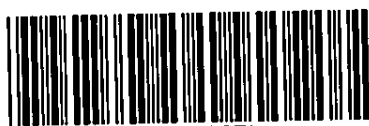


Registered Number 04217941

Centrica Energy Operations Limited

Annual report and Financial Statements
For the year ended 31 December 2009

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Centrica Energy Operations Limited

Annual report and financial statements for the year ended 31 December 2009

Contents

Directors' report for the year ended 31 December 2009	1
Independent auditors' report to the members of Centrica Energy Operations Limited	5
Profit and loss account for the year ended 31 December 2009	6
Statement of total recognised gains and losses	7
Balance sheet as at 31 December 2009	8
Notes to the financial statements for the year ended 31 December 2009	9

Centrica Energy Operations Limited

Directors' report for the year ended 31 December 2009

The directors present their report and the audited financial statements of Centrica Energy Operations Limited ("the Company") for the year ended 31 December 2009

Principal activities

The principal activity of the Company is the employment of power station employees and the recharge of the associated cash costs to the stations where they perform those services, namely those owned by Centrica KL Limited, Centrica PB Limited, Centrica Brigg Limited, Centrica Barry Limited, Centrica RPS Limited, Centrica KPS Limited, Centrica SHB Limited and Centrica Langage Limited

Business review

During the year the Company continued to employ power station employees, pay salaries and recharge the costs. There are no plans to change the nature of activities in the foreseeable future.

The Company has taken advantage of the provisions of the Companies Act 2006 (the 'Act') to abolish the requirement to have an authorised share capital. A Special Resolution was passed by the Company's sole member on 21 December 2009 to delete all provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Act, were treated as provisions of the Company's Articles of Association and then by adopting new Articles of Association.

Future developments

A similar trading profile to 2009 is expected in the coming year.

Principal risks and uncertainties and financial risk management

The principal risks and uncertainties are integrated with the principal risks of the Centrica plc Group ("the Group") and are not managed separately. The principal risks of the Group are set out on pages 29-34 of the 2009 annual report and accounts of the Group which does not form part of this report.

Key performance indicators

The directors of the Group use a number of key performance indicators to monitor progress against the Group's strategy. The development and performance of the Group, which includes the Company, are discussed on pages 8-9 of the 2009 annual report and accounts of Centrica plc which does not form part of this report.

Results and dividends

The results of the Company are set out on page 6.

During the year the Company made a profit of £32,000 (2008 profit of £53,000). No dividends were paid on the ordinary shares for the year ended 31 December 2009 (2008 £nil). The directors do not recommend the payment of a final dividend (2008 £nil).

Financial position

The financial position of the Company is presented in the balance sheet on page 8. The shareholders' funds at 31 December 2009 were £908,000 (2008 restated shareholders' funds of £598,000).

Centrica Energy Operations Limited

Directors' report for the year ended 31 December 2009 (continued)

Directors

The following served as directors during the year and up to the date of signing of this report

Graeme Collinson (appointed 13 February 2009)
Sarwjit Sambhi
James Spence
John Watts

There were no contracts of significance during or at the end of the financial year to which the Company or any subsidiary and associated undertakings is a party and in which any director is or was materially interested

Employees

The policies of the Group, which includes the Company, concerning employee engagement, diversity and inclusion are discussed on pages 25-26 of the 2009 annual report and accounts of the Group, which does not form part of this report

Creditor payment policy

It is the Company's policy to pay all of its creditors in accordance with the policies set out below. Special contractual terms apply for gas and electricity supplies. For all other trade creditors, it is the Company's policy to

- i) agree the terms of payment in advance with the supplier,
- ii) ensure that suppliers are aware of the terms of payment, and
- iii) pay in accordance with contractual and other legal obligations

Centrica Energy Operations Limited

Directors' report for the year ended 31 December 2009 (continued)

Directors' and officers' liability

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc, and was in place throughout the year under review. The insurance does not provide cover in the event that the director is proved to have acted fraudulently.

