Centrica review

Annual Review and Summary Financial Statements 2005

Investing in our customers' future

Our Glens of Foudland wind farm, Aberdeenshire

centrica

Our Business Today

Our vision is to be a leading supplier of energy and related services in our chosen markets, in order to maximise value to shareholders. In 2005 we focused on investing for our customers' future.

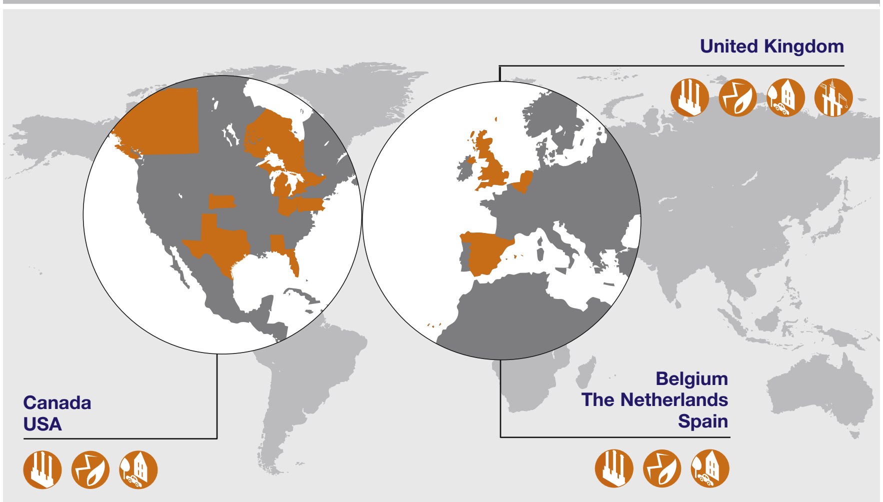
12 months ended 31 December	2005	2004
Financial highlights		
Group turnover^	**£13.4bn**	£11.4bn
Operating profit*^	**£1,513m**	£1,362m
Adjusted basic earnings per share	**18.2p**	18.1p
Ordinary dividend per share	**10.5p**	8.6p
Statutory results		
Group turnover^	**£13.4bn**	£11.4bn
Operating profit^	**£1,957m**	£1,263m
Basic earnings per share	**27.4p**	38.0p

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

Dividend
10.5p

up by
22%

Our key markets



Investing in our business

United Kingdom

- North Sea oil and gas fields: acquired shares in three fields for £268m
- Horne and Wren gas fields: £35m development completed and first gas delivered
- Humber power station: increased interest from 60% to 100% in Humber Power Limited
- Aberdeenshire wind farm: £31m investment to build our first wind farm
- Barrow offshore wind farm: invested over £50m
- Canvey Island LNG: acquired at least 20% interest in proposed LNG reception facility
- Isle of Grain LNG: acquired import capacity for 20 years
- International Power: agreed first coal-indexed power purchase
- Exploration: investment to widen our search for supplies
- British Gas: £386m capitalised investment to date on improved customer service systems

Europe

- Norway: £4bn long-term import deal delivered its first gas supplies
- Belgium: acquired a 25.5% stake in Belgian generator SPE SA
- The Netherlands: acquired Dutch energy supplier Oxxio BV for £95m

To receive your copy of our Annual Review electronically go to > www.centrica.com/investors

Our main activities

Sourcing energy
We source energy by exploring for and producing gas; by trading on the energy markets; and through the generation of electricity from our gas-fired power stations and from wind farms.

Gas and electricity supply
We supply gas and electricity to residential and business customers through our highly customer focused brands.

Home services
We offer a range of services to residential customers. These include the installation and servicing of home heating and security systems and the care of electrical wiring, kitchen appliances and plumbing and drains.

Gas storage
We store gas under the North Sea for producers and suppliers including our own businesses.

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 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.
Earnings and operating profit numbers are stated before exceptional items and certain re-measurements where applicable. The Directors believe this measure assists with better understanding the underlying performance of the Group. The equivalent amounts after exceptional items and certain re-measurements are reconciled at Group level in the Summary Group Income Statement on page 12. All current financial results listed are for the year ended 31 December 2005. All references to 'the prior year', '2004' and 'last year' mean the year ended 31 December 2004.
Throughout this Review references to British Gas include Scottish Gas.

British Gas Residential Energy

Turnover^
£6,032m
2004 £5,901m

Operating profit*
£90m
2004 £242m

We supply gas and electricity to residential customers throughout Britain – under the British Gas name in England, as Nwy Prydain and British Gas in Wales, and as Scottish Gas in Scotland. We are the first choice gas supplier for millions of people and, since the market opened for competition in 1998, we have become the country's largest supplier of electricity to residential customers.

> www.house.co.uk

British Gas Services

Turnover^
£1,024m
2004 £943m

Operating profit*
£111m
2004 £72m

We are Britain's largest domestic central heating and gas appliance installation and maintenance company, providing services under our HomeCare range, which also covers plumbing and drains, home electrics, kitchen appliances and monitored home security systems. We directly employ more than 8,300 engineers and also offer services through British Gas-owned Dyno-Rod franchises.

> www.house.co.uk

British Gas Business

Turnover^
£1,510m
2004 £1,200m

Operating profit*
£77m
2004 £68m

We market gas and electricity to businesses, from the largest commercial operations to small and medium-sized enterprises, under the British Gas Business brand, offering the flexibility of an open tariff or the security of fixed contracts. We remain the number one supplier of energy to the commercial sector in Britain (measured by supply points). We also provide heating care for businesses.

> www.britishgasbusiness.co.uk

Centrica Energy

Turnover^#
£1,011m
2004 £931m

Operating profit*
£903m
2004 £773m

This consists of our upstream gas production, electricity generation, wholesale and industrial gas sales and our energy trading and optimisation unit. We have gas reserves in Morecambe Bay, supplemented by interests in several North Sea fields. To help us meet our customers' electricity demands we have seven gas-fired power stations and are investing in renewable generation through offshore and onshore wind farms.

> www.centrica.com

Centrica Storage

Turnover^#
£195m
2004 £133m

Operating profit*
£154m
2004 £69m

We operate the Rough gas storage facility, a partially depleted gas field 18 miles off the Yorkshire coast in the southern North Sea, supported by a gas processing terminal at Easington. We provide storage services for a range of customers, including businesses within Centrica. Rough can store over 100 billion cubic feet of gas and is the largest storage facility in the UK. For regulatory reasons, Centrica Storage operates separately from the rest of the Group.

> www.centrica-sl.co.uk

Centrica North America

Turnover^
£3,552m
2004 £2,242m

Operating profit*
£185m
2004 £132m

Direct Energy is North America's largest competitive energy solutions provider. In Canada we serve customers in Ontario, Manitoba and Alberta. In the US we have customers in 10 states in the regions of New England, the North East and the Mid-Atlantic (including through our subsidiaries CPL Retail Energy and WTU Retail Energy in Texas). Direct Energy Business Services supplies energy solutions to businesses throughout Canada and in the US.

