide not to exercise their options, they may withdraw the funds saved, and the options expire. Exercise of options is subject to continued employment within the Group. Options were valued using the Black-Scholes option pricing model. The fair values and the related assumptions used in the calculations are as follows:

Grant date	10 April 2006	10 April 2006	6 April 2005	6 April 2005	1 April 2004	1 April 2004	8 April 2003
Share price at grant date	£2.86	£2.86	£2.36	£2.36	£2.30	£2.30	£1.59
Exercise price	£2.38	£2.38	£1.88	£1.88	£1.83	£1.83	£1.07
Number of options originally granted	3,587,711	8,548,648	4,329,658	5,791,571	3,854,639	7,407,793	37,280,748
Vesting period	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Expected volatility (i)	25%	23%	30%	30%	27%	27%	35%
Contractual option life	5.5yrs	3.5 yrs	5.5 yrs	3.5 yrs	5.5 yrs	3.5 yrs	5.5 yrs
Expected life	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Risk-free rate	4.5%	4.5%	4.65%	4.64%	5.13%	5.04%	3.90%
Expected dividend yield	4.1%	4.1%	4.37%	4.37%	4.82%	4.82%	3.09%
Expected forfeitures	40%	25%	40%	25%	40%	25%	40%
Fair value per option	£0.72	£0.65	£0.68	£0.64	£0.61	£0.58	£0.64

(i) The expected volatility is based on historical volatility over the last three years, except in the case of options granted in 2003, where historical volatility over the preceding three years was 43%. This was felt to be unrepresentative because it included a significant period of exceptionally high volatility in 1999/2000. In this case the volatility was reassessed ignoring this period. The expected life is the contract life. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life. A reconciliation of movements in allocations is as follows:

	2006 Number	2006 Weighted average exercise price £	2005 Number	2005 Weighted average exercise price £
Outstanding at start of period	73,748,195	£1.30	80,576,125	£1.24
Granted	12,136,359	£2.38	10,121,229	£1.88
Exercised	(26,279,815)	£1.14	(7,869,934)	£1.44
Forfeited	(4,308,655)	£1.67	(8,981,271)	£1.33
Expired	(855)	£1.78	(97,954)	£1.78
Outstanding at the end of the period	55,295,229	£1.58	73,748,195	£1.30
Exercisable at the end of the period	13,406	£1.07	7,273	£1.78

For options outstanding at the end of the period, the range of exercise prices and the average remaining life was as follows:

2006 Range of exercise prices	2006 Weighted average exercise price	2006 Number of shares	2006 Average remaining contractual life Years	2005 Range of exercise prices	2005 Weighted average exercise price	2005 Number of shares	2005 Average remaining contractual life Years
£1.00 – £1.09	£1.07	26,461,884	1.9	£1.00 – £1.09	£1.07	52,169,512	1.8
£1.70 – £1.79	£1.78	2,493,279	0.9	£1.70 – £1.79	£1.78	2,722,085	1.7
£1.80 – £1.89	£1.86	15,027,623	2.3	£1.80 – £1.89	£1.86	17,176,807	3.0
£1.90 – £1.99	£1.91	3,886	0.0	£1.90 – £1.99	£1.91	1,679,791	0.7
£2.30 – £2.39	£2.38	11,308,557	3.5				
	£1.58	55,295,229	2.3		£1.30	73,748,195	2.1

For options exercised during the period the weighted average share price was £2.80 (2005: £2.33).

25. Share-based payments continued

SAS

Under the SAS, allocations of shares in Centrica plc are made to employees of the Group. Awards under the SAS are generally reserved for certain selected employees at middle management levels, based on recommendation by the executive. There is no contractual eligibility for SAS and each year's award is made independently from previous awards. For the 2006 award, 452 employees were eligible to participate. Allocations are subject to no performance conditions and vest unconditionally subject to continued employment with the Group in two stages – half of the awards vesting after two years, the other half vesting after three years. On vesting, additional shares or a cash payment are made to reflect dividends that would have been paid on the allocations during the retention period. The fair value is therefore considered to be the market value at date of grant. The fair values and related assumptions used to calculate the cost to the Group are as follows:

Grant date	3 April 2006	3 April 2006
Share price at grant date	£2.84	£2.84
Exercise price	£nil	£nil
Number of options originally granted	780,367	780,143
Vesting period	3 yrs	2 yrs
Contractual option life	3 yrs	2 yrs
Expected forfeitures	25%	15%
Fair value per option	£2.84	£2.84

A reconciliation of movements in the allocations is as follows:

	2006 Number	2005 Number
Outstanding at start of period	–	–
Granted	1,560,510	–
Shares sold and transferred out of the plan	(3,096)	–
Forfeited	(92,855)	–
Outstanding at end of period	1,464,559	–
Exercisable at end of period	–	–

For shares released during the period the weighted average share price was £3.40 (2005: £nil).

SIP

Under SIP, employees in the UK may purchase 'partnership shares' through monthly salary deductions. The Company then grants one 'matching share' for every two purchased, up to a maximum of 20 matching shares per employee per month. Both partnership shares and matching shares are held in a trust initially. Partnership shares may be withdrawn at any time, but matching shares are forfeited if the related partnership shares are withdrawn within three years from the original purchase date. Matching shares vest unconditionally for employees after being held for three years in the trust. Vesting of matching shares is also subject to continued employment within the Group. Matching shares are valued at the market price at the grant date. The average fair value of these awards during the year was £2.97 (2005: £2.36). A reconciliation of matching shares held in trust is as follows:

	2006 Number	2005 Number
Unvested at start of period	2,067,233	1,433,447
Granted	771,767	863,516
Shares sold and transferred out of the plan	(199,711)	(138,554)
Forfeited	(138,373)	(91,176)
Unvested at end of period	2,500,916	2,067,233

ESPP

Under the ESPP, employees in North America purchase 'partnership shares' through salary deductions. The Company then grants one 'matching share' for every two shares purchased. Partnership shares may be withdrawn at any time, but the entitlement to matching shares is forfeited if the related partnership shares are withdrawn within two years from the original purchase date. Matching shares vest unconditionally for employees after being held for two years. Vesting of matching shares is also subject to continued employment within the Group. Matching shares are valued at the market price at the grant date. The average fair value of these awards during the year was £2.97 (2005: £2.37). A reconciliation of matching shares granted is shown below:

	2006 Number	2005 Number
Unvested at start of period	208,329	–
Granted	230,916	223,116
Vested	(29,353)	(961)
Forfeited	(40,729)	(13,826)
Unvested at end of period	369,163	208,329

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26. Reserves

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Other reserves £m	Total £m	Minority interest £m	Total equity £m
	Attributable to equity holders of the Company							
31 December 2005	224	595	467	15	1,085	**2,386**	56	**2,442**
Exchange differences on translation of foreign operations	–	–	–	–	(23)	**(23)**	–	**(23)**
Actuarial gains on defined benefit pension schemes	–	–	–	–	475	**475**	–	**475**
Cash flow hedges:								
Net fair value losses	–	–	–	–	(645)	**(645)**	–	**(645)**
Transfers to Income Statement	–	–	–	–	(294)	**(294)**	–	**(294)**
Tax on items taken directly to/from equity	–	–	–	–	169	**169**	–	**169**
	224	595	467	15	767	**2,068**	56	**2,124**
Loss for the year	–	–	–	–	(155)	**(155)**	1	**(154)**
Employee share option schemes:								
Share issue	3	62	–	–	–	**65**	–	**65**
Exercise of awards	–	–	–	–	(9)	**(9)**	–	**(9)**
Value of services provided	–	–	–	–	23	**23**	–	**23**
Repurchase of shares	(1)	–	–	1	(23)	**(23)**	–	**(23)**
Dividends	–	–	–	–	(384)	**(384)**	–	**(384)**
31 December 2006	**226**	**657**	**467**	**16**	**219**	**1,585**	57	**1,642**

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Other reserves £m	Total £m	Minority interest £m	Total equity £m
	Attributable to equity holders of the Company							
31 December 2004	233	575	467	5	809	2,089	219	2,308
Adoption of IAS 32 and IAS 39	–	–	–	–	(179)	(179)	(164)	(343)
1 January 2005 as restated	233	575	467	5	630	1,910	55	1,965
Exchange differences on translation of foreign operations	–	–	–	–	13	13	–	13
Actuarial losses on defined benefit pension schemes	–	–	–	–	(126)	(126)	–	(126)
Gains on revaluation of acquired assets	–	–	–	–	14	14	–	14
Gains on revaluation of available for sale investments	–	–	–	–	2	2	–	2
Cash flow hedges:								
Net fair value gains	–	–	–	–	408	408	–	408
Transfers to Income Statement	–	–	–	–	(74)	(74)	–	(74)
Tax on items taken directly to/from equity	–	–	–	–	(84)	(84)	–	(84)
	233	575	467	5	783	2,063	55	2,118
Profit for the year	–	–	–	–	1,012	1,012	1	1,013
Employee share option schemes:								
Purchase of treasury shares	–	–	–	–	(3)	(3)	–	(3)
Share issue	1	20	–	–	–	21	–	21
Value of services provided	–	–	–	–	21	21	–	21
Repurchase of shares	(10)	–	–	10	(388)	(388)	–	(388)
Dividends	–	–	–	–	(340)	(340)	–	(340)
31 December 2005	224	595	467	15	1,085	2,386	56	2,442

26. Reserves continued

Other reserves	Revaluation reserve £m	Foreign currency translation reserve £m	Cash flow hedging reserve £m	Profit and loss reserve £m	**Total other reserves £m**
1 January 2006	10	(3)	301	777	**1,085**
Exchange differences on translation of foreign operations	–	(23)	–	–	**(23)**
Actuarial gains on defined benefit pension schemes	–	–	–	475	**475**
Cash flow hedges:					
Net fair value losses	–	–	(645)	–	**(645)**
Transfers to Income Statement	–	–	(294)	–	**(294)**
Tax on items taken directly to/from equity	–	–	312	(143)	**169**
	10	(26)	(326)	1,109	**767**
Loss for the year	–	–	–	(155)	**(155)**
Employee share option schemes:					
Exercise of awards	–	–	–	(9)	**(9)**
Value of services provided	–	–	–	23	**23**
Repurchase of shares	–	–	–	(23)	**(23)**
Dividends	–	–	–	(384)	**(384)**
31 December 2006	**10**	**(26)**	**(326)**	**561**	**219**

Other reserves	Revaluation reserve £m	Foreign currency translation reserve £m	Cash flow hedging reserve £m	Profit and loss reserve £m	Total other reserves £m
31 December 2004	–	–	–	809	809
Adoption of IAS 32 and IAS 39	–	–	68	(247)	(179)
1 January 2005 as restated	–	–	68	562	630
Exchange differences on translation of foreign operations	–	(3)	16	–	13
Actuarial losses on defined benefit pension schemes	–	–	–	(126)	(126)
Gains on revaluation of acquired assets	14	–	–	–	14
Gain on revaluation of available for sale investments	–	–	–	2	2
Cash flow hedges:					
Net fair value gains	–	–	408	–	408
Transfers to Income Statement	–	–	(74)	–	(74)
Tax on items taken directly to/from equity	(4)	–	(117)	37	(84)
	10	(3)	301	475	783
Profit for the year	–	–	–	1,012	1,012
Employee share option schemes:					
Purchase of treasury shares	–	–	–	(3)	(3)
Value of services provided	–	–	–	21	21
Repurchase of shares	–	–	–	(388)	(388)
Dividends	–	–	–	(340)	(340)
31 December 2005	10	(3)	301	777	1,085

Merger reserve
On 17 February 1997 BG plc (formerly British Gas plc) demerged certain businesses (grouped together under GB Gas Holdings Limited (GBGH)) to Centrica plc. Prior to demerger, the companies comprising the Centrica businesses were transferred to GBGH, a subsidiary undertaking of BG plc. Upon demerger the share capital of GBGH was transferred to Centrica plc and was recorded at the nominal value of shares issued to BG plc shareholders. In accordance with sections 131 and 133 of the Companies Act 1985, no premium was recorded on the shares issued. On consolidation, the difference between the nominal value of the Company's shares issued and the amount of share capital and share premium of GBGH at the date of demerger, was credited to a merger reserve.

Capital redemption reserve
In accordance with section 170 (1) of the Companies Act 1985, the Company has transferred to the capital redemption reserve an amount equal to the nominal value of shares repurchased and subsequently cancelled. The repurchase of shares includes transaction costs charged directly to the profit and loss reserve of £nil (2005: £1 million).

Revaluation reserve
During 2005, the revaluation of the Group's existing interest in Humber Power 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.

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26. Reserves continued

Foreign currency translation reserve
Comprises exchange translation differences on foreign currency net investments, offset by exchange translation differences on borrowings and derivatives classified as net investment hedges under the requirements of IAS 39. Exchange losses of £105 million (2005: £146 million gain) on net investments in overseas undertakings have been offset in reserves against exchange gains of £82 million (2005: £133 million loss) on foreign currency borrowings and other instruments used for hedging purposes.

Cash flow hedging reserve
Comprises fair value movements on instruments designated as cash flow hedges under the requirements of IAS 39.

