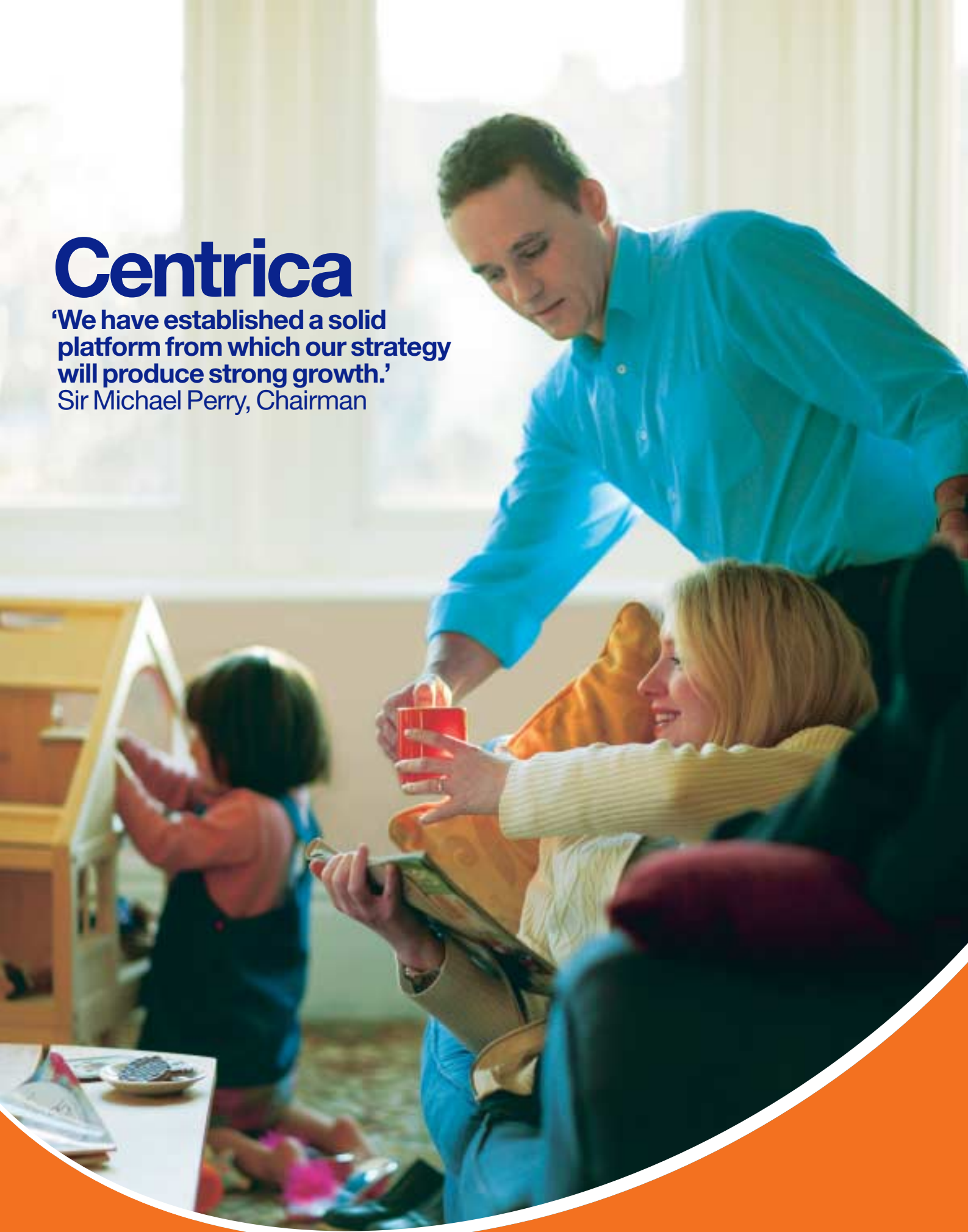


Centrica

'We have established a solid platform from which our strategy will produce strong growth.'

Sir Michael Perry, Chairman



Vision, Strategy, Values

Our **vision** is to be a leading supplier of essential services in our chosen markets in order to provide maximum value to our shareholders.

Our distinctive **strategy** is to create value for shareholders through:

Deepening our relationships with customers

Gaining and retaining valuable customers by understanding their needs and offering them tailored products and services through our strong brands.

Managing risk in the energy markets

Identifying and implementing the right blend of owning production assets, negotiating long term contracts and daily buying activities.

Sharing knowledge and best practice

Making Centrica greater than the sum of its parts both by implementing common processes and by sharing knowledge, best practice and learning across the company.

Our **values** are the core of our corporate philosophy:

Passion for customers

This value is central to the way we work. We have an ethos of delivering outstanding customer service. We must be able to anticipate our customers' needs and correct any errors promptly. We must give value for money and deliver efficient and effective products and services.

Pride

Pride comes from the satisfaction of our customers and from delivering high quality products and services. We're proud of our staff and their achievements, and we recognise and reward success.

Trust

Trust is at the heart of our relationships with customers. Trust means doing what we say and acting with integrity. We demonstrate trust by respecting and empowering our employees. Building trust will help us develop strong future relationships with our stakeholders.

Challenge

We are constantly striving for continual improvement; we are never satisfied. We engage constructively with advocates and critics from within and outside the company. We do this to maintain our competitive edge and deliver consistently outstanding shareholder returns.

Support

We support employees seeking to meet and own challenges. We foster teamworking and knowledge sharing, and give our employees the tools and training they need to do their job well.

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Throughout this review references to British Gas include Scottish Gas.

Earnings and operating profit numbers are stated, including joint ventures and associates, before goodwill amortisation and exceptional items where applicable. The directors believe this measure assists with understanding the underlying performance of the group. The equivalent amounts after goodwill amortisation and exceptional charges are reflected in the segmental analysis on page 13 and are reconciled at group level in the summary group profit and loss account on page 12. All current financial results listed are for the year ended 31 December 2003. All references to 'the prior year', '2002' and 'last year' mean the year ended 31 December 2002.

Chairman's statement

Our continued focus on understanding and providing what our customers want has helped us to achieve growth in both revenues and earnings.



Centrica has made steady progress during 2003 against a backdrop of uncertain economic conditions, rising energy prices and challenging regulatory issues in some of our markets. Our continued focus on understanding and providing what our customers want, and our skill in managing the risks of sourcing the energy to meet their needs, have helped us to achieve growth to record levels in both revenues and earnings.

The development of competitive markets is important for our strategy. In 2003 we saw a continuing commitment to a fully transparent energy market in Britain, with new legislation to introduce a competitive electricity trading system in Scotland. In Europe, the new energy directives are now in place, and we look forward to the establishment of a properly competitive market. The regulatory environment in North America remains varied, but overall we have continued to prosper in our chosen markets. There has been further progress in improving the competitive nature of the UK telecommunications market, but there is some way to go before a level playing field is firmly established.

In 2003 there were sharp rises in UK wholesale prices in both gas and electricity despite lower than average consumption due to warmer weather. The long term outlook for gas supply in the UK is improving, with an increasing diversity of supply and further links between the UK and mainland Europe. It seems inevitable, however, that the increasing costs of complying with the UK and EU regulations designed to deliver a low carbon economy will create upward pressure on consumer electricity prices.

Dividend

The board of directors is proposing a final dividend of 3.7 pence per share to be paid in June 2004. This means that, when combined with the interim dividend of 1.7 pence per share paid in November 2003, the total dividend for 2003 will be 5.4 pence per share. This total per share increase of 35% reflects our continuing confidence in the outlook for both cash flow and earnings in the medium term.

The commitment and dedication of our employees have ensured that 2003 has been a very successful year for the group.

The board of directors

Sir Brian Shaw retired in May 2003 and we are most grateful for the part he played in the development of Centrica. It is fitting that he continues to chair the AA Motoring Trust, an independent charity supported by Centrica. Mike Alexander, who made a considerable contribution to the success of Centrica, retired from the company in February 2003. In December, my own retirement was announced and my successor, Roger Carr, subject to re-election to the board, will be taking over as chairman at the end of the annual general meeting (AGM) in May.

