

Centrica review

“Another important
stage in the evolution
of Centrica”

Sir Roy Gardner, Chief Executive

Dividend
8.6p
up by
59%



centrica

taking care of the essentials

12 months ended 31 December

2004

2003

Financial highlights

| | | |
|-----------------------------------|---------|---------|
| Group turnover* | £11.8bn | £10.8bn |
| Operating profit** | £1,227m | £1,058m |
| Adjusted basic earnings per share | 20p | 16.8p |

Statutory results

| | | |
|--------------------------|---------|---------|
| Group turnover | £18.3bn | £17.9bn |
| Operating profit | £1,000m | £897m |
| Basic earnings per share | 33p | 11.8p |

* from continuing operations, excluding Accord trading revenue

** before goodwill amortisation and exceptional items, including joint ventures and associates

Group turnover* up by

9%

AA successfully sold for a profit of

£740m

Total returned to shareholders

£1.5bn

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Inside: Creating shareholder value lies at the heart of our strategy. Our increased investment in securing cost-effective energy supplies underpins our continued commitment to meeting customer needs.



"We are playing a key role in bringing new gas supplies to Britain"



"Our investment in engineer training is supporting our home services growth"



"We have growing expertise in power generation in Britain and in the US"



"Our focus on the needs of individual customers builds loyalty"



You can now cast your proxy vote electronically. For more information go to: www.centrica.com and click on Investor Relations, then Shareholders e-comms.

Throughout this review references to British Gas include Scottish Gas.

Earnings and operating profit numbers are stated, including joint ventures and associates, before goodwill amortisation and exceptional items where applicable. The directors believe this measure assists with understanding the underlying performance of the group. The equivalent amounts after goodwill amortisation and exceptional items are reflected in the segmental analysis on page 13 and are reconciled at group level in the summary group profit and loss account on page 12. All current financial results listed are for the year ended 31 December 2004. All references to 'the prior year', '2003' and 'last year' mean the year ended 31 December 2003.



Focusing on our customers to create shareholder value

I was delighted to take over in May as chairman and it is a great pleasure to report the group's full year results

In July I outlined the guiding principles which the board believes are critical to the way in which Centrica carries out its business and ensures the continued creation of shareholder value:

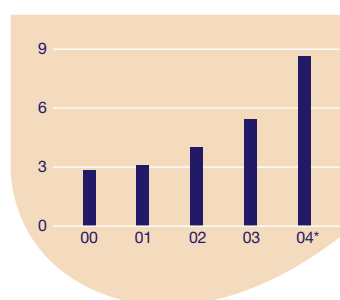
- Commercial flair, professional competence, financial rigour and commitment to customer satisfaction;
- Customer focus underpinned by asset strength to maintain cost-effective supply;
- Acquisitions that create value, requiring patience in identifying targets, skills in negotiation and availability of funds;
- Cost control and operational efficiency to build competitive edge and a unique customer offering of bundled, branded services; and
- Effective balance sheet management.

The principles that have underpinned our positive 2004 performance will continue to guide our actions in 2005.

The group produced a strong performance in 2004, particularly in the context of a year in which wholesale oil and gas prices reached unprecedented levels. Operating profit* increased by 16%, and turnover** by 9%.

In July we announced the sale of the AA, which crystallised the significant value in that business. The disposal was also an important part of our strategic refocus on energy and related services.

Ordinary dividend (pence)



*excludes special dividend of 25p

Returns to shareholders

As a result of this performance, the board is proposing a final dividend of 6.1 pence per share to be paid in June 2005. In line with our previously stated commitment, the 2004 total ordinary dividend of 8.6 pence per share represents a 40% payout of earnings* and is a 59% increase on the 2003 full-year dividend. In addition to the ordinary dividend, in November we also paid shareholders £1.05 billion through a special dividend of 25 pence per share.

In August we started our £500 million rolling share buyback programme and, by the end of 2004, we had bought back £205 million of shares for cancellation. We committed to pay a dividend for 2005 equivalent to a 50% payout of earnings* under current UK accounting standards. We believe this combination of immediate reward and longer-term

dividend growth clearly demonstrates our commitment to shareholder value.