Profit and loss reserve	Share options reserve £m	Other £m	Profit and loss reserve £m
1 January 2006	42	735	**777**
Actuarial gains on defined benefit pension schemes	–	475	**475**
Tax on items taken directly to/from equity	–	(143)	**(143)**
	42	1,067	**1,109**
Loss for the year	–	(155)	**(155)**
Employee share option schemes:			
Exercise of awards	(27)	18	**(9)**
Value of services provided	23	–	**23**
Repurchase of shares	–	(23)	**(23)**
Dividends	–	(384)	**(384)**
31 December 2006	**38**	**523**	**561**

Profit and loss reserve	Treasury shares £m	Share options reserve £m	Other £m	Profit and loss reserve £m
31 December 2004	(15)	24	800	809
Adoption of IAS 32 and IAS 39	–	–	(247)	(247)
1 January 2005 as restated	(15)	24	553	562
Actuarial losses on defined benefit pension schemes	–	–	(126)	(126)
Gains on revaluation of available for sale investments	–	–	2	2
Tax on items taken directly to/from equity	–	–	37	37
	(15)	24	466	475
Profit for the year	–	–	1,012	1,012
Employee share option schemes:				
Purchase of treasury shares	(3)	–	–	(3)
Exercise of awards	18	(3)	(15)	–
Value of services provided	–	21	–	21
Repurchase of shares	–	–	(388)	(388)
Dividends	–	–	(340)	(340)
31 December 2005	–	42	735	777

Profit and loss reserve
Cumulative actuarial gains arising on defined benefit pension schemes recognised in the profit and loss reserve amounted to £439 million (2005: £36 million loss). Cumulative gains of £2 million (2005: £2 million) on available for sale investments were included within the profit and loss reserve.

Aggregate tax taken directly to reserves amounted to a credit of £169 million (2005: £84 million charge), of which a charge of £143 million relates to deferred tax arising on actuarial gains on the Group's defined benefit pension schemes (2005: £37 million credit) and a credit of £312 million relates to deferred tax arising on gains and losses on available for sale investments and cash flow hedges (2005: £121 million charge).

27. Minority interests

	Total £m
1 January 2006	**56**
Profit on ordinary activities after taxation	**1**
31 December 2006	**57**

Minority interests at 31 December 2006 related to a 30% economic interest held by Lloyds TSB Bank plc in the dormant legal entity (formerly Goldfish Holdings Limited) pending winding up of the company and its subsidiary, GF One Limited (formerly Goldfish Bank Limited).

28. Acquisitions and disposals

(i) Acquisitions

During the year the Group acquired the Paris Energy Centre and related gas pipeline through a 100% acquisition of Tenaska III Inc and Willowtex Pipeline Co. The Group also acquired the assets including customer base of Entergy Solutions Ltd. Other smaller acquisitions are described in section (c).

The acquisition method of accounting was adopted in all cases. The analysis of assets and liabilities acquired, and the fair value of these acquisitions are as shown below. All intangible fixed assets were recognised at their respective fair values.

The residual excess over the net assets acquired on each acquisition is recognised as goodwill in the Financial Statements.

The fair values stated are provisional because the Directors have not yet reached a final determination on all aspects of the fair value exercise.

(a) Tenaska III Inc and Willowtex Pipeline Co	IFRS carrying values pre-acquisition £m	Fair value £m
Property, plant and equipment	31	31
Inventory	1	1
Net assets acquired	32	32
Cash consideration	**32**	**32**

The Group acquired 100% of the partnership interest of Tenaska III Inc and 100% of the voting share capital of Willowtex Pipeline Co on 2 February 2006. Tenaska III Inc owns the Paris Energy Centre, a 244 MW gas-fired combined cycle power station in Texas. Willowtex Pipeline Co owns a 16 mile natural gas pipeline exclusively serving the plant. The acquired business contributed a loss after tax of £2 million to the Group for the period from 2 February 2006 to 31 December 2006.

(b) Entergy Solutions Ltd	IFRS carrying values pre-acquisition £m	Fair value £m
Intangible assets (note 13)	27	27
Trade and other receivables: non-current	1	1
Trade and other receivables: current	1	1
Trade and other payables: current	(2)	(2)
Trade and other payables: non-current	(17)	(17)
Net assets acquired	10	10
Cash consideration	**10**	**10**

The Group acquired the assets including more than 100,000 residential and commercial customers in the Houston and Dallas-Fort Worth areas and South Texas from Entergy Solutions Ltd on 24 April 2006. The acquired assets contributed profit after tax of £nil to the Group for the period from 24 April 2006 to 31 December 2006.

(c) Other acquisitions

The Group acquired the upstream gas assets of Frio Pipeline Co on 10 October 2006 (consideration £3.3 million, goodwill £nil) and the assets of Mr. Air Conditioning and Heating Inc on 16 October 2006 (consideration £0.5 million, goodwill £0.4 million) and 85% of the voting share capital of Coastal Energy Limited (consideration £1 million, goodwill £nil). The acquired businesses contributed to a loss after tax of £1 million to the Group from their respective dates of acquisition up to 31 December 2006.

The pro-forma consolidated results of the Group, as if the 2006 acquisitions had been made at the beginning of the period include revenues of £16,513 million and a loss after tax of £154 million. The pro-forma results have been calculated using the Group's accounting policies. In preparing the pro-forma results, revenue and costs have been included as if the business were acquired on 1 January 2006 and intercompany transactions had been eliminated. This information is not necessarily indicative of the results of the combined Group that would have occurred had the purchases actually been made at the beginning of the period presented, or future results of the combined Group.

During 2006 the Group paid £50 million of deferred and contingent consideration in relation to prior year acquisitions, of which £40 million related to the acquisition of CPL/WTU in 2002.

(ii) Disposals

Continuing operations

During 2006 the Group paid £3 million for the construction and delivery of assets related to the order book of British Gas Connections Limited, which was disposed in 2005. Assets are expected to be constructed for the next four years.

Discontinued operations

During 2006 adjustments were made to the consideration received for the disposal of the AA in 2004 and Onetel in 2005. These included a £15 million payment in respect of the AA, for which provision had previously been made. The finalisation of the Onetel disposal has resulted in a charge to the Income Statement of £8 million, net of a £3 million tax credit. At the time of the disposal, the Group agreed to provide 225,000 customer connections each year until 2008, and recognised a provision of £13 million in respect of the marginal cost of the connections. During the year the Group exited this agreement for a payment of £21 million. £10 million of the provision was unutilised and has been released. £33 million has been received in respect of finalisation of working capital disposed.

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29. Notes to the Group Cash Flow Statement

(a) Reconciliation of Group operating profit to net cash flow from operating activities	2006 £m	2005 £m
Continuing operations		
Group operating profit including share of result of joint ventures and associates	180	1,957
Less share of losses/(profits) of joint ventures and associates	12	(37)
Group operating profit before share of joint ventures and associates	192	1,920
Add back:		
Amortisation of intangible assets	73	76
Depreciation of property, plant and equipment	506	406
Systems write-down	196	–
Employee share scheme costs	23	17
Profit on sale of businesses (note 28)	(3)	(53)
Profit on sale of property, plant and equipment and other intangible assets	(17)	(17)
Movement in provisions	84	42
Re-measurement of energy contracts (i)	911	(455)
Operating cash flows before movements in working capital	1,965	1,936
Increase in inventories	(83)	(22)
Increase in receivables	(260)	(269)
(Decrease)/increase in payables	(149)	299
Cash generated from continuing operations	1,473	1,944
Income taxes paid	(311)	(320)
Petroleum revenue tax paid	(316)	(448)
Net interest received	4	3
Payments relating to exceptional charges	(113)	(48)
Net cash flow from continuing operating activities	737	1,131

(i) Includes net £5 million (2005: £nil) unrealised losses/(profits) arising from re-measurement of contracts, including those relating to proprietary trading and North American storage activities.

	2006 £m	2005 £m
Discontinued operations		
Operating profit before share of joint ventures and associates	–	12
Add back:		
Amortisation of intangible assets	–	1
Depreciation of property, plant and equipment	–	6
Employee share scheme costs	–	1
Movement in provisions	–	(4)
Operating cash flows before movements in working capital	–	16
Increase in receivables	–	(3)
Cash generated from discontinued operations	–	13
Net cash flow from discontinued operating activities	–	13
Total cash flow from operating activities	737	1,144

(b) Net cash flow from investing activities	2006 £m	2005 £m
Continuing operations	(717)	(520)
Discontinued operations (note 28)	(3)	(9)
Net cash flow from investing activities	(720)	(529)

(c) Net cash flow from financing activities	2006 £m	2005 £m
Continuing operations	(597)	(356)
Discontinued operations	–	21
Net cash flow from financing activities	(597)	(335)

There were no additions to property, plant and equipment during the year financed by new finance leases. Cash and cash equivalents (which are presented as a single class of assets on the face of the Balance Sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

29. Notes to the Group Cash Flow Statement continued

(d) Net debt	2006 £m	2005 £m
Non-current assets – other financial assets	37	45
Current assets – other financial assets	49	46
Current assets – cash and cash equivalents	640	1,239
Current liabilities – bank overdrafts and loans	(181)	(655)
Non-current liabilities – bank loans and other borrowings	(2,555)	(2,267)
Net debt including non-recourse borrowings	(2,010)	(1,592)
Less non-recourse borrowings (note 20)	483	532
Net debt excluding non-recourse borrowings	(1,527)	(1,060)

30. Pensions

Substantially all of the Group's UK employees at 31 December 2006 were members of one of the three main schemes: the Centrica Pension Scheme (formerly the Centrica Staff Pension Scheme), the Centrica Engineers' Pension Scheme and the Centrica Management Pension Scheme (the approved pension schemes). The Centrica Pension Scheme (final salary section) and the Centrica Management Pension Scheme (a final salary scheme) were closed to new members from 1 April 2003. The Centrica Pension Scheme has an open career average salary section. The Centrica Engineers' Pension Scheme (final salary section) was closed to new members from 1 April 2006, and a career average salary section was added to the scheme at that date. These schemes are defined benefit schemes, and are tax-approved funded arrangements. They are subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contributions which, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes.

The Centrica Unapproved Pension Scheme is an unfunded arrangement which provides benefits to certain employees whose benefits under the main schemes would otherwise be limited by the earnings cap. The Group also has a commitment to provide certain pension and post retirement benefits to employees of Direct Energy Marketing Limited (Canada).

The latest full actuarial valuations were carried out at the following dates: the approved pension schemes at 31 March 2004, the Unapproved Pension Scheme at 6 April 2005 and the Direct Energy Marketing Limited pension plan at 14 June 2005. These have been updated to 31 December 2006 for the purposes of meeting the requirements of IAS 19. Investments have been valued, for this purpose, at market value. At 31 December 2006, all of the schemes reported deficits when valued for the purposes of IAS 19.

Major assumptions used for the actuarial valuation	31 December 2006 %	31 December 2005 %
Rate of increase in employee earnings	4.00	4.35
Rate of increase in pensions in payment and deferred pensions	3.00	2.85
Discount rate	5.00	4.85
Inflation assumption	3.00	2.85

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date have been based on a combination of standard actuarial mortality tables, scheme experience and other relevant data, and include a medium cohort allowance for future improvements in longevity, as published by the Institute of Actuaries. The assumptions are equivalent to future longevity for members in normal health approximately as follows:

Life expectancy at age 65 for a member:	Male Years	Female Years	Male Years	Female Years
Currently aged 65	20.2	21.7	18.8	22.7
Currently aged 45	21.3	22.9	20.6	24.5

At the most recent actuarial review of the schemes there were approximately 20,850 male (2005: 19,850) and 11,050 female (2005: 11,050) members and beneficiaries.

The other demographic assumptions have been set having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the pension schemes.

Impact of changing material assumptions	Change in assumption	Indicative effect on scheme liabilities
Rate of increase in employee earnings	Increase/decrease by 0.25%	Increase/decrease by 2%
Rate of increase in pensions in payment and deferred pensions	Increase/decrease by 0.25%	Increase/decrease by 4%
Discount rate	Increase/decrease by 0.25%	Decrease/increase by 6%
Inflation assumption	Increase/decrease by 0.25%	Increase/decrease by 6%
Longevity assumption	Increase/decrease by 1 year	Increase/decrease by 2%

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30. Pensions continued

The market value and expected rate of return of the assets and the present value of the liabilities in the schemes at 31 December were:

31 December	Expected rate of return per annum 2006 %	Valuation 2006 £m	Expected rate of return per annum 2005 %	Valuation 2005 £m
UK equities	**7.8**	**1,486**	7.9	1,182
Non-UK equities	**7.8**	**857**	8.0	841
Fixed-interest bonds	**5.3**	**312**	4.7	241
Interest-linked bonds	**4.3**	**213**	4.1	150
Property	**6.2**	**68**	6.3	83
Cash and other assets	**5.0**	**52**	3.7	73
Total fair value of plan assets	**7.2**	**2,988**	7.3	2,570
Present value of defined benefit obligation		**(3,284)**		(3,390)
Net liability recognised in the Balance Sheet (i)		**(296)**		(820)
Associated deferred tax asset recognised in the Balance Sheet		**89**		249
Net pension liability		**(207)**		(571)

(i) £17 million of the liability relates to loss on curtailments included within exceptional restructuring costs arising in the year (2005: £13 million). In 2005, this amount was reflected in restructuring provisions within the Balance Sheet. In 2006 it has been included with the pension liability.

