centrica

Annual Review and Summary Financial Statements 2007










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

We are energy experts. We source, generate, process, store, trade, save and supply energy and provide a range of related services.

We have strong brands and distinctive skills which we use to achieve success in our chosen markets of the UK, North America and Europe, and for the benefit of our employees, our customers and our shareholders.

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

Our year in brief…

A summary of our business performance

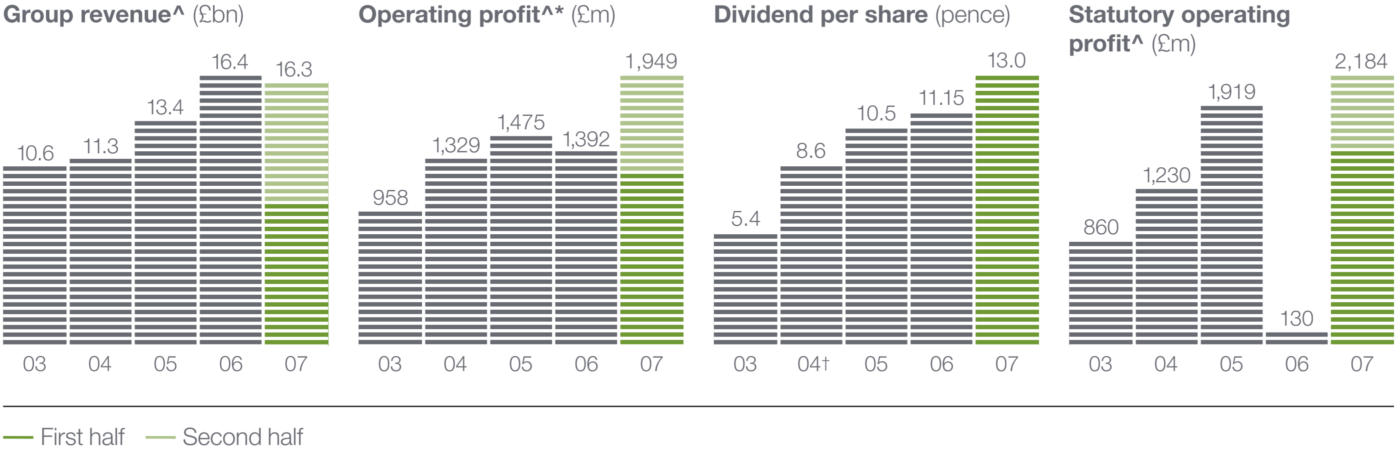
A summary of our financial performance for 2007

Everything you need to know to manage your shareholding

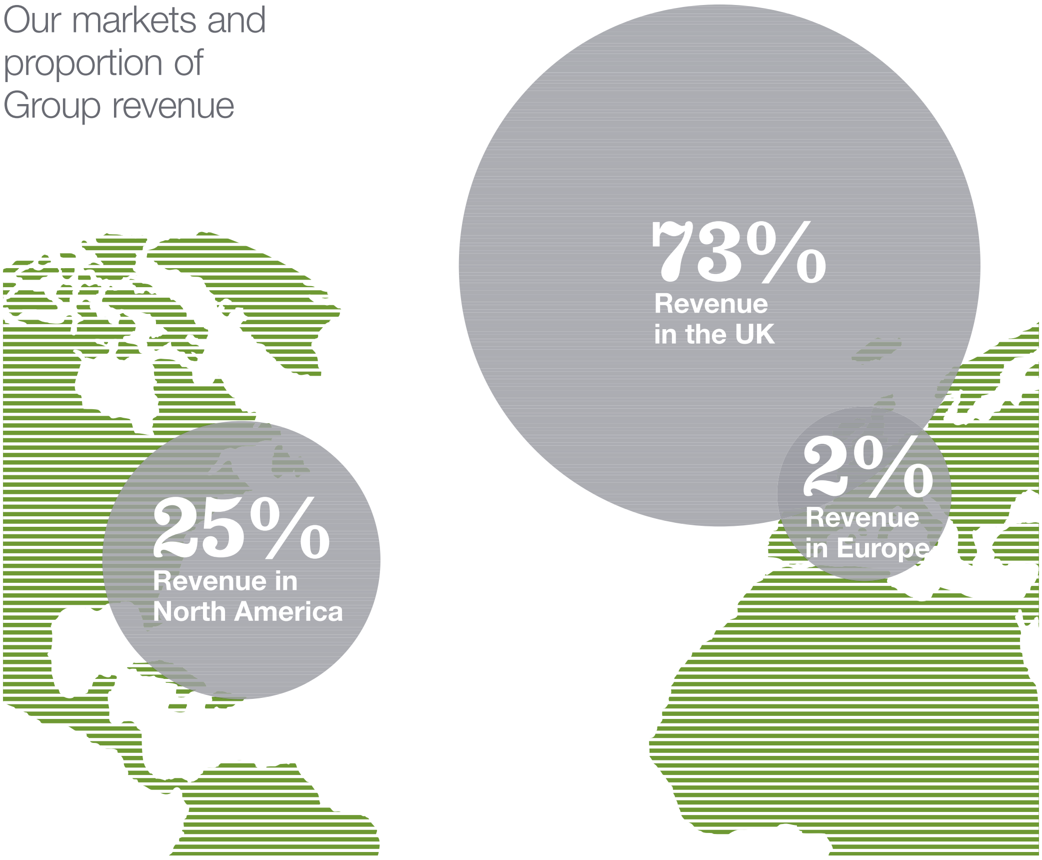
www.centrica.com/review07

Financial Highlights

Our performance



Our markets and proportion of Group revenue



17%
increase in dividend

40%
increase in operating profit^*

£1.5bn
planned investment in renewable energy assets

16m
British Gas Residential customer accounts

^ from continuing operations
* including joint ventures and associates, net of interest and taxation, and before exceptional items and certain re-measurements.
† excludes special dividend of 25p

The Group adopted IFRS with effect from 1 January 2005. The comparative data for 2004 has been restated accordingly. IAS 32 and IAS 39 were adopted with effect from 1 January 2005, and the comparative data for 2004 does not reflect the effect of these standards. Amounts in years prior to 2004 are presented in accordance with generally accepted accounting standards (GAAP) in the UK prevailing at the time. Turnover prior to 2004 excludes Accord trading revenue.
All references to 'the prior year', '2006' and 'last year' mean the 12 months ended 31 December 2006 unless otherwise specified.
Throughout this Report references to British Gas include Scottish Gas.

Chairman's Statement

Securing shareholder value

"We have achieved very strong financial results during another challenging year for UK energy retailers."

Our year in focus

We have achieved very strong financial results during another challenging year for UK energy retailers.

New pipelines from Norway and the Netherlands, underpinned by long-term gas contracts with British Gas, began to bring additional supplies to the UK and helped to bring down gas prices at the start of the year.

Unfortunately the spectre of high wholesale prices reappeared in the second half of the year and this has continued into 2008. As a result we had to raise customer tariffs in January.

The management team worked diligently throughout 2007 to minimise the impact of rising wholesale energy prices, making substantial inroads into operating costs and extracting efficiencies where possible. But we must continue to invest in high quality energy assets to serve our UK and international customers; and this reinvestment can only be funded through the consistent delivery of reasonable and sustainable profits.

Dividend

The Board is proposing a final dividend of 9.65 pence for payment in June 2008 bringing our full-year dividend to 13.0 pence, which represents a 17% year-on-year increase.

Board changes

We changed the structure of our executive management team, with Phil Bentley assuming the role of Managing Director of British Gas, Jake Ulrich adding Europe to his responsibilities as Managing Director of our upstream activities and Nick Luff joining Centrica from P&O as Group Finance Director. Under the leadership of Sam Laidlaw the team has already begun to make a real difference to both the short-term performance and the long-term prospects of Centrica.

Our employees

In a business such as Centrica, people are central to the delivery of better service and improving financial results. Our employees have worked hard to support the change in systems, working practices, organisation structure and management within the Company. I thank them all for their loyalty, hard work and dedication. It is a credit to them that British Gas Business and British Gas Services were both recognised in the Financial Times Top 50 'Best Workplaces for 2007'.

The future

We have set out a clear agenda for Centrica in the form of Sam Laidlaw's four strategic priorities and we will continue to focus on these as we move forward. Only by delivering against these priorities will we be able to satisfy our customers and reward our employees while maximising returns for our shareholders.

Roger Carr
Chairman
21 February 2008

Chief Executive's Review

Delivering our strategy

> 2007 was a year of substantial achievement for Centrica during which we made further progress on addressing the key priorities for the business.