The board of directors

Sir Michael Perry retired in May, having overseen the development of Centrica from its difficult early days to its position today as a successful and respected energy company. We are indebted to him for his considerable contribution.

We are also grateful to Roger Wood, who stepped down from the board of Centrica following the sale of the AA. Finally, having made a valuable contribution to Centrica, non-executive director Robert Tobin stepped down in order to focus on his other interests in North America.

We continue to ensure the board's composition fully meets the needs of a forward-looking, international energy group. Mary Francis, Director General of the Association of British Insurers and a director of the Bank of England, joined in May and Paul Rayner, finance director of BAT, joined in September.

Reflecting our renewed focus on energy, Jake Ulrich, managing director of Centrica Energy, became an executive board member from 1 January 2005.

Our employees

The commitment and dedication of our employees has, as always, been a crucial part of our success. I recognise that they faced an extremely challenging year, and I am grateful to them for their hard work and commitment throughout.

Outlook

The market outlook for 2005 is dominated by continued uncertainty over wholesale energy prices and the implications on pricing for all energy suppliers. We are committed to building competitive edge and reversing trends in customer churn.

This will be achieved by greater innovation in our customer offering, a vigorous commitment to marketing and decisive action to reduce our cost base. Alongside this, we aim to acquire further upstream assets whilst continuing to apply the financial rigour and patience that has been our trademark. We will efficiently manage our existing assets and external contracts to optimise our energy procurement.

We have a clear focus on the challenges ahead with creation of shareholder value at the top of our agenda. We will ensure cash generated by the business is used wisely to maximise value creation.