The overall expected rate of return on assets is a weighted average based on the actual plan assets held and the respective expected returns on separate asset classes. The return on separate asset classes were derived as follows: the expected rate of return on equities is based on the expected median return over a ten-year period, as calculated by the independent company actuary. The median return over a longer period than ten years was not expected to be materially dissimilar. The expected rate of return on bonds was measured directly from actual market yields for UK gilts and corporate bond stocks. The rate above takes into account the actual mixture of UK gilts, UK corporate bonds and overseas bonds held at the balance sheet date. The expected rate of return on property takes into account both capital growth and allowance for expenses, rental growth and depreciation. The expected rate of return on cash is comparable to current bank interest rates.

Included within schemes' liabilities above are £27 million (2005: £32 million) relating to unfunded pension arrangements. Included within other non-current financial assets are £29 million (2005: £31 million) of money market investments, held by the Law Debenture Trust on behalf of the Company, as security in respect of the Centrica Unapproved Pension Scheme.

Analysis of the amount charged to operating profit	2006 £m	2005 £m
Current service cost	**143**	122
Plan amendment (i)	**(20)**	–
Loss on curtailment	**18**	14
Net charge to operating profit	**141**	136

(i) The schemes' rules were amended from 1 April 2006 to allow employees to commute a larger amount of their pension to a cash lump sum on retirement, in line with changes to the Finance Act. Accordingly, the assumptions made in calculating the Group's defined benefit pension liability have been revised, and a gain of £20 million has been recognised in Group operating profit before exceptional items and certain re-measurements. Future revisions to the assumption will be reflected within the Statement of Recognised Income and Expense.

Analysis of the amount (credited)/charged to notional interest	2006 £m	2005 £m
Expected return on pension scheme assets	**(194)**	(153)
Interest on pension scheme liabilities	**168**	150
Net credit to notional interest cost	**(26)**	(3)

Analysis of the actuarial gain/(loss) recognised in the Statement of Recognised Income and Expense	2006 £m	2005 £m
Actual return less expected return on pension scheme assets	**95**	307
Experience gains and losses arising on the scheme liabilities	**145**	21
Changes in assumptions underlying the present value of the schemes' liabilities	**235**	(454)
Actuarial gain/(loss) to be recognised in the Statement of Recognised Income and Expense before adjustment for tax	**475**	(126)
Cumulative actuarial gains and losses recognised in reserves at 31 December	**439**	(36)

30. Pensions continued

History of deficit	2006 £m	2005 £m	2004 £m	2003 £m
Plan assets	2,988	2,570	2,041	2,353
Defined benefit obligation	(3,284)	(3,390)	(2,760)	(3,491)
Deficit	(296)	(820)	(719)	(1,138)

History of experience gains and losses	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets:				
Amount (£m)	95	307	64	202
Percentage of scheme assets	3.2%	11.9%	3.1%	8.6%
Experience gains and losses on scheme liabilities:				
Amount (£m)	145	21	134	(64)
Percentage of the present value of scheme liabilities	4.4%	0.6%	4.9%	1.8%
Total actuarial gain/(loss) recognised in the Statement of Recognised Income and Expense:				
Amount (£m)	475	(126)	90	(281)
Percentage of the present value of scheme liabilities	14.5%	3.7%	3.3%	8.0%

Movement in the defined benefit obligation during the year	2006 £m	2005 £m
1 January	3,390	2,760
Movements in the year:		
Current service cost	143	119
Plan amendment	(20)	–
Loss on curtailment	18	14
Interest on scheme liabilities	168	150
Plan participants' contributions	25	24
Benefits paid	(60)	(48)
Actuarial (gain)/loss	(380)	433
Settlements/curtailments paid from fund	–	(62)
31 December	3,284	3,390

Movement in plan assets during the year	2006 £m	2005 £m
1 January	2,570	2,041
Movements in the year:		
Expected return on scheme assets	194	153
Actuarial gain	95	307
Employer contributions	164	155
Plan participants' contributions	25	24
Benefits paid	(60)	(48)
Settlements/curtailments paid from fund	–	(62)
31 December	2,988	2,570

Agreed future contribution rates (% of pensionable salary) for the three main defined benefit schemes	2006 %
Centrica Pension Scheme – Final salary section	19.7
Centrica Pension Scheme – CRIS section	8.0
Centrica Engineers' Pension Scheme – Final salary section	19.0
Centrica Engineers' Pension Scheme – CERIS section	8.0
Centrica Management Pension Scheme	26.2

A full actuarial valuation is carried out at least triennially for the independent scheme Trustees by a professionally qualified independent actuary. The purpose of the valuation is to design a funding plan to ensure that present and future contributions should be sufficient to meet future liabilities. Actuarial valuations of the approved schemes as at 31 March 2006 are currently underway. Until the valuations are concluded, contributions will continue to be paid in accordance with the 2004 funding plan.

The Centrica Pension Scheme (final salary section) and the Centrica Management Pension Scheme were closed to new members from 1 April 2003. The Centrica Engineers' Pension Scheme (final salary section) was closed to new members from 1 April 2006. Under the projected unit method, used to value pension liabilities under IAS 19 for closed plans, the current service cost is expected to increase over time as members approach retirement.

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31. Commitments and contingencies

(a) Commitments

At 31 December 2006, the Group had placed contracts for the acquisition of property, plant and equipment amounting to £447 million (2005: £108 million), and for the acquisition of intangible assets of £1,082 million (2005: £137 million). Commitments in relation to the acquisition of property, plant and equipment include £219 million in respect of the construction of a power station at Langage, £99 million in respect of construction of the Lynn and Inner Dowsing wind farms, £72 million in respect of the redevelopment of the Statfjord field, and £42 million in respect of the acquisition of the Braes of Doune wind farm. Commitments in relation to the acquisition of intangible assets include renewable obligation certificates of £869 million (2005: £103 million), carbon emissions certificates of £122 million (2005: £nil) and certified emission reduction certificates of £91 million (2005: £nil).

At 31 December 2006 the Group had commitments of £44 million (2005: £49 million) relating to gas storage contracts in North America, and £21 million (2005: £nil) relating to contracts with out-source service providers. Other commitments at 31 December 2006 amount to £52 million (2005: £13 million).

(b) Decommissioning costs

The Group has provided certain guarantees and indemnities to BG Group plc in respect of the decommissioning costs of the Morecambe gas fields. The Company and its wholly-owned subsidiary, Hydrocarbon Resources Limited, have agreed to provide security, in respect of such guarantees and indemnities, to BG International Limited, which, as original licence holder for the Morecambe gas fields, will have exposure to decommissioning costs relating to the Morecambe gas fields should liabilities not be fully discharged by the Group. The security is to be provided when the estimated future net revenue stream from the Morecambe gas fields falls below 150% of the estimated cost of such decommissioning. The nature of the security may take a number of different forms and will remain in force unless and until the costs of such decommissioning have been irrevocably discharged and the relevant Department of Trade and Industry decommissioning notice in respect of the Morecambe gas fields has been revoked.

(c) Operating lease commitments

At 31 December the total of future minimum lease payments under non-cancellable operating leases for each of the following periods were:

	Other 2006 £m	Other 2005 £m
Within one year	**80**	73
Between one and five years	**172**	160
After five years	**160**	192
	412	425

	Other 2006 £m	Other 2005 £m
The total of future minimum sub-lease payments expected to be received under non-cancellable operating sub-leases at 31 December	**17**	16
Lease and sub-lease payments recognised as an expense in the year were as follows:		
Minimum lease payments	**67**	80
Contingent rents – renewables (i)	**30**	25
Contingent rents – other	**–**	1

(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 on actual production, and therefore the commitment to a minimum lease payment included above is £nil. Payments made for physical power are charged to the Income Statement as incurred and disclosed as contingent rents.

(d) Contingent liabilities

The Group is currently in dispute with Her Majesty's Revenue and Customs (HMRC) on a technical matter concerning intra-group transfer pricing of gas produced within the UK Continental Shelf. The Group has taken the advice of leading tax counsel, and believes that the risk that HMRC will succeed in its arguments is remote or slight.

The Group has a number of outstanding disputes arising out of its normal activities, for which provisions have been made, where appropriate, in accordance with IAS 37. None of the provisions are individually significant.

(e) Guarantees and indemnities

The Company has £1,300 million of bilateral credit facilities (2005: £1,000 million). Hydrocarbon Resources Limited and British Gas Trading Limited have guaranteed, jointly and severally, to pay on demand any sum which the Company does not pay in accordance with the facility agreements.

The Group has given guarantees in connection with the finance lease obligations referred to in note 20. A fixed collateral payment amounting to £240 million (2005: £245 million) is required in the event of Centrica plc failing to retain at least one credit rating which is not on credit watch above the BBB+/Baa1 level, and further collateral of £240 million (2005: £245 million) is required if the credit rating falls further.

31. Commitments and contingencies continued

Group companies have given guarantees and indemnities, subject to certain limitations, to various counterparties in relation to wholesale energy trading and procurement activities, and to third parties in respect of gas production and energy transportation liabilities.

In connection with their energy trading, transportation and upstream activities, certain Group companies have entered into contracts under which they may be required to prepay or provide credit support or other collateral in the event of a significant deterioration in credit worthiness. The extent of credit support is contingent upon the balance owing to the third party at the point of deterioration.

Following the closure of the British Gas Energy Centres Limited (Energy Centres) operations in July 1999, guarantees have been signed on certain former Energy Centres' properties as a result of reassignment of leases.

(f) Other

The Group's use of financial instruments is explained in the Directors' Report – Principal Risks and Uncertainties on pages 21 to 23 and in note 33.

(g) Commodity purchase contracts

The Group procures gas and electricity through a mixture of production from owned gas fields and power stations and procurement contracts. Procurement contracts include short-term forward market purchases of gas and electricity at fixed and floating prices. They also include gas contracts indexed to market prices and long-term gas contracts with non-gas indexation. Further information about the Group's procurement strategy is contained in note 33 (i).

Commodity purchase commitments are estimated, on an undiscounted basis, as follows:

	2006 £m	2005 £m
Within one year	**7,800**	8,500
Between one and five years	**16,100**	16,500
After five years	**10,400**	10,600
	34,300	35,600

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

The estimated commitment to make payments under gas procurement contracts differs in scope and in basis from the principal value of energy derivatives disclosed in note 33. Only certain procurement and sales contracts are within the scope of IAS 39 and included in note 33. In addition, the volumes used in calculating principal values are estimated using valuation techniques. Contractual commitments which are subject to fulfilment of conditions precedent are excluded.

32. Related party transactions

During the year, the Group entered into the following transactions with related parties who are not members of the Group:

	2006			2005		
	Sale of goods £m	**Purchase of goods and services £m**	**Other transactions £m**	Sale of goods £m	Purchase of goods and services £m	Other transactions £m
Lloyds TSB Bank plc	**–**	**–**	**2**	–	–	2
Mitchells & Butlers plc	**40**	**–**	**–**	–	–	–
Hanson plc	**9**	**–**	**–**	–	–	–
Barrow Offshore Wind Limited	**–**	**8**	**1**	–	–	–
Humber Power Limited (to 19 September 2005)	**–**	**–**	**–**	3	58	–
AccuRead Limited (to 11 October 2005)	**–**	**–**	**–**	–	28	–
	49	**8**	**3**	3	86	2

Balances outstanding with related parties at 31 December were as follows:

	2006			2005		
	Amounts owed from related parties £m	**Amounts owed to related parties £m**	**Provision for bad or doubtful debt relating to amounts owed from related parties £m**	Amounts owed from related parties £m	Amounts owed to related parties £m	Provision for bad or doubtful debt relating to amounts owed from related parties £m
Lloyds TSB Bank plc	**49**	**–**	**–**	46	–	–
Mitchells & Butlers plc	**–**	**2**	**–**	–	–	–
Hanson plc	**5**	**–**	**–**	–	–	–
Barrow Offshore Wind Limited	**23**	**3**	**–**	12	1	–
	77	**5**	**–**	58	1	–

Lloyds TSB Bank plc is a related party of the Group because of its 30% economic interest in GF One Limited, (formerly Goldfish Bank Limited) a subsidiary of the Group. Transactions with Lloyds TSB Bank plc relate to a loan facility. Mitchells & Butlers plc is a related party of the Group because the Chairman of Centrica plc is also Chairman of Mitchells & Butlers plc. Hanson plc is a related party of the Group because the Chief Executive of Centrica plc is also a non-executive director of Hanson plc. Both Mitchells & Butlers plc and Hanson plc purchase gas and electricity from the Group for business usage on an arm's length basis. Barrow Offshore Wind Limited is a joint venture of the Group. Transactions with Barrow Offshore Wind Limited relate to loan facilities.

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32. Related party transactions continued

Remuneration of key management personnel	2006 £m	2005 £m
Short-term benefits	8	7
Post-employment benefits	5	3
Share-based payments	3	3
	16	13

Key management personnel comprise members of the Board and Executive Committee, a total of 13 individuals at 31 December 2006 (2005: 15). A relative of a Board member who served in the year received emoluments of £0.2 million (2005: £0.1 million) in respect of their employment by the Group. Key management personnel and their families purchase gas and electricity from the Group for domestic purposes on an arm's length basis.

33. Financial instruments

Exposure to commodity price risk, counterparty credit risk, interest rate risk, currency risk and liquidity risk arises in the normal course of the Group's business. Derivative financial instruments are entered into to reduce exposure to fluctuations in commodity prices, interest rates and foreign exchange rates. Derivative financial instruments are also entered into for trading purposes. The Group also enters into primary financial instruments to finance the Group's operations in the normal course of business. A financial instrument is defined in IAS 32 as any contract which gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Further detail on the Group's risk management policies is included within the Directors' Report – Principal Risks and Uncertainties on pages 21 to 23.