A year in review with Chief Executive, Sam Laidlaw

2007 was a year of two distinct periods. In the first half, wholesale energy prices in the UK were low. This was a result of increased gas supply through new gas pipelines and additional liquefied natural gas (LNG) facilities and reduced demand due to warm weather. Over two-thirds of our earnings came in this period.

During the second six months, however, the day ahead wholesale gas price rose sharply, averaging 56% higher than during the first half. This significantly reduced margins in our UK residential business.

Centrica operates in a complex, global industry that is facing some profound challenges, which will push up the price of energy long term. Our strategy is to create an integrated energy company, operating upstream by developing new sources of gas and power, and downstream with strong brands in a few chosen markets.

Downstream

We are the UK's largest energy supplier to residential customers and the largest domestic central heating and gas installation and maintenance company. We are one of the UK's largest producers and suppliers of wind energy and British Gas is one of the country's greenest energy brands. In April we set up British Gas New Energy to expand our offer in low-carbon products and services.

In our North American markets, we have more than 5 million customers. Our experience of deregulated markets in the UK and North America will stand us in good stead when European energy markets finally open up to competition.

Upstream

Upstream, we have long-term contracts for gas supplies to the UK from the North Sea, Norway and the Netherlands, as well as our own production, which now includes a number of North Sea gas fields acquired from Newfield UK Holdings Limited in October. In November, we bid for Rockyview Energy Inc in Alberta and completed the deal early in 2008. This adds an additional 43 billion cubic feet of gas to our Direct Energy business.

We are building our eighth gas-fired power station (at Langage in Devon) and two wind farms off the Lincolnshire coast which will have a combined capacity of 180MW. We already have interests in three operational wind farms which provide access to 188MW of renewable electricity and are seeking consent for a further 250MW farm.

In Centrica Storage the creation of an innovative virtual storage product helped to drive a year of record profitability.

Strategy

In February 2007, I set out four priorities for Centrica that underpin how we run the business, and we have continued to focus on them.

In 2008, our critical short-term priority in transforming British Gas will be on improving our service to customers while delivering sustainable returns. We made good progress in 2007. Our service levels are improving and we removed £139 million of costs from the business. But we have more to do. We will remove an additional

Strategy

£60 million of operating cost and will also invest in the British Gas brand as not only a provider of energy but of energy efficiency advice and services.

We are making cost reduction central to our business culture and aim to become the most efficient energy supplier with the lowest cost per customer.

With wholesale energy costs still volatile, the importance of getting more of our gas and power from our own resources cannot be over-estimated. Our acquisition of the Newfield gas properties and the investments we are making in both renewables and gas-fired power generation are important steps in the right direction. This will be a key strategic priority in 2008.

We will increase our involvement in LNG and from October 2008 will have LNG import capacity at the Isle of Grain which will be able to supply approximately 6% of Centrica's annual gas demand.

In British Gas Business we will seek to maintain our current growth trajectory through ongoing development of our routes to market while also focusing on further enhancing the service we deliver.

In British Gas Services we will develop additional customer propositions to continue our rapid progress in the on-demand market, enabling us to further expand our customer base and to drive growth. Our new business British Gas New Energy is well positioned to supply energy efficiency products and services to our increasingly climate change aware customers.

In North America there is real potential to grow our business both organically and through acquisition. Near term prospects will be affected by the depth and length of any economic downturn but we will seek to minimise the impact through increasing the diversity of our business.

Europe remains challenging. This year we will concentrate on simplifying the ownership structure of SPE in Belgium as the merger of Suez and Gaz de France proceeds. We will also continue to grow our Belgian, Dutch and Spanish businesses and establish ourselves firmly in the industrial and commercial market in Germany.

In summary, we will be following the same path in 2008 as we have in 2007, guided by the same priorities that we have laid down. On the next two pages I will explain in more detail how we have performed against these priorities.

The UK market faces high wholesale energy prices and it is important that we remain single-minded in making our operations leaner and more efficient. But Centrica is a strong business with a clear sense of direction and the momentum to make the best of its unique strengths.

Sam Laidlaw
Chief Executive
21 February 2008

Go online

Visit our Annual Report and Annual Review online.
www.centrica.com/reports2007

Chief Executive's Review continued

Delivering our strategy

Transform British Gas

Transforming British Gas is a priority because profitability and service levels at British Gas Residential, which is the core of our business, have historically been low and variable.

Progress

We led the industry in reducing prices, cutting them twice during 2007 by a total of 17% in electricity and by 20% in gas. We also established the lowest dual fuel tariff through our online Click Energy offer. However, because of higher wholesale energy prices in the second half of 2007, we had to increase retail tariffs in January 2008. Although this was disappointing, retail prices are still lower than at the same time in 2007. The 15% increase will help us to re-establish the profit margin we need to provide sustainable long-term earnings.

Having completed the move of all of our customers to our new billing system by March 2007, we concentrated on improving the service that had slipped during the process. Service levels improved significantly. As a result, we saw fewer complaints and customer losses. By December 2007, complaints to energywatch had fallen by 80% since April, and customer churn had also fallen sharply.

We continued to reduce operating costs within British Gas compared to 2006, and recovered the market share which we had lost during the first quarter to finish 2007 with 16 million customer accounts.

Strategy in action

- **We led the industry in reducing prices in 2007**
- **We significantly improved our service levels**
- **We reduced our operating costs by £139 million**

Sharpen up the organisation and reduce costs

If we are to compete domestically and internationally in the long term, we need to do what we do better, and at lower cost. Our goal is to be the most efficient energy supplier, with the lowest cost per customer.

Progress

Over the past year we have strengthened our executive team with several key appointments including a new Group Finance Director and a new Managing Director for British Gas. We looked at the structure of our operating businesses, and this resulted in changes within Centrica Energy, in our North American operation and within British Gas Residential (BGR) that have improved clarity and accountability.

Better business discipline has been introduced through systematic quarterly cost reviews of each business unit, a tighter capital allocation framework, and a new three-year planning horizon to focus performance.

And we have reduced costs significantly. For example, the restructuring of British Gas Services has removed £20 million of cost a year, and BGR is on track to deliver its £200 million cost reduction target. Some £139 million of cost savings were achieved in 2007 with the balance to come in 2008. During the year we moved 2,250 back-office jobs to India outsourcing a number of support services including many of the central finance, information system and human resource functions.

Strategy in action

- **We have strengthened our executive team**
- **We have introduced new structures for our businesses in Direct Energy and in British Gas Residential**
- **We have reduced costs across the Group**

Reduce risk through increased integration

In the UK we currently supply around 25% of the gas and 67% of our peak electricity requirements from our own resources or major contracts. We aim to reduce this risk by building a profitable upstream business to supply 50% of our gas needs.

Progress

In October 2007 we bought Newfield UK Holdings Limited with the potential to add 300 billion cubic feet of gas reserves in the North Sea. Further gas reserves were added by the acquisition in February 2008 of Rockyview Energy Inc in Alberta.

We obtained interests in licences in the UK, Norway and Trinidad bringing our total to 19. From the winter of 2010/11, we will also have access to a further 2.4 billion cubic metres (BCM) of liquefied natural gas import capacity at the Isle of Grain terminal in addition to the 3.4BCM available from October 2008.

Construction continues on our 885MW power station in Devon, which will increase our UK generation capacity to almost 5GW. We also began construction of the 180MW Lynn and Inner Dowsing wind farms off the coast of Lincolnshire and acquired a 50% share in the Braes of Doune wind farm in Stirlingshire in July. In Texas we concluded a new 170MW power purchase agreement that brings our total power offtake from Texas wind farms to 813MW.

Strategy in action

- **We bought Newfield UK Holdings Limited**
- **We acquired exploration opportunities in the UK, Norway and Trinidad**
- **We continued to invest in renewable generation capacity**
- **We are building a new gas-fired power station in Devon**

Build on our growth platforms

Centrica's growth businesses in the UK, North America and Europe have considerable potential for increasing the Group's profitability and our opportunities for providing low-carbon products and services.

Progress

British Gas Business delivered record profits*, a growing customer base and improving levels of customer satisfaction; while in British Gas Services, account numbers grew by 7% and operating profits* by 48% as service levels improved dramatically.

Our Direct Energy business in North America was restructured, delivering the targeted cost reductions and increased operating profit^*, despite increased competitive pressures and a slowing US property market.

We more than doubled our operating profits* in Europe in 2007. In Belgium we added around 500,000 Wallonian customer accounts to our SPE-Luminus business, now established as the undisputed number two player. We also opened an office in Düsseldorf as a result of developments in Germany.

In April we created British Gas New Energy to operate in the increasingly important market for low-carbon products and services that is expected to grow exponentially in the coming years. And in North America, we formed a new group to focus on renewables. We also launched our first carbon neutral product across Canada.