> www.directenergy.com
> www.cplretailenergy.com
> www.wturetailenergy.com

Europe

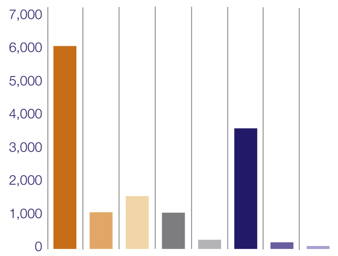
Turnover^†
£427m
2004 £286m

Operating profit (loss)*
£(9)m
2004 £5m

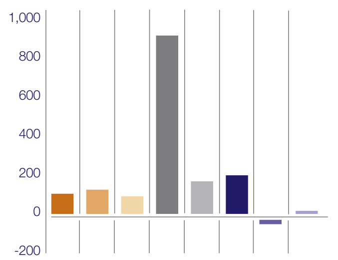
We have acquired a 25.5% stake in the generator SPE into which we rolled our Luminus energy retailing operation. SPE is now the number two competitor in the Belgian market. We have also extended our presence into The Netherlands where we bought the fourth largest energy supplier, Oxxio. In Spain, where competition in the electricity market is restricted, Luseo Energía is focusing on selling energy management products and services.

> www.luminus.be
> www.oxxio.nl
> www.luseoenergia.com

Group turnover^ by business 2005 £million



Group operating profit* by business 2005 £million



- British Gas Residential Energy
- British Gas Services
- British Gas Business
- Centrica Energy
- Centrica Storage
- Centrica North America
- Europe
- Other

^ from continuing operations.
* including joint ventures and associates, net of interest and taxation, and before exceptional items and certain re-measurements.
† 2005: £119m excluding joint ventures. 2004: £8m excluding joint ventures.
# excludes revenue from other Centrica businesses.

Chairman's Statement

Roger Carr, Chairman

Our strategic priorities

- Rigorous cost reduction across the Group
- Proactive marketing to strengthen customer loyalty
- Positive price management to sustain profitability
- Building growth in our service and energy businesses at home and abroad
- Absolute financial discipline in acquisition and capital investment

We have delivered a strong financial performance in a year when wholesale gas prices escalated to unprecedented levels and the market became even more competitive.

To respond to rising prices, our executive team has focused on cutting costs and developing products and services to encourage customer loyalty. Such cost reduction is a high priority for the Company. We continually challenge our overheads in an effort to become the energy supplier with the lowest cost to serve a customer.

In the UK, we have been developing ways to grow our home service and business-to-business operations, while in Europe and North America we moved into new markets. We bought stakes in gas and oil fields in the North Sea, and underlined our focus on energy and related services by selling Onetel, our last remaining peripheral business. This will enable our management team to concentrate on our core business.

In Europe we have seen signs of success with our campaign to push for a more open market which will help us grow internationally in the years ahead.

Returns to shareholders

The Board is proposing a final dividend of 7.4 pence for payment in June 2006, bringing our full-year dividend to 10.5 pence. This represents a 22% year-on-year increase and is in line with our previous commitment to increase the amount we pay out.

We concluded our first £500 million share repurchase programme in September 2005 and immediately began our second £500 million programme. In total during 2005 we bought back £385 million of shares. However, in the light of current market conditions, the increased working capital requirements associated with higher wholesale costs, and the potential impact of our retail price increase on our cash profile, together with the recent volatility in our share price, has caused us to pause the share buyback programme until calmer and more predictable conditions prevail. The Board remains committed to the principle of capital discipline and it believes this move is prudent in the current circumstances. It will monitor the position with a view to recommencing the programme at an appropriate time.

Management

In January Jake Ulrich, Managing Director of Centrica Energy, was appointed to the Board as an Executive Director and in September Andrew Mackenzie joined as a Non-Executive Director. Both have brought to the Board the kind of expertise we need as we develop our upstream portfolio.

In September, Sir Roy Gardner announced his intention to retire and hand over the reins to his new successor by the summer of 2006.

Our employees

This has been another difficult year for our people. Our drive to cut costs has inevitably created a tough environment. Even so, our staff have acted professionally to ensure we continue to deliver a high standard of service to retain customers and attract new ones. I am grateful for their dedication and commitment.

Outlook

It is essential that British Gas earns a fair profit, and cost reduction remains key to maintaining our profit margins.

The arrival of the new infrastructure, mainly pipelines and terminals, needed to bring gas into the UK should help ease the pressure on wholesale prices – and we expect to see that happening in the latter part of 2006. We will continue to seek opportunities to invest in our upstream business in the year ahead. However, patience and discipline will remain our watchwords and as always we will undertake investments and manage our business with shareholder value firmly at the top of our agenda.

Roger Carr, Chairman
23 February 2006

> www.centrica.com

Chief Executive's Review

In 2005 we saw the highest wholesale gas and power prices since Centrica was formed. While this had some positive impact on Centrica Energy, it clearly presented a massive challenge to our residential energy business and led to a round of price increases across the industry. British Gas has worked hard to minimise the impact, with customer losses in the second half of the year much lower than in the first half. But there was a substantial fall in British Gas operating profits,* which were down by 63% on the previous year.

Even so, we have delivered a strong set of results thanks to a good performance by Centrica Storage, British Gas Services, British Gas Business and Centrica North America, which together generated a third of our operating profit.*

Outlook

It is already clear that 2006 will be dominated by the cost of buying gas and electricity. The soaring wholesale costs forced us into announcing a price increase in February but, while there can be no guarantees in such a volatile market, we hope to avoid any further price rises this year. To this end, we will continue to concentrate on controlling costs throughout our business.

Upstream we will continue to seek out opportunities to invest in gas fields and power stations that can deliver the supplies of gas and electricity we need to meet the demand of our customers. Construction of our second wind farm at Barrow, our first one offshore, will be completed, enabling us to deliver more green power to our customers. Our first onshore wind farm at Glens of Foudland in Scotland started operating in May 2005. If planning permission is given we also hope to begin work with our partners on building another liquefied natural gas terminal at Canvey Island, Essex.

The new British Gas Services team, now split from British Gas Residential Energy (BGRE), will aim to make the most of opportunities in a wider customer arena, while keeping a close link to BGRE. In British Gas Business in 2006 we will prepare to move customers from the BGRE computer systems. Even with the additional expense we anticipate being able to keep operating profits at the same level as in 2005.

Centrica Storage is forecast to have another year of improved financial performance. We have already sold the storage space at Rough for 2006/07 – at substantially higher prices – and we will continue to invest in the field with a view to creating further gas storage space.

We intend to grow our North American business. There are good growth opportunities in the re-opened Ontario electricity market and we will expand our upstream operations. 2006 is the last year of the Price-to-Beat regime in Texas – where the state sets the price of energy – and we will be preparing to address this change.

Further expansion in Europe remains high on our agenda. We will continue to lobby at the highest levels in Europe for faster progress towards a liberalised market, which will enable us to break into new countries.

Overall, the year ahead will be difficult but we have laid firm foundations. In this challenging environment we will search out opportunities to advance our wider strategic aims while we continue to drive through operational improvements which will enhance service, reduce costs and aid customer retention. Centrica may face turbulence in the commodity markets but the results of 2005 clearly show a strong underlying business.