(i) Risks

(a) Commodity price risk

The most significant financial risk facing the Group relates to commodity prices, in particular for gas and electricity. Commodity price risk arises as a result of contracted or forecast retail sales of gas and electricity not being fully matched by equity production or procurement contracts with equivalent volumes, time periods and pricing. The risk is primarily that market prices for commodities will move adversely between the time that sales prices are fixed or tariffs are set and the time at which the purchase cost is fixed, thereby potentially reducing expected margins.

The Group monitors exposure to commodity price risk using volumetric limits set as a combination of long-standing target ranges and specific shorter-term targets for both gas and electricity. The volumetric limits are supported by the use of Value at Risk (VaR) and Profit at Risk (PaR) methodologies.

Commodity price risk is managed through a mixture of production from owned gas fields and power stations, energy procurement and energy sales contracts. This reduces the volume of gas and electricity which remains to be procured at market prices. Procurement contracts include:

- short-term forward market purchases and sales of gas and electricity at fixed prices;
- long-term electricity contracts whose prices are indexed to coal prices which provides fuel diversity to electricity supply;
- long-term electricity contracts with wind farms at a fixed or variable price;
- short and long-term contracts to buy carbon credits;
- long-term gas contracts whose prices are determined based on historic or forward quoted gas prices up to 12 months in advance of the period the gas is delivered, thus stabilising procurement and sales prices and eliminating exposure once the price has been determined;
- long-term gas contracts with non-gas indexation, which stabilise prices but also result in some exposure to other commodities and indices. The non-gas indexation in long-term gas contracts includes oil and oil products, coal and general indices such as the Producers Price Index (PPI). The contract prices are determined based on forward quoted prices for the commodities and indices up to 12 months in advance of the period in which the gas is delivered; and
- long-term financial swaps (up to five years forward) based on energy market price indices.

The volume variability in the contract portfolio is actively managed in order to optimise the use of the contracts.

Certain of these procurement and sales contracts constitute derivative financial instruments which are within the scope of IAS 39 whose fair value is recorded in the Financial Statements. The fair values of these contracts are subject to change resulting from changes in commodity prices, except for contracts which are indexed to the market price of the commodity which is the subject of the contract, and for which the price is not fixed in advance of delivery.

Commodity price risk also arises from proprietary trading activity. These exposures are subject to volumetric limits on open exposures and to VaR limits.

To manage the commodity price risk associated with gas and electricity purchase requirements the Group has entered into physical and financial gas, electricity and carbon purchase contracts, certain of which it has accounted for as cash flow hedges. The hedged item is the forecast future purchase requirement to meet customer demand. The hedging instruments are fixed-price forward purchase contracts. The net fair value of commodity cash flow hedging instruments was a £484 million liability at 31 December 2006 (2005: £481 million asset). Cash flow hedging has been discontinued for hedges of future oil production where the forecast production was not expected to occur in the anticipated timescale. Hedge ineffectiveness has arisen on certain cash flow hedges of future electricity sales where unseasonably high temperatures resulted in forecast demand being lower than originally expected.

Commodity contracts are subject to legal and contract risk. The fair values of field-specific depletion contracts are by their nature also subject to reserves risk and other operational risks associated with gas production.

33. Financial instruments continued

(b) Credit risk

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Group by those counterparties, less any amounts owed to the counterparty by the Group where a legal right of set-off exists and also includes the fair values of contracts with individual counterparties which are recorded in the Financial Statements.

Energy wholesale and trading

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 A-rated counterparties or better. A credit risk adjustment is made to the fair values of financial instruments in accordance with the credit rating of the counterparty. No credit risk adjustment is made to financial instruments under a joint operating agreement where operators are contractually required to fulfil the obligations of any defaulting party.

Downstream businesses

Exposure to credit risk arises in the normal course of operations as a result of the potential for a customer defaulting on their payable balance. In the case of business customers, credit risk is managed by checking a company's credit worthiness and financial strength both before commencing to trade and during the business relationship. For residential customers, credit worthiness is ascertained normally before commencing to trade by reviewing an appropriate mix of internal and external information. An ageing of receivables is monitored and used to manage the exposure to credit risk.

Collateral

Centrica employs a variety of other methods to mitigate credit risk including margining, various forms of bank and Parent Company Guarantees and Letters of Credit. In all cases the aim of setting up a credit risk mitigation instrument is to upgrade the credit risk to a better equivalent rating than the stand-alone rating of the counterparty. At 31 December 2006 Centrica had pledged £61 million of cash collateral (2005: £687 million of which £624 million related to cash collateralised on Letters of Credit provided by banks on borrowings relating to South Morecambe gas production) and had received £33 million (2005: £537 million) of cash collateral principally under margin calls to cover exposure to mark-to-market positions on derivative contracts. Most collateral paid or received is interest bearing and free of any restrictions over its use.

Centrica also uses master netting agreements or netting provisions to reduce credit risk and net settles payments with counterparties where master netting agreements are held.

Credit risk exposures

With the exception of retail customers, the Group considers that 100% of its credit risk is with counterparties in related energy industries or with financial institutions. There were no other significant concentrations of credit risk at 31 December 2006 (2005: none). The maximum credit exposure of financial instruments within the scope of IAS 39, without taking account of collateral, is represented by the balance sheet carrying amount for all financial assets.

Year ended 31 December	2006 £m	2005 £m
Trade and other receivables:		
UK and Europe	2,536	2,357
North America	805	793
	3,341	3,150
Loans	49	46
Available for sale assets	37	45
Cash and cash equivalents	640	1,239
Energy derivatives:		
UK and Europe (i)	642	1,910
North America	102	451
	744	2,361
Embedded derivatives	5	–
Interest rate derivatives	2	22
Foreign exchange derivatives	26	7

(i) At 31 December 2005 £291 million related to a single European energy counterparty with a credit rating of A+ for which cash collateral of £221 million was held.

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33. Financial instruments continued

(c) Interest rate risk

Interest rate risk is the risk that the Group suffers financial loss due to changes in the value of an asset or liability or in the value of future cash flows due to movements in interest rates. Any financial asset or liability on which interest is paid or received will be subject to interest rate risk. The Group's policy is to actively manage the interest rate risk on long-term recourse borrowings while ensuring that the exposure to fixed interest rates remains within a 30% – 70% range.

Interest rate swaps, cross-currency interest rate swaps and forward rate agreements are used to manage interest rate risk within the Group. The net fair value of fair value interest rate hedging instruments was a £12 million liability at 31 December 2006 (2005: £3 million asset) and the net fair value of cash flow interest rate hedging instruments was a £28 million liability at 31 December 2006 (2005: £44 million liability).

Effective interest rate analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the earlier of the periods in which they re-price or mature:

Year ended 31 December 2006	Effective interest rate %	Total £m	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Available for sale government bonds	4.5	10	–	7	1	2
Loans (i)	5.4	48	48	–	–	–
Loans – fixed	13.5	23	11	4	6	2
Margining collateral included in other receivables (i)	4.5	61	61	–	–	–
Cash and cash equivalents (i), (ii)	5.1	614	614	–	–	–
Bank loans – fixed	3.7	(47)	(5)	(5)	(37)	–
Effect of interest rate swap on bank loans (iii)	1.6	–	(20)	6	14	–
Bank loans and overdrafts (i), (ii)	6.0	(33)	(30)	–	(3)	–
US dollar commercial paper (i)	5.5	(100)	(100)	–	–	–
Sterling bonds – fixed (iv)	5.6	(960)	–	–	(251)	(709)
Effect of interest rate swaps on sterling bonds (iii)	0.3	–	(483)	–	125	358
Sterling bonds (i), (v)	5.0	(152)	(152)	–	–	–
Euro floating rate note (i), (vi)	3.8	(68)	(68)	–	–	–
Dual currency loan (vii)	5.1	(65)	–	–	–	(65)
Finance lease obligations – fixed	5.8	(434)	(18)	(20)	(70)	(326)
Finance lease obligations (i)	4.5	(374)	(374)	–	–	–
Effect of interest rate swap on finance lease obligations (iii)	1.8	–	229	(8)	(39)	(182)
Margining collateral included within other payables (i), (ii)	4.5	(33)	(33)	–	–	–
Non-recourse borrowings						
Canadian dollar bonds (viii)	4.9	(218)	–	–	(218)	–

(i) These assets/liabilities bear interest at a floating rate.
(ii) Excludes non-interest bearing balances.
(iii) Effect of interest rate derivative on swapped portion of financial instrument at 31 December 2006.
(iv) Fixed rate sterling bonds are stated at a face value of £965 million. Included within this balance are sterling bonds with a face value of £250 million that mature in 2029. The counterparty has an option to redeem these bonds in 2009 and it is expected that the bonds will become repayable on this date. In the event that the option is not exercised the bond will re-price in March 2009. The sterling bonds are stated in the Group Balance Sheet net of £9 million of issuance costs, and at fair value where hedged.
(v) Floating rate sterling bonds are stated at a face value of £150 million.
(vi) The floating rate note is stated at a face value of €100 million.
(vii) The dual currency loan has a face value of ¥15 billion and pays a fixed rate of interest of 4.0% on a notional face value of US$ 129 million. A swap has been entered into which fixed the repayment amount at £67 million and fixes the interest payments at 5.1% of the sterling principal amount.
(viii) The bonds have a face value of £219 million and are expected to be repaid between 2008 and 2010 in advance of the maturity dates.

33. Financial instruments continued

Year ended 31 December 2005	Effective interest rate %	Total £m	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Available for sale government bonds	4.3	14	–	–	14	–
Available for sale floating rate note (ix)	3.7	5	–	–	5	–
Loans (ix)	4.7	46	46	–	–	–
Margining collateral included in other receivables (ix), (x)	4.2	39	39	–	–	–
Cash and cash equivalents (ix), (x)	4.5	1,075	1,075	–	–	–
Bank loans – fixed	3.8	(63)	(8)	(24)	(28)	(3)
Effect of interest rate swap on bank loans (xi)	0.4	–	(6)	–	–	6
Bank loans and overdrafts (ix)	5.5	(63)	(63)	–	–	–
Other bank loans (ix), (xiv)	36.0	(637)	(637)	–	–	–
Sterling bonds (xii)	5.9	(422)	–	–	–	(422)
Effect of interest rate swaps on sterling bonds (xi)	(0.4)	–	(207)	–	–	207
US dollar commercial paper (ix)	4.3	(377)	(377)	–	–	–
Finance lease obligations – fixed	5.9	(451)	(16)	(18)	(65)	(352)
Finance lease obligations (ix)	4.6	(377)	(377)	–	–	–
Effect of interest rate swap on finance lease obligations (xi)	2.4	–	240	–	–	(240)
Margining collateral included within other payables (ix)	4.4	(537)	(537)	–	–	–
Non-recourse borrowings						
Canadian dollar bonds (xiii)	4.9	(250)	–	–	(250)	–

(ix) These assets/liabilities bear interest at a floating rate.
(x) Excludes non-interest bearing balances.
(xi) Effect of interest rate derivative on swapped portion of financial instrument at 31 December 2005.
(xii) Sterling bonds are stated at a face value of £415 million. These bonds are stated in the Group Balance Sheet net of £4 million of issuance discount, and at fair value where hedged.
(xiii) The bonds are expected to be repaid between 2008 and 2010 in advance of the maturity dates.
(xiv) Other bank loans related to a bank's interest in the Centrica Gas Production LP, a limited partnership, which was formed during 2005. The bank ceased to be a limited partner during 2006 and the arrangement with the bank was brought to an end on 11 August 2006.

(d) Currency risk

Currency risk is the risk that the Group suffers financial loss as a result of changes in the value of an asset or liability or in the value of future cash flows due to movements in foreign currency exchange rates. Through wholly-owned US, Canadian and European subsidiaries, the Group has exposures to US dollars, Canadian dollars and euros. The Group's policy is to protect the sterling value of overseas investments by entering into net investment hedges. The Group commercially hedges all significant exposures to foreign currencies arising from operating activities where practicable. There were no material unhedged financial assets or liabilities at 31 December 2006 other than in the Group's functional currencies, except for £28 million of assets denominated in euros (2005: £92 million of liabilities denominated in euros). The euro assets and liabilities represent short-term cash flow timing differences and the fair value of gas and electricity commodity contracts.

Net investment hedges

Centrica hedges the carrying value of its overseas investments through holding either foreign currency debt or entering into foreign currency derivatives or a mixture of both. Centrica enters into short-term foreign exchange forwards and medium-term cross-currency interest rate swaps to hedge the net investments. Changes in the sterling value of borrowings or derivatives are used to offset changes in the sterling value of the investments. The net fair value of net investment hedging instruments at 31 December 2006 was a £115 million liability (2005: £468 million liability), consisting of borrowings of £117 million (2005: £377 million) and derivative financial instruments of a £2 million asset (2005: £91 million liability). The borrowings of £117 million (2005: £377 million) comprise £49 million US dollar commercial paper (2005: £377 million) and £68 million euro floating rate note (2005: £nil).

Cash flow hedges

Forward foreign exchange contracts are used to hedge the risk that future foreign currency cash flows vary with changes in foreign exchange rates by fixing the sterling value of a specified foreign currency amount on a specified basis. The net fair value of derivative financial instruments designated as currency cash flow hedging instruments at 31 December 2006 was a £1 million liability (2005: £8 million liability).