Strategy in action

- **We increased profits* considerably in all growth businesses**
- **We strengthened our positions in North America and Europe**
- **We launched British Gas New Energy to focus on low-carbon products and services**

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

we **source** it... we **generate** it... we **process** it

We are energy experts – experts in producing energy from the natural world for people to use. We find, extract and supply it, increasingly from our own resources – our own gas fields, power stations and wind farms.

► When our new £400m Langage power station comes onstream in 2009, we'll be able to source around 80% of the UK electricity we sell from our own power stations and major contracts.

xpertise

► Last year we spent £242 million on gas fields in the North Sea to help secure supplies for our customers.

we **store** it… we **trade** it… we **save** it

We buy and sell energy around the world, invest in renewable technologies and apply our expertise to helping our customers to use energy more efficiently. While deep beneath the North Sea, our Rough storage facility provides more than 70% of Britain's gas storage capacity.

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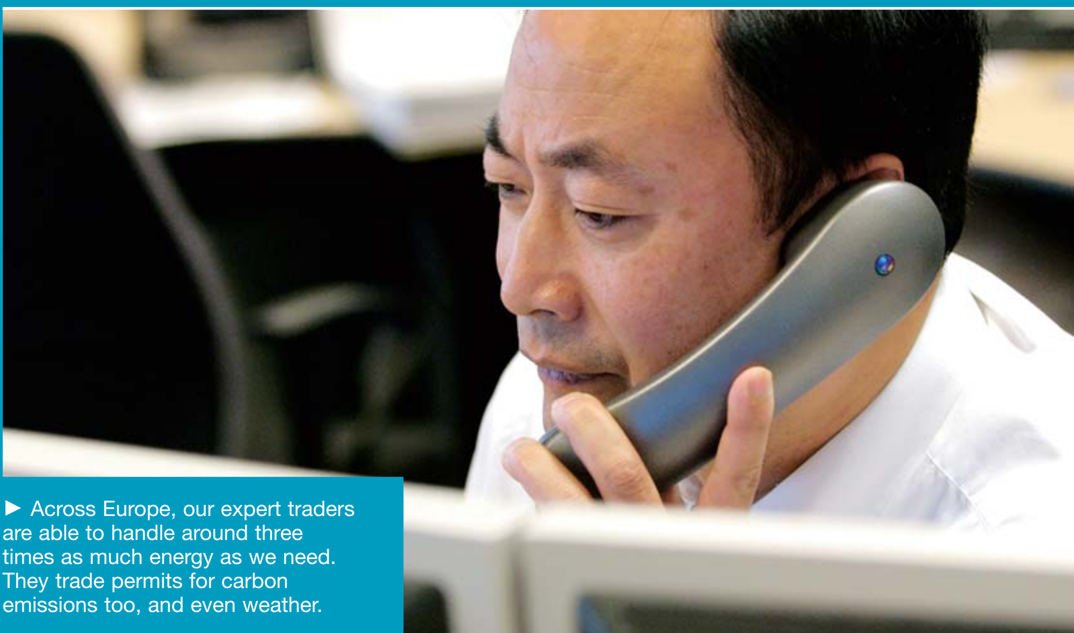
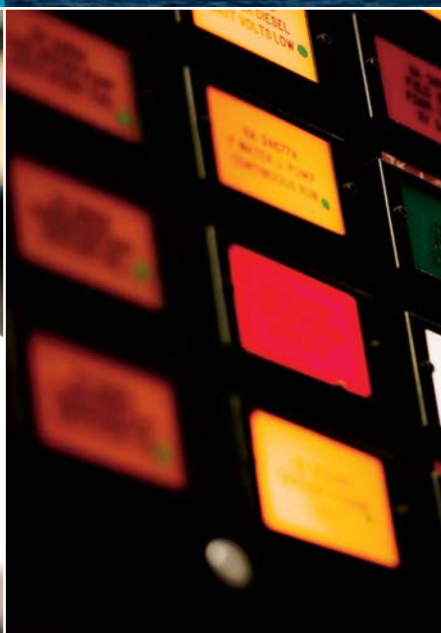


► Across Europe, our expert traders are able to handle around three times as much energy as we need. They trade permits for carbon emissions too, and even weather.



► According to WWF we are one of the greenest energy suppliers – and we've set up a new UK business to develop more low-carbon products.

Overview
Our performance
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we **supply** it... we **service** it... as energy **experts**

We are the largest UK gas and electricity retailer, and we have a growing presence in North America. Through our ability to supply, the services we provide and the expertise we possess, we can continue to build our business.

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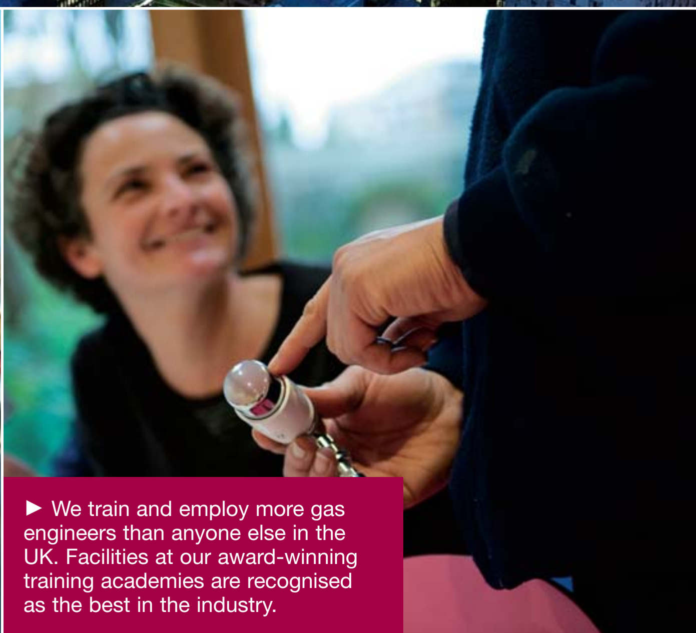
► In seven years in North America, we have grown from nothing to a business with sales of £4 billion, 5 million customers and a great future.

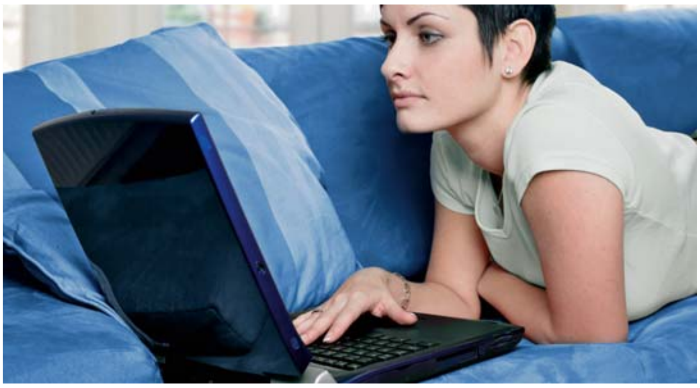


► We train and employ more gas engineers than anyone else in the UK. Facilities at our award-winning training academies are recognised as the best in the industry.

Operating Review

A strong business

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



Revenue^ by business
(£m)

British Gas Residential	6,457
British Gas Services	1,279
British Gas Business	2,431
Centrica Energy	1,451
Centrica Storage	340
Direct Energy	3,992
European Energy	392

Operating profit*^ by business
(£m)

British Gas Residential	571
British Gas Services	151
British Gas Business	120
Centrica Energy	663
Centrica Storage	240
Direct Energy	187
European Energy	17

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

British Gas Residential

British Gas Residential has around 16 million customer accounts in the UK, and is the country's largest supplier of both gas and electricity to residential customers. We are also playing a leading role in providing customers with low-carbon products.

This was a strong year for British Gas Residential.

We delivered excellent financial results and reduced operating costs by £139 million. Although revenue fell by 9% to £6,457 million due to lower average customer numbers and lower energy consumption because of warm weather, operating profit* increased to £571 million (2006: £95 million). Most of this increase came in the first half of the year, when wholesale gas prices fell.

We were the first energy supplier to announce reduced prices for customers. We cut our prices by a total of 20% in gas and 17% in electricity in March and April.

We also improved our customer service which had suffered as we moved customers to a new billing system. By the end of the year complaints to energywatch had fallen by 80% from the high point in April 2007.

Our more competitive pricing and the improvements we've made to customer service helped us to stabilise our customer base in 2007. We are once again serving just over 16 million accounts.