Roy Gardner

Sir Roy Gardner, Chief Executive
23 February 2006

Sir Roy Gardner, Chief Executive

Operational highlights

- 1.25 million customers moved to new billing system
- Sale of Onetel reinforced focus on energy
- British Gas Services turnover exceeded £1 billion
- North American operating profits up 40%
- Expanded presence in Europe with two strategic acquisitions
- Centrica Storage operating profits more than doubled
- Strengthened upstream asset position

> www.centrica.com

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

Business Review

British Gas Residential Energy

11.1m
Gas customers 2004 11.8m

5.9m
Electricity customers 2004 6.0m

- **Cost reductions continued**
- **1.25 million accounts moved to new billing system**
- **One million accounts on price protection**
- **Electricity accounts grew by 66,000 in second half**

Last year was a tough one for the retail energy industry, forcing all the main suppliers to announce price rises. British Gas Residential Energy increased its prices in September and, as a result, customer numbers and the amount of energy the business sold declined.

To encourage customers to stay with us, we ran a high profile marketing campaign and offered new products, including Price Protection 2010, which allowed customers to fix their energy costs until 2010. This proved very popular, and we sold more than a million accounts within five months helping us to reduce customer losses in the second half of the year. We ended 2005 with customer accounts down by 670,000 overall, though electricity accounts grew by 66,000 in the second half. Operating profit* for the year fell by 63% to £90 million.

The pilot of our new billing system, the biggest in Europe, began in August and was completed in November. Towards the end of December we moved 1.25 million customer accounts across to the new system. So far, we have invested £386 million in the transformation programme, which will improve customer service and put us in a strong position to lower the amount it costs us to serve customers.

As part of our drive to reduce costs, we announced in December our intention to cut £180 million out of overheads by 2007 (compared with 2004). We also decided in 2005 to outsource some of our back office jobs to India – and these teams are now operational. No staff dealing directly with customers were affected.

We sold British Gas Connections Limited for £47 million but kept the siteworks business, which manages the relationships required to support the sale of energy and related services to housing developers and new homeowners.

British Gas Services

8,348
Number of engineers 2004 8,033

6.9m
Number of products held by our customers 2004 6.5m

- **Now a £1 billion business**
- **Strong growth in newer products**
- **Broader access to key central heating markets**
- **Roll-out of engineer deployment system completed**

During the year we split British Gas Services from British Gas Residential Energy in a company restructure. We made the change because we recognised the different challenges and opportunities each business faced. British Gas Services will of course continue to have a strong link with the energy business to maximise the strength of the brand.

Turnover was up by 9% and that took us past £1 billion for the first time. The total number of products we have sold went up 6% to just under 7 million. Operating profit* rose by 54% to £111 million because of strong growth in the sale of newer products such as plumbing and drains care, home electrical care and kitchen appliance care. Central heating installations ran at about the same rate as in 2004. During the year we brought out new central heating products which gave us greater access to the mid-range market.

The roll-out of our new system to improve the way jobs are allocated to our engineers was completed. This streamlined process provides us with a strong platform for growth because there is now scope to serve more customers. By the end of the year all of our 6,550 central heating engineers were using the system.

British Gas Business

394k
Gas supply points 2004 368k

515k
Electricity supply points 2004 515k

- **Still the number one commercial supplier**
- **Record SME contract renewals of over 90%**
- **FT Great Places to Work listing recognised empowered employees**

British Gas Business maintained its position as the UK's number one supplier to the commercial sector in a difficult year overshadowed by soaring wholesale energy costs.

Despite rising prices, our total number of supply points rose by 2.9% to 909,000. At least nine out of ten customers renewed their contracts with us in the small and medium-sized market. That is a record and it is a credit to our employees' commitment.

The combination of price rises, better customer numbers and higher average consumption, brought about by winning several large company accounts, led to a 26% increase in turnover to £1.5 billion. Operating profit*

British Gas

DYNO

British Gas Business

Manage your account online at
> www.house.co.uk
For residential sales call
> 0800 111 000

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

Left: Customer advisers at our Leicester call centre.
Below: British Gas Services engineer, London.

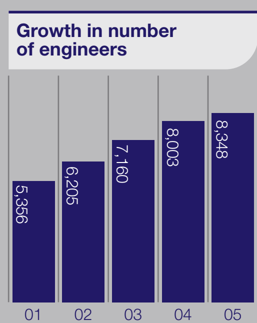
Investing in customer service

rose by 13% to £77 million. We continued to focus on the costs within our control and successfully cut our total operating expenses by 9%. Further progress was made with streamlining our back office systems and improving our customer service.

Our drive to support our employees was reflected in our listing in both the Financial Times Great Places to Work 2005 list and Sunday Times 100 Best Companies to Work For 2006 list.

Retaining and growing our UK customer base

We are combating the impact of volatile energy markets on customer churn by introducing innovative products such as long-term fixed-price contracts, which have proved very popular. We are also investing heavily in customer service, including new dual fuel billing systems. This investment is designed to not only reduce the number and length of calls customers need to make to our call centres but also allows customer advisers to take advantage of sales opportunities. Coupled with other initiatives to improve processes, this is enabling us to increase efficiencies significantly. In British Gas Services, we have invested in a new system for deploying our engineers, which will markedly improve service.



For more information visit > www.centrica.com

Investing in infrastructure

Centrica Energy

3,057m
Gas production (therms)
2004 3,938m

11,641
Power generated (GWh) 2004 11,554

- **Generated first green power**
- **Stakes acquired in three North Sea fields**
- **Secured capacity at Isle of Grain LNG terminal**
- **Won two gas exploration blocks in Nigeria**

Gas

Operating profit* from gas production rose by 31% to £1,020 million because of the increase in wholesale gas prices. However, production at our Morecambe gas field fell by 29%, partly because we switched off the field for a period in the summer and autumn when prices were lower.

We made good progress on increasing our gas reserves and production from fields outside the Morecambe Bay area. In October we bought stakes in three North Sea gas and oil fields for £268 million. This brought us a further 1.1 billion therms of gas and 8 million barrels of oil.

The development of the Horne and Wren fields, in which we have a 50% share, was completed and first gas was delivered in June. These North Sea fields produced more than 132 million therms – at a rate of more than one million therms a day.

In February the partners (including Centrica) in the Statfjord field in the Norwegian section of the North Sea approved a programme which will lead to an extension of the life and resource levels of the field. Centrica's share of the capital expenditure is expected to be around £50 million. This extension is likely to add at least 500 million therms of gas, one million barrels of oil and three million barrels of condensate to our portfolio.

Our industrial sales and wholesaling business made an operating loss* of £156 million due to a 38% rise in the average input price of gas for our sales contracts which was only partially offset by a 13% rise in the average price of the contracts.

We are widening our search for gas supplies for our customers. As part of this we started a gas exploration programme in UK waters and won licence blocks to give us the right to drill in Nigeria. We have developed links with local partners to assist in the surveying and potential future development of these sites.

centrica energy

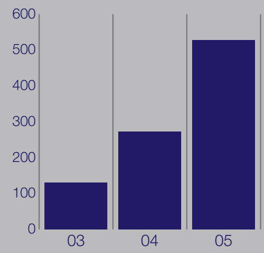
* including joint ventures and associates, net of interest and taxation, and before exceptional items and certain re-measurements.

Far left: Engineer on site at the Barrow-in-Furness gas terminal.
Left: Helicopter landing on Morecambe gas platform, Irish Sea.