The future

Centrica has made enormous progress over the past seven years, rising from the bottom half of the FTSE 100 Index to position itself in the top 30 companies in the UK; growing from our British Gas base through the acquisition of the AA, the movement into telecommunications and international expansion.

I am delighted that we have established a solid platform from which continued delivery of our strategy will produce strong medium term growth.

The commitment and dedication of our employees have ensured that 2003 has been another very successful year for the group and I would like to thank them all for their hard work. I am confident that, with the excellent management team led by Sir Roy Gardner, along with the experience brought by Roger Carr as the new chairman, and the collective efforts of all our employees, the company will continue to go from strength to strength.

Sir Michael Perry GBE
Chairman

Earnings per share (pence)

03	11.8	16.8
02	11.4	15.2
01	8.1	12.1
00	8.4	10.2
99	4.3	7.9

- After goodwill amortisation and exceptional charges, including joint ventures and associates.
- Before goodwill amortisation and exceptional charges, including joint ventures and associates.

Dividend (pence)

03	5.4
02	4.0
01	3.1
00	2.8
99	2.5

Centrica at a glance

Every day we touch the lives of millions of people. Through our leading brands, Centrica provides warmth, comfort and peace of mind.



British Gas

Under the British Gas name in England, the Nwy Prydain and British Gas names in Wales, and Scottish Gas in Scotland, we supply gas, electricity and telecoms services to residential customers throughout Britain. As well as energy and telecoms, we offer customers an increasing choice of complementary home services.

We continue to be the first choice gas supplier for millions of people. Since the market opened to competition in 1998 we've become the largest supplier of electricity to residential customers in Britain.

Apart from supplying energy we are also the largest domestic central heating and gas appliance installation company with maintenance and breakdown services provided under our HomeCare range. We also provide HomeCare for plumbing and drains, home electrics and kitchen appliances and are a national installer of domestic, monitored home security systems.

British Gas Communications offers an integrated package of fixed line, mobile and internet services to customers across Britain.

www.house.co.uk



Centrica Business Services

Centrica Business Services aims to be recognised as the most innovative and flexible provider of energy and other essential services for businesses.

The business markets gas, electricity and telecoms services under the British Gas brand across Britain. It is now the number one supplier of energy to the commercial sector.

The creation of Centrica Business Services enabled the business to focus on the specific needs of its customers, from large industrial and commercial companies, to small and medium size businesses.

www.britishgasbusiness.co.uk



Centrica Energy Management Group

We source the gas and electricity we need to supply our customers in Britain through a team of specialists working in Centrica Energy Management Group (CEMG). The business consists of our upstream gas production, electricity generation, wholesale and industrial gas sales activities, and our energy optimisation unit.

Through its provision of appropriate access to competitively priced gas and power supplies, CEMG is key to the success of our retail energy businesses.

We now produce approximately 25% of peak demand for our electricity customers through our interests in six gas-fired power stations. In addition, we are committed to investing in renewable generation, and already have interests in developments in the Irish Sea and North Sea.

www.centrica.com



Centrica Storage

Centrica Storage operates the Rough gas storage facilities – a partially depleted gas field in the Southern North Sea. The business provides storage services for a wide range of customers, including other businesses within the Centrica group.

www.centrica-sl.co.uk

Taking care of



The AA

We provide reassurance and services to motorists in the UK and Ireland through the AA. The roadside assistance service remains at the core of our activities, with members choosing the level of cover that best suits their needs.

The AA is the UK's number one independent insurance intermediary and we are a growing provider of personal loans and financial services.

AA Service Centres offer a range of maintenance and repair services to motorists across Britain, and AA Tyre Fit is the UK's first all-mobile fleet and retail tyre network. We are the only national driving school exclusively using fully qualified driving instructors.

www.theaa.com



One.Tel

With a fresh and innovative approach, we provide a range of landline, mobile and internet services across the UK.

One.Tel landline customers are offered a range of call plans, including unlimited usage. Customers also benefit from free directory enquiries calls to One.Tel's 118 111 service. Mobile phone customers have a choice of the latest handsets and flexible tariffs.

Internet users are offered a choice of packages, whether for casual home use or business needs. The service includes broadband options for people who require high speed access and 'always on' connection.

www.onetel.co.uk



Europe

Our energy supply joint venture, Luminus, has provided a launch pad for developing our activities in Europe. Competition in the Flanders region of Belgium, which had been open at industrial and commercial level, was extended in July 2003 to residential gas and electricity customers.

Following the opening of the Spanish energy market at the start of 2003, Luseo Energia is focused on providing electricity for small and medium sized businesses.

www.luminus.be
www.luseoenergia.com



Centrica North America

In Ontario, Direct Energy Essential Home Services offers gas and electricity and a range of home services.

In Texas we supply electricity under the Direct Energy, WTU Retail Energy and CPL Retail Energy brands to homes and businesses.

We supply gas under the Energy America brand in Michigan, Ohio and Pennsylvania.

Direct Energy Business Services provides comprehensive energy solutions to businesses throughout Canada and in Texas.

www.directenergy.com
www.energyamerica.com
www.cplretailenergy.com
www.wturetailenergy.com



the essentials

We believe the fundamental drivers of profitability in our brand units will continue to improve as we broaden and deepen the relationships we have with our customers.



I am delighted to report that we have achieved record profits in 2003. Overall the group delivered a strong performance with adjusted basic earnings per share up 11% on 2002 and group turnover (excluding Accord revenue) up 17%.

Operating profit* of £1,058 million was up 14% from £932 million in 2002. The reduction in operating profit in British Gas residential and Centrica Business Services, because of the warm weather and higher commodity and transportation costs, was offset by much improved performance in Centrica North America, the AA, Centrica Energy Management Group and a full year contribution from Centrica Storage.

Outlook

British Gas is now part way through a major business transformation. This root and branch reform of systems and processes will transform the customer experience, which is at the heart of the profitability of the business. However, we have taken the decision to extend the testing and deployment period in order to be confident in the integrity of the systems and our ability to maintain customer service levels. The additional functionality and a £40 million reallocation of costs previously budgeted elsewhere in British Gas bring the expected spend to £400 million. While the next two years will be challenging we still expect to see the first benefits in 2005.

With churn rates in the British retail energy industry stabilising, we expect recent levels of customer losses in gas and gains in electricity to be maintained through 2004. However, it is too early to assess the precise effect of the price rise in January 2004. A key aim will be to build

on our success in 2003 with higher value customers. To assist the expansion of the brand and the retention of energy customers, early in 2004 British Gas Communications will trial a wholesale line rental (WLR) telecoms solution, which means customers would receive a single bill for line rental and call charges.

At Centrica Business Services, we will seek to consolidate our position as the leading supplier of energy products to the commercial sector in Britain. We are now concentrating on investing to transform the customer experience, on enhancing our ability to react to market changes, and on cross-selling.

We intend to add to our UK gas and power asset portfolio in 2004. We expect to invest around £100 million per year in gas reserves and £250 million over the next three years in electricity assets. There is a clear strategy in place for renewable energy generation and in 2004 we expect to begin building the 90MW offshore wind farm at Barrow.

We have taken measures over recent years to increase the deliverability from our gas fields. While gas production from Morecambe will decline in the medium term, we expect 2004 levels to be similar to 2003.

We have a programme of maintenance work on our Rough gas storage facilities, which will further improve the operational performance of the asset. We expect the profitability of this asset to outstrip our initial expectations and show a marked year-on-year improvement.

The AA will continue to seek growth by developing products, improving operational efficiencies and realising

benefits from the rollout of new technology to the roadside patrols. An integrated customer services organisation will deepen our customer relationships.

To maintain its competitive position in the UK telecoms market, One.Tel is establishing a call centre in India. We expect this to lower costs while maintaining the current customer service levels. In this business too, we will be trialling a WLR solution.

In North America, we plan to move forward steadily. We aim to grow organically by concentrating on value. Our business services organisation will enter new markets, targeting medium sized enterprises. We will seek to underpin our retail electricity customer operations in Ontario and Texas with investment in power generation.