- We reorganised the business to improve accountability and performance
- We stabilised customer accounts at 16 million
- We increased our operating profit* by £476 million

www.britishgas.co.uk

British Gas

British Gas Services

British Gas Services is the largest domestic central heating and gas appliance installation and maintenance company in the UK. We directly employ more than 9,000 engineers who also provide comprehensive maintenance and breakdown services for electrical white goods and home wiring. Our Dyno brand provides plumbing, drains and home security services across the UK.

During 2007, we increased the number of customer product holdings by 7% to 7.6 million, and revenue was up by 16% at £1,279 million.

We increased the number of customers who take our Homecare Flexi product, improved what we offer online and focused on cross-selling our products. We also strengthened our position in the on-demand market, with the number of central heating repairs for non-contract customers increasing by 19% to 414,000.

Operating profit* grew by 48% to £151 million due to the strong growth in higher margin care products, together with cost and overhead savings. Profitability also grew in the central heating installation business as the number of installations, including those for the Scottish Executive, increased by 24% to 113,000.

Our strong financial and operational performance was supported by improvements in customer service and engineer deployment, which provide a strong platform for continued growth.

- We increased our operating profit* by 48%
- We delivered improved levels of customer service

www.britishgas.co.uk

British Gas New Energy

We launched British Gas New Energy as a separate business in April 2007 to supply the growing UK market for low-carbon and energy efficient products and services.

In July 2007 we launched 'Zero Carbon' our greenest tariff available to domestic customers, which is linked to carbon offsets certified by the United Nations.

Now, in addition to loft and cavity wall insulation, our engineers are able to install solar panels; and our Green Streets challenge aims to highlight the positive impact simple energy efficiency products and behaviours can have in reducing UK domestic CO_2 emissions.

In January 2008 we bought a £20 million equity stake in Ceres Power, which is developing combined heat and power (CHP) units for domestic use. They will operate as central heating boilers, but will also generate low-carbon electricity in the home, cutting energy bills and carbon footprints.

During the year we delivered on our Energy Efficiency Commitment ahead of schedule and under budget.

- We provided more than 17 million energy efficiency products to UK households
- We launched two industry-leading green energy tariffs

www.britishgas.co.uk

Operating Review continued

A strong business

British Gas Business

British Gas Business sells gas, electricity and energy-related services – including carbon-offsetting – to small, medium and large corporate businesses. The introduction of our dedicated account managers has helped to improve levels of customer service.

Against a backdrop of volatile gas prices we delivered a record financial result, grew our customer base and continued to improve customer satisfaction.

Revenue increased by 6% to £2,431 million. This was because of price changes during 2006 and 2007, higher customer numbers in both fuels and higher electricity consumption by our increased number of large corporate customers. Customer supply point numbers increased by 2% to 954,000 on a strong sales performance and high contract renewal rates, particularly in the small business sector.

Operating profit* was up 38% to £120 million. This was mainly due to the widening of margins during contract renewals, and the positive effect of falling wholesale gas prices. Operating margins in the year rose to 4.9% (2006: 3.8%).

In customer service we are now seeing positive results from having dedicated account managers, and during the year we improved the level of customer satisfaction across the business.

- We continued to have high contract renewal rates
- We increased the number of customer supply points by more than 2%
- We increased our operating margins

www.britishgasbusiness.co.uk

British Gas Business

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

Centrica Energy

Centrica Energy sources the gas and electricity we supply to our residential and business customers in the UK and Europe. This comes from our own upstream gas production, electricity generation and renewable energy operations, and through the management of our gas and electricity purchase contracts and wholesale energy trading.

The day ahead wholesale gas price in the UK fluctuated between a low of 13 pence per therm (p/th) in April and a high of 59p/th in December. This is what price volatility means.

Low wholesale prices in the first quarter of the year reduced operating profit* for gas production and development by 50% to £429 million.

However, during the year we added 114 billion cubic feet equivalent (bcfe) to our gas reserves of which 67bcfe came from the purchase of Newfield UK Holdings Limited in October.

Electricity generation was up by 36% on 2006, and we made good progress with our new plant at Langage in Devon, which should begin operations early in 2009.

We bought 50% of the 72MW Braes of Doune wind farm for £42 million and spent £104 million on the ongoing development of the two 90MW Lynn and Inner Dowsing wind farms, as well as securing further valuable gas import capacity at the Isle of Grain LNG terminal.

- The acquisition of Newfield added 67bcfe to our gas reserves
- We generated 36% more electricity

www.centricaenergy.com

centrica energy

Centrica Storage

Centrica Storage owns and operates the UK's largest gas storage facility. We sell gas storage and other services to a wide range of gas market participants including Centrica Energy.

Ongoing investment in our Rough storage facility to improve its injection and withdrawal capabilities enabled us to sell significant volumes of additional space, and generate additional revenue, particularly from our new virtual storage product, V Store. This product has the equivalent rights to a Standard Bundled Unit (SBU) but delivery of gas is guaranteed to the National Balancing Point. This guarantee meant that the product could be sold at a substantial premium to the price of an SBU.

Operationally Rough performed well, delivering injection and production availability of more than 98%. This was achieved at the same time as improving our health and safety performance. A review undertaken by the Health and Safety Executive placed Rough in the top quartile of all North Sea installations surveyed.

A record operating profit* of £240 million reflected both the increase in the average SBU price for the year, and the continued growth in non-SBU revenue.

- We delivered strong financial results
- We launched a new virtual storage product

www.centrica-sl.co.uk

centrica storage

European Energy

We are involved in power generation, energy management and retail energy supply, particularly in the increasingly interconnected energy markets of north western Europe.

Our European Energy business more than doubled its operating profit* to £17 million.

We increased our total energy customer base in Belgium to 1.4 million, and in the Netherlands (through our Oxxio brand) we now supply 754,000 customer accounts. During the year we installed around 75,000 smart meters and are working with the regulator to ensure Oxxio's meters are compatible with future industry standards. We also entered into a 20-year tolling contract with Intergen for a 400MW gas-fired power station in Rijnmond, near Rotterdam, which is expected to be commercially operational by summer 2010.

In January 2007 we re-branded our Spanish operation from Luseo to Centrica Energía. As market conditions improved we re-entered the Spanish electricity supply market and have already contracted 0.9TWh of annual consumption.

As a result of developments within the German energy market we opened an operation in Düsseldorf selling to the commercial supply market through Centrica Energie GmbH.

- We increased our customer base in Belgium
- We re-entered the Spanish electricity market
- We agreed a 20-year tolling contract for a new gas-fired power station in the Netherlands

www.luminus.be www.oxxio.nl
www.centricaenergia.es
www.centrica-energie.de

luminus oxxio centrica energia

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Operating Review continued

A strong business

Direct Energy

Our Direct Energy brand is one of North America's largest energy and energy service providers, with over 5 million residential and business customers in Canada and the US. We own and operate gas reserves in Canada, and electricity generation capacity in Texas.

Direct Energy performed well during a year in which we continued to develop our activities beyond mass market energy supply. We restructured into four pan-North American operations to drive growth and efficiencies of scale through shared operations.

Excluding the negative impact of exchange rate movements, Direct Energy delivered top and bottom line growth. While reported revenue^ was down 1.4% at £3.99 billion, underlying revenue^ was up 4.9%.

Reported operating profit*^ was up 8% at £187 million, with underlying profit* before exchange rate movements up more than 15%.

The **mass markets energy business**, which comprises gas and electricity sales to residential and small commercial customers, experienced difficult trading conditions, particularly in Ontario and Texas where customer numbers fell. However, by the end of the year numbers were growing again.

Revenue was down 12% to £2,437 million and operating profit* was 22% lower at £123 million.

Commercial and industrial energy comprises gas and electricity sales to medium and large-sized businesses, public institutions and government. Rapid growth in this segment continued during the year with volumes up 13% and 24% in gas and electricity respectively.

Reported revenue was up 15% to £978 million with underlying revenues up 24%. The business moved into profit during the second half as volumes grew and it recorded a £1 million profit* for the full year.

Home and business services had a good year despite the housing recession in the US. Customer numbers grew by 3.5% to over 2 million for the first time. The acquisition in January of MABE, a service provider for white goods, enabled us to launch an appliance protection and repair business across Canada.

Reported revenue^ was down 7% to £351 million, although it remained flat on an underlying basis. Following restructuring of the business services operation and increased focus on cost control to improve competitiveness, operating profit*^ almost doubled to £17 million.

Our **upstream and wholesale energy** business delivered operating profit* of £46 million, up 142% on the year with strong contributions from our power stations, wind power contracts as 433MW of new capacity came onstream, wholesale energy auctions and proprietary trading.

Power generated increased by 14% while gas production was broadly unchanged. By the end of 2007, through our ongoing drilling programme, we had replaced 117% of the gas we produced.