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK 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 Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

In accordance with Section 418(2) of the Companies Act 2006, in the case of each director in office at the date the directors' report is approved, that

- (a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Prior year adjustment

During 2009, the Company recognised the value of share-based payments to employees in other reserves for the first time, as these amounts had previously been netted against amounts owed by Group undertakings in debtors (note 8). Accordingly, in 2009 the balances of certain accounts have been restated (note 16).

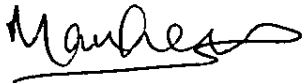
Centrica Energy Operations Limited

Directors' report for the year ended 31 December 2009 (continued)

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office

This report was approved by the Board on 11 June 2010



For and on behalf of
Centrica Secretaries Limited
Company Secretary

Company registered in England and Wales No 04217941

Registered office
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Centrica Energy Operations Limited

Independent auditors' report to the members of Centrica Energy Operations Limited

We have audited the financial statements of Centrica Energy Operations Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Derek Coe (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Hull
11 June 2010

Centrica Energy Operations Limited

Profit and loss account for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Turnover	3	28,444	19,494
Cost of sales		(28,444)	(19,494)
Gross profit		-	-
Administration expenses		-	-
Profit on ordinary activities before taxation	4	-	-
Tax on profit on ordinary activities	7	32	53
Profit for the year	12	32	53

There are no material differences between the result of ordinary activities before taxation and the profit for the year stated above and their historical cost equivalents

All results relate to continuing operations

The notes on pages 9 to 20 form part of these financial statements

Centrica Energy Operations Limited

Statement of total recognised gains and losses for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000 (Restated)
Profit for the financial year		32	53
Employee share schemes value of services provided	12	<u>278</u>	<u>261</u>
Total recognised gains and losses relating to the year		310	<u>314</u>
Prior year adjustment	16	<u>545</u>	
Total gains and losses recognised for the year		<u><u>855</u></u>	

The notes on pages 9 to 20 form part of these financial statements

Centrica Energy Operations Limited

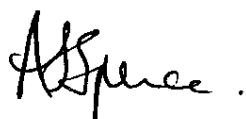
Balance sheet as at 31 December 2009

	Note	2009 £'000	2008 £'000 (Restated)
Current assets			
Debtors	8	1,374	1,064
Creditors – amounts falling due within one year	10	(466)	(466)
Net current assets		<u>908</u>	<u>598</u>
Net assets		<u>908</u>	<u>598</u>
Capital and reserves			
Called up share capital	11	-	-
Reserves	12	908	598
Total shareholders' funds	13	<u>908</u>	<u>598</u>

During 2009, the Company recognised the value of share-based payments to employees in its financial statements for the first time. Accordingly, the balances of certain accounts as at 1 January 2009 have been restated (note 16).

The notes on pages 9 to 20 form part of these financial statements.

The financial statements on pages 6 to 20 were approved and authorised for issue by the Board of Directors on 11 June 2010 and were signed on its behalf by



James Spence
Director

Centrica Energy Operations Limited

Notes to the financial statements for the year ended 31 December 2009

1 Statement of accounting policies

These financial statements are prepared on the going concern basis, under historical cost convention and in accordance with the Companies Act 2006 and the applicable UK accounting standards. The principal accounting policies are set out below.

Turnover

Turnover principally relates to the recharge at nil mark-up of employment costs to other Group companies.

Pensions and other retirement benefits

The Company's employees participate in a number of the Group's defined benefit pension schemes. 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, which are based on pension costs across the Group as a whole.

Share-based payments

The Company has a number of employee share schemes, detailed in note 15, 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 Company'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:

- Sharesave Black-Scholes
- SAS and SIP market value on the date of grant

Deferred taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or 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 Company's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis.

Deferred tax assets relating to the carry-forward of unused tax losses are recognised to the extent that it can be regarded as more likely than not that future taxable profits will be available against which the unused tax losses can be utilised.