Competition in Europe is likely to continue to develop at different speeds in the short term. We are well positioned to enter available markets at the right time.

Our progress in 2003 has only been possible because of the efforts of our employees. Further growth depends on having skilled people who are committed to the success of the company. We have a clear strategy. Our focus on value delivery, including value-adding acquisitions, will enable us to grow both revenue and earnings in the medium term. We remain committed to a financial structure which best rewards our shareholders. We expect this to include, in 2004, another significant step towards our targeted dividend payout ratio of 40%.

Sir Roy Gardner
Chief executive

In the home

Did you know...?

- > **British Gas is the biggest supplier of both residential gas and electricity in Britain.**
- > **We have 7,160 qualified engineers and 844 contractors who completed around 7.2 million jobs during the year.**
- > **One in four homes in Britain with gas central heating has a ServiceCare contract with British Gas.**
- > **Almost 130,000 customers have signed up to online e-bills since the launch of paperless billing in May 2003.**



An increasing number of British Gas engineers are equipped with diagnostic laptops for central heating repairs.

*Including joint ventures and associates, before goodwill amortisation.

British Gas 'Doing the Right Thing' to build the brand

British Gas increased its turnover by 2.4% to £6.2 billion as a result of an increase in our residential electricity market share, higher energy pricing and more growth in home services. But the warm weather and higher commodity and transportation costs led to a 16% fall in operating profit* to £206 million. We spent £61 million to meet our obligations under the government's Energy Efficiency Commitment and invested £32 million in our engineer training academy.

The British Gas transformation programme to enhance customer service has continued to progress. It will eventually offer a 'one stop shop' experience with each call dealt with by a single customer service agent from start to finish. A major culture change programme 'Doing the Right Thing' was launched to help embed new ways of working.



Our Engineering Academy recruited and trained hundreds of new engineers during 2003.

Home services

Our home services business grew in 2003, with turnover increasing 4.6% to £847 million and operating profit* up 38% to £84 million. Our continuing improvement is an indication of the strength of the British Gas brand. Rapid growth came with newer products – home electrical care, kitchen appliance care and plumbing and drains care.

Home services products have a positive impact on the retention of energy customers, so we have increased our staff, with the total number of qualified engineers growing by 955 to 7,160.

Key home services performance indicators

	2003	2002	Δ%
Customer product holdings (year end, 000)			
Central heating service contracts	3,250	3,093	5
Other central heating service contracts	837	849	(1.4)
Kitchen appliances care (no. of appliances)	1,109	871	27
Plumbing and drains care	1,084	905	20
Electrical care	598	367	63
Home security	28	28	-
Total holdings	6,906	6,113	13
Central heating installations	86	102	(16)
Total turnover (£m)	847	810	4.6
Operating profit* (£m)	84	61	38

British Gas Communications

A 13% improvement in average revenues per customer helped push turnover up 8% to £56 million. This year, we intentionally acquired fewer customers, focusing on reducing customer churn. The decline in churn resulted mainly from the promotion of an enhanced carrier pre-selection product. This has all combined to cut the operating loss of the business from £35 million to £14 million.

Key British Gas Communications performance indicators

	2003	2002	Δ%
Customer numbers (fixed line, year end, 000)	376	367	2.5
Turnover (£m)	56	52	8
Operating loss (£m)	(14)	(35)	60

Δ% has been used to express 'percentage change'.
n/m has been used to represent 'not meaningful'.

*Including joint ventures and associates, before goodwill amortisation.

Residential energy

Key residential energy performance indicators

	2003	2002	Δ%
Customer numbers (year end, 000)			
Residential gas	12,590	12,839	(1.9)
Residential electricity	6,189	5,795	7
Estimated market share (%)			
Residential gas	62	64	(2 ppts)
Residential electricity	24	22	2 ppts
Turnover (£m)			
Residential gas	3,742	3,805	(1.7)
Residential electricity	1,547	1,380	12
Operating profit (£m)			
Residential energy	136	218	(38)
British Gas product holding**			
Average British Gas products per customer (year end)	1.62	1.53	6

**British Gas brand.

Ensuring customers are at the heart of the business has brought improved service delivery. British Gas was voted the best gas supplier in the UK for customer satisfaction in the JD Power & Associates annual survey.



We supply gas, electricity and telecoms to millions of homes in Britain.

Our commitment to stamping out mis-selling has led to a reduction in the number of complaints reported to energywatch. Complaints about our selling practices at the end of 2003 were just 38% of the April 2002 level. The company is leading an industry-wide project, supported by UK energy regulator Ofgem and by energywatch, to streamline the process of switching suppliers.

During the year, we focused our efforts on enhancing the value we derive from our relationship with customers rather than simply seeking to increase the number we serve. The net result of this is that we have managed to increase our customer relationships by 145,000 while reducing acquisition costs and churn.



British Gas takes care of kitchen appliances from microwaves to washing machines.



Centrica Business Services

Number one in the commercial sector

Through the year, Centrica Business Services has maintained its position as the number one supplier of energy to the commercial sector in Britain (measured by supply points) with a market share of 29%. However, 2003 was a challenging year. Turnover was up 16% to £1.1 billion due to the full year impact of our Electricity Direct acquisition. But operating profit* fell to £51 million, hit mainly by warmer than average weather, lower gas consumption and a rise in wholesale prices.

We are rationalising the business systems we have inherited and plan to roll out new systems from 2005 to improve service and lower costs.

Key Centrica Business Services performance indicators

	2003	2002	Δ%
Customer supply points (year end, 000)			
Gas	370	383	(3.4)
Electricity	535	516	3.7
Turnover (£m)	1,125	971	16
Operating profit* (£m)	51	65	(22)

centrica
business services

We supply energy to businesses of all sizes, from plcs to garden centres.



Centrica Energy Management Group

New investment brings a wind of change

Centrica Energy Management Group (CEMG) saw its operating profit climb by 8% to £561 million against a backdrop of warmer than average weather and volatile commodity prices.

Gas production

Upstream gas profits increased by 7% to £480 million despite a 4% fall in production volumes.

We won a contract to develop and operate a new gas reception terminal at Easington, which will land gas from Norway's Ormen Lange field. First gas is expected through the terminal in 2006.

After acquiring the remaining 60% of the Rose field, development progressed more rapidly than planned, bringing first gas on stream in January 2004. We reached agreement to buy a share of the Orwell and Statfjord fields for £60.7 million in January 2004, bringing us 280 million therms of gas and nine million barrels of oil reserves.

Industrial sales and wholesaling

Sales volumes rose by 7% as warmer weather reduced consumption in our retailing businesses, allowing profitable sales of excess contracted gas into the wholesale market particularly in the first half of the year. However, one-off factors in the second half lowered operating profit by 11% to £64 million.

Electricity generation

In April 2003, we acquired the 229MW Roosecote plant in Barrow and, in July, the 240MW Barry plant in South Wales, taking our total generation capacity to 2,174MW. Total electricity generated in the year was 8.7TWh.

centrica
energy

Renewables

We have entered a joint venture with DONG and Statkraft to build a 90MW offshore wind farm at Barrow and have acquired the Inner Dowsing and Lynn offshore wind farm developments in The Wash, with a combined generation potential of 180MW. In the April 2002/March 2003 supply year, Centrica fulfilled its obligation to source 3% of electricity from renewable sources through the purchase of certificates and is on track to meet the 4.3% target for the current supply year.



We have gas interests in both the North and Irish Seas.

Accord

Accord made an operating profit of £17 million, £13 million of which came in the first half of the year. In the second half, gas trading profits fell because of severe restrictions in gas flow through the continental interconnector and field closures in the North Sea.

Key Centrica Energy Management Group (CEMG) performance indicators

	2003	2002	Δ%
Gas production			
Total production volumes (m/therms)	3,886	4,056	(4.2)
Turnover (£m)	919	932	(1.4)
External turnover (£m)	54	74	(27)
Operating profit (£m)	480	447	7
Power stations			
Power generated (GWh)	8,668	7,662	13
Industrial and wholesale			
Operating profit (£m)	64	72	(11)
Accord			
Operating profit (£m)	17	-	n/m
CEMG operating profit (£m)	561	519	8

Centrica Storage

In December, the Secretary of State for Trade and Industry gave final clearance for our purchase of the Rough field and associated assets.