The maturity analysis of amounts included in the cash flow hedging reserve, which includes fair value gains and losses in relation to commodity, interest rate risk and currency hedges is as follows:

Cash flow hedging reserve	Year ended 31 December 2006 £m	2005 £m
Less than one year	**(396)**	282
One to two years	**(95)**	138
Two to five years	**8**	43
More than five years	**(2)**	(9)
	(485)	454

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33. Financial instruments continued

(e) Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet liabilities. Cash forecasts identifying the liquidity requirements of the Group are produced frequently. The cash forecasts are stress-tested for different scenarios and are reviewed regularly to ensure sufficient financial headroom exists for at least a 12-month period. The Group's policy includes maintaining a minimum level of committed facilities of £800 million less available cash resources and that at least 50% of net debt (excluding non-recourse debt) over £200 million should be long-term, spread over a range of maturities.

Borrowings

At 31 December 2006, the Group had undrawn committed bank borrowing facilities of £1,300 million (2005: £1,000 million). These facilities mature in 2010. In addition the Group has access to a number of uncommitted facilities.

The principal debt facilities in use by the Group at 31 December 2006 consisted of a US commercial paper programme of US$2,000 million (2005: US$2,000 million) and a Euro Medium Term Note (EMTN) programme of US$3,000 million (2005: US$2,000 million). At 31 December 2006, US$200 million (2005: US$658 million) had been issued under the commercial paper programme and bonds totalling £1,183 million (2005: £415 million) were outstanding under the EMTN programme. The commercial paper issued was held in US dollars to hedge the Group's net investments in North America and other exposures to US dollars within the Group. The EMTN includes a euro floating rate note which was used to hedge the Group's net investments in Europe.

(ii) Fair values

The fair values of the Group's financial instruments together with the carrying amounts included in the Group Balance Sheet are analysed below. Balances excluded from the scope of IAS 32 comprise trade and other receivables with a carrying value of £265 million (2005: £296 million), trade and other payables with a carrying value of £329 million (2005: £274 million) and provisions of £406 million (2005: £354 million).

	Year ended 31 December			
	2006		2005	
Primary financial assets	**Carrying value £m**	**Fair value £m**	Carrying value £m	Fair value £m
Loans and receivables:				
Trade and other receivables [i, ii]	**3,341**	**3,341**	3,150	3,150
Loans [ii, iii]	**49**	**49**	46	46
Available for sale assets [iii, iv, v]	**37**	**37**	45	45
Cash and cash equivalents [ii]	**640**	**640**	1,239	1,239

	Year ended 31 December			
	2006		2005	
Primary financial liabilities	**Carrying value £m**	**Fair value £m**	Carrying value £m	Fair value £m
Financial liabilities measured at amortised cost:				
Trade and other payables [i, ii]	**(3,017)**	**(3,017)**	(3,369)	(3,369)
Provisions [i, ii]	**(275)**	**(275)**	(271)	(271)
Businesses' recourse borrowings				
Bank loans and overdrafts [vi]	**(161)**	**(159)**	(763)	(755)
Other bank loans:				
Bonds [iv]	**(1,181)**	**(1,176)**	(422)	(425)
Loan notes	**(3)**	**(3)**	–	–
Commercial paper [ii]	**(100)**	**(100)**	(377)	(377)
Obligations under finance leases (including power station tolling arrangements) [vii]	**(808)**	**(814)**	(828)	(856)
Businesses' non-recourse borrowings				
Canadian dollar bonds [iv]	**(218)**	**(227)**	(250)	(261)
Units of The Consumers' Waterheater Income Fund [iv]	**(265)**	**(265)**	(282)	(282)

33. Financial instruments continued

Derivative financial instruments	2006 Carrying value £m	2006 Fair value £m	2005 Carrying value £m	2005 Fair value £m
	Year ended 31 December			
Derivative financial instruments held for trading (viii)				
Energy derivatives – assets (ix)	**728**	**728**	1,873	1,873
Energy derivatives – liabilities (x)	**(1,342)**	**(1,342)**	(1,664)	(1,664)
Embedded derivatives – assets (xi)	**5**	**5**	–	–
Embedded derivatives – liabilities (xii)	**(57)**	**(57)**	–	–
Interest rate derivatives – assets	**2**	**2**	18	18
Interest rate derivatives – liabilities	**(4)**	**(4)**	(20)	(20)
Foreign exchange derivatives – assets	**15**	**15**	4	4
Foreign exchange derivatives – liabilities	**(4)**	**(4)**	(1)	(1)
Net total	**(657)**	**(657)**	210	210
Derivative financial instruments in hedging relationships (viii)				
Energy derivatives – assets	**16**	**16**	488	488
Energy derivatives – liabilities	**(500)**	**(500)**	(7)	(7)
Interest rate derivatives – assets	**–**	**–**	4	4
Interest rate derivatives – liabilities	**(40)**	**(40)**	(45)	(45)
Foreign exchange derivatives – assets	**11**	**11**	3	3
Foreign exchange derivatives – liabilities	**(10)**	**(10)**	(102)	(102)
Net total	**(523)**	**(523)**	341	341

(i) Balances which are outside the scope of IAS 32 have been excluded.
(ii) Due to the nature and/or short maturity of these financial instruments, carrying value approximated fair value.
(iii) Included within other financial assets in the Group Balance Sheet.
(iv) Fair value determined with reference to closing market prices.
(v) Includes £26 million of equity instruments (2005: £26 million).
(vi) Fair value of bank overdrafts and current loans is equivalent to carrying value due to the short-term maturity. The fair value of non-current loans is based on future cash flows discounted using discount rates based on the Group's cost of borrowing of 5%.
(vii) Fair values have been determined based on future cash flows, discounted using discount rates based upon the Group's cost of borrowing of 5%.
(viii) Included within derivative financial instruments in the Group Balance Sheet.
(ix) Includes £206 million (2005: £284 million) in relation to proprietary trading.
(x) Includes £198 million (2005: £272 million) in relation to proprietary trading.
(xi) Includes £3 million in relation to energy contracts that have been designated as a financial asset at fair value through profit or loss due to the existence of embedded derivatives that significantly modify the cash flows that would otherwise be required by the contract.
(xii) Relates to energy contracts that have been designated as a financial liability at fair value through profit or loss due to the existence of embedded derivatives that significantly modify the cash flows that would otherwise be required by the contract.

The principal value of derivative contracts is shown in the tables below. Principal values are undiscounted and are derived from the aggregated volumes, estimated using valuation techniques, of those sales and purchase contracts which are within the scope of IAS 39. The principal value differs in scope and in basis from the estimated commitment to make payments under procurement contracts, disclosed in note 31 (g). The principal value provides an indication of the scope of the use of derivatives but does not reflect the risk the Group is exposed to from entering into derivatives.

Principal value of energy derivatives	2006 £m	2005 £m
Less than one year	**20,125**	18,150
One to five years	**21,355**	19,609
More than five years	**7,502**	7,586
	48,982	45,345

Principal value of embedded derivatives	2006 £m	2005 £m
Less than one year	**156**	–
One to five years	**893**	–
More than five years	**226**	–
	1,275	–

33. Financial instruments continued

Principal value of interest rate derivatives	2006 £m	2005 £m
Less than one year	213	300
One to five years	367	753
More than five years	664	–
	1,244	1,053

Principal value of foreign exchange derivatives	2006 £m	2005 £m
Less than one year	1,446	1,188
One to five years	482	530
More than five years	75	–
	2,003	1,718

The major methods and assumptions used in estimating the fair values of derivative financial instruments are as follows:

Energy derivatives

Commodity price risk is managed through a mixture of production from owned gas fields and power stations, energy procurement and energy sales contracts. Certain of these procurement and sales contracts constitute derivative financial instruments which are within the scope of IAS 39 and whose fair value is recorded in the Financial Statements. These fair value balances therefore represent only a part of the Group's overall energy procurement activities. The criteria for determining treatment of contracts in accordance with IAS 39 are outlined in note 3.

The fair values represent the unrealised gains and losses from holding commodity contracts at the balance sheet date, for delivery in future periods, that are not indexed to the market price of the commodity which is the subject of the contract or for which the price is fixed in advance of delivery. These fair values are subject to change resulting from changes in commodity prices, and may not be realised. The methods and assumptions applied in determining fair values are described under 'UK markets' and 'North American markets' below. The effect of changes in assumptions, and sensitivities to changes in commodity prices, are set out in 'Effect of changes in assumptions and sensitivities' below.

The net fair value of the contracts at 31 December 2006 included within energy derivatives in the derivative financial instruments table on page 97 is a £1,098 million liability (2005: £690 million asset) and consists of the following balances:

	2006 £m	2005 £m
Derivative financial instruments held for trading:		
Energy derivatives – assets	728	1,873
Energy derivatives – liabilities	(1,342)	(1,664)
Derivative financial instruments in hedging relationships:		
Energy derivatives – assets	16	488
Energy derivatives – liabilities	(500)	(7)
Net total	(1,098)	690

The contracts included within energy derivatives are subject to a wide range of detailed specific terms but comprise the following general components:

	2006 £m	2005 £m
Short-term forward market purchases of gas and electricity:		
UK and Europe	(250)	873
North America	(236)	363
Long-term gas purchase contracts	(225)	553
Long-term gas sales contracts	(389)	(1,110)
Other	2	11
Net total	(1,098)	690

The aggregated principal value of energy derivatives (sales and purchases), and its range of maturities, which provides an indication of the underlying maturity profile, is contained in the table on page 97. The cash flows arising in relation to these contracts will occur either as physical delivery takes place over the life of the individual contracts, or as a result of the contracts being traded or may not be realised depending on market price movements. The Group's strategy for entering into energy derivatives, and a summary of the terms and conditions of these contracts, is outlined on pages 92 and 93.

Certain other commodity contracts are outside the scope of IAS 39 and are not fair valued in the Financial Statements. The disclosures that follow relate only to the fair values of contracts entered into which are within the scope of IAS 39.

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33. Financial instruments continued

UK markets

Fair values of commodity contracts are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. Management consider the UK markets for gas and electricity to be active for up to two years, with reliable broker quotes and published prices available for this period. In the active period of the market, financial instruments are valued against forward market prices available at the balance sheet date. Outside the active period financial instruments are valued using commodity prices derived using assumptions that are based on market expectations and reasonably reflect all factors that market participants would consider in setting a price. Forecast prices are derived for the commodities which are the subject of the contracts (primarily gas and electricity) and for commodities whose indices are incorporated in the price calculation formulae of certain long-term contracts. These include oil and oil products, coal, and general indices such as the Producer Price Index (PPI). Fair values are discounted based on the yields on zero-coupon bonds with differing maturity dates as available in the market, and interpolated to arrive at monthly rates.

The total change in fair value estimated using valuation techniques that was recognised in the Income Statement during the year ended 31 December 2006 amounted to a loss of £117 million (2005: loss of £91 million). The net fair value of commodity contracts recorded in the Financial Statements determined using valuation techniques at 31 December 2006 is a £262 million liability (2005: £170 million liability).

Assumptions made in determining fair values

The most significant assumptions incorporated in the valuation techniques used to value commodity contracts at 31 December 2006 are as follows:

- new gas infrastructure capacity will strengthen the direct linkage between UK and continental European gas prices in the medium-term;
- a potential oversupply of gas to the UK market will lower prices during this time;
- interaction between US and European gas prices will occur in certain periods as cargoes of LNG may be directed to either European or US markets;
- European gas prices will retain significant oil linkage in the medium-term although liberalisation of the European gas market should weaken the linkage between oil prices and gas prices in the long-term;
- electricity prices are derived from gas prices, carbon prices and the clean spark spread (the margin between gas and carbon input prices and electricity sales prices). Gas-fired power stations are assumed to determine the long-run marginal price of electricity in the UK for the foreseeable future;
- oil prices are based on the views held by a number of independent external market experts;
- UK coal prices are based on the assumption that market prices will be dominated by the cost of imported coal and that the price of coal shows some linkage to the price of oil;
- for contracts with volume optionality it is assumed that counterparties act to maximise the economic value of the contract; and
- it is assumed that markets would allow the sale or purchase of each commodity in equivalent volumes to those contracted at the forecast market price.

Effect of changes in assumptions and sensitivities

Either of the following alternative assumptions, or a combination of these alternative assumptions, would significantly increase forecast gas and electricity prices both within and outside the active period of the market:

- higher oil prices and continued strong linkage between oil and gas prices; and
- lower supply to the UK gas market, for instance due to insufficient new infrastructure being put in place, or due to higher worldwide competition for gas supplies.

The impact of changing to either of these reasonably possible alternative assumptions, individually or in combination, would be to decrease the net fair value liabilities for commodity contracts outside the active period of the market at 31 December 2006 by an estimated £43 million (2005: increase to the net fair value liabilities of an estimated £35 million).

Management consider it likely that the occurrence of these alternative assumptions would be accompanied by an increase in gas and electricity prices in the active period of the market. An average increase of 15p/th for gas and £11/MWh for electricity is considered reasonably possible at 31 December 2006. The impact of such increases in gas and electricity prices in the active period would be to decrease net fair value liabilities at 31 December 2006 by £382 million (2005: an average increase of 20p/th for gas and £15/MWh for electricity was considered reasonably possible at 31 December 2005 leading to an increase to the net fair value assets of an estimated £686 million).