Centrica Energy Operations Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

2 Cash flow statements and related party disclosures

The Company is a wholly-owned subsidiary of GB Gas Holdings Limited and is included in the consolidated financial statements of Centrica plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of financial reporting standard 1 (revised 1996) "Cash Flow Statements". The Company is also exempt under the terms of Financial Reporting Standard 8 "Related Party Disclosures" from disclosure of transactions with other companies that are part of the Centrica plc Group.

3 Turnover

All turnover relates to the principal activity of the business and occurs wholly in the United Kingdom.

4 Profit on ordinary activities before taxation

	2009 £'000	2008 £'000
Profit on ordinary activities before taxation is stated after charging		
Staff costs (note 6)	28,444	19,494

Auditors' remuneration totalling £6,000 (2008: £6,000) relates to fees for the audit of the UK GAAP statutory accounts of Centrica Energy Operations Limited and includes fees in relation to the audit of the IFRS Group consolidation schedules, for the purpose of the Centrica Group audit, which also contribute to the audit of Centrica Energy Operations Limited. The auditors' remuneration is borne totally by Centrica plc.

5 Directors' emoluments

The directors received no emoluments as they are employed by other Centrica Group companies (2008: £nil).

All of the directors are members of the ultimate parent company's defined benefit pension scheme.

Centrica Energy Operations Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

6 Employee information

The average monthly number of persons employed by the Company during the year was 375 (2008 376). The employees have contracts of employment with the Company. Employee costs incurred are recharged to Centrica KL Limited, Centrica PB Limited, Centrica Brigg Limited, Centrica KPS Limited, Centrica RPS Limited, Centrica Barry Limited, Centrica Langage Limited and Centrica SHB Limited. These are all 100%-owned companies within the Centrica plc Group.

Staff costs comprise	2009	2008
	£'000	£'000 (Restated)
Wages and salaries	16,283	15,852
Social security costs	1,751	1,718
Share-based payments	278	261
Other pension and retirement benefit costs (note 14)	10,132	1,663
	28,444	19,494

Centrica Energy Operations Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

7 Taxation on profit on ordinary activities

	2009 £'000	2008 £'000
(a) Analysis of tax charge in the period		
The tax charge comprises		
Current tax:		
United Kingdom corporation tax at 28% (2008 28.5%)	-	-
Deferred tax:		
Origination and reversal of timing differences	(32)	(53)
Total deferred tax	(32)	(53)
Tax on profit on ordinary activities	(32)	(53)
(b) Factors affecting the tax charge for the period		
The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows		
	2009 £'000	2008 £'000
Profit on ordinary activities before tax	-	-
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2008 28.5%)	-	-
Effects of		
Other permanent differences	63	(282)
Group relief for nil consideration	(460)	6
UK UK transfer pricing adjustments	397	276
Current tax charge for the year	-	-

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly the Company's profits for 2008 were taxed at an effective rate of 28.5% and the profits for 2009 are taxed at 28%.

Centrica Energy Operations Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

8 Debtors

	2009 £'000	2008 £'000 (Restated)
Deferred tax (note 9)	85	53
Value added tax	1	-
Amounts owed by Group undertakings (restated note 16)	1,288	1,011
	1,374	1,064

Amounts owed by Group undertakings are unsecured, interest-free and repayable on demand

9 Deferred taxation

	£'000
At 1 January 2009	(53)
(Credited) / charged to the profit and loss account	(32)
As at 31 December 2009	(85)

	As at 1 January 2009 £'000	Profit and loss charge/(credit) £'000	As at 31 December 2009 £'000
Deferred corporation tax			
- accelerated capital allowances	-	-	-
- other timing differences	(53)	(32)	(85)
	(53)	(32)	(85)

Deferred corporation tax provision / (asset) at 28% (2008 28%) is analysed as follows

	Provided This period £'000	Provided Last period £'000	Unprovided This period £'000	Unprovided Last period £'000
Deferred corporation tax				
- accelerated capital allowances	-	-	-	-
- other timing differences	(85)	(53)	-	-
	(85)	(53)	-	-