Securing long-term energy supply

As supplies of gas from UK fields dwindle more quickly than expected we have been pushing ahead with our plans to invest £16 billion sourcing gas and on power generation. Of this, £12 billion will be on gas contracts with major producers, underpinning, for example, construction of one pipeline from Norway and another from The Netherlands. It also includes projects to import gas, such as securing capacity at the Isle of Grain liquefied natural gas facility. This allows gas to be shipped from various regions, for example North and West Africa. In electricity, we are pushing on with our £750 million investment in renewables, largely consisting of offshore wind farms.

UK upstream acquisitions and investments £m



For more information visit > www.centrica.com

In March we successfully bid for import capacity in the expansion of National Grid's Isle of Grain liquefied natural gas (LNG) terminal in Kent. From 2008 we will have access to LNG capacity of 3.4 million therms a day.

We also announced our involvement in a partnership to construct a reception terminal for LNG at Canvey Island in Essex – and lodged a planning application with the local authority early in 2006. If permission is given, the terminal will be capable of processing around 5% of the UK's gas needs. Canvey was the terminal that received the UK's first ever shipment of LNG in 1964.

With the UK now a net importer of gas, facilities such as Canvey are vital to help deliver gas supplies for use in homes, businesses and power generation in the future. In October we started receiving gas under the Statoil contract signed in 2002. Centrica will receive up to 5 billion cubic metres of gas every year. Towards the end of 2005, we signed another contract with Statoil for 550 million therms of gas for the winter of 2006/07.

Electricity

We bought the remaining 40% of Humber power station, taking the total number of stations we own to seven and the amount of power capacity we can access to 3.4GW. We have started evaluating tenders for the gas-fired power station we hope to build at Langage in Devon which will strengthen our electricity generation capability.

In February we agreed a new-style power purchase agreement with International Power for the supply of 250MW of electricity at peak times over three years. The power price is linked to the international price of coal rather than to oil or gas, which lessens our risk to increasing wholesale gas prices.

Renewables

In May we produced our first green power from our 26MW onshore wind farm at Glens of Foudland in Aberdeenshire. Our 90MW joint venture, Barrow offshore wind farm, is nearly complete and is expected to deliver power in the first half of 2006. The award of construction contracts for the wind farms at Inner Dowsing and Lynn in the North Sea has been delayed. First power from the project is now likely to be delivered in 2008.

For the supply year April 2004 to March 2005, Centrica fulfilled its obligation to source sufficient renewable obligation certificates to cover 4.9% of all electricity supplied.

Centrica Storage

33%

Increase in price per storage unit for 2005/06 storage year

- **Profit surged by 123%**
- **Record daily delivery rate of 492GWh**
- **Field reached almost 100% reliability**

Operating profit* for Centrica Storage, which runs the Rough storage facility, a partially depleted gas field 18 miles off the Yorkshire coast, increased by 123% to £154 million. This strong performance resulted from the high prices that could be charged for storage, excellent levels of reliability and the first benefits of Centrica's investment programme to boost storage capacity at Rough.

Customers enjoyed almost 100% reliability in pumping gas into Rough and withdrawing it. We made an early start to filling Rough up with gas in 2005 and that enabled us to sell 170 million therms of extra space at high prices.

Investment in the year of £23 million brought the total Centrica has spent on Rough since 2002 to £45 million. The field is important for the UK as it increasingly becomes an importer of gas.

centrica storage

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

Centrica North America

3.4m
Energy customers
2004 3.3m

1.9m
Home services customers
2004 1.8m

- **Moved into new US markets**
- **Business markets turnover up 135%**
- **Continued growth in Texas customer base**

Once again we delivered strong growth – in a year of extreme weather and volatile wholesale markets. Turnover rose by 58% to £3,552 million. We got the full-year benefit of the purchase (in 2004) of ATCO Retail and Residential Services Group and saw our business sales go up and Texas customer numbers grow. Operating profit* grew by 40% to £185 million thanks to an improvement in the Canadian residential and small commercial energy business, largely due to higher energy prices.

Canada
Turnover went up 87% to £1,533 million. Operating profit* rose by 62% to £47 million as a result of higher prices and an increased contribution from our gas assets.

The regulatory environment improved in Ontario. In gas we kept about the same number of customers during the second half of the year with higher sales and fewer customers leaving us. In electricity the market re-opened fully to competition giving us the opportunity to restart our selling programme. Initially we sold contracts mainly to the commercial sector but now we have started to move back into the residential market.

In Alberta the market proved increasingly difficult in 2005. Regulation and pricing arrangements prevented us from being able to sell competitive tariffs. At the end of December we had sold 59,000 contracts, primarily dual fuel.

USA
Turnover in Texas went up by 28% to £953 million. This was the result of an 8% growth in customer numbers as well as higher prices. Operating profit* was up by 20% at £72 million. Even though we put up prices under the Price-to-Beat rule – where the state sets the prices – we still reduced the number of customers switching to other suppliers in our main territories and now have more than 300,000 customers on competitive prices in our newer territories.

Investing in international expansion

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

Elsewhere in the USA, higher retail prices and customer numbers led to a 9% rise in turnover to £208 million. Operating profit* was up by £13 million to £16 million.

Home services

Turnover increased by 95% to £360 million, mainly because of the purchase of ATCO Retail and Residential Services Group and growth in our protection plan (repair and maintenance contracts) business in Ontario. Operating profit* was 42% higher at £51 million. With the successful launch of services in Alberta and Manitoba and growth in Ontario, we now have more than half a million protection plan policyholders across Canada. Overall customer numbers rose by 5% to almost 1.9 million. More than half of this was through natural growth (rather than by acquiring customers in takeovers).

Business markets

Rapid growth in the gas volumes we sold in Ontario, Alberta and British Columbia and electricity sales in Ontario, Alberta and Texas pushed up turnover by 135% to £481 million.

We entered the Connecticut, Massachusetts, Rhode Island and Illinois gas markets as well as the Maryland and New Jersey electricity markets. We also began rolling out our services and technology products in Texas. The business made an operating loss* of £8 million relecting start-up and acquisition costs associated with such rapid growth.

Energy trading & wholesale

Our focus on supporting our customer facing businesses with less emphasis on proprietary trading activities was the main reason for turnover falling by 83% to £17 million. The business made an operating profit* of £7 million in the year.

Far left: Direct Energy home services engineer, Toronto, Canada.
Left: Oxxio website accessed via a hand-held device.

Europe

- **Acquisitions boosted European footprint**
- **Number two in Belgian market**
- **600,000 customer relationships in Holland**

We have strengthened our position in Europe with company acquisitions in Belgium and Holland, countries where the markets are more open to competition than elsewhere on the continent. We have been pushing hard for the EU to make faster progress towards open markets all over Europe.

In partnership with Gaz de France, Centrica bought a 51% stake in SPE, a Belgian generator – and we rolled our Luminus venture into the new business. SPE is now the number two competitor in Belgium with 850,000 energy accounts. We also bought Oxxio, Holland's fourth largest energy retailer.

In Spain, the electricity supply market is effectively closed to competition because the Government has set the price customers must pay – and it is lower than the wholesale price. Luseo Energía is therefore unable to make a profit in the supply market at the moment but it continues to sell energy management products and services.