Early in 2008 we acquired Rockyview Energy Inc of Alberta for around £57 million, in line with our strategy of increasing the overall level of vertical integration within Direct Energy.

- We delivered another successive year of profit growth*
- We made continued progress on diversification of the business

www.directenergy.com

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

Direct Energy

Corporate Responsibility Review

> We are securing sustainable energy supplies while demonstrating leadership on climate change and social programmes.

Mary Francis CBE
Senior Independent Director and Chairman, Corporate Responsibility Committee

Understanding and managing the impact of our operations on society and the environment helps us to win business advantage and deliver value to our shareholders. We maintain close dialogue with employees, customers, policy-makers, investors and wider stakeholders to ensure we are alert to their opinions and evolving trends.

Our Corporate Responsibility Committee, chaired by Mary Francis CBE, oversees Centrica's corporate responsibility strategy and activities on behalf of the Board.

Taking responsibility

In 2007 Sam Laidlaw launched an initiative to communicate our business principles to our employees and business partners. Our principles describe the standards we expect of ourselves and those we work with.

Tackling climate change

Reducing carbon emissions, while securing future energy supplies for our customers, is a significant challenge. In 2007 we launched a new business unit – British Gas New Energy – to lead our low-carbon strategy in the UK while, in North America, Direct Energy formed a cross-business climate change team.

British Gas launched 'Zero Carbon'[1], our greenest tariff available to domestic customers, and Direct Energy extended its carbon neutral gas programme after a successful launch in British Columbia. To ensure we maintain our leading low-carbon position in the UK, we are investing in high-efficiency gas-fired power stations and offshore wind farms. We have also set targets to reduce the carbon dioxide emissions from our UK power generation activities.

Supporting vulnerable customers

Although UK retail energy prices were lower in 2007 than in the previous 12 months, fuel poverty continued to be an issue. In March 2007 British Gas received widespread recognition from government and industry groups following our £32 million commitment to 'Essentials', the UK's largest social tariff on the energy market.

Focusing on health and safety

The health and safety of our employees, customers and others who could be affected by our activities is a top priority for us. A concerted campaign to improve incident reporting in our main UK customer-facing businesses led to an overall increase in accident incidence rates in 2007. A detailed internal review has identified opportunities to reinforce our approach and we will continue to target a year-on-year 4% reduction in time lost from injuries.

Valuing our people

More than 84% of employees responded to our engagement survey and we recorded an increase of 3% in our overall score. We received awards for our age awareness activities in the UK and our workplace flexibility programme in North America. Female trainees accounted for 13% of all those recruited by the British Gas Engineering Academy in 2007.

Investing in communities

By understanding our impact on the communities in which we work, we can develop successful partnerships to mutual benefit. In 2007 we contributed £5.2 million[2] to community causes and employees volunteered more than 18,000 hours. We invested a further £76 million[3] in social programmes for our vulnerable customers. In June, a memorial service was held for those who lost their lives in the Morecambe Bay helicopter tragedy on 27 December 2006. The first donation from the fund, set up in memory of those who died, was made to North West Air Ambulance.

1 Zero Carbon is the name of the tariff. We offset the CO_2 emissions from the gas and electricity customers consume using carbon offsets certified by the United Nations.
2 Cash, time and in-kind support in accordance with London Benchmarking Group model, including a donation of £1.1 million to the British Gas Energy Trust, which supports vulnerable customers.
3 Combined cost of voluntary and mandatory programmes to support vulnerable customers in the UK.

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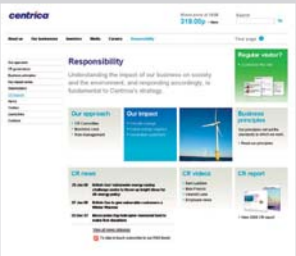

More detailed information will be published in our 2007 Corporate Responsibility Report in May 2008.
www.centrica.com/responsibility

Governance

Board of Directors and Executive team

Board of Directors

1. Roger Carr
Chairman (61) * †
Roger Carr joined the Board as a Non-Executive Director in January 2001. He was appointed Chairman of the Board in May 2004 and is Chairman of the Nominations Committee. He is Chairman of Mitchells & Butlers plc, Deputy Chairman of Cadbury Schweppes plc and a senior adviser to Kohlberg Kravis Roberts & Co Ltd. In June 2007, he was appointed Non-Executive Director of the Court of the Bank of England.

2. Sam Laidlaw
Chief Executive (52) ■ ● ◆ *
Sam Laidlaw joined Centrica plc as Chief Executive in July 2006. He is Chairman of the Executive Committee and the Disclosure Committee. He was previously Executive Vice President of the Chevron Corporation, Chief Executive Officer at Enterprise Oil and President and Chief Operating Officer at Amerada Hess. In January 2008 he was appointed a Non-Executive Director of HSBC Holdings plc. Until August 2007 he was a Non-Executive Director of Hanson plc. He is Trustee of the medical charity RAFT and a Director of the Business Council for International Understanding.

3. Helen Alexander CBE
Non-Executive Director (51) ▲ * †
Helen Alexander joined the Board in January 2003 and is Chairman of the Remuneration Committee. She is Chief Executive of The Economist Group, a Trustee of the Tate Gallery and an Honorary Fellow of Hertford College, Oxford. In September 2007 she was appointed a Non-Executive Director of Rolls-Royce plc. Formerly, she was a Non-Executive Director of BT Group plc and Northern Foods plc.

4. Phil Bentley
Managing Director, British Gas (49) ■ ◆
Phil Bentley joined Centrica plc as Group Finance Director in November 2000, a position he held until the end of February 2007 when he was appointed Managing Director, British Gas. He was also Managing Director, Europe between July 2004 and September 2006. Formerly, he was Finance Director of UDV Guinness from 1999 and Group Treasurer and Director of Risk Management of Diageo plc from 1997. Previously, he spent 15 years with BP plc in various international oil and gas exploration roles. He is also a Non-Executive Director and the Chairman of the Audit Committee of Kingfisher plc.

5. Mary Francis CBE
Senior Independent Director (59) ▲ ■ * †
Mary Francis joined the Board in June 2004 and is Senior Independent Director and Chairman of the Corporate Responsibility Committee. She is a Non-Executive Director of Aviva plc, St. Modwen Properties plc and Alliance & Leicester plc, and a Director of the Almeida Theatre. She is a former Director General of the Association of British Insurers, a former Non-Executive Director of the Court of the Bank of England and was a senior civil servant in the Treasury and the Prime Minister's Office.

6. Nick Luff
Group Finance Director (40) ● ◆
Nick Luff joined Centrica plc as Group Finance Director in March 2007. He was previously Chief Financial Officer of The Peninsular & Oriental Steam Navigation Company (P&O) and has held a number of other senior financial roles at P&O having qualified as a chartered accountant at KPMG. He is a Non-Executive Director of QinetiQ Group plc.

7. Andrew Mackenzie
Non-Executive Director (51) ▲ ■ * †
Andrew Mackenzie joined the Board in September 2005. In November 2007 he was appointed Group Executive and Chief Executive Non Ferrous at BHP Billiton, a position he will take up during 2008. From 2004, he was with Rio Tinto plc, latterly as Chief Executive Diamonds and Minerals. Previously, he spent 22 years with BP plc in a range of senior technical and engineering positions, and ultimately as Group Vice President, BP Petrochemicals. From 2005 to 2007 he was Chairman of the Board of Trustees of the think tank, Demos, and he remains a Trustee.

8. Paul Rayner
Non-Executive Director (53) ▲ * †
Australian citizen
Paul Rayner joined the Board in September 2004 and is Chairman of the Audit Committee. He has been Finance Director of British American Tobacco plc since January 2002. In 1991 he joined Rothmans Holdings Ltd in Australia, holding senior executive appointments, and became Chief Operating Officer of British American Tobacco Australasia Ltd in September 1999.

9. Jake Ulrich
Managing Director, Centrica Energy (55) ◆
Jake Ulrich was appointed to the Board in January 2005. He was appointed Managing Director, Centrica Energy in 1997. He assumed responsibility for the Group's activities in continental Europe in September 2006. Between 1994 and 1997 he was Managing Director of Accord Energy Ltd, a joint venture between Natural Gas Clearinghouse (NGC) and British Gas plc. He previously worked for NGC, Union Carbide Corporation and the OXY/Mid Con/Peoples Energy Group.

10. Paul Walsh
Non-Executive Director (52) ▲ * †
Paul Walsh joined the Board in March 2003. He is Chief Executive of Diageo plc, having previously been its Chief Operating Officer and having served in a variety of management roles. He is a Non-Executive Director of Federal Express Corporation, a Governor of the Henley Management Centre and Deputy Chairman of the Prince of Wales International Business Leaders Forum.