Operating profits rose to £40 million reflecting a full year of operations, and the sale of a proportion of 2003/2004 storage services at market prices which have increased since acquisition.

*Including joint ventures and associates, before goodwill amortisation.

The AA

Investing in technology and improving efficiency have boosted growth

The AA's roadside and personal finance operations delivered strong growth, and more investment has gone into technology, infrastructure and training. Operating profit* increased 27% to £93 million on turnover of £797 million, up 4.9%.

We have reorganised our internal operations by bringing together the core sales and customer service teams through the creation of a single customer services organisation.

Visits to our website, theaa.com, have increased by 45% to 31 million – bringing record online sales.

AA roadside services

Our continued drive towards increasing customer value rather than growth in customer numbers pushed operating profit* up 13% to £61 million. Turnover rose by 3% to £492 million.

Hi-tech investment means all patrols now have specialised portable computer systems, which help fix faults at the roadside. Called VixEN, these award-winning laptops have GPRS communications functionality.

We won the annual JD Power & Associates UK Roadside Assistance Study award for customer satisfaction for the second year running and for the fourth time in six years.



The AA now has an integrated customer services team.

AA personal finance

The total value of advances reached £1 billion for the first time in May. The year closed with a portfolio of 160,000 loans, up from 123,000. Twenty per cent of new loans were sold online. Turnover rose by 8% to £186 million, while operating profit* was up 6% to £50 million.

The value of motor and home insurance grew by 1%, despite a 2% reduction in the average annual premium. This was achieved by the 'Keeping the Customer Mobile' initiative – which won the Insurance Times Award for innovation. The renewal rate was a record 82%.

Key AA performance indicators

	2003	2002	Δ%
Roadside services			
Customer numbers (year end, 000)	13,522	12,975	4.2
Personal finance			
Insurance customers (000)			
Motor	952	959	(0.7)
Home	693	664	4.4
Loans (fixed term) book size (£m)	1,043	661	58
AA Service Centres			
Site numbers	127	129	(1.6)
Turnover (£m)	797	760	4.9
Operating profit* (£m)	93	73	27
AA product holdings			
Average AA products per customer (year end)	1.31	1.23	7

The AA's innovative parts and labour product has continued its rapid take-up rate and the company's travel insurance products have achieved record sales despite a flat overseas tourism market.

Other AA services

The AA Service Centres made an operating loss* of £20 million on turnover up 10%.

Turnover for AA Tyre Fit, our mobile tyre-fitting business, climbed by £6 million following the expansion of the fleet from 50 to 170 vans to provide national coverage.

Operating profit* in the driving school more than doubled, with record numbers of pupils and instructors. Publishing, car data check and roadside signs also made positive contributions. In the Republic of Ireland profits nearly doubled.



Sourcing energy

Did you know...?

- > We met 25% of our customers' demand during the year from our own equity gas production.
- > We are now the biggest operator of gas-turbined power generation in the UK.
- > During the year our power stations supplied 21% of our customers' electricity demand.
- > In the Irish Sea we are providing gas production and operations expertise to third party gas producers.



We work around the clock to produce energy for our customers.

On the road

Did you know...?

- > Our patrols repair around 8 out of 10 breakdowns at the roadside.
- > The AA has the largest dedicated breakdown patrol force in the UK, with approximately 3,500 patrols.
- > The AA's website is the UK's number one automotive and insurance site.
- > AA Tyre Fit is the UK's first all-mobile fleet and retail tyre network.



Specialised computer systems enable our patrols to fix more breakdowns at the side of the road.

*Including joint ventures and associates, before goodwill amortisation.

Business review continued



We supply gas and electricity to a growing number of homes in North America.

In North America

Did you know...?

- > In 2003, Direct Energy Essential Home Services technicians made 730,240 home visits.
- > We completed an average of 20,000 service calls each week during the autumn and winter – an average of about 3,000 calls every day.

In telecoms

Did you know...?

- > On One.Tel's busiest day in 2003 our customers spent approximately 9.93 million minutes on the phone.
- > One.Tel was named the UK's Best Consumer ISP 2003 by the Internet Service Providers Association.
- > We are a leading competitor to BT and already 37% of One.Tel's fixed line customers have chosen carrier pre-selection.
- > One.Tel customers can call directory enquiries free by dialling 118 111.



We offer a range of packages for internet users including high speed broadband access.

*Including joint ventures and associates, before goodwill amortisation.

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One.Tel

Our national brand campaign helped us 'go One better'

One.Tel has continued to develop new products and internal processes that work better for customers. We have also lobbied for regulatory improvements on carrier pre-selection (CPS) and wholesale line rental (WLR).

Turnover rose by 16% to £178 million as a result of the growth in customer numbers, along with an increase in the average products per customer to 1.29.

Our fixed line average revenue per user has declined slightly because we had to make competitive price cuts, especially in international and national rates. But the uptake of CPS, which means customers do not have to use a prefix number or a dialler box, has largely offset the reductions.

With One.Tel we offer a flexible range of tariffs and the latest mobile handsets.



One.Tel)))

Operating profit* doubled to £4 million. Investment in our brand campaign (Go on, go One better) also doubled, to £3.6 million, as we highlighted our full range of fixed line, mobile and internet services. Since February 2003, all our customers have been on our single customer care and billing system, letting them see all their One.Tel services on one bill. Following the success of a trial in 2003, we will be setting up a call centre in Bangalore, India.

Key One.Tel performance indicators

	2003	2002	Δ%
Customer numbers (30 day tolling) (year end, 000)	1,084	962	13
Turnover (£m)	178	153	16
Operating profit* (£m)	4	2	100

Centrica North America

Operating profits more than doubled

We have continued to expand our presence in North America despite the challenging business and regulatory environment. Operating profit* increased by 106% to £130 million, reflecting strong performances in electricity markets, especially in Texas, where profitability has exceeded expectations.

Key North America performance indicators

	2003	2002	Δ%
Customer numbers (year end)			
Residential and small commercial gas (000)	1,116	1,339	(17)
Residential and small commercial electricity (000)	1,318	1,416	(7)
Home and business services (000)	1,690	1,627	3.9
Gas production			
Gas production volumes (m therms)	362	380	(4.7)
Average sales price (p/therm)	19.3	20.1	(4)
Total turnover (£m)	2,369	1,118	112
Total operating profit* (£m)	130	63	106



Direct Energy provides a range of services in the home.

Residential and small commercial gas

Turnover climbed by 9% because of the colder winter and the additional 300,000 customers acquired in 2002. However, operating profit* fell to £1 million because of higher wholesale gas costs, investment in brand building and increased costs of customer renewals in Ontario caused by regulatory changes – the regulatory situation improved late in the year. In the US, the regulatory climate and volatile prices make it difficult to add value creating customers. We withdrew from Georgia and Maryland because of insufficient return on capital.

Residential and small commercial electricity

Turnover and operating profit* rose sharply, due in part to full year contributions from our Ontario business and to a strong performance from our recently acquired businesses in Texas.

For customers in West and South Texas acquired in 2002, the nature of the regulated tariff kept margins high in an environment of rising gas input costs. In the Houston and Dallas/Fort Worth areas we saw continued growth with customer numbers up 59%. In Ontario the market is still effectively closed to further growth because of the price cap. However, this has, in the short term, reduced customer churn and our profit margins remain strong.

Home and business services

We rebranded the Enbridge Services business we bought in May 2002 as Direct Energy Essential Home Services and Direct Energy Business Services. Integrating our home services and retail energy businesses in Ontario gives us more cross-selling opportunities. Customer numbers in the core heating and cooling areas rose by 16% to more than 390,000.

During 2003, we formed a new business services group, which enabled us to market energy and services to medium sized commercial and industrial customers. Early signs are encouraging. This will be an area of particular focus for 2004.