Our European business made an operating loss* of £9 million.

luminus

oxxio

Luseo ENERGIA

Growing our business in Europe and North America

In Europe, we have already built a business in the Benelux region through the acquisition of a controlling stake in SPE in Belgium (in partnership with Gaz de France) and Oxxio in The Netherlands. But we would like to increase this business as European energy markets deregulate. To that end we are focusing our efforts on lobbying for liberalisation, taking part in energy trading in the Benelux countries and positioning ourselves appropriately. In North America we have a significant business, which we intend to keep developing. Progress there has been particularly good with business customers and in home services.

Contribution to group turnover from UK and international operations

For more information visit > www.centrica.com

Discontinued business: Onetel

- **Onetel sold to Carphone Warehouse**

In December we sold Onetel to Carphone Warehouse for up to £154 million.

We are proud that we built Onetel into a strong business that is a serious competitor to BT. However our focus is now on energy – and we don't need to own a telecoms business to offer a telecoms service. Onetel made an operating profit* of £12 million on a turnover of £342 million.

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

Corporate Responsibility

We engage a wide range of stakeholders to manage the social, ethical and environmental impact of our business activities to minimise risk, create sustainable value for our shareholders and contribute to wider economic development in the regions in which we operate. Involving our stakeholders is fundamental to our business objectives.

Research in 2005 identified environmental issues as a top priority for the Company's stakeholders.

Centrica was included in the Dow Jones Sustainability World and European Indexes and the FTSE4Good Indices in 2005.

Climate change

9.0m

Number of energy efficiency measures subsidised
2004 6.1m

First green power

We are investing £750 million in wind farm developments and generated our first renewable electricity during the year.

In 2005 British Gas subsidised more than nine million energy efficiency products, such as loft and cavity wall insulation and low energy light bulbs, with an equivalent carbon saving of 1.3 million tonnes, benefiting more than 1.1 million households.

We are trialling two new products to help customers reduce their carbon footprint. With Windsave, we are piloting household wind turbines which could enable customers to generate their own free supply of electricity, and we are working with Ceres Power to develop the world's first, mass-market, fuel cell-powered household boiler, which could reduce household energy bills and cut carbon dioxide emissions.

Centrica has, for two years, taken part in the EU emissions trading market, a system designed to reduce emissions of greenhouse gases. We traded 15% of all the carbon allowances in Europe in 2005.

Vulnerable customers

£2.6m

Value of unclaimed benefits identified
2004 £3.8m

Fighting fuel poverty

Our aim is to make life safe warm and comfortable for all our customers and particularly for people on low incomes, older people and those with a disability.

The British Gas 'here to HELP' programme is tackling fuel poverty by helping to reduce household poverty and installing free energy-efficient products. British Gas also provided £6.7 million in winter fuel rebates. We were able to connect more than 8,000 people to additional support from our charity partners and identified over £2.6 million of unclaimed benefits for them.

We continued to support the work of the British Gas Energy Trust Fund, set up with an initial £10 million from British Gas. In addition to making grants to individuals in debt, the Trust provides funding to voluntary sector organisations and registered charities to help people in financial difficulty.

Direct Energy's $1.5 million support for its 'Neighbor-to-Neighbor' project helped thousands of customers in debt.

British Gas leads the way in raising awareness of deadly carbon monoxide poisoning. In 2005 our campaigns targeted students' landlords and homeowners.

Supporting employees

17.2%

Employees from ethnic minority groups
2004 16.6%

Focus on health and safety

The number of lost time injuries – those keeping employees off work for longer than three days – per 1,000 employees fell during 2005 by 39%.

We have established a back-care programme for employees with a history of back problems and those with physically demanding roles. We also put in place a managers' toolkit on mental health issues – an increasing cause of sickness absence for employees.

Our annual engagement survey, which measures the attitudes and opinions of our employees on a range of Company issues, showed an overall 1.3% increase in 2005. During a very challenging period for the business, this result demonstrates the commitment of our people.

More than 1,000 trainees went through the British Gas Engineering Academy. The Academy won an award from Women into Science and Engineering for its efforts to recruit women. Some 1,200 managers took part in our leadership development programme.

Our graduate programme won the Personnel Today Award for Excellence in Graduate Recruitment in 2005 and British Gas Business was voted one of the Financial Times top 50 Great Places to Work.

In the community

£8.2m

Total community contribution
2004 £7.4m

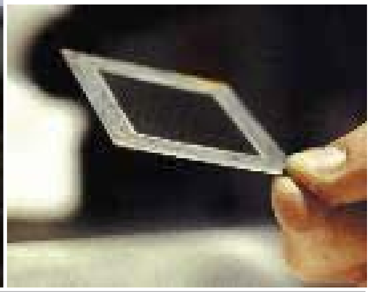
Working in partnership

Centrica contributed £8.2 million to community causes in 2005 through a combination of cash, time and in-kind support. Our employees invested more than 15,000 hours in volunteering for charitable or community organisations.

British Gas continued to work in partnership with Help the Aged to tackle the issue of excess winter deaths amongst older people. Our 'Cold Can Kill' campaign called on the UK government to adopt an action plan to address the issue and provided practical advice to 120,000 older people across the country.

Investing in sustainability

Left: Building our Glens of Foudland wind farm in Aberdeenshire. Below: One of the fuel cells that can power a domestic boiler.



Our British Gas 'here to HELP' programme won the Business in the Community 'Healthy Communities' Award for Excellence in 2005 and our 'Helping Children Shine' partnership with NCH in the UK raised more than £250,000.

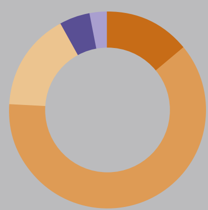
Direct Energy employees supported the relief efforts following hurricanes Katrina and Rita, raising more than $100,000. They also continued to volunteer for North American homelessness charity, Raising the Roof, contributing around 6,000 hours during the year.

Exploring renewable energy solutions

We are committed to supporting the delivery of the UK Government's targets on the reduction of carbon dioxide emissions. In May 2005 we generated the first electricity from our 26MW Glens of Foudland wind farm in Aberdeenshire. Construction of the Barrow offshore wind farm is scheduled for completion during the first half of 2006. Our investments in new technologies will create opportunities for our customers to reduce their carbon footprint. British Gas is piloting household wind turbines and supporting the development of the world's first, mass-market, fuel cell-powered boiler.