Centrica Energy Operations Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

10 Creditors - amounts falling due within one year

	2009 £'000	2008 £'000
Tax and social security	460	466
Accruals	6	-
	<u>466</u>	<u>466</u>

11 Called up share capital

	2009 £'000	2008 £'000
Authorised		
Nil ordinary shares of £1 each (2008 10,000 ordinary shares of £1 each)	-	10
Allotted and fully paid		
2 ordinary shares of £1 each (2008 2 ordinary shares of £1 each)	-	-

The Company has taken advantage of the provisions of the Companies Act 2006 (the 'Act') to abolish the requirement to have an authorised share capital. A Special Resolution was passed by the Company's sole member on 21 December 2009 to delete all provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Act, were treated as provisions of the Company's Articles of Association and then by adopting new Articles of Association.

12 Reserves

	Profit and loss reserve £'000	Other reserve £'000	Total £'000
At 1 January 2009 as previously reported	53	-	53
Prior year adjustment (note 16)	-	545	545
At 1 January 2009 restated	53	545	598
Profit for the financial year	32	-	32
Employee share schemes value of services provided	-	278	278
At 31 December 2009	85	823	908

Centrica Energy Operations Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

13 Reconciliation of movements in shareholders' funds

	2009 £'000	2008 £'000 (Restated)
Profit for the financial year	32	53
Employee share schemes value of services provided	278	261
Net movement on shareholders' funds	310	314
Opening shareholders' funds as previously reported	53	-
Prior year adjustment (note 16)	545	284
Opening shareholders' funds as restated	598	284
Closing shareholders' funds	908	598

14 Pension commitments

The majority of the Company's employees at 31 December 2009 were members of two of the three main schemes in the Centrica plc group, the Centrica Pension Scheme and the Centrica Pension Plan (formerly known as the Centrica Management Pension Scheme)

These are defined benefit schemes and their assets are held in separate trustee-administered funds. However, it is not possible on a reasonable and consistent basis to identify the Company's share of the underlying assets and liabilities within these schemes, and therefore, as allowed within FRS17, these schemes have been treated as defined contribution schemes. Additional special contributions of £8.6 million (2008: £nil) were incurred during the year. The aggregate contributions to the schemes during the year were £10.1 million (2008: £1.7 million). The amount outstanding at the balance sheet date was £nil (2008: £nil). The latest actuarial valuations of the schemes, updated for the purposes of FRS17, show a total gross deficit of £367 million (2008: surplus of £113 million) and a deficit of £264 million (2008: surplus of £83 million) net of deferred tax. These pension schemes are included on a consolidated basis within the Group accounts of Centrica plc as prepared under IFRS.

The liabilities under the pension schemes will be paid out over an extended period. The company is contributing to the pension fund on the basis of actuarial advice as to the amounts required to meet these liabilities in full. This actuarial advice is based on funding valuations carried out at least triennially, the last of which was as at 31 March 2009.

Centrica Energy Operations Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

15 Share-based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders. The Group operates nine main employee share schemes and Centrica Energy Operations Limited employees participate in three of these: Sharesave, the Share Award Scheme (SAS), and the Share Incentive Plan (SIP).

On 15 December 2008, Centrica plc raised proceeds of £2,164 million, net of issue costs of £65 million, through a rights issue as explained in notes 30 and 32 to the Centrica plc annual report and accounts 2009. The number of shares allocated to employees under the Group's share schemes has been adjusted to reflect the bonus element of the rights issue. The terms of the Group's employee share schemes were adjusted such that participants of the various plans were no better or worse off as a result of the rights issue. Consequently, no additional expense was or will be recognised as a result of changes to the Group's employee share schemes. Details of the adjustments made to the terms of the Group's employee share schemes as a result of the rights issue are provided in sections (b) and (c) below.