Upstream

Gas production volumes declined slightly. A new well programme offset the natural decline rates in mature fields. In addition, we began production on 131 wells. Our production met 22% of customer requirements in Canada and the northern US in 2003.



Europe

Luminus lights up the Flanders energy market

The residential gas and electricity market in the Belgian region of Flanders opened for competition on 1 July 2003. Centrica's joint venture, Luminus, successfully switched across its 800,000 customers (about 600,000 electricity and 200,000 gas). The company is now the clear number two in the Flanders energy market.

We entered the Spanish electricity market in June 2003 under the Luseo Energía brand, focusing on small and medium sized firms. The pace of market opening will vary across Europe but we are well positioned to take advantage of opportunities as they arise.



With the full opening of the market in July, Luminus is now supplying gas and electricity in Belgium.

Goldfish

In September 2003, the sale of the Goldfish credit card and loan business was completed for a premium of £112.5 million above the book value.

Operating loss* for 2003 was £27 million. The sale triggered a pre-tax exceptional loss of £51 million.

*Including joint ventures and associates, before goodwill amortisation.

Corporate responsibility

By better understanding our impact on people, the economy and the wider environment, we aim to develop a sustainable approach to doing business.

We highlight our major activities based around a framework developed by Business in the Community, under the headings workplace, marketplace, the environment and community.

Living our values in the workplace

In 2003, we published a guide to business practice that sets out the standards of behaviour we expect from employees. We also introduced 36 new or revised workplace policies. Diversity was identified as a key area and we appointed a diversity director.

Quality of leadership is a key factor in achieving our objectives. We have developed a set of leadership guidelines, incorporating our approach to running a sustainable business, and these formed the basis of a new performance management system. The number of graduates we recruited in the UK in 2003 increased to 42, up from 12 in the previous year.

We created the British Gas Engineering Academy to help train an additional 5,000 engineering recruits, and introduced a range of



The creation of the British Gas Engineering Academy has helped us develop and re-focus our training facilities.

occupational health and safety initiatives designed to help us reduce risks within our business.

Improving service in the marketplace

We believe we should treat all our customers fairly and inclusively. We measure customer satisfaction yearly, and monthly indicators are reported to senior managers. More than 750,000 customers are included on British Gas, AA and One.Tel registers, advising us, voluntarily, of their service needs as a result of their age or disability. In 2003, we launched a customer diversity intranet site to provide employees with additional advice in this area. Each month we send out more than 17,000 bills, statements, letters and marketing communications in a variety of formats including Braille, large print and audio tape.

We expect our suppliers to maintain high standards of behaviour and we set up a team dedicated to managing our top 20 supplier relationships. This formal relationship has encouraged suppliers to work with us more closely – and has



Anne Minto, group director, human resources, planting a tree as part of the 'Natural Capital' campaign.

benefited the group by some £2.3 million in 2003.

Reducing impact on the environment

The acquisition of gas-fired power stations has influenced our environmental impact. In response, we have updated the environmental management systems across all our businesses.

We are committed to reducing building energy use per employee and increasing the amount of waste recycled, particularly in offices. In 2003, energy consumption per office based employee was reduced by 10%. All energy for Centrica offices is sourced from certified renewable supplies. Our waste recycling programme has achieved significant results, the office recycling rate rising to 48%.

Our employees play a vital role in helping to reduce our environmental impact. In 2003, we launched 'Natural Capital', a campaign that aims to increase employee awareness of environmental concerns and encourage direct action.

Working with the wider community

Our community investment programme focuses on social issues closely aligned with our business. During 2003, we contributed £6.6 million to community causes using the London Benchmarking Group model.

Through the 'here to Help' programme, British Gas has installed more than 17,000 energy efficiency measures, referred 10,000 people to charity partners and helped individuals identify more than £1.8 million in unclaimed benefits.

British Gas also worked with Mencap and the Employers' Forum on Disability to publish 'Paying Your Bills' (a guide to household budgeting for people with a learning disability) and received the Business in the Community Education and Lifelong Learning Excellence Award for its 'Think Energy' programme.

Other highlights included the launch of The AA Motoring Trust and raising more than £500,000 for our UK employee charity of the year, the Meningitis Trust. In North America, Direct Energy combined charitable giving with a drive to encourage more employees to volunteer in their communities.

Reporting and assurance

There is more detailed information on our corporate responsibility activities available on our website at www.centrica.com/responsibility. We have also produced a short, printed report that can be accessed via the website.

For the first time, we have commissioned an impartial assessment of our website information by a specialist external agency, The Corporate Citizenship Company. It has conducted an assurance process on the information presented and provided a commentary on our progress towards being a more socially responsible company. The full statement is available on-line.

In society

Did you know...

> In July 2003, Centrica announced its investment strategy for renewable generation assets. The intention is eventually to source around half of our renewable obligation from our own assets.

> Since April 2002, the British Gas energy efficiency commitment programme has helped to introduce energy saving measures in more than four million homes.

Group financial review

During the year our share price outperformed the market by nearly 10% and since demerger in February 1997 we have outperformed the FTSE 100 by 221%.



Centrica's aim is to achieve a total shareholder return ranking in the first quartile of UK FTSE 100 companies, taking account of share price growth and dividends received and reinvested over a sustained period. Centrica promotes continuing growth in earnings and cash flow and seeks to maximise the return on capital it achieves in excess of its cost of capital, within a prudent risk management framework.

The group's closing share price on 31 December 2003 was 211 pence (31 December 2002: 171 pence), resulting in a market capitalisation of £9.0 billion (2002: £7.3 billion). World stock markets recovered somewhat in 2003 with the FTSE 100 rising by over 13%. The group's share price outperformed the FTSE 100 by 9.8% (2002: 3.1%). Since demerger in February 1997, Centrica's share price has outperformed the FTSE 100 by 221%.

Operating profit

Operating profit* increased to £1,058 million from £932 million in 2002, benefiting from a full year of profits from our 2002 acquisitions in North America.

Exceptional charges and goodwill amortisation

During the year, non-operating exceptional charges of £51 million net of tax arose (2002: £26 million non-operating exceptionals net of tax). These related to the closure of our retail outlets in Ontario and the disposal of the Goldfish credit card and loan business.

The group's goodwill amortisation charge for the year increased to £161 million from £123 million in 2002, mainly as a result of our recent acquisitions in North America.

Net interest

Net interest charged to the profit and loss account was £52 million compared with £62 million in 2002 and was covered 20 times by operating profit* compared with 15 times a year earlier.

Taxation

The tax charge for the year on profit before goodwill amortisation and exceptional charges of £282 million for 2003 represented a 28% rate on profits* (2002 comparative rate 28%). The overall charge is less than the UK 30% statutory rate, primarily due to the utilisation of tax losses in the year.

Earnings

Earnings increased by £22 million to £500 million in 2003. This reflected improved operating profits* up £126 million, offset by taxation up from £250 million to £266 million and higher goodwill amortisation, up by £38 million to £161 million.

Earnings before exceptional charges and goodwill amortisation were up 12% to £714 million. This represents a return on capital employed over the year of nearly 28% or 8.8% on our average market capitalisation.

Basic earnings per share grew from 11.4 pence to 11.8 pence and adjusted earnings per share from 15.2 pence to 16.8 pence.

Cash flow

Group operating cash flow from continuing operations (including dividends from joint ventures and associates, before exceptional payments) was £1,321 million for 2003, compared with £795 million in 2002. The improvement resulted from the increase in operating profit as well as improvements in working capital management.

Total capital expenditure was £323 million this year, down from £449 million in 2002. Proceeds from disposals of £409 million (2002: £54 million) included receipts on disposal of the Goldfish credit card and loan business, net of the repayment of the working capital facility. The group's net cash inflow before management of liquid resources and financing was, as a result, £652 million, against a net outflow of £918 million in 2002.

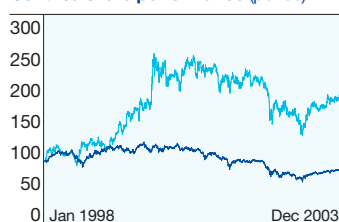
Balance sheet

The net assets of the group increased during the year from £2,402 million to £2,754 million.