In combination the increase in gas and electricity prices in the active and inactive periods would decrease net fair value liabilities at 31 December 2006 by an estimated £425 million (2005: increase to the net fair value assets of an estimated £651 million). A combination of the following alternative assumptions would significantly decrease forecast gas prices both within and outside the active period of the market:

- lower oil prices and continued linkage between oil and gas prices;
- a discontinuation of the linkage between oil and gas prices in the medium-term;
- liberalisation in the European gas market, if this were to result in increased competition between gas producers; and
- a degree of oversupply to the UK gas market resulting from new infrastructure or lower worldwide demand for gas.

33. Financial instruments continued

The impact of changing to a reasonably possible combination of these alternative assumptions would be to increase the net fair value liabilities for commodity contracts outside the active period of the market at 31 December 2006 by approximately £82 million (2005: decrease to the net fair value liabilities of an estimated £20 million).

Management consider it likely that the occurrence of these alternative assumptions would be accompanied by a decrease in gas prices in the active period of the market. An average decrease of 13p/th for gas and £9/MWh for electricity is considered reasonably possible at 31 December 2006. The impact of such decreases in gas and electricity prices in the active period would be to increase net fair value liabilities at 31 December 2006 by £349 million (2005: an average decrease of 20p/th for gas and £15/MWh for electricity was considered reasonably possible at 31 December 2005 leading to a decrease to the net fair value assets of an estimated £681 million).

In combination the decrease in gas and electricity prices in the active and inactive periods would increase net fair value liabilities at 31 December 2006 by an estimated £431 million (2005: decrease to the net fair value assets of an estimated £661 million).

The impacts disclosed above result from changing the assumptions used for fair valuing commodity contracts to reasonably possible alternative assumptions at the balance sheet date. These impacts are not necessarily indicative of the changes in fair value that would occur if these events actually take place in the future, as contractual positions change over time. The fair value impacts only concern those contracts entered into which are within the scope of IAS 39 and should not be construed as a measure of the Group's exposure to cash flow risk resulting from changes in commodity prices.

North American markets

Management consider the North American markets for gas and electricity to be active for between one and five years and vary depending on delivery point. The fair value of financial instruments recorded in the Financial Statements is primarily based on quoted market prices in active markets.

Management consider an average increase in gas prices of 13p/th (2005: 16p/th) and an average increase in electricity prices of £13/MWh (2005: £10/MWh) reasonably possible at 31 December 2006. The impact of such increases in commodity prices would be to decrease net fair value liabilities at 31 December 2006 by £630 million (2005: increase net fair value assets by £777 million).

Management consider an average decrease in gas prices of 9p/th (2005: 15p/th) and an average decrease in electricity prices of £7/MWh (2005: £9/MWh) reasonably possible at 31 December 2006. The impact of such decreases in commodity prices would be to increase net fair value liabilities at 31 December 2006 by £363 million (2005: decrease net fair value assets by £704 million).

The impacts disclosed above result from changing the assumptions used for fair valuing commodity contracts to reasonably possible alternative assumptions at the balance sheet date. These impacts are not necessarily indicative of the changes in fair value that would occur if these events actually take place in the future, as contractual positions change over time. The fair value impacts only concern those contracts entered into which are within the scope of IAS 39 and should not be construed as a measure of the Group's exposure to cash flow risk resulting from changes in commodity prices.

Foreign exchange derivatives

Fair values have been determined with reference to closing exchange rates at the balance sheet date.

Interest rate derivatives

Fair values have been determined with reference to closing interest rates at the balance sheet date.

34. Fixed fee service contracts

Fixed fee service contracts are entered into with home services customers in the UK and North America (Central Heating Care, Boiler and Controls Care, Gas Appliance Care, Gas Appliance Check, Plumbing and Drains Care, Kitchen Appliance Care and Home Electrical Care in the UK, and Heating Protection Plus, Cooling Protection Plus and Plumbing and Drains Protection in North America). These contracts continue until cancelled by either party to the contract. These plans incorporate both an annual service element and a maintenance element.

Fixed fee service contracts protect purchasers of these contracts against the risk of breakdown of electrical, plumbing, heating, cooling and household appliances, resulting in the transfer of an element of risk from contract holders to Centrica. Benefits provided to customers vary in accordance with terms and conditions of the contracts entered into, however generally include repair and/or replacement of the items affected.

The risk and level of service required within the maintenance element of the contracts is dependent upon the occurrence of uncertain future events, in particular the number of call outs, the cost per call out and the nature of the fault. Accordingly the timing and amount of future cash outflows related to the contracts is uncertain.

The key terms and conditions that impact 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 in every year of the agreement (for Central Heating Care, Boiler and Controls Care, Gas Appliance Care and Gas Appliance Check in the UK, and Heating Protection Plus and Cooling Protection Plus in North America);
- one safety and maintenance inspection in every continuous two-year period of the agreement (for Home Electrical Care, Kitchen Appliance Care and Plumbing and Drains Care);
- no limit to the number of call outs to carry out work included within the selected agreement; and
- caps on certain maintenance and repair costs within fixed fee contracts.

Revenue from fixed fee service contracts is recognised on a straight-line basis over the life of the contract, reflecting the benefits receivable by the customer which span the life of the contract as a result of emergency maintenance potentially being required at any point within the contract term.

Cost of sales relates directly to the engineer workforce employed by Centrica within home services, the cost of which is accounted for over a 12-month period with adjustments made to reflect the seasonality of workload over a given year.

The costs of claims under the fixed fee service contracts will be the costs of the engineer workforce employed by Centrica within home services. These costs are accounted for over a 12-month period with adjustments made to reflect the seasonality of workload over a given year. No further claims costs are accrued.

Weather conditions and the seasonality of maintenance can impact the number of call outs, the cost per call out and the nature of the fault. Centrica's obligations under the terms of its home services fixed fee service contracts are based on the following types of uncertain future events taking place within the contract period:

- boiler, radiator, controls, hot water cylinder and pipe work breakdown;
- gas fire, water heater, wall heater and gas cooker breakdown;
- hot and cold water pipe, overflow, cold tank, toilet siphon and radiator valve breakdown;
- washing machine, tumble drier, dishwasher, fridge, freezer, cooker, oven, hob and microwave oven breakdown;
- fixed electrical wiring system, fuse box, light switch, wall socket, circuit breaker and transformer breakdown;
- ventor motor, circuit board, direct drive motor and flame sensor breakdown; and
- evaporator and condenser fan motor breakdown.

Centrica actively manages the risk exposure of these uncertain events by undertaking the following risk mitigation activities:

- an initial service visit is performed for central heating care. If, at the initial visit, faults that cannot be rectified are identified, the fixed fee service contract will be cancelled and no further cover provided;
- an annual or bi-annual safety and maintenance inspection is performed to ensure all issues are identified prior to them developing into significant maintenance or breakdown issues; and
- caps on certain maintenance and repair work are incorporated into fixed fee service contracts to limit liability in areas considered to be higher risk in terms of prevalence and cost to repair.

The Group considers the adequacy of estimated future cash flows under the contracts to meet expected future costs under the contracts. Any deficiency is charged immediately to the Income Statement.

Service requests are sensitive to the reliability of appliances as well as the impact of weather conditions. Each incremental 1% increase in service requests would impact profit and equity by approximately £7 million. The contracts are neither exposed to any interest rate risk, significant credit risk, nor are there any exposures relating to embedded derivatives.

Amounts relating to fixed fee service contracts	2006 £m	2005 £m
Total revenue	785	708
Expenses	683	602
Deferred income	37	50

The claims notified during the year were £258 million (2005: £231 million) and were exactly matched by expenses related to fixed fee service contracts. All claims are settled immediately and in full.

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35. Events after the balance sheet date

The Directors propose a final dividend of 8.0 pence per share (totalling £293 million) for the year ended 31 December 2006. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 14 May 2007. These Financial Statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2007.

On 8 February 2007 the Group's subsidiary The Consumers' Waterheater Income Fund acquired the water heater rental business of Toronto Hydro Energy Services Inc for consideration of C$41 million (£18 million) in cash. Management considers it impracticable to disclose information about the fair value of the net assets acquired since the findings of the valuation exercise are not yet available.

In January 2007 the Group was awarded participation in four exploration licences located in the Norwegian Sea and Northern North Sea. The Group will have an operated interest in three licences, with non-operatorship in one block. In addition the Group has been awarded two exploration licences located in the East Irish Sea, adjacent to Centrica's Morecambe fields.

36. Principal undertakings

31 December 2006 (i)	Country of incorporation/formation	% Group holding in ordinary shares and net assets	Principal activity
Subsidiary undertakings			
Accord Energy Limited	England	100	Wholesale energy trading
Accord Energy (Trading) Limited	England	100	Wholesale energy trading
British Gas Services Limited	England	100	Servicing and installation of gas heating systems
British Gas Trading Limited	England	100	Energy supply
Centrica America Limited	England	100	Holding company
Centrica Barry Limited	England	100	Power generation
Centrica Brigg Limited	England	100	Power generation
Centrica Canada Limited	Canada	100	Holding company and gas production
Centrica Energía SL	Spain	100	Energy supply
Centrica Energie GmbH	Germany	100	Wholesale energy trading
Centrica Energy Operations Limited	England	100	Power generation
Centrica Gamma Holdings Limited	England	100	Holding company
Centrica Holdings Limited	England	100	Holding company
Centrica KL Limited	England	100	Power generation
Centrica KPS Limited	England	100	Power generation
Centrica Langage Limited	England	100	Power generation
Centrica Overseas Holdings Limited	England	100	Holding company
Centrica PB Limited	England	100	Power generation
Centrica Renewable Energy Limited	England	100	Renewable energy holding company
Centrica Resources Limited	England	100	Gas and oil production
Centrica Resources (Nigeria) Limited	Nigeria	100	Upstream exploration
Centrica Resources (Norge) AS	Norway	100	Upstream exploration
Centrica RPS Limited	England	100	Power generation
Centrica SHB Limited (formerly Humber Power Limited)	England	100	Power generation
Centrica Storage Limited	England	100	Gas storage
Centrica US Holdings Inc	USA	100	Holding company
Coastal Energy Limited	England	85	Clean coal generation
DER Development No. 10 Limited	Canada	100	Gas production
Direct Energy Marketing Inc	USA	100	Wholesale energy trading
Direct Energy Marketing Limited	Canada	100	Energy supply and home services
Direct Energy Services LLC	USA	100	Energy supply and home services
Dyno Holdings Limited	England	100	Home services
Electricity Direct (UK) Limited	England	100	Energy supply
Energy America LLC	USA	100	Energy supply
GB Gas Holdings Limited	England	100	Holding company
Glens of Foudland Windfarm Limited	England	100	Power generation
Hydrocarbon Resources Limited	England	100	Gas production
Oxxio BV	Netherlands	100	Energy supply
Residential Services Group Inc	USA	100	Holding company
Joint ventures			
Barrow Offshore Wind Limited	England	50	Wind farm construction
Coots Limited	England	55	CO_2 transportation
Segebel SA	Belgium	50	Holding company

36. Principal undertakings continued

31 December 2006 (i)	Country of incorporation/formation	% Group holding in ordinary shares and net assets	Principal activity
Partnerships			
Bastrop Energy Partners LP	USA	100	Power generation
CPL Retail Energy LP	USA	100	Energy supply
Direct Energy LP	USA	100	Energy supply
Direct Energy Partnership	Canada	100	Energy supply
Direct Energy Resources Partnership	Canada	100	Gas production
Frontera Generation LP	USA	100	Power generation
Paris Generation LP	USA	100	Power generation
The Centrica Gas Production LP (ii)	England	–	Gas production
WTU Retail Energy LP	USA	100	Energy supply

The Consumers' Waterheater Income Fund (the Fund) is also consolidated as part of the Group. The Group has determined that the Fund is a subsidiary due to the substance of the arrangements. The Fund commenced operating on 17 December 2002. On 27 April 2006, the 19.9% interest held in the Fund by Direct Energy Marketing Limited, a wholly-owned subsidiary of Centrica plc, was transferred to its wholly-owned subsidiary, DEML Investments Limited. On 23 June 2006, DEML Investments Limited disposed of its 19.9% interest. Therefore, at 31 December 2006 Centrica held a nil% interest in the Fund (2005: 19.9%). Up until 23 June 2006, DEML Investments Limited held 100% of the class B exchangeable units in Waterheater Holding Limited Partnership, a subsidiary of the Fund. Class B exchangeable units were exchangeable into units of the Fund and attracted comparable voting rights to units of the Fund. Units of the Fund are traded on the Toronto Stock Exchange.

(i) All principal undertakings are indirectly held by the Company, except for Centrica Holdings Limited, which is a direct subsidiary undertaking. The information is only given for those subsidiaries which in the Directors' opinion principally affect the figures shown in the Financial Statements.

(ii) The Centrica Gas Production LP is a 'qualifying partnership' and is included on a consolidated basis within the Financial Statements of the Group. It has no share capital. Hydrocarbon Resources Limited, a Centrica Group company, exercises management of the partnership as the general partner. Its registered office is Millstream, Maidenhead Road, Windsor SL4 5GD.