For more information visit > www.centrica.com/responsibility

Sources of electricity generation



- Coal 14%
- Natural gas 62%
- Nuclear 16%
- Renewable 5%
- Other 3%

from April 2004 to March 2005

Summary Financial Statements

Summary Group Income Statement

Year ended 31 December	2005 Results for the year before exceptional items and certain re-measurements[i] £m	2005 Exceptional items and certain re-measurements[i] £m	2005 Results for the year £m	2004 Results for the year before exceptional items and certain re-measurements[i] £m	2004 Exceptional items and certain re-measurements[i] £m	2004 Results for the year £m
Continuing operations						
Group revenue	**13,448**	**–**	**13,448**	11,361	–	11,361
Cost of sales	**(9,793)**	**–**	**(9,793)**	(7,962)	–	(7,962)
Re-measurement of energy contracts[i]	**–**	**456**	**456**	–	–	–
Gross profit	**3,655**	**456**	**4,111**	3,399	–	3,399
Operating costs	**(2,180)**	**(11)**	**(2,191)**	(2,093)	(99)	(2,192)
Share of profits in joint ventures and associates, net of interest and taxation	**38**	**(1)**	**37**	56	–	56
Group operating profit	**1,513**	**444**	**1,957**	1,362	(99)	1,263
Net interest expense	**(145)**	**–**	**(145)**	(104)	–	(104)
Profit from continuing operations before taxation	**1,368**	**444**	**1,812**	1,258	(99)	1,159
Taxation on profit from continuing operations	**(706)**	**(138)**	**(844)**	(547)	26	(521)
Profit from continuing operations after taxation	**662**	**306**	**968**	711	(73)	638
Discontinued operations	**11**	**34**	**45**	67	906	973
Profit for the year	**673**	**340**	**1,013**	778	833	1,611
Attributable to:						
Equity holders of the parent	**672**	**340**	**1,012**	758	833	1,591
Non-equity minority interests	**–**	**–**	**–**	18	–	18
Minority interests	**1**	**–**	**1**	2	–	2
	673	**340**	**1,013**	778	833	1,611
	Pence		**Pence**	Pence		Pence
Earnings per ordinary share from continuing and discontinued operations:						
Basic			**27.4**			38.0
Diluted			**27.0**			37.4
Adjusted basic	18.2			18.1		
			£000			£000
Directors' emoluments			**4,839**			4,603

UK listed companies are required to comply with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) from 1 January 2005 onwards.
These results for the year ended 2005 are presented on an IFRS basis, and the comparative information for 2004 has been restated accordingly.

(i) Certain re-measurements included within gross margin comprise re-measurement arising on our energy procurement activities and on proprietary trades in relation to which cross-border transportation or transmission capacity is held (but not on the other activities of our proprietary trading businesses). Certain re-measurements included within interest comprise re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund (£nil at 31 December 2005). All other re-measurement is included within results before exceptional items and certain re-measurements. IAS 39 was adopted from 1 January 2005 and therefore there is no comparative for certain re-measurements for 2004.

Financial terms explained

Group revenue
Revenue represents amounts receivable for goods and services provided, excluding the Group's share of revenue from joint ventures and associates.

Profit for the year attributable to equity holders of the parent
Profit earned in the year available to pay dividends and to re-invest in the business.

Discontinued operations
The net results, after tax, of significant businesses that have been disposed in the current and prior year (the AA and Onetel).

Earnings per ordinary share
Basic
Profit earned of £1,012 million divided by the average number of shares in issue during the year of 3,688 million.

Diluted
As per basic but assuming the issue of new ordinary shares on exercise of all the share options which have been granted.

Adjusted basic
Profit, adjusted to remove exceptional items and certain re-measurements, of £340 million, divided by the average number of shares in issue.

Summary Group Balance Sheet

31 December	2005 £m	2004 £m
Non-current assets	**6,229**	5,358
Current assets	**7,061**	4,390
Current liabilities	**(6,395)**	(4,235)
Net current assets	**666**	155
Non-current liabilities	**(4,453)**	(3,205)
Net assets	**2,442**	2,308
Shareholders' equity	**2,386**	2,089
Minority interests (2004 including non-equity)	**56**	219
Total minority interests and shareholders' equity	**2,442**	2,308

Summary Group Statement of Recognised Income and Expense

Year ended 31 December	2005 £m	2004 £m
Profit for the year	**1,013**	1,611
Net income recognised directly in equity	**202**	63
Transfers	**(49)**	–
Total recognised income and expense for the year	**1,166**	1,674
Change in accounting policy – adoption of IAS 32 and IAS 39	**(343)**	–
Total recognised income and expense since last report	**823**	1,674
Total income and expense recognised in the year is attributable to:		
Equity holders of the parent	**1,165**	1,654
Non-equity minority interests	**–**	18
Minority interests	**1**	2
	1,166	1,674

Summary Group Cash Flow Statement

Year ended 31 December	2005 £m	2004 £m
Net cash flow from operating activities	**1,144**	1,269
Net cash flow from investing activities	**(529)**	497
Net cash flow from financing activities	**(335)**	(1,588)
Net increase in cash and cash equivalents	**280**	178
Cash and cash equivalents at 1 January	**885**	705
Effect of foreign exchange rate changes	**12**	(2)
Cash and cash equivalents at 31 December	**1,177**	881

The Summary Financial Statements on pages 12 and 13 were approved by the Board of Directors on 23 February 2006 and were signed on its behalf by:

Sir Roy Gardner
Chief Executive

Phil Bentley
Group Finance Director and
Managing Director, Europe

Cash flow from operating activities
Net cash generated in the year from the provision of gas and electricity to our customers, from the sale of goods and services and from the payment of administrative and operating expenses, including taxation.

Cash flow from investing activities
Cash flows arising in the year from activities including purchase and sale of assets, investments in and dividends received from joint ventures and associates, and investments and disposals of businesses.

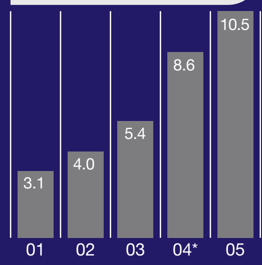
Cash flow from financing activities
Cash flows arising from interest, borrowings, dividends and issue and buy-back of share capital.

Cash and cash equivalents
Comprises the Group's cash deposits, net of overdrafts, and short-term deposits which can be accessed within three months without penalty.

Centrica share performance
pence

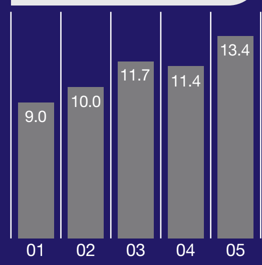
Weekly close
Centrica plc
FTSE 100 relative

Ordinary dividend
pence



* excludes special dividend of 25p

Group turnover*
£ billion



* from continuing operations

Board of Directors


1


2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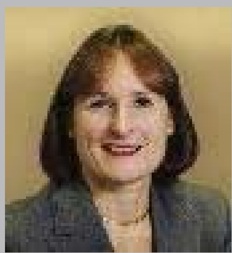
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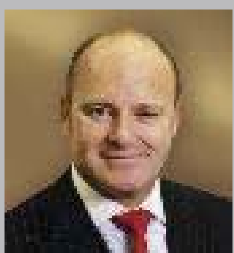

11

1. Roger Carr
Chairman (59) N.
Roger Carr joined the Board as a Non-Executive Director in 2001 and was appointed Chairman in May 2004. He is Chairman of Mitchells & Butlers plc, Deputy Chairman of Cadbury Schweppes plc and a senior adviser to Kohlberg Kravis Roberts & Co Ltd.

2. Sir Roy Gardner
Chief Executive (60) D.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, he was Managing Director of GEC-Marconi Ltd and a Director of GEC plc. He is President of Carers UK and Chairman of the Apprenticeship Ambassadors' Network. He is the Senior Independent Director and Chairman designate of Compass Group plc.

3. Helen Alexander CBE
Non-Executive Director (49) A.N.R.
Helen Alexander joined the Board in January 2003. She is Chief Executive of The Economist Group, a Trustee of the Tate Gallery and an Honorary Fellow of Hertford College, Oxford. Formerly, she was a Non-Executive Director of BT Group plc and Northern Foods plc.