The group's cash balances reversed from a net debt position of £529 million at 31 December 2002 (excluding the Goldfish facility and the Consumers' Waterheater Income Fund (non-recourse debt) to a net cash position at 31 December 2003 of £163 million (excluding £216 million of non-recourse debt). Money market investments increased by £672 million to £992 million.

Phil Bentley
Group finance director

Centrica share performance (pence)



Smoothed five day average
■ Centrica plc
■ FTSE 100 relative

*Including joint ventures and associates, before goodwill amortisation.

Summary financial statement

Summary group profit and loss account

Year ended 31 December	2003			2002		
	Results for the year before goodwill amortisation and exceptional charges £m	Goodwill amortisation and exceptional charges £m	Results for the year £m	Results for the year before goodwill amortisation and exceptional charges £m	Goodwill amortisation and exceptional charges £m	Results for the year £m
Group turnover	17,931	–	17,931	14,345	–	14,345
Cost of sales	(14,572)	–	(14,572)	(11,358)	–	(11,358)
Gross profit	3,359	–	3,359	2,987	–	2,987
Operating costs	(2,367)	(155)	(2,522)	(2,108)	(116)	(2,224)
Group operating profit	992	(155)	837	879	(116)	763
Share of operating profit/(loss) in joint ventures and associates	66	(6)	60	53	(7)	46
Operating profit including joint ventures and associates	1,058	(161)	897	932	(123)	809
Loss on closure of business	–	(16)	(16)	–	–	–
Loss on disposal of business	–	(51)	(51)	–	(14)	(14)
Loss on disposal of fixed assets	–	–	–	–	(14)	(14)
Net interest payable	(52)	–	(52)	(62)	–	(62)
Profit on ordinary activities before taxation	1,006	(228)	778	870	(151)	719
Taxation	(282)	16	(266)	(243)	(7)	(250)
Profit on ordinary activities after taxation	724	(212)	512	627	(158)	469
Minority interest (equity and non-equity)	(10)	(2)	(12)	9	–	9
Profit attributable to the group	714	(214)	500	636	(158)	478
Dividends			(229)			(172)
Transfer to reserves			271			306
	Pence		Pence	Pence		Pence
Earnings per ordinary share						
basic			11.8			11.4
diluted			11.6			11.3
adjusted basic	16.8			15.2		
			£000			£000
Directors' emoluments			4,327			3,913

Summary group balance sheet

31 December	2003 £m	2002 £m
Fixed assets	4,458	4,678
Current assets	4,237	4,146
Creditors (amounts falling due within one year)	(3,996)	(4,254)
Net current assets/(liabilities)	241	(108)
Total assets less current liabilities	4,699	4,570
Creditors (amounts falling due after more than one year)	(885)	(906)
Provisions for liabilities and charges	(1,060)	(1,262)
Net assets	2,754	2,402
Shareholders' funds	2,537	2,248
Minority interests (equity and non-equity)	217	154
Capital employed	2,754	2,402

Summary group cash flow statement

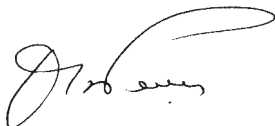
Year ended 31 December	2003 £m	2002 £m
Cash inflow from continuing operating activities	1,293	722
Cash outflow from discontinued operating activities	(301)	(5)
Cash inflow from operating activities	992	717
Dividends received from joint ventures and associates	28	57
Returns on investments and servicing of finance	(15)	(25)
Taxation paid	(181)	(192)
Capital expenditure and financial investment	(282)	(402)
Disposals and acquisitions	292	(935)
Equity dividends paid	(182)	(138)
Cash inflow/(outflow) before use of liquid resources and financing	652	(918)
Management of liquid resources	(669)	134
Financing	(13)	747
Decrease in net cash	(30)	(37)

Segmental analysis

	Turnover		Operating profit/(loss) before goodwill amortisation, including share of results of joint ventures and associates		Operating profit/(loss) after goodwill amortisation, including share of results of joint ventures and associates	
	year ended 31 December		year ended 31 December		year ended 31 December	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Continuing operations:						
British Gas residential	6,192	6,047	206	244	205	243
Centrica Business Services	1,125	971	51	65	40	59
Centrica Energy Management Group	7,081	5,162	561	519	561	519
Centrica Storage	82	9	40	1	40	1
The AA	797	760	93	73	44	23
One.Tel	178	153	4	2	1	(4)
Centrica North America	2,369	1,118	130	63	50	24
Other operations	6	2	-	5	(6)	(2)
	17,830	14,222	1,085	972	935	863
Discontinued operations:						
Goldfish Bank	101	123	(27)	(40)	(38)	(54)
	17,931	14,345	1,058	932	897	809

Discontinued operations relate to the disposal of the group's interest in the Goldfish credit card and loan business on 30 September 2003.

The summary financial statement on pages 12 and 13 was approved by the board of directors on 12 February 2004 and was signed on its behalf by:



Sir Michael Perry GBE
Chairman



Phil Bentley
Group finance director

Board of directors



Sir Michael Perry **GBE**
Chairman (70) A.N.R.

Sir Michael Perry became chairman of Centrica plc in 1997. He was a non-executive director of British Gas plc from June 1994 until Centrica was demerged in February 1997. He is a member of the Supervisory Board of Royal Ahold NV, president of the Marketing Council, chairman of the Shakespeare Globe Trust and chairman of the Oxford University Faculty Board for Management. Sir Michael will retire from the board at the end of the AGM on 10 May 2004.



Helen Alexander
Non-executive director (47) A.C.R.

Helen Alexander joined the board on 1 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.



Phil Bentley
Group finance director (45) E.

Phil Bentley joined Centrica plc in 2000 from Diageo plc, where he was finance director of GuinnessUDV. Prior to that, he was group treasurer and director of risk management of Diageo plc from 1997, and group treasurer of Grand Metropolitan plc from 1995. Previously, he spent 15 years with BP. He is also a non-executive director of Kingfisher plc.



Roger Carr
Non-executive director (57) A.R.

Roger Carr was appointed to the board in 2001. He is chairman of Mitchells & Butlers plc, deputy chairman of Cadbury Schweppes plc and a senior adviser to Kohlberg Kravis Roberts Co. Ltd. He was previously chief executive of Williams plc and chairman of Thames Water plc and Chubb plc. He is a member of the Industrial Development Advisory Board and the CBI council. He will become chairman with effect from the end of the AGM on 10 May 2004.



Mark Clare
Deputy chief executive and Managing director, British Gas (46) C.E.

Mark Clare joined British Gas plc in 1994 as group financial controller, and was appointed finance director of Centrica plc, in 1997. In 2000, he was appointed deputy chief executive, and from 1 January 2002, managing director of British Gas. He is a non-executive director of BAA plc, The Energy Saving Trust Ltd and The Energy Retail Association Ltd.



Sir Roy Gardner
Chief executive (58) E.N.

Sir Roy Gardner was appointed finance director of British Gas plc in 1994. From 1995, he had responsibility for the business units which subsequently formed Centrica plc. Prior to joining British Gas plc, he was managing director of GEC-Marconi Ltd and a director of GEC plc. He is non-executive chairman of Manchester United plc, president of Carers UK, chairman of the Employers' Forum on Disability and chairman of the National Modern Apprenticeship Task Force.



Patricia Mann **GBE**
Senior non-executive director (66) A.C.N.R.

Patricia Mann was a non-executive director of British Gas plc from December 1995 until Centrica was demerged in February 1997. She was a vice president international of J Walter Thompson Co Ltd and remains a director of JWT Trustees Ltd. She is on the board of the UK Centre for Economic and Environmental Development and National Trust Enterprises, and was formerly a director of the Woolwich Building Society and Yale and Valor plc.



Robert Tobin
Non-executive director (65) A.R.

Robert Tobin, a US citizen, was appointed to the board on 1 January 2003. He is a member of the Supervisory Board of Royal Ahold NV. Between 2000 and May 2003 he was chairman of the board of directors of the Worldwide Retail Exchange.