Centrica Energy Operations Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

15 Share-based payments (continued)

(a) Summary of share-based payment plans and movements in the number of shares and options outstanding

Sharesave

Under Sharesave, the Board of Centrica plc may grant options over shares in Centrica plc to all UK-based employees of the Group. To date, the Board has approved the grant of options with a fixed exercise price equal to 80% of the average market price of the shares for the three days prior to invitation which is three to four weeks prior to the grant date. Employees pay a fixed amount from salary into a savings account each month and may elect to save over three and / or five years. At the end of the savings period, employees have six months in which to exercise their options using the funds saved. If employees decide not to exercise their options, they may withdraw the funds saved, and the options expire six months after maturity. Exercise of options is subject to continued employment within the Group (except where permitted by the rules of the scheme). Details of the fair values of awards granted and related assumptions are included in section (b) below. A reconciliation of movements in allocations is as follows:

	Number (i)	Weighted average exercise price (i) £	Number (i)	Weighted average exercise price (i) £
Outstanding at start of year	914,652	£2 21	1,258,830	£1 58
Granted	629,823	£1 94	426,023	£2 27
Exercised	(143,533)	£1 91	(618,502)	£1 09
Forfeited	(245,987)	£2 29	(74,428)	£1 89
Expired	(3,712)	£2 01	(59,488)	-
Transfer to/from other Group companies	(103,165)	-	(17,783)	-
Outstanding at end of year	1,048,078	£2 21	914,652	£2 21
Exercisable at end of year	-	-	-	-

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the rights issue. Details of the rights issue are provided in notes 30 and 32 to the Centrica plc annual report and accounts 2009.

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

2009				2008			
Range of exercise prices (i)	Weighted average exercise price (i)	Number of shares (i)	Average remaining contractual life Years	Range of exercise prices (i)	Weighted average exercise price (i)	Number of shares (i)	Average remaining contractual life Years
£1 60–£1 69	£1 67	72,651	0 3	£1 60–£1 69	£1 65	159,300	0 8
£1 90–£1 99	£1 94	593,716	3 5	£1 90–£1 99	-	-	-
£2 10–£2 19	£2 12	49,825	1 4	£2 10–£2 19	£2 12	152,397	2 3
£2 20–£2 29	£2 27	212,220	2 4	£2 20–£2 29	£2 27	410,483	4 3
£2 50–£2 59	£2 59	119,666	1 1	£2 50–£2 59	£2 59	192,472	3 3
	£2 07	1,048,078	2 7		£2 21	914,652	3 1

(i) Exercise prices and the number of shares in each range have been adjusted to reflect the bonus element of the rights issue. Details of the rights issue are provided in notes 30 and 32 to the Centrica plc annual report and accounts 2009.

For options exercised during the period, the weighted average share price at the date of exercise was £2 36 (2008 £2 64). The 2008 share price was adjusted to reflect the bonus element of the rights issue.

Centrica Energy Operations Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

15 Share-based payments (continued)

(a) Summary of share-based payment plans and movements in the number of shares and options outstanding (continued)

SAS

Under the SAS, allocations of shares in Centrica plc are made to selected employees at middle management levels, based on recommendation by the Chief Executive and the Group Director, Human Resources. There is no contractual eligibility for SAS and each year's award is made independently from previous awards. Allocations are subject to no performance conditions and vest unconditionally subject to continued employment with the Group (except where permitted by the rules of the scheme) in two stages – half of the award vesting after two years, the other half vesting after three years. On vesting, additional shares are awarded or a cash payment is made to reflect dividends that would have been paid on the allocations during the vesting period. The fair value is therefore considered to be the market value at date of grant. Details of the fair values of awards granted and related assumptions are included in section (c) below. A reconciliation of movements in the allocations is as follows:

	2009 Number (i)	2008 Number (i)
Outstanding at start of period	27,088	-
Granted	22,862	14,174
Exercised	(4,153)	(1,673)
Forfeited	(6,739)	(3,187)
Transfer to/from other Group companies	(4,613)	17,774
Outstanding at end of period	34,445	27,088
Exercisable at end of period	-	-

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the rights issue. Details of the rights issue are provided in notes 30 and 32 to the Centrica plc annual report and accounts 2009.

For shares released during the period, the weighted average share price at the date of release was £2.31 (2008 £2.71). The 2008 share price was adjusted to reflect the bonus element of the rights issue.