Key to membership of committees
▲ Audit Committee
■ Corporate Responsibility Committee
● Disclosure Committee
◆ Executive Committee
* Nominations Committee
† Remuneration Committee

Executive team

11. Grant Dawson
General Counsel and Company Secretary (48) ● ◆
Grant Dawson has been General Counsel and Company Secretary of Centrica since the demerger from British Gas plc in February 1997, having joined British Gas in October 1996.

12. Deryk King
Managing Director, Centrica North America (60) ■ ◆
Deryk King is responsible for all of Centrica's activities in North America. He joined Centrica in September 2000, having previously been Group Managing Director of Powergen plc.

13. Catherine May
Group Director, Corporate Affairs (43) ■ ◆
Catherine May joined Centrica as Group Director, Corporate Affairs in September 2006, having previously been Group Director of Corporate Relations for Reed Elsevier.

14. Anne Minto OBE
Group Director, Human Resources (54) ◆
Anne Minto was appointed Group Director, Human Resources in October 2002. Prior to that she was Director, Human Resources for Smiths Group plc, a position which she held since early 1998.

15. Chris Weston
Managing Director, British Gas Services (44) ◆
Chris Weston was appointed Managing Director, British Gas Services in June 2005. Prior to this he was Managing Director, British Gas Business from January 2002.

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Summary Group Income Statement

Year ended 31 December	2007 Results for the year before exceptional items and certain re-measurements (i) £m	2007 Exceptional items and certain re-measurements (i) £m	2007 Results for the year £m	2006 (restated) (ii) Results for the year before exceptional items and certain re-measurements (i) £m	2006 (restated) (ii) Exceptional items and certain re-measurements (i) £m	2006 (restated) (ii) Results for the year £m
Continuing operations						
Group revenue	**16,342**	**–**	**16,342**	16,403	–	16,403
Cost of sales (ii)	**(12,217)**	**–**	**(12,217)**	(12,764)	–	(12,764)
Re-measurement of energy contracts (i)	**–**	**244**	**244**	–	(916)	(916)
Gross profit	**4,125**	**244**	**4,369**	3,639	(916)	2,723
Operating costs (ii)	**(2,190)**	**–**	**(2,190)**	(2,250)	(331)	(2,581)
Share of profits/(losses) in joint ventures and associates, net of interest and taxation (i)	**14**	**(9)**	**5**	3	(15)	(12)
Group operating profit	**1,949**	**235**	**2,184**	1,392	(1,262)	130
Net interest expense (i)	**(73)**	**–**	**(73)**	(141)	–	(141)
Profit/(loss) from continuing operations before taxation	**1,876**	**235**	**2,111**	1,251	(1,262)	(11)
Taxation on profit from continuing operations	**(753)**	**(60)**	**(813)**	(549)	363	(186)
Profit/(loss) from continuing operations after taxation	**1,123**	**175**	**1,298**	702	(899)	(197)
Discontinued operations	**1**	**208**	**209**	6	37	43
Profit/(loss) for the year	**1,124**	**383**	**1,507**	708	(862)	(154)
Attributable to:						
Equity holders of the parent	**1,122**	**383**	**1,505**	707	(862)	(155)
Minority interests	**2**	**–**	**2**	1	–	1
	1,124	**383**	**1,507**	708	(862)	(154)
	Pence		**Pence**	Pence		Pence
Earnings/(loss) per ordinary share from continuing and discontinued operations:						
Basic			**41.0**			(4.3)
Diluted			**40.3**			(4.3)
Adjusted basic	30.6			19.4		
Interim dividend paid per share			**3.35**			3.15
Final dividend proposed per share			**9.65**			8.00
			£000			£000
Directors' emoluments			**5,774**			5,159

(i) Certain re-measurements included within operating profit comprise re-measurement arising on our energy procurement activities and re-measurement of proprietary trades in relation to cross-border transportation or capacity contracts. In our business we enter into a portfolio of forward energy contracts which include buying substantial quantities of commodity to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair valued under IAS 39. Fair valuing means that we apply the prevailing forward market prices to these contracts. The Group has shown the fair value adjustments separately as certain re-measurements as they are unrealised and non-cash in nature. The profits arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements.

As permitted by IAS 1, Presentation of Financial Statements, certain items are presented separately. The items that the Group separately presents as exceptional are items which are of a non-recurring nature and, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance. Items which may be considered exceptional in nature include disposals of businesses, business restructurings, the renegotiation of significant contracts and asset write-downs.

Exceptional items and certain re-measurements included within discontinued operations comprise the gain on disposal of The Consumers' Waterheater Income Fund and re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund. All other re-measurement is included within results before exceptional items and certain re-measurements.

(ii) Restated to present costs incurred under the energy savings programmes in cost of sales and to present The Consumers' Waterheater Income Fund as a discontinued operation.

Summary Group Balance Sheet

31 December	2007 £m	2006 £m
Non-current assets	**6,057**	5,672
Current assets	**5,798**	5,407
Current liabilities	**(5,417)**	(5,519)
Net current assets/(liabilities)	**381**	(112)
Non-current liabilities	**(3,056)**	(3,918)
Net assets	**3,382**	1,642
Shareholders' equity	**3,323**	1,585
Minority interests in equity	**59**	57
Total minority interests and shareholders' equity	**3,382**	1,642

Summary Group Statement of Recognised Income and Expense

Year ended 31 December	2007 £m	2006 £m
Profit/(loss) for the year	**1,507**	(154)
Net income/(expense) recognised directly in equity	**349**	(120)
Transfers to income and expenses	**250**	(198)
Total recognised income and expense for the year	**2,106**	(472)
Total income and expense recognised in the year is attributable to:		
Equity holders of the parent	**2,104**	(473)
Minority interests	**2**	1
	2,106	(472)

Summary Group Cash Flow Statement

Year ended 31 December	2007 £m	2006 £m
Net cash flow from operating activities (i)	**2,357**	737
Net cash flow from investing activities (i)	**(964)**	(720)
Net cash flow from financing activities (i)	**(888)**	(597)
Net increase/(decrease) in cash and cash equivalents	**505**	(580)
Cash and cash equivalents at 1 January	**592**	1,177
Effect of foreign exchange rate changes	**3**	(5)
Cash and cash equivalents at 31 December	**1,100**	592

(i) Net cash flow from operating activities includes cash inflows of £67 million (2006: £73 million) from discontinued operating activities, net cash flow from investing activities includes cash outflows of £60 million (2006: £25 million) from discontinued investing activities and net cash flow from financing activities includes cash outflows of £25 million (2006: inflows of £17 million) from discontinued financing activities.

The Summary Financial Statements on pages 22 to 23 were approved and authorised for issue by the Board of Directors on 21 February 2008 and were signed below on its behalf by:

Sam Laidlaw
Chief Executive

Nick Luff
Group Finance Director

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Governance

Summary Reports

Independent auditors' statement to the members of Centrica plc
We have examined the Summary Financial Statements of Centrica plc which comprise the Summary Group Income Statement, Summary Group Balance Sheet, Summary Group Statement of Recognised Income and Expense, Summary Group Cash Flow Statement and the Summary Remuneration Report.

Respective responsibilities of Directors and auditors
The Directors are responsible for preparing the Annual Review and Summary Financial Statements in accordance with United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statements within the Annual Review and Summary Financial Statements with the full Annual Financial Statements, the Directors' Report (comprising the Directors' Report – Business Review and the Directors' Report – Governance) and the 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 Statements and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statements. This statement, 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 statement 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. Our reports on the Company's full Annual Financial Statements describe the basis of our audit opinions on those Financial Statements and the Remuneration Report.

Opinion
In our opinion the Summary Financial Statements are consistent with the full Annual Financial Statements, the Directors' Report (comprising the Directors' Report – Business Review and the Directors' Report – Governance) and the Remuneration Report of Centrica plc for the year ended 31 December 2007 and comply 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 21 February 2008

Full Report and Accounts
The auditors have issued an unqualified report on the Annual Financial Statements and Remuneration Report containing no statement under section 237 (2) or section 237 (3) of the Companies Act 1985. The auditors report in respect of consistency between the Directors' Report and the Group Financial Statements is also unqualified. These Summary Financial Statements are a summary of the full Centrica Annual Report and Accounts and the narrative reports contain information from the Directors' Report but not the full text of that report. They do 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. The full Report can be downloaded from our website at **www.centrica.com** or can be obtained for 2007 and/or future years, free of charge, by contacting the Centrica shareholder helpline (see page 29 for contact details).