4. Phil Bentley
Group Finance Director and Managing Director, Europe (47) D.E.
Phil Bentley joined Centrica plc as Group Finance Director in 2000 and was appointed Managing Director, Europe in July 2004. 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. He is a Non-Executive Director of Kingfisher plc.

5. Mark Clare
Managing Director, British Gas Residential Energy (48) E.
Mark Clare joined British Gas plc in 1994 as Group Financial Controller, and was appointed Finance Director of Centrica plc in 1997. From November 2000 to December 2001, he was responsible for the development of strategy, financial services and e-commerce. He was appointed Managing Director of British Gas in January 2002. He is a Non-Executive Director of BAA plc, The Energy Saving Trust Ltd and The Energy Retail Association Ltd.

6. Mary Francis CBE
Non-Executive Director (57) A.R.
Mary Francis joined the Board in June 2004. She is a Non-Executive Director of the Bank of England, Aviva plc and St. Modwen Properties plc. She is a Director of Fund Distribution Ltd and a Trustee of the Almeida Theatre. She is a former Director General of the Association of British Insurers. She was previously a senior civil servant in the Treasury and the Prime Minister's Office.

7. Andrew Mackenzie
Non-Executive Director (49) A.R.
Andrew Mackenzie joined the Board in September 2005. He is Chief Executive, Industrial Minerals, at Rio Tinto plc. Previously, he spent 22 years with BP plc in a range of senior technical and engineering positions, and ultimately as Group Vice President, BP Petrochemicals.

8. Patricia Mann OBE
Senior Non-Executive Director (68) A.N.R.
Patricia Mann was a Non-Executive Director of British Gas plc from December 1995 until Centrica plc was demerged in February 1997. She was 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 is a Trustee of the AA Motoring Trust.

9. Paul Rayner
Non-Executive Director (51) A.R. Australian citizen
Paul Rayner joined the Board in September 2004. He has been Finance Director of British American Tobacco plc since January 2002. In 1991 he joined Rothmans Holdings Ltd in Australia, holding senior executive appointments, and became Chief Operating Officer of British American Tobacco Australasia Ltd in September 1999.

10. Jake Ulrich
Managing Director, Centrica Energy (53) E. US citizen
Jake Ulrich was appointed to the Board in January 2005. He was appointed Managing Director of Centrica Energy in 1997. 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.

11. Paul Walsh
Non-Executive Director (50) A.N.R.
Paul Walsh joined the Board in March 2003. He is Chief Executive of Diageo plc, having previously been its Chief Operating Officer and having served in a variety of finance roles. He is a Non-Executive Director of Federal Express Corporation, a Governor of the Henley Management Centre and Deputy Chairman of the Prince of Wales International Business Leaders Forum.

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

Summary Reports

Independent auditors' statement to the shareholders of Centrica plc

We have examined the Summary Financial Statements of Centrica plc on pages 12 and 13.

Respective responsibilities of Directors and auditors
The Directors are responsible for preparing the Annual Review and Summary Financial Statements in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statements with the Annual Financial Statements 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 Statements and consider the implications for our report 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 shareholders 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 for use in the United Kingdom.

Opinion
In our opinion the Summary Financial Statements are consistent with the Annual Financial Statements, the Directors' Report and the Directors' Remuneration Report of Centrica plc for the year ended 31 December 2005 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
23 February 2006

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.

These Summary Financial Statements are a summary of the full Centrica Annual Report and Accounts. 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. If you would like us to send you a copy of the Annual Report and Accounts for 2005 and/or future years, free of charge, please contact the Centrica shareholder helpline (see page 18 for contact details).

Dividends

An interim dividend for 2005 of 3.1 pence per share was paid on 16 November 2005. The Directors recommend that, subject to approval at the Annual General Meeting, a final dividend of 7.4 pence per share will be paid on 14 June 2006 to those shareholders registered on 28 April 2006. This would make a total ordinary dividend for the year of 10.5 pence per share (2004: 8.6 pence per share and a special dividend of 25 pence per share).

Corporate Governance

The Group is committed to the highest standards of corporate governance. Throughout the year, the Company fully complied with the provisions of the Combined Code on Corporate Governance (the 'Code'). A report on how the principles of the Code were applied is set out in the Corporate Governance Report in the Annual Report and Accounts and is summarised below.

The Board
An effective Board of Directors leads and controls the Group. The Board, which met ten times during the year, has a schedule of matters reserved for its approval. This schedule is available on request and on our website www.centrica.com.

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

One of its meetings each year is substantially devoted to the development of strategy. Comprehensive briefing papers, including financial information, are circulated to each Director a week prior to Board meetings.

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 Audit, Disclosure, Executive, Nominations and Remuneration committees. Directors' membership of these committees is shown on page 14. Details of their respective terms of reference can be found on our website at www.centrica.com.

Board appointments, evaluation and training

There is a formal, rigorous and transparent procedure for the appointment of new directors to the Board which is described in the full Report and Accounts. During the year, the Board conducted, with the assistance of an independent external facilitator, JCA Group, a formal and rigorous evaluation of its own performance and that of its committees and individual Directors. The report concluded that the Board was evolving well as a team and had improved over the last year in terms of membership, organisation and focus on strategy and key operational issues.

The Directors receive ongoing training including an induction programme tailored to meet the needs of the individual. At Board meetings, the Directors also receive regular updates on changes and developments to the business, legislative and regulatory environments.

Internal control and business assurance

The Board of Directors, with the advice of the Audit Committee, has reviewed the effectiveness of the internal control system operated throughout the period from 1 January 2005 to the date of this report and is satisfied that the Group complies with the Turnbull Guidance on Internal Control.

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

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.

Composition and role of the Remuneration Committee

The Remuneration Committee comprises Helen Alexander, Mary Francis, Patricia Mann, Paul Rayner, Paul Walsh and, with effect from 21 February 2006, Andrew Mackenzie, all of whom are independent Non-Executive Directors. The Committee met six times during 2005 and was chaired by Patricia Mann until 30 June 2005 when Helen Alexander was appointed Chairman of the Committee.

The Committee makes recommendations to the Board, within formal terms of reference, on the policy and framework of executive remuneration and its cost to the Company. The Committee is also responsible for the implementation of remuneration policy and determining specific remuneration packages for each of the Executive Directors. It has access to the advice and views of internal resource and external consultants.

Having conducted a review during the year the Committee formally appointed Kepler Associates (Kepler) as independent executive remuneration adviser to the Company and the Committee.

Executive Directors' remuneration policy and framework

The Group's remuneration policy and framework provides competitive reward for its Executive Directors and other senior executives, taking into account the Company's performance, the markets in which it operates and pay and conditions elsewhere in the Group.

In constructing the remuneration packages, the Committee aims to achieve an appropriate balance between fixed and variable compensation for each executive. Accordingly, a significant proportion of the remuneration package depends on the attainment of demanding performance objectives, both short- and long-term. The Committee reviews the packages and varies individual elements when appropriate from year to year.

The Group's current remuneration policy and framework for Executive Directors and other senior executives, which has been in place since it was approved by shareholders at the 2001 AGM, comprises base salary, annual performance bonus and participation in the Executive Share Option Scheme (ESOS) and Long Term Incentive Scheme (LTIS).