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Independent Auditors' report to the members of Centrica plc

We have audited the parent Company Financial Statements of Centrica plc for the year ended 31 December 2006 which comprise the Balance Sheet and the related notes. These parent Company Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

We have reported separately on the Group Financial Statements of Centrica plc for the year ended 31 December 2006.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Remuneration Report and the parent Company Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent Company Financial Statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent Company Financial Statements give a true and fair view and whether the parent Company Financial Statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report (comprising the Directors' Report – Business Review and the Directors' Report – Governance) is consistent with the parent Company Financial Statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent Company Financial Statements. The other information comprises only the Chairman's Statement, the Directors' Report, the unaudited part of the Remuneration Report, the Gas and Liquid Reserves, Five Year Record and Shareholder Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company Financial Statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent Company Financial Statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent Company Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent Company Financial Statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent Company Financial Statements and the part of the Remuneration Report to be audited.

Opinion

In our opinion:

- the parent Company Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006;
- the parent Company Financial Statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent Company Financial Statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
22 February 2007

Company Balance Sheet

31 December	Notes	2006 £m	2005 £m
Fixed assets			
Tangible assets	iii	**84**	80
Investments in subsidiary undertakings	iv	**2,057**	2,062
		2,141	2,142
Current assets			
Debtors (amounts falling due within one year)	v	**5,146**	3,529
Current asset investments	vi	**608**	1,139
Cash at bank and in hand		**8**	5
		5,762	4,673
Creditors (amounts falling due within one year)			
Borrowings	vii	**(168)**	(443)
Other creditors	viii	**(2,710)**	(3,773)
		(2,878)	(4,216)
Net current assets		**2,884**	457
Total assets less current liabilities		**5,025**	2,599
Creditors (amounts falling due after more than one year)			
Borrowings	vii	**(1,269)**	(422)
Provisions for liabilities and charges	ix	**(25)**	(43)
Net assets		**3,731**	2,134
Capital and reserves – equity interests			
Called up share capital	24	**226**	224
Share premium account	x	**657**	595
Capital redemption reserve	x	**16**	15
Other reserves	x	**2,832**	1,300
Shareholders' funds	xi	**3,731**	2,134

The Financial Statements on pages 105 to 110 were approved and authorised for issue by the Board of Directors on 22 February 2007 and were signed on its behalf by:

Sam Laidlaw
Chief Executive

Phil Bentley
Group Finance Director

The notes on pages 106 to 110 form part of these Financial Statements, along with notes 24 and 25 to the Group Financial Statements.

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i. Principal accounting policies of the Company

Accounting principles

The Company Balance Sheet has been prepared in accordance with applicable UK accounting standards and under the historical cost convention and the Companies Act 1985.

Basis of preparation

No profit and loss account is presented for the Company as permitted by Section 230(3) of the Companies Act 1985. The Company's profit after tax for the year ended 31 December 2006 was £1,939 million (2005: £11 million).

Employee share schemes

The Group has a number of employee share schemes, detailed in the Directors' Report – Corporate Responsibility on page 26, the Remuneration Report on pages 34 to 36, and in note 25 to the Group Financial Statements, 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). For share-based payments to employees of the Company, 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. Equity-settled share-based payments which are made available to employees of the Company's subsidiaries are treated as increases in equity over the vesting period of the award, with a corresponding increase in the Company's investments in subsidiaries, based on the Group's estimate of the number of awards that will vest, and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using methods appropriate to each of the different schemes as follows:

LTIS: awards up to 2005	A Black-Scholes valuation augmented by a Monte Carlo simulation to predict the total shareholder return performance
LTIS: 2006 EPS awards	Market value on the date of grant
LTIS: 2006 TSR awards	A Monte Carlo simulation to predict the total shareholder return performance
Sharesave	Black-Scholes
ESOS	Black-Scholes using an adjusted option life assumption to reflect the possibility of early exercise
Share Award Scheme	Market value on the date of grant

Foreign currencies

Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at closing rates of exchange. Exchange differences on monetary assets and liabilities are taken to the profit and loss account.

Tangible fixed assets

Tangible fixed assets are included in the Balance Sheet at cost, less accumulated depreciation and any provisions for impairment. Tangible fixed assets are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives at periods ranging from five to 20 years.

Leases

Rentals under operating leases are charged to the profit and loss account on a straight-line basis.

Investments

Fixed asset investments are held in the Balance Sheet at cost, less any provision for impairment as necessary. Current asset investments are stated at the lower of cost and net realisable value.

Pensions and other retirement benefits

The Company's employees participate in a number of the Group's defined benefit pension schemes as described in note 30 to the Group Financial Statements. The Company is unable to identify its share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis and therefore accounts for the schemes as if they were defined contribution schemes. The charge to the profit and loss account is equal to the contributions payable to the schemes in the accounting period. Details of the defined benefit schemes of the Group (accounted for in accordance with the Group's accounting policies detailed in note 2 to the Group Financial Statements) can be found in note 30 to the Group Financial Statements.

i. Principal accounting policies of the Company continued

Taxation

Current tax, including UK corporation 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 substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the Financial Statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the Financial Statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless, by the balance sheet date, there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the Financial Statements. Deferred tax is not recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in the future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

Financial instruments

The Company's accounting policies for financial instruments are consistent with those of the Group, and are disclosed in note 2 to the Group Financial Statements. The Company's financial risk management policies are consistent with those of the Group and are described in the Directors' Report – Principal Risks and Uncertainties on pages 21 to 23 and in note 33 to the Group Financial Statements.

The Company is exempted by FRS 25 from providing detailed disclosures in respect of its financial instruments because the Company is included within the Group's consolidated accounts and its financial instruments are incorporated into the disclosures in note 33 to the Group Financial Statements.

ii. Directors and employees

Included within the Company's profit and loss charge for the year are wages and salaries costs of £91 million (2005: £90 million), social security costs of £9 million (2005: £6 million) and other pension and retirement benefit costs of £25 million (2005: £18 million).

The average number of employees of the Company during the year was 1,529 (2005: 1,580), all of whom were employed in the UK.

iii. Tangible fixed assets

	Plant, equipment and vehicles £m
Cost	
1 January 2006	129
Additions	22
Disposals	(3)
31 December 2006	148
Depreciation and amortisation	
1 January 2006	49
Charge for the year	18
Disposals	(3)
31 December 2006	64
Net book value	
31 December 2006	84
31 December 2005	80

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iv. Investments in subsidiary undertakings

	Investments in subsidiaries' shares £m
Cost	
1 January 2006	**2,062**
Additions and disposals (i)	**(5)**
31 December 2006	**2,057**

(i) Additions and disposals represent the net decrease in shares to be issued under employee share schemes in Group undertakings.

During the year Centrica plc transferred 100% of its holding in the share capital of GB Gas Holdings Limited to a newly-formed subsidiary, Centrica Holdings Limited, for consideration of 100% of the share capital of Centrica Holdings Limited.

v. Debtors

	Amounts falling due within one year	
	2006 £m	2005 £m
Amounts owed by Group undertakings	**5,058**	3,467
Derivative financial instruments (i)	**70**	53
Other debtors	**7**	3
Prepayments and other accrued income	**11**	6
	5,146	3,529

(i) Derivative financial instruments comprise foreign currency derivatives held for trading of £28 million (2005: £9 million), interest rate derivatives held for trading of £31 million (2005: £44 million) and foreign exchange derivatives held for hedging of £11 million (2005: £nil). The fair value of these derivatives is equivalent to the carrying value.

vi. Current asset investments

	2006 £m	2005 £m
Money market investments	**608**	1,139

£29 million (2005: £31 million) of money market investments were held by the Law Debenture Trust, on behalf of the Company, as security in respect of the Centrica Unapproved Pension Scheme (note 30 to the Group Financial Statements).

vii. Borrowings

	2006		2005	
Amounts falling due	**Within one year £m**	**After one year £m**	Within one year £m	After one year £m
Bank loans and overdrafts	**68**	**88**	66	–
Bonds	**–**	**1,181**	–	422
Commercial paper (i)	**100**	**–**	377	–
	168	**1,269**	443	422

(i) Commercial paper has a face value of £102 million (2005: £382 million).

The Company's financial instruments and related disclosures are included within the consolidated accounts of the Group. In accordance with the requirements of FRS 25, further detailed disclosure in respect of the Company is not included. Disclosures in respect of the Group's borrowings and other financial instruments are provided in notes 20 and 33 respectively to the Group Financial Statements.

viii. Other creditors

	Amounts falling due within one year	
	2006 £m	2005 £m
Trade creditors	**22**	12
Amounts owed to Group undertakings	**2,559**	3,526
Derivative financial instruments (i)	**68**	145
Taxation and social security	**3**	3
Accruals and deferred income	**58**	87
	2,710	3,773

(i) Derivative financial instruments comprise foreign currency derivatives held for trading of £13 million (2005: £94 million), interest rate derivatives held for trading of £32 million (2005: £45 million) interest rate derivatives held for hedging of £12 million (2005: £1 million) and foreign currency derivatives held for hedging of £11 million (2005: £5 million). The fair value of these derivatives is equivalent to the carrying value.

ix. Provisions for liabilities and charges

	1 January 2006 £m	Profit and loss charge £m	Utilised in the year £m	Unused and released £m	**31 December 2006 £m**
Restructuring and other provisions	43	14	(20)	(12)	**25**

Potential unrecognised deferred corporation tax assets amounted to £16 million (2005: £26 million), primarily relating to unutilised tax losses. The Company does not expect to be able to utilise these losses within the foreseeable future.

Restructuring and other provisions principally represent estimated liabilities for redundancy costs associated with the restructuring announced in 2005 and 2006 and National Insurance in respect of Long Term Incentive Scheme liabilities. The National Insurance provision was based on a share price of 354.50 pence at 31 December 2006 (31 December 2005: 254.75 pence). The majority of the amounts are expected to be utilised between 2007 and 2009.

x. Reserves

	Share premium account £m	Capital redemption reserve £m	Cash flow hedging reserve £m	Profit and loss account £m	**Total £m**
1 January 2006	595	15	(5)	1,305	**1,910**
Profit for the year (i)	–	–	–	1,939	**1,939**
Gains on revaluation of cash flow hedges (ii)	–	–	6	–	**6**
Dividends	–	–	–	(384)	**(384)**
Employee share option schemes:					
Value of services provided	–	–	–	23	**23**
Exercise of awards	–	–	–	(29)	**(29)**
Share issue	62	–	–	–	**62**
Repurchase of shares	–	1	–	(23)	**(22)**
31 December 2006	**657**	**16**	**1**	**2,831**	**3,505**

(i) As permitted by section 230(3) of the Companies Act 1985, no profit and loss account is presented. The Company's profit for the financial year was £1,939 million (2005: £11 million) before dividends paid of £384 million (2005: £340 million). The Company's profit includes dividends received from subsidiary undertakings of £1,967 million (2005: £nil).

(ii) Arising on revaluation of interest rate derivatives. Further details of the Company's interest rate derivatives are included within the financial instrument disclosures in note 33 to the Group Financial Statements.

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x. Reserves continued

The profit and loss account can be further analysed as follows:

	Share options reserve £m	Other £m	Profit and loss account £m
1 January 2006	42	1,263	**1,305**
Profit for the year (i)	–	1,939	**1,939**
Dividends	–	(384)	**(384)**
Employee share option schemes:			
Value of services provided	23	–	**23**
Exercise of awards	(27)	(2)	**(29)**
Repurchase of shares (ii)	–	(23)	**(23)**
31 December 2006	**38**	**2,793**	**2,831**

(i) Includes a £2 million gain on re-measurement of interest rate derivatives and bonds designated as the hedged item and a £17 million gain on re-measurement of foreign exchange derivatives. Further details of the Company's interest rate and foreign currency derivatives are included within the financial instrument disclosures in note 33 to the Group Financial Statements.

(ii) Details of the repurchase of shares can be found in note 24 to the Group Financial Statements.

xi. Movements in shareholders' funds

	2006 £m	2005 £m
1 January	**2,134**	2,815
Profit attributable to the Company (i)	**1,939**	11
Gains/(losses) on revaluation of cash flow hedges	**6**	(5)
Gains on revaluation of available for sale assets	**–**	2
Dividends paid to shareholders	**(384)**	(340)
Employee share option schemes:		
Purchase of treasury shares	**–**	(3)
Value of services provided	**23**	21
Exercise of awards	**(29)**	–
Share issue	**65**	21
Repurchase of shares (note 24 to the Group Financial Statements)	**(23)**	(388)
Net movement in shareholders' funds for the financial year	**1,597**	(681)
31 December	**3,731**	2,134

The Directors propose a final dividend of 8.0 pence per share (totalling £293 million) for the year ended 31 December 2006. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 14 May 2007. These Financial Statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2007.

Details of the Company's share capital are provided in notes 24 and 25 to the Group Financial Statements. The repurchase of shares is stated net of transaction costs of £nil (2005: £1 million).

(i) Profit attributable to the Company includes dividends received from subsidiary undertakings of £1,967 million (2005: £nil).

xii. Commitments and indemnities

(a) Capital expenditure

At 31 December 2006, the Company had placed contracts for capital expenditure amounting to £51 million (2005: £16 million).

(b) Lease commitments

At 31 December 2006, there were £1 million of land and buildings and £2 million of computer lease commitments in relation to non-cancellable operating leases for the Company (2005: £1 million and £5 million respectively). The Company has guaranteed operating commitments of a subsidiary undertaking at 31 December 2006 of £7 million (2005: £7 million) in respect of land and buildings.