Dividends
An interim dividend for 2007 of 3.35 pence per share was paid on 14 November 2007. The Directors recommend that, subject to approval at the AGM, a final dividend of 9.65 pence per share will be paid on 11 June 2008 to those shareholders registered on 25 April 2008. This would make a total ordinary dividend for the year of 13.0 pence per share (2006: 11.15 pence per share).

Corporate Governance
The Board of Directors of Centrica plc is committed to the highest standards of corporate governance. Throughout the year ended 31 December 2007, the Company fully complied with the provisions set out in Section 1 of the Combined Code on Corporate Governance (the 'Code'). A report on how the Code's principles were applied is set out in the Corporate Governance Report in the full Annual Report and Accounts and is summarised below.

Board of Directors
An effective Board of Directors leads and controls the Group, and has a schedule of matters reserved for its approval. This schedule and the terms of reference for the Executive, Audit, Remuneration, Nominations, Corporate Responsibility and Disclosure Committees are available on request and on the Company's website at **www.centrica.com**.

The Board is specifically responsible for:
- the development of strategy and major policies;
- the review of management performance;
- the approval of the annual operating plan, the financial statements and major acquisitions and disposals;
- the Group's corporate responsibility arrangements including health, safety and environment matters;
- the Group's system of internal control; and
- corporate governance.

One of the Board's meetings is specifically devoted to the development of the Group's strategic direction. This is continually monitored and a half year review is presented to, and discussed by the Board.

Board appointments, evaluation and training

There is a formal, rigorous and transparent procedure in place for the appointment of new Directors to the Board. This is described on page 39 of the full Annual Report and Accounts. In accordance with the Code and the Company's Articles of Association, all Directors are subject to election by shareholders at the first AGM following their appointment to the Board and thereafter are subject to re-election every third year.

During the year the Board conducted a formal and rigorous performance evaluation of its own performance and that of its committees and individual Directors, with the assistance of an independent external facilitator, Egon Zehnder International. The evaluation report concluded that the Board and its committees continue to operate effectively and builds upon the progress of previous years.

An induction programme tailored to meet the needs of individual Directors is provided for each new Director. Directors also receive training and updates throughout the year.

Internal control

The Audit Committee reviews regular internal control reports, tracks issues, monitors performance against objectives and ensures necessary actions are taken to remedy any significant failings or weaknesses identified from those reports.

The Board, with the advice of the Audit Committee, has reviewed the effectiveness of the system of internal control, for the period from 1 January 2007 to the date of this report, and is satisfied that the Group complies with the Turnbull Guidance. The Board will continue to routinely challenge the management to ensure the system of internal control is constantly improving.

Summary Remuneration Report

This is a summary of the full Remuneration Report, which is contained in the Annual Report and Accounts, copies of which are available from our website at **www.centrica.com**.

It is the responsibility of the Remuneration Committee to make recommendations to the Board on the policy, framework and cost of executive remuneration, and the implementation of remuneration policy and determining specific remuneration packages for each of the Executive Directors. It consists exclusively of Non-Executive Directors and has access to the advice of external consultants.

Summary remuneration policy

The Committee ensures that the Group's remuneration policy and framework provides competitive reward for its Executive Directors and other senior executives, taking into account the Company's performance, the markets in which it operates and pay and conditions elsewhere in the Group. In constructing the remuneration packages, the Committee aims to achieve an appropriate balance between fixed and variable compensation for each executive through the following key elements:

- a significant proportion depends on the attainment of demanding performance objectives;
- Annual Incentive Scheme (AIS) incentivises and rewards the achievement of demanding objectives; and
- long-term share-based incentives align interests with the longer term interests of the shareholders.

The Committee reviews the packages to ensure they continue to promote the achievement of strategic objectives while delivering shareholder value; reflect current best practice and meet the Group's business needs; and enable the Group to attract and retain high calibre management. Changes to the future policy and framework of executive remuneration arrangements were endorsed by shareholders at the 2006 AGM and fully implemented in 2007.

In 2007 executive remuneration comprised base salary, AIS, an allocation of shares under the Long Term Incentive Scheme (LTIS), and an allocation of shares under the new Deferred and Matching Share Scheme (DMSS). No Executive Share Option Scheme (ESOS) grants were made during the year, although the Committee retains the discretion to make grants under the ESOS in the future.

As a matter of policy, the notice periods in the Executive Directors' service contracts do not exceed one year. The Committee exercised its discretion in respect of the appointment of Sam Laidlaw on 1 July 2006 and Nick Luff on 1 March 2007. Each has a service contract that contains a notice period of two years, which will reduce to one year on the second anniversary of their respective date of appointment.

The Committee believes that these arrangements are important in providing a potential remuneration package that will attract, retain and continue to motivate Executive Directors and other senior executives in a marketplace that is challenging and competitive in both commercial and human resource terms. It is currently intended that this remuneration policy and framework, which is fully endorsed by the Board, will continue for 2008 and thereafter.

Components of remuneration

For 2007 the maximum bonus payable under the AIS to the Executive Directors, should every single element of every objective be achieved in full, was 125% of base salary. The current objectives comprise financial performance targets (64%) and business-related targets (36%). A bonus will be forfeited if the Committee considers overall performance to have been unsatisfactory.

In 2007 initial awards under the DMSS were made to Executive Directors and other Senior Executives. 20% of the AIS payable in respect of 2006 was deferred automatically for a period of three years and invested in deferred shares. Participants were given the opportunity to invest an additional amount in investment shares from their actual bonus, up to 50% of the individual's maximum bonus entitlement in respect of 2006. Initial arrangements in respect of Sam Laidlaw and Nick Luff were put in place. Full details can be found in the Annual Report and Accounts.

Deferred and investment shares were matched with conditional matching shares, which will be released upon the achievement of a performance target (see table on page 26). For the purposes of matching, the investment shares are grossed up for income tax and National Insurance contributions.

Governance continued

Summary Reports continued

Released matching shares will be increased to reflect the dividends that would have been paid during the three-year performance period. In the event of a change of control the number of matching shares that vest will be subject to time-apportionment in line with best practice.

In 2007 LTIS allocations were awarded to Executive Directors equal to 200% of base salary and at lower rates to other senior executives. The release of allocations will be subject to the performance conditions set out in the table below.

Prior to 2006 allocations were made annually to Executive Directors and other senior executives under the old LTIS, in accordance with the remuneration policy adopted in 2001. Such allocations were subject to a performance condition as set out in the table below.

No grants of options were made during 2007 under the ESOS. The adjusted EPS performance conditions for the ESOS are set out below.

The graph opposite compares the Company's TSR performance with that of the FTSE 100 Index for the five years ended 31 December 2007.

Total Shareholder Return Indices – Centrica and FTSE 100 Index for the five years ended 31 December 2007

Source: Alithos Ltd
31 December 2002 = 100

The Centrica Management Pension Scheme (a contributory final salary arrangement) was closed to new employees on 30 June 2003. Executive Directors in office prior to this date participated in that scheme during 2007. Alternative arrangements are made for new employees, including Sam Laidlaw and Nick Luff, after that date.

The Executive Directors are also eligible, on the same basis as other employees, to participate in the Company's HMRC-approved Sharesave and Share Incentive Plan.

Performance Condition Summary

Deferred and Matching Share Scheme

Award Year	Vesting Criteria	Performance Condition over three-year period
2007	100% of matching shares on three-year cumulative group economic profit (EP) performance targets	2:1 match will be achieved for cumulative EP growth of 25% or more. Zero matching for no cumulative EP growth. Vesting of matching shares will increase on a straight-line basis between points.

Long Term Incentive Scheme

Award Year	Vesting Criteria	Performance Condition over three-year period
2007	50% on EPS† growth against RPI growth	37.5%; full vesting for EPS† growth exceeding RPI growth by 30%. Zero vesting if EPS† growth fails to exceed RPI growth by 9%. Vesting will increase on a straight-line basis between 25% and 100% if EPS† growth exceeds RPI growth by between 9% and 30%.
		12.5%; full vesting for EPS† growth exceeding RPI growth by 40%. Zero vesting if EPS† growth fails to exceed RPI growth by 20%. Vesting will increase on a straight-line basis between 25% and 100% if EPS† growth exceeds RPI growth by between 20% and 40%.
	50% on TSR against FTSE 100*	Full vesting for upper quintile ranking. Zero vesting for sub-median ranking. Vesting will increase on a straight-line basis for ranking between median and upper quintile.
2006	50% on EPS† growth against RPI growth	Full vesting for EPS† growth exceeding RPI growth by 30%. Zero vesting if EPS† growth fails to exceed RPI growth by 9%. Vesting will increase on a straight-line basis between 25% and 100% if EPS† growth exceeds RPI growth by between 9% and 30%.
	50% on TSR against FTSE 100*	Full vesting for upper quintile ranking. Zero vesting for sub-median ranking. Vesting will increase on a straight-line basis for ranking between median and upper quintile.
2004–2005	100% on TSR against FTSE 100*	Full vesting for upper quartile ranking. Zero vesting for sub-median ranking. Vesting will increase on a sliding-scale basis for ranking between median and upper quartile.