Centrica Energy Operations Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

15 Share-based payments (continued)

(a) Summary of share-based payment plans and movements in the number of shares and options outstanding (continued)

SIP

Under SIP, employees in the UK may purchase 'partnership shares' through monthly salary deductions. The Company then awards one 'matching share' for every two partnership shares purchased, up to a maximum of 22 matching shares per employee per month (increased in 2009 from 20 to 22 matching shares to reflect the bonus element of the rights issue). Both partnership shares and matching shares are held in a trust. 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 (except where permitted by the rules of the scheme). Matching shares are valued at the market price at the grant date. Details of the fair values of awards granted and related assumptions are included in section (c) below.

A reconciliation of matching shares held in trust is as follows:

	2009 Number (i)	2008 Number (i) (ii)
Unvested at start of period	37,920	13,380
Granted	35,563	30,102
Released	-	(4,780)
Forfeited	(2,718)	(782)
Unvested at end of period	70,765	37,920

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the rights issue. Details of the rights issue are provided in notes 30 and 32 to the Centrica plc annual report and accounts 2009.

(ii) Amounts in 2008 have been restated to include only unvested matching shares.

For shares released during the period, the weighted average share price at the date of release was £2.52 (2008 £2.77). The 2008 share price was adjusted to reflect the bonus element of the rights issue.

(b) Fair values and associated details of options granted

	Shareave 2009	Shareave 2008
Number of options granted ⁽ⁱ⁾	629,823	426,920
Weighted average fair value at grant date ⁽ⁱ⁾	£0.49	£0.65
Weighted average share price at grant date ⁽ⁱ⁾	£2.30	£2.71
Weighted average exercise price ⁽ⁱ⁾	£1.94	£2.27
Expected volatility ⁽ⁱⁱ⁾	29%	23%
Contractual option life	4.6 years	4.5 years
Expected life	4.6 years	4.2 years
Vesting period	4.3 years	4.2 years
Expected dividend yield	5.00%	3.50%
Risk-free interest rate ⁽ⁱⁱⁱ⁾	2.48%	4.09%
Expected forfeitures	33%	33%

(i) For options granted prior to 14 November 2008 amounts have been adjusted to take account of the bonus element of the rights issue. Details of the rights issue are provided in notes 30 to 32 to the Centrica plc annual report and accounts 2009.

(ii) The expected volatility is based on historical volatility over the last three years.

(iii) The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the expected option life.

Centrica Energy Operations Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

15 Share-based payments (continued)

(c) Fair values and associated details of shares granted

	SAS	SAS	SIP	SIP
	2009	2008	2009	2008
Number of equity instruments granted ⁽ⁱ⁾	22,862	14,174	35,563	30,102
Weighted average fair value at grant date	£2.22	£2.71	£2.45	£2.69
Contractual option life	2.5 years	2.5 years	-	-
Vesting period	2.5 years	2.5 years	3 years	3 years
Expected forfeitures	20%	20%	0%	0%

(i) For options granted prior to 14 November 2008 amounts have been adjusted to take account of the bonus element of the rights issue. Details of the rights issue are provided in notes 30 to 32 to the Centrica plc annual report and accounts 2009.

16 Prior year adjustment

During 2009, the Company recognised the value of share-based payments to employees in other reserves for the first time, as these amounts had previously been credited incorrectly against amounts owed by Group undertakings in debtors (note 8). Accordingly, in 2009 the balances of certain accounts have been restated as follows:

	As originally stated £'000	Effect of restatement £'000	After restatement £'000
At 1 January 2009			
Amounts owed by Group undertakings (note 8)	466	545	1,011
Other reserve (note 12)	-	(545)	(545)

17 Ultimate parent undertaking

The Company's immediate parent undertaking is GB Gas Holdings Limited, a company registered in England and Wales.

The Company's ultimate parent undertaking and controlling party is Centrica plc, a company registered in England and Wales. Copies of the Centrica plc consolidated financial statements can be obtained from www.centrica.com.