In the second half of 2005, assisted by Kepler and internal resource, the Committee conducted a thorough review of the Group's executive incentive arrangements to ensure that they: provide a strong alignment with the delivery of value to shareholders; reflect current best practice, while meeting the Group's particular business needs; and enable the Group to continue to attract, retain and motivate high-calibre management in a highly-challenging business environment.

Following this review, the Committee has proposed changes to the future policy and framework of annual and long-term incentive arrangements. The aim of the proposals is to re-balance total remuneration by strengthening the performance-related elements and encouraging executives to invest some of their bonuses in direct shareholdings in the Company. The Committee has consulted with the ABI[1], the RREV[2] and the Company's major shareholders.

Subject to shareholder approval at the 2006 AGM of new long-term share-based incentives (full details of which are included in the Notice of Meeting for the 2006 AGM) the Committee has agreed that, in the future, executive remuneration should comprise base salary, annual performance bonus, a new LTIS and a new Deferred and Matching Share Scheme (DMSS). The performance targets in respect of each of the new schemes reflect present trading conditions, existing market expectations and current inflation rates.

1 ABI = the Association of British Insurers
2 RREV = Research, Recommendations, Electronic Voting – a joint venture between the National Association of Pension Funds and Institutional Shareholder Services

In a period of considerable uncertainty in the global energy markets, the Committee believes that these new targets are stretching, but will review the targets at the beginning of each performance period to ensure they remain so. In line with current policy, none of the new schemes will allow the retesting of performance targets. From 2006, the maximum payment under the annual performance bonus scheme will be increased by 25% to reflect the proportion of bonus that will be automatically invested in the DMSS.

It is not intended to make further grants under the ESOS after April 2006, other than in exceptional circumstances.

As a matter of policy, the notice periods of the Executive Directors' service contracts do not exceed one year. 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 intended that this new remuneration policy and framework, which is fully endorsed by the Board, will continue for 2006 and succeeding years.

Components of remuneration

For 2005, the maximum annual performance bonus payable to the Executive Directors should every single element of every objective be achieved in full was 100% of base salary. The current objectives comprise targets for personal performance, customer and employee satisfaction and financial performance and are heavily weighted towards the latter. A bonus will be forfeited if the Committee considers overall performance to have been unsatisfactory.

In April 2005, options were granted to each Executive Director equal to 200% of base salary and, at the same or lower rates, to certain other senior executives.

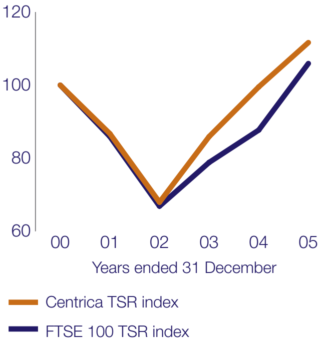
The performance conditions for the ESOS are based on the extent to which growth in the Company's earnings per share (EPS) exceeds growth in the Retail Prices Index (RPI growth) over a three-year performance period.

Following the adoption of IFRS in 2005, the Committee agreed that EPS remains an appropriate, objective, independent and verifiable measure of the Company's performance. However, having taken advice from Kepler and having consulted with the ABI and the RREV, the Committee agreed that EPS should be calculated as fully-diluted earnings per share, adjusted for exceptional items and certain re-measurements arising on the application of IAS 32 and IAS 39 excluded on the grounds that such standards do not represent the underlying performance of the business.

In April 2005, LTIS allocations equal to 75% of base salary were awarded to Executive Directors and, at the same or lower rates, to certain other senior executives. These awards are subject to challenging performance conditions based on the Company's total shareholder return (TSR) relative to the returns of a comparator group over a three-year period. The Committee has determined that, for the purpose of the LTIS, the most appropriate comparator group for the Company is the companies comprising the FTSE 100 at the start of the relevant performance period.

The following graph compares the Company's TSR performance with that of the FTSE 100 Index for the five years ended 31 December 2005.

Total return indices – Centrica and FTSE 100



29 December 2000 = 100
Source: Alithos Ltd

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 HMRC-approved Sharesave and Share Incentive Plan, which are open to all eligible employees on the same basis.

Directors' emoluments, pension benefits and interests in shares

As at 31 December 2005	Total emoluments excluding pension 2005 £000 (i)	Total emoluments excluding pension 2004 £000 (i)	Accrued annual pension 2005 £ p.a. (ii)	Beneficial interests in ordinary shares 2005	Total options under Sharesave 2005	Total options under the ESOS (iii) 2005	Total allocations under the LTIS (iv) 2005
Executive Directors							
Phil Bentley	932	931	85,800	342,789	5,161	2,075,980	556,106
Mark Clare	868	870	138,100	804,138	9,318	2,130,709	558,338
Sir Roy Gardner	1,616	1,623	382,900	2,175,892	9,318	3,570,852	981,655
Jake Ulrich	881	–	154,400	693,871	8,823	2,188,096	574,213
	4,297	3,424					
Non-Executive Directors							
Helen Alexander	55	39	–	2,520	–	–	–
Roger Carr	250	173	–	19,230	–	–	–
Mary Francis	50	22	–	981	–	–	–
Andrew Mackenzie	17	–	–	21,000	–	–	–
Patricia Mann	55	41	–	1,927	–	–	–
Paul Rayner (v)	65	17	–	5,000	–	–	–
Paul Walsh	50	39	–	4,500	–	–	–
	542	331					
Directors who stood down in 2004							
Sir Michael Perry	–	72	–	–	–	–	–
Robert Tobin	–	26	–	–	–	–	–
Roger Wood	–	750	–	–	–	–	–
		848					
Total emoluments	4,839	4,603					

(i) Total emoluments for Executive Directors include all taxable benefits arising from employment by the Company, including the provision of a car, 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 31 December 2005. Full details of the Directors' pension scheme arrangements can be found in the Annual Report and Accounts.
(iii) Options were granted under the ESOS on 31 May 2001, 2 April 2002, 24 March 2003, 18 March 2004 and 1 April 2005.
(iv) Allocations were made under the LTIS on 1 April 2003, 1 April 2004, and 1 April 2005.
(v) Paul Rayner's fees were paid to his employer, British American Tobacco plc.
(vi) The aggregate value of shares vested to Executive Directors under the LTIS was £2,906,606. As at 21 February 2006, the beneficial shareholdings of Phil Bentley, Mark Clare, Sir Roy Gardner and Jake Ulrich had each increased by 130 shares.

Services for Shareholders

Financial calendar

26 April 2006	Ex-dividend date for 2005 final dividend
28 April 2006	Record date for 2005 final dividend
19 May 2006	Annual General Meeting, Queen Elizabeth II Conference Centre, London SW1
14 June 2006	Final dividend payment date
27 July 2006	2006 interim results announced
15 November 2006	2006 interim dividend payment date

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 of address and purchases or sales of Centrica shares, dividend payment enquiries, etc., you should contact:

Centrica shareholder helpline: 0870 600 3985*

Overseas: +44 121 415 7061

Text phone: 0870 600 3950*

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

Email: centrica@lloydstsb-registrars.co.uk

*call charges at national rate

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Visit www.centrica.com/flexishare.

www.centrica.com
The Centrica website provides news and details of the Company's activities, plus links to our business sites. The shareholder section contains up-to-date information including the Company's latest results and dividend payment details. It holds current and historical share price information.

For more information call> 0870 600 3985
or visit> www.centrica.com/shareholders

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