Executive Share Option Scheme

Award Year	Vesting Criteria	Performance Condition over three-year period
2001–2006	100% of options based on EPS† growth against RPI growth. Retesting for further two years for options granted up to and including April 2004.	Full vesting for EPS† growth exceeding RPI growth by 18%. Zero vesting if EPS† growth fails to exceed RPI growth by 9%. Vesting will increase on a straight-line basis between 40% and 100% if EPS† growth exceeds RPI growth by between 9% and 18%.

* The Committee has determined that, for the pre 2006 LTIS and for that part of the new LTIS subject to the comparative TSR performance conditions, the most appropriate comparator group for the Company is the companies comprising the FTSE 100 at the start of the relevant performance period (the LTIS comparator group).
† EPS in this table represents the Group's adjusted earnings per share.

Directors' emoluments, pension benefits and interests in shares

As at 31 December 2007	Total emoluments excluding pension 2007 £000 (i)	Total emoluments excluding pension 2006 £000 (i)	Accrued annual pension 2007 £ p.a. (ii)	Beneficial interests in ordinary shares 2007 (iii)	Total matching shares under the DMSS 2007 (iii)	Total allocations of shares under the LTIS 2007 (iv)	Total options under the Sharesave 2007	Total options under ESOS 2007 (iii)
Executive Directors								
Phil Bentley	1,125	1,136	126,900	623,718	181,727	740,346	3,244	2,447,779
Sam Laidlaw (ii)	1,870	1,079	–	341,964	272,431	891,320	3,244	–
Nick Luff (ii)	989	–	–	200,255	169,871	276,545	–	–
Jake Ulrich	1,033	1,102	212,600	861,229	181,726	743,626	3,244	2,203,750
	5,017	3,317						
Non-Executive Directors								
Helen Alexander	69	60	–	2,520	–		–	–
Roger Carr	413	344	–	19,230	–		–	–
Mary Francis	84	56	–	981	–		–	–
Andrew Mackenzie	58	50	–	21,000	–		–	–
Paul Rayner	75	65	–	5,000	–		–	–
Paul Walsh	58	50	–	4,500	–		–	–
	757	625						
Past Directors								
Mark Clare	–	412	–	–	–		–	–
Sir Roy Gardner	–	784	–	–	–		–	–
Patricia Mann	–	21	–	–	–		–	–
	–	1,217						
Total emoluments	5,774	5,159						

(i) Total emoluments for Executive Directors include all taxable benefits arising from employment by the Company, including the provision of a car (Sam Laidlaw and Jake Ulrich were also provided with a driver for limited personal mileage), financial counselling, medical insurance and life assurance premiums.

(ii) Accrued pension is that which would be paid annually on retirement at age 62, based on eligible service to and pensionable salary at 31 December 2007. Sam Laidlaw is contractually entitled to a salary supplement of 40% of base pay in lieu of any pension provision. This amounted to £349,180 in 2007 of which £168,750 (not included above) was paid directly by the Company into his personal pension plan. Nick Luff is contractually entitled to a salary supplement of 30% of base pay in lieu of any pension provision. Full details of the Directors' pension scheme arrangements can be found in the Annual Report and Accounts.

(iii) Executive Directors' shareholdings above include those held in the Share Incentive Plan and the deferred and investment shares held in the DMSS. Full details of the DMSS can be found in the Annual Report and Accounts. As at 21 February 2008, the beneficial shareholdings of Phil Bentley and Jake Ulrich had each increased by 113 shares and those of Sam Laidlaw and Nick Luff had increased by 114 shares acquired through the Share Incentive Plan.

(iv) Allocations were made under the LTIS on 1 April 2005, 3 April 2006, 4 September 2006 and 4 April 2007. The aggregate value of shares vested to Executive Directors under the LTIS was £2,211,361.

(v) Options were granted under the ESOS on 31 May 2001, 2 April 2002, 24 March 2003, 18 March 2004, 1 April 2005 and 3 April 2006. The aggregate amount of gains made by Executive Directors on the exercise of share options was £615,839.

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Shareholder Information

Financial calendar

23 April 2008	Ex-dividend date for 2007 final dividend
25 April 2008	Record date for 2007 final dividend
12 May 2008	AGM, Queen Elizabeth II Conference Centre, London SW1
11 June 2008	Payment date for 2007 final dividend
31 July 2008	Announcement date for 2008 interim results
12 November 2008	Payment date for proposed 2008 interim dividend

Electronic communications and the Centrica website

At the 2007 Annual General Meeting (AGM), the Company passed a resolution allowing the Centrica website to be used as the primary means of communication with its shareholders. A shareholder consultation card was sent with the proxy forms to shareholders in March 2007 enabling them to choose to either:

- receive shareholder documentation by website communication by providing an email address; or
- continue to receive shareholder documentation in hard copy by returning the personalised card attached to the AGM proxy form.

If the completed card was not returned, shareholders were deemed in accordance with the Companies Act 2006 to have agreed to receive shareholder documentation via the Centrica website. These shareholders, and those who positively elected for website communication, were sent, immediately prior to the publication date, a written notification that the 2007 shareholder documents are available to view on the Centrica website at **www.centrica.com/reports2007**.

The new electronic arrangements provide shareholders with the opportunity to access information in a timely manner and help Centrica to reduce both its costs and its impact on the environment.

The Centrica website at **www.centrica.com** provides news and details of the Company's activities, plus information on the share price and links to its business sites.

The investors' section of the website contains up-to-date information for shareholders including comprehensive share price information, financial results, dividend payment dates and amounts, and shareholder documents.

Register for electronic shareholder communication to:

- view the Annual Report and Accounts on the day it is published;
- receive an email alert when shareholder documents are available;
- cast your AGM vote electronically; and
- manage your shareholding quickly and securely online.

For more information and to register visit:
www.centrica.com/shareholders

Shareholder services

Centrica shareholder helpline

Centrica's shareholder register is maintained by Equiniti, which is responsible for making dividend payments and updating the register.

If you have any query relating to your Centrica shareholding, please contact our Registrar, Equiniti:

Telephone: 0871 384 2985*
Text phone: 0871 384 2255*
Email: centrica@equiniti.com

Write to: Equiniti
Aspect House, Spencer Road,
Lancing, West Sussex BN99 6DA

*Calls to these numbers are charged at 8 pence per minute from a BT landline. Other providers' telephony costs may vary.

A range of frequently asked shareholder questions is also available at **www.centrica.com/shareholders.**

Direct dividend payments

Make your life easier by having your dividends paid directly into your bank or building society account on the dividend payment date. The benefits of this service include:

- there is no chance of the dividend cheque going missing in the post;
- the dividend payment is received more quickly as the cash is paid directly into the account on the payment date without the need to pay in the cheque and wait for it to clear; and
- a single consolidated tax voucher is issued at the end of each tax year, in March, in time for your self assessment tax return.

To register for this service, please call the shareholder helpline on 0871 384 2985* to request a direct dividend payment form or download it from **www.centrica.com/shareholders.**

The Centrica FlexiShare service

FlexiShare

FlexiShare is a 'corporate nominee', sponsored by Centrica and administered by Equiniti Financial Services Limited. It is a convenient way to manage your Centrica shares without the need for a share certificate. Your share account details will be held on a separate register and you will receive an annual confirmation statement.

By transferring your shares into FlexiShare you will benefit from:

- low-cost share-dealing facilities provided by a panel of independent share dealing providers;
- quicker settlement periods;
- no certificates to lose; and
- a dividend reinvestment plan – your cash dividend can be used to buy more Centrica shares (for a small dealing charge) which are then credited to your FlexiShare account.

Participants will have the same rights to attend and vote at general meetings as all other shareholders. There is no charge for holding your shares in FlexiShare, nor for transferring in or out at any time.

For further details about FlexiShare, please call the Centrica shareholder helpline on 0871 384 2985* or visit **www.centrica.com/flexishare.**

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Telephone: 0800 917 6564 **Textphone:** 18001 0800 917 6564

Please note that these numbers should be used to order copies of alternative formats only. For general shareholder enquiries, please use the shareholder helpline 0871 384 2985*.

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centrica