(c) Guarantees and indemnities

Refer to note 31(e) to the Group Financial Statements for details of guarantees and indemnities. The maximum credit risk exposure was represented by the carrying amount for all financial instruments with the exception of financial guarantees issued by the Company to third parties, principally to support its subsidiaries' gas and power procurement and banking activities. At 31 December 2006 the credit risk exposure under financial guarantees issued by Centrica plc was £1,612 million (2005: £832 million).

The Group has estimated proven and probable gas and liquid reserves in the UK and North America. Estimates are made by management.

The principal fields in the UK are South Morecambe, North Morecambe, Statfjord and the Rough field associated with Centrica Storage. The principal fields in North America are Medicine Hat and Entice.

Estimated net proven and probable reserves of gas (billion cubic feet)	UK	North America	Total
1 January 2006	1,685	304	**1,989**
Revisions of previous estimates (i)	(38)	(5)	**(43)**
Purchases of reserves in place (ii)	53	2	**55**
Disposals of reserves in place (iii)	(4)	–	**(4)**
Extensions, discoveries and other additions (iv)	9	–	**9**
Production	(186)	(29)	**(215)**
31 December 2006	**1,519**	**272**	**1,791**

Estimated net proven and probable reserves of liquid (million barrels)	UK	North America	Total
1 January 2006	28	3	**31**
Revisions of previous estimates	4	–	**4**
Purchases of reserves in place	15	–	**15**
Production	(5)	–	**(5)**
31 December 2006	**42**	**3**	**45**

(i) Includes revised reserves estimate for the Galleon field (37 billion cubic feet reduction).
(ii) Includes the 4.84% equity acquisition in the Statfjord field.
(iii) Reflects the disposal of interest in the Hewett field.
(iv) Reflects the new development of the Davy East field.

Liquid reserves include oil, condensate and natural gas liquids (NGL).

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Results

Year ended 31 December	As reported under UK GAAP 2002 £m	2003 £m	Restated to IFRS 2004 £m	2005 £m	**2006 £m**
Group revenue from continuing operations	14,345	17,931	11,361	13,448	**16,450**
Operating profit from continuing operations before goodwill amortisation, exceptional charges, and certain re-measurements including share of joint ventures and associates:					
British Gas Residential	218	136	242	90	**95**
British Gas Services	26	70	72	111	**102**
British Gas Business	65	51	68	77	**87**
Centrica Energy	519	561	773	903	**686**
Centrica Storage	1	40	69	154	**228**
North American Energy and Related Services	63	130	132	185	**223**
Other operations	5	–	1	2	**14**
European Energy			5	(9)	**7**
Onetel [i]	2	4	–	–	**–**
The AA [ii]	73	93	–	–	**–**
Goldfish Bank [iii]	(40)	(27)	–	–	**–**
	932	1,058	1,362	1,513	**1,442**
Operating profit/(loss) from discontinued operations:					
Onetel [i]			3	12	**(11)**
The AA [ii]			80	–	**–**
Exceptional items and certain re-measurements (net of tax)	(35)	(53)	833	340	**(862)**
Goodwill amortisation (net of tax credit)	(123)	(161)			
Profit/(loss) attributable to the Group	478	500	1,591	1,012	**(155)**
	Pence	Pence	Pence	Pence	**Pence**
Earnings/(loss) per ordinary share	11.4	11.8	38.0	27.4	**(4.3)**
Adjusted earnings per ordinary share [iv]	15.2	16.8	18.1	18.2	**19.4**

Assets and liabilities

At 31 December	As reported under UK GAAP 2002 £m	2003 £m	Restated to IFRS 2004 £m	2005 £m	**2006 £m**
Intangible assets including goodwill	1,813	1,614	1,567	1,739	**1,477**
Other non-current assets	2,865	2,827	3,791	4,490	**4,195**
Net current (liabilities)/assets	(108)	241	155	666	**(112)**
Long-term liabilities and provisions	(2,168)	(1,945)	(3,205)	(4,453)	**(3,918)**
Net assets	2,402	2,737	2,308	2,442	**1,642**
Debt, net of cash and money market investments:					
Net (debt)/cash (excluding Goldfish Bank and non-recourse debt)	(529)	163	(508)	(1,060)	**(1,527)**
Goldfish Bank working capital facility	(430)	–	–	–	**–**
The Consumers' Waterheater Income Fund (non-recourse) debt	(196)	(216)	(217)	(532)	**(483)**
	(1,155)	(53)	(725)	(1,592)	**(2,010)**

On implementation in 2004 of UITF 38, values for 2003 were restated for the change in accounting policy.

(i) Discontinued in 2005.
(ii) Discontinued in 2004.
(iii) Discontinued in 2003.
(iv) Adjusted earnings per share exclude goodwill amortisation and exceptional charges under UK GAAP, and certain re-measurements and exceptional items under IFRS.

Cash flows

Year ended 31 December	As reported under UK GAAP 2002 £m	2003 £m	Restated to IFRS 2004 £m	2005 £m	**2006 £m**
Cash inflow from operating activities before exceptional payments	733	992	1,294	1,192	**850**
Exceptional payments	(16)	–	(25)	(48)	**(113)**
Net cash flow from investing activities			497	(529)	**(720)**
Disposals and acquisitions	(935)	292			
Cash (outflow)/inflow before financing	(918)	652	1,766	615	**17**

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Electronic communications

Recent changes in legislation mean that, subject to the necessary authority being passed at the forthcoming AGM, Centrica is now able to offer shareholders the opportunity to receive shareholder documentation via its website. These changes, introduced by the Government, recognise the increasing role that the internet plays in timely communications.

You may now choose either to:

- receive shareholder documentation by website communication by providing us with an email address (to do this, please go online to **www.centrica.com/ecomms**); or
- continue to receive shareholder documentation in hard copy (to do this, please complete and return the personalised prepaid form of election attached to the enclosed AGM proxy card so that it is received no later than 30 June 2007). If you do not return the form you will be taken, subject to the necessary authority being passed at the AGM, to have agreed to receive shareholder documentation via the website.

Shareholders who receive shareholder documentation from Centrica electronically can in future:

- view the Annual Report on the day it is published;
- have access to significantly greater volumes of information about Centrica;
- cast their AGM vote electronically; and
- access details of their individual shareholding quickly and securely online.

This new legislation provides shareholders with the opportunity to access information in a timely manner and helps Centrica to reduce both its costs and its impact on the environment.

The Centrica website

The Centrica website at **www.centrica.com** provides news and details of the Company's activities, plus information on the share price and links to our business sites.

The investor information section of the website contains up-to-date information for shareholders including the Company's latest results and key dates such as dividend payment dates. It also holds historical details such as past dividend payment dates and amounts, and a comprehensive share price information section. Visit **www.centrica.com/shareholders**.

Centrica shareholder helpline

Centrica's shareholder register is maintained by Lloyds TSB Registrars, which is responsible for making dividend payments and updating the register.

If you have a query on the following:

- transfer of shares;
- change of name or address;
- lost share certificate;
- lost or out-of-date dividend cheques and payment of dividends into a bank or building society account; and
- death of the registered holder of shares or any other query relating to your Centrica shareholding, please contact Lloyds TSB Registrars:

telephone: **0870 600 3985***

text phone: **0870 600 3950***

write to: Lloyds TSB Registrars,The Causeway,
Worthing, West Sussex BN99 6DA

email: **centrica@lloydstsb-registrars.co.uk**

* Calls charged at national rate.

The Centrica FlexiShare service

FlexiShare

By transferring your shares into FlexiShare you will benefit from:

- low-cost share dealing facilities provided by a panel of independent brokers;
- quicker settlement periods;
- no certificates to lose; and
- a dividend reinvestment plan – your cash dividend can be used to buy more Centrica shares (for a small dealing charge) which are then credited to your FlexiShare account.

FlexiShare is a 'corporate nominee', sponsored by Centrica and administered by Lloyds TSB Registrars. It is a convenient way to manage your Centrica shares without the need for a share certificate. Your share account details will be held on a separate register and you will receive an annual confirmation statement. Participants will have the same rights to attend and vote at general meetings as all other shareholders. There is no charge for holding your shares in FlexiShare, nor for transferring in or out at any time.

For further details about FlexiShare, please call the Centrica shareholder helpline on 0870 600 3985 or visit **www.centrica.com/flexishare**.

Direct dividend payments

Dividends can be paid automatically into your bank or building society account. This service has a number of benefits:

- there is no chance of the dividend cheque going missing in the post;
- the dividend payment is received more quickly as the cash is paid directly into the account on the payment date without the need to pay in the cheque and wait for it to clear; and
- a single consolidated tax voucher is issued at the end of each tax year, in March, in time for your self-assessment tax return.

Direct dividend payment also helps Centrica improve its efficiency by reducing postage and cheque clearance costs. To register for this service, please call the Centrica shareholder helpline on 0870 600 3985 to request a direct dividend payment form, or download it from our website at **www.centrica.com/shareholders**.

Overseas dividend payments

A service has been established to provide shareholders in over 30 countries with the opportunity to receive Centrica dividends in their local currency. For a small fixed fee, shareholders can have their dividends automatically converted from sterling and paid into their bank account, normally within five working days of the dividend payment date. For further details, please contact the Centrica overseas shareholder helpline on **+44 121 415 7061**.

Buying and selling shares in the UK

If you wish to buy or sell certificated Centrica shares, you will need to use a stockbroker or high street bank which trades on the London Stock Exchange. There are many telephone and online services available. If you are selling, you will need to present your share certificate at the time of sale. FlexiShare (details above) offers a year-round, low-cost dealing service to its participants.

Share price information

As well as using the Centrica website to view details of the current and historical Centrica share price, shareholders can find share prices listed in most national newspapers. Ceefax and Teletext pages also display share prices that are updated regularly throughout the trading day. For a real-time buying or selling price, you should contact a stockbroker.

Useful historical information

Demerger

The shares of Centrica plc were traded on the London Stock Exchange for the first time on 17 February 1997, the date of demerger from British Gas plc. Shares were acquired in Centrica plc on the basis of one Centrica share for every British Gas share held at demerger. The split between the post-demerger Centrica and British Gas shares was in the proportion Centrica 27.053% and British Gas 72.947%.

Shares in Centrica plc acquired on demerger are treated as having a base cost for capital gains tax purposes (calculated in accordance with taxation legislation) of 64.25 pence each.

Share capital consolidations

The share capital of Centrica plc has been consolidated on two occasions:

- On 10 May 1999, the ordinary share capital was consolidated on the basis of nine new ordinary shares of $5\frac{5}{9}$ pence for every ten ordinary shares of 5 pence held on 7 May 1999. The consolidation was linked to the payment of a special dividend of 12 pence per share on 23 June 1999.
- On 25 October 2004, the ordinary share capital was consolidated on the basis of nine new ordinary shares of $6\frac{14}{81}$ pence for every ten ordinary shares of $5\frac{5}{9}$ pence held on 22 October 2004. The consolidation was linked to the payment of a special dividend of 25 pence per share on 17 November 2004.

ShareGift

ShareGift (registered charity 1052686) is an independent charity which provides a free service for shareholders wishing to dispose charitably of small parcels of shares which would cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information can be obtained at www.sharegift.org or from the Centrica shareholder helpline on 0870 600 3985.

American Depositary Receipts

Centrica has a Level 1 American Depositary Receipt (ADR) programme. The ADRs, each of which is equivalent to ten ordinary Centrica shares, trade under the symbol CPYYY.

For enquiries, please contact:
ADR Depositary
The Bank of New York
Investor Relations
PO Box 11258, Church Street Station
New York NY 10286-1258
email: shareowners@bankofny.com
or via www.stockbny.com

Telephone: 1 888 BNY ADRs in the US or 1 212 815 3700 from outside the US. www.adrbny.com

Financial calendar

Ex-dividend date for 2006 final dividend	25 April 2007
Record date for 2006 final dividend	27 April 2007
Annual General Meeting, Queen Elizabeth II Conference Centre London SW1	14 May 2007
Final dividend payment date	13 June 2007
2007 interim results announced	2 August 2007
Interim dividend payment date	14 November 2007

Analysis of shareholders as at 31 December 2006

Distribution of shares by the type of shareholder	Holdings	Shares
Nominees and institutional investors	9,873	3,317,461,950
Individuals (certificated)	806,260	345,259,118
Total	816,133	3,662,721,068

Size of shareholding	Number of holdings	Shares
1–500	640,808	148,414,952
501–1,000	107,285	75,155,277
1,001–5,000	62,467	106,978,286
5,001–10,000	3,285	22,455,092
10,001– 50,000	1,159	21,635,628
50,001–100,000	192	14,258,387
100,001– 1,000,000	580	216,888,412
1,000,001 and above	357	3,056,935,034
Total	816,133	3,662,721,068

As at 31 December 2006 there were 81,292 participants in the Centrica FlexiShare service, with an aggregate shareholding of 93,433,873 shares, registered in the name of Lloyds TSB Registrars Corporate Nominee Limited.

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Accessibility

If you would like this Annual Report in a different format, such as large print, Braille, audio or digital (text CD or floppy disk), you can request these in the following ways:

Telephone
0191 438 6063
Text phone
0191 438 1122

Please note that these numbers should be used to order copies of alternative formats only. For general shareholder enquiries please use the shareholder helpline, details on page 114.

Visit us at www.centrica.com

The Centrica website provides news and details of the Company's activities, plus links to our business sites.

The shareholder section at www.centrica.com/shareholders contains up-to-date information including the Company's latest results and dividend payment details. It holds current and historical share price information.

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