Paul Walsh
Non-executive director (48) A.R.

Paul Walsh was appointed to the board on 1 March 2003. He is chief executive of Diageo plc and a non-executive director of Federal Express Corporation and General Mills Inc.



Roger Wood
Managing director, the AA (61) C.E.

Roger Wood joined British Gas plc in 1996 as managing director of British Gas Services, and was appointed a director of Centrica plc in 1997. In 1999, following the acquisition of the AA business, he became managing director, home & road services. He has been managing director of the AA since 1 January 2002. Before joining British Gas plc, he was director general of Matra Marconi Space NV, group vice president of Northern Telecom Ltd and a UK director at ICL.

Note

Mike Alexander and Sir Brian Shaw were directors until 28 February 2003 and 12 May 2003 respectively.

Key to membership of committees

- A** Audit committee
- C** Customer service committee
- E** Centrica executive committee
- N** Nominations committee
- R** Remuneration committee

Summary reports

Independent auditors' statement to the members of Centrica plc

We have examined the summary financial statement of Centrica plc.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual review and summary financial statement in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement with the annual financial statement, directors' report and the directors' remuneration report and its compliance with the relevant requirements of section 251 of the United Kingdom Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the annual review and summary financial statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with section 251 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.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6, 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom.

Opinion

In our opinion the summary financial statement is consistent with the annual financial statements, the directors' report and the directors' remuneration report of Centrica plc for the year ended 31 December 2003 and complies with the applicable requirements of section 251 of the Companies Act 1985, and the regulations made thereunder.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
12 February 2004

The auditors have issued an unqualified report on the full financial statements and remuneration report containing no statement under section 237 (2) or section 237 (3) of the Companies Act 1985.

Full report and accounts

This summary financial statement is a summary of the full Centrica report and accounts. It does not contain sufficient information to allow as full an understanding of the results and state of affairs of the group and of its policies and arrangements concerning the directors' remuneration as would be provided by the full report and accounts. Certain 2002 comparatives have been restated. If you would like a copy of the Centrica report and accounts for 2003 and/or future years, free of charge, please contact the Centrica shareholder helpline (see page 18 for contact details).

Summary directors' report

This is a summary of the full directors' report, which is contained in the annual report, copies of which are available from the Centrica website at www.centrica.com or the Centrica shareholder helpline (see page 18 for contact details).

Directors

The biographical details of the directors appear on page 14.

Principal activities

The principal activities during 2003 were:

- the provision of gas, electricity and energy-related products and services in Great Britain, North America and Europe;
- the operation of gas fields in Great Britain and North America and power stations in Great Britain;
- gas storage in Great Britain;
- energy trading in European and North American markets;
- roadside assistance and other motoring services in the UK and Europe;
- the provision of financial services in the UK and Ireland; and
- the provision of telecommunications services in the UK.

Post balance sheet events

January 2004: agreement to acquire interests in Statfjord and Orwell gas fields in the North Sea.

Dividends

An interim dividend of 1.7 pence per ordinary share was paid on 12 November 2003. The directors recommend that, subject to approval at the annual general meeting on 10 May 2004, a final dividend of 3.7 pence per ordinary share be paid on 16 June to those shareholders registered on 30 April 2004. This would make a total dividend for the year of 5.4 pence per share (2002: 4.0 pence per share).

Political and charitable donations

An outline of the group's involvement in the community appears on page 10. Charitable donations in the UK during the year amounted to £5.3 million (2002: £4.7 million). In line with group policy, no donations were made for political purposes.

Corporate governance

The group is committed to high standards of corporate governance. During the year, the board has reviewed its corporate governance arrangements in the light of the new Combined Code on Corporate Governance (the new Code) and the Guidance on Audit Committees (the Smith Guidance) and has made changes as necessary and appropriate. As the new Code took effect in respect of accounting periods commencing on or after 1 November 2003, this report has been prepared on the basis of the previous Combined Code on Corporate Governance (the Code). Some additional disclosures have been made as a transition towards compliance with the new Code. Throughout the year, the company fully complied with the provisions of the Code.

Details of how the company applies the principles of the Code are set out in the report on corporate governance in the full report and accounts for the year ended 31 December 2003.

Summary reports continued

The board

An effective board of directors leads and controls the group. The board, which meets at least 10 times a year, has a schedule of matters reserved for its approval. One of its meetings each year is substantially devoted to the development of strategy.

The board is responsible for:

- determination of strategy and major policies;
- review of management performance; and
- approval of the annual operating plan, the financial statements, major projects and corporate governance.

The board has delegated authority to a number of committees to deal with specific aspects of the management and control of the group. They are the executive, audit, remuneration, nominations and customer service committees. Directors' membership of these committees is shown on page 14. Full details of their respective terms of reference can be found in the annual report.

Internal control and business assurance

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.

The group's business assurance function undertakes internal audit reviews according to a plan approved by the audit committee. The results of their work are reported to the audit committee on a quarterly basis.

Summary remuneration report

This is a summary of the full remuneration report, which is contained in the annual report, copies of which are available from the Centrica website at www.centrica.com or the Centrica shareholder helpline (see page 18 for contact details).

Composition and role of the remuneration committee

The board has established a remuneration committee, which is chaired by Patricia Mann. Helen Alexander, Roger Carr, Sir Michael Perry and Robert Tobin were members of the committee throughout 2003. Paul Walsh became a member when he joined the board on 1 March 2003. All members are non-executive directors and, with the exception of Sir Michael Perry, are independent.

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 advice provided by the group human resources director (Anne Minto), the group head of reward (Mike New), the company secretary (Grant Dawson), the chief executive (Sir Roy Gardner) and external consultants.

Framework and policy on executive directors' remuneration

The group's remuneration policy is designed to provide competitive rewards for its executive directors and other senior executives, taking into account the company's performance, the markets in which the group operates, and pay and conditions elsewhere in the group.

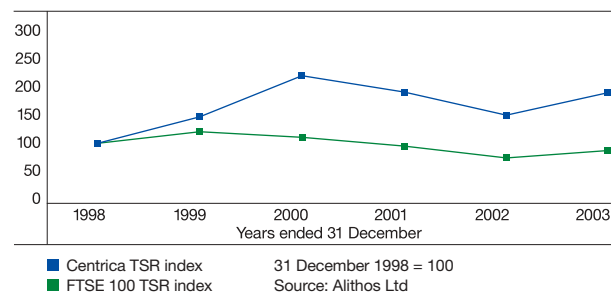
In constructing the remuneration packages, the committee aims to achieve a balance between fixed and variable compensation for each director. Accordingly, a significant proportion of the remuneration package depends on the attainment of demanding performance objectives, both short and long term. In agreeing the level of base salaries and the annual performance bonus scheme, the committee takes into consideration the total remuneration that executives could receive. The committee reviews the packages and varies individual elements when appropriate from year to year. As a matter of policy, the notice periods of the executive directors' service contracts do not exceed one year. It is intended that the current remuneration policy, the executive share option scheme (ESOS) and the long term incentive scheme (LTIS) elements of which have been approved by shareholders, will continue for 2004 and succeeding years.

Components of remuneration

The components of remuneration for each executive director include a base salary and an annual performance bonus. In addition, an annual grant of options is made under the ESOS and an allocation of shares is made under the LTIS, both of which are subject to performance conditions. The performance conditions for LTIS awards are based on the company's total shareholder return (TSR) relative to the returns of FTSE 100 companies over a three year performance period. The performance conditions for the ESOS are based on the extent to which growth in the company's earnings per share exceeds growth in the Retail Prices Index over a three year performance period.

The following table shows graphs of the company's TSR performance and that of the FTSE 100 Index for the five years ended 31 December 2003.

TSR indices – Centrica and FTSE 100: 1999-2003



Other employment benefits

In common with other senior management, executive directors are entitled to a range of benefits, including participation in a contributory final salary pension scheme, a company car, life assurance, private medical insurance and a financial counselling scheme. They are also eligible, on the same basis as other employees, to participate in the company's Inland Revenue approved sharesave and share incentive plans. These are open to all eligible employees and provide a long term savings and investment opportunity.

Directors' emoluments, pension benefits and interests in shares

As at 31 December 2003	Total emoluments excluding pension 2003 £000 ⁽ⁱ⁾	Total emoluments excluding pension 2002 £000 ⁽ⁱ⁾	Accrued annual pension 2003 £ pa ⁽ⁱⁱ⁾	Beneficial interests in ordinary shares 2003	Total options under the RESOS ⁽ⁱⁱⁱ⁾ 2003	Sharesave options 2003	Total options under the ESOS ^(iv) 2003	Total allocations under the LTIS ^(v) 2003
Executive directors								
Mike Alexander	71	617	180,000	n/a	–	–	–	142,415
Phil Bentley	843	647	31,700	111,188	–	5,071	1,232,382	637,330
Mark Clare	787	626	89,900	472,762	177,645	9,318	1,287,020	835,542
Sir Roy Gardner	1,480	1,098	233,400	2,360,222	–	9,318	2,085,981	1,365,749
Roger Wood	757	608	103,400	498,080	–	9,318	1,198,573	769,692
	3,938	3,596						
Non-executive directors								
Helen Alexander	35	–	–	2,800	–	–	–	–
Roger Carr	35	34	–	4,700	–	–	–	–
Patricia Mann	35	34	–	2,142	–	–	–	–
Sir Michael Perry	200	195	–	25,900	–	–	–	–
Sir Brian Shaw ^(vi)	20	54	–	–	–	–	–	–
Robert Tobin	35	–	–	20,000	–	–	–	–
Paul Walsh	29	–	–	5,000	–	–	–	–
	389	317						
Total emoluments^(vii)	4,327	3,913						

- (i) Total emoluments include all taxable benefits arising from employment by the company, mainly the provision of a company car.
- (ii) Accrued pension is that which would be paid annually on retirement at age 65, based on eligible service to 31 December 2003. Having considered external market practice and the retirement provision made within Centrica for other senior managers, the remuneration committee has agreed that the executive directors and certain other senior executives will be offered a one-off opportunity to leave the Centrica pension scheme and join the Centrica management pension scheme. This offer is consistent with the historical treatment of the Centrica senior management population. The Centrica management pension scheme has a normal retirement age of 62. Individual accrual rates in respect of past and future service will be increased so that the pension expectations of individuals transferring across will be the same at the retirement age of 62 as they would have been had they retired at age 65. Full details of the directors' pension scheme arrangements can be found in the annual report.
- (iii) Options granted to company employees under the British Gas plc executive share option scheme prior to February 1997 were cancelled and replaced at demerger by non-Inland Revenue approved options to acquire Centrica shares under the restructured share option scheme (RESOS). The replacement options were granted on the same terms as British Gas executive share options, with the same exercise date and aggregate exercise price per share, and the number of shares placed under option was adjusted to take account of the demerger. No further options have been or will be granted under this scheme.
- (iv) Options were granted under the ESOS on 31 May 2001, 2 April 2002 and 24 March 2003.
- (v) Total allocations held under the LTIS shown above include allocations of shares that are subject to performance conditions and allocations that have reached the conclusion of the performance period but are subject to a two year retention period. The performance targets in respect of the allocation of shares held on behalf of Mike Alexander were achieved in full in September 2002. The shares will be released to him at the end of September 2004.
- (vi) The figure above for Sir Brian Shaw includes fees of £7,232 (2002: £20,000) in respect of consultancy services to The Automobile Association Ltd while a director of Centrica plc.
- (vii) The total emoluments figure for 2002 excludes £22,000 paid to Sir Sydney Lipworth for his services as a director of the company and one of its subsidiaries during part of that year.
- (viii) The aggregate of the amount of gains made by executive directors on the exercise of share options was £1,029,874; and the aggregate value of shares vested to executive directors under the LTIS was £1,648,680.

As at 9 February 2004, the beneficial shareholdings of the executive directors increased from the totals shown at 31 December 2003 by the following number of shares: Phil Bentley 81; Mark Clare 81; and Sir Roy Gardner 81.

Information for shareholders

Centrica FlexiShare Service

A new concept for shareholders

Centrica has teamed up with Lloyds TSB Registrars to offer a new range of services aimed at making life easier for shareholders.

How would I benefit?

By transferring your shares into FlexiShare you will benefit by:

- reduced dealing charges and quicker settlement periods (and no certificates to lose);
- the same rights (to dividends, voting and the annual review) as shareholders on the main register;
- no transfer or membership costs; and
- access to new services only available through FlexiShare.

What are the new services?

- dividend reinvestment plan – your cash dividend is used to buy more Centrica shares (for a small dealing charge) which are then credited to your account; and
- a lump-sum buy or sell facility – FlexiShare participants have the opportunity to use low-cost share dealing facilities provided by a panel of independent brokers.

What are the existing Centrica shareholder services I can also access through FlexiShare?

- direct dividend payments;
- electronic communications; and
- shareholder benefits on selected Centrica products and services.

What should I do to participate?

Your first step is to call the Centrica shareholder helpline on 0870 600 3985 or visit www.centrica.com/flexishare. You will be sent a joining pack including details of the FlexiShare service and all the relevant forms and contacts that you will require. There is no 'closing date' and you can join at any time.

How does FlexiShare work?

FlexiShare is a 'corporate nominee' managed by Lloyds TSB Registrars. It is a convenient way to manage your Centrica shares without a share certificate. Your share account details will be held on a separate register and you will receive an annual confirmation statement. There is no cost to shareholders for either the transfer or the membership of FlexiShare.

Will I be disadvantaged if I don't join?

No, your shareholder account will remain on the Centrica register and you don't need to do anything. However, you will miss out on the opportunity to take advantage of the exciting new benefits available to all shareholders.



Centrica plc

Company registered
in England and Wales No. 3033654

Registered office:

Millstream

Maidenhead Road

Windsor

Berkshire SL4 5GD

Tel: 01753 494000

Fax: 01753 494001

www.centrica.com

Financial calendar

Ex-dividend date for 2003 final dividend	28 April 2004
Record date for 2003 final dividend	30 April 2004
Annual general meeting, Queen Elizabeth II Conference Centre, London SW1	10 May 2004
Final dividend payment date	16 June 2004
2004 interim results announced	29 July 2004
Interim dividend payment date	10 November 2004

Centrica shareholder helpline

Lloyds TSB Registrars maintain the shareholder register on our behalf. If you have a question about your shareholding in Centrica, including details of changes to shareholders' addresses and purchases or sales of Centrica shares, dividend payment enquiries, etc. you should contact:

Centrica shareholder helpline: 0870 600 3985

Text phone: 0870 600 3950

Write to: Lloyds TSB Registrars, The Causeway, Worthing,
West Sussex BN99 6DA

The Centrica website

The Centrica website at www.centrica.com provides news and details of the company's activities, plus links to our brand sites. The shareholder information section contains up-to-date information including the company's latest results and dividend payment dates and amounts. It also holds historical details and a comprehensive share price information section. Visit www.centrica.com/shareholders

Shareholder benefits

We are pleased to offer a series of shareholder benefits on selected products and services. If you would like to receive information about these items, and have not previously registered, please call the Centrica shareholder helpline or visit the shareholder benefits page of our website.

ShareGift

ShareGift, the charity share donation scheme, is a free service for shareholders wishing to give shares to charitable causes. Further information can be obtained at www.sharegift.org or from the Centrica shareholder helpline.

The Unclaimed Assets Register

The Unclaimed Assets Register is a unique search service that helps individuals find their lost assets and re-establish contact with financial institutions. For further information visit www.uar.co.uk or call the Centrica shareholder helpline.

If you would like this annual review in a different format, such as large print, Braille or cassette, please call us on 0870 600 3985. Alternatively if you have a text phone, please make your request on 0870 600 3950.

You may view a fully accessible online version of this annual review on our website www.centrica.com. It can be customised to suit your own viewing preferences.