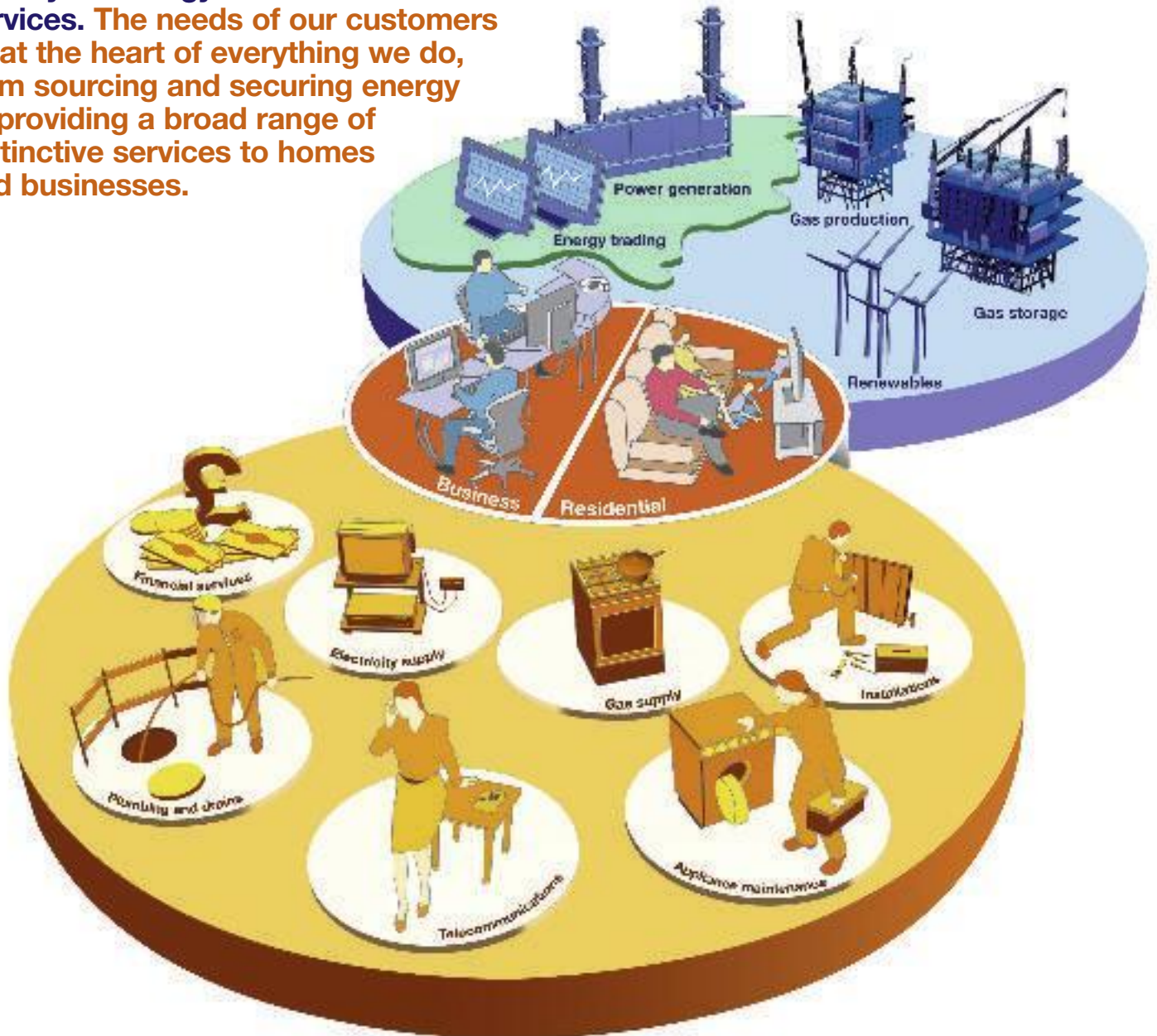
Roger Carr
Chairman

* including joint ventures and associates, before goodwill and exceptional items

** from continuing operations, excluding Accord

Our business

Across Centrica our focus is now entirely on energy and home-related services. The needs of our customers lie at the heart of everything we do, from sourcing and securing energy to providing a broad range of distinctive services to homes and businesses.



Key markets

We serve customers in Britain, Spain, Belgium, Canada and the USA.

To find out more visit:
www.centrica.com

Centrica Energy

We source the gas and electricity we need to supply our customers in Britain through a team of specialists working in Centrica Energy. The business consists of our upstream gas production, electricity generation, wholesale and industrial gas sales activities and our energy optimisation unit. Our gas reserves in Morecambe Bay are supplemented by production from several North Sea fields. Our interests in seven gas-fired power stations help meet the demand of our electricity customers. In addition, we are committed to investing in renewable generation with interests in offshore developments in the Irish Sea and North Sea, and onshore in Scotland.

Turnover**

£914m

Operating profit*

£512m

www.centrica.com

British Gas Residential

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

We are the first choice gas supplier for millions of people, and since the market opened to competition in 1998 we've become the largest supplier of electricity to residential customers in Britain.

Apart from supplying energy we are also the largest domestic central heating and gas appliance installation and maintenance company,

Turnover

£6,906m

Operating profit*

£337m

www.house.co.uk

with maintenance and breakdown services provided under our HomeCare range. We also provide HomeCare for plumbing and drains, home electrics and kitchen appliances and are a national installer of domestic, monitored home security systems.

British Gas directly employs over 8,000 engineers to carry out its gas, plumbing and electrical services.

A range of on-demand drainage services are provided by Dyno-Rod, which became part of British Gas this year. It operates through a network of franchises covering the UK and Ireland. In addition, there are a growing number of Dyno-Locks and Dyno-Plumbing franchises.

Centrica Business Services

Centrica Business Services aims to meet the specific needs of its customers, from the largest industrial and commercial operators to small and medium-sized enterprises.

We market gas and electricity to businesses under the British Gas Business brand across Britain, offering the flexibility of an open tariff or the security of a fixed-term contract. We are now the number one supplier of energy to the commercial sector in Britain (measured by supply points).

Apart from energy, we provide heating care for businesses, ensuring central heating breakdowns are attended by a fully-qualified British Gas engineer.

Turnover

£1,200m

Operating profit*

£64m

www.britishgasbusiness.co.uk

Centrica Storage

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

The facility lies approximately 18 miles off the coast of east Yorkshire, supported by an onshore gas processing terminal at Easington.

For regulatory reasons, Centrica Storage operates as a separate business from the rest of the group.

Turnover

£133m

Operating profit*

£69m

www.centrica-sl.co.uk

One.Tel

One.Tel is the largest indirect fixed-line competitor to BT in residential markets. Our fixed-line customer base can choose from the UKTalk range of call plans, offering a no monthly fee and free weekend calls option or unlimited usage. UKTalk customers also enjoy One.Tel's free 118 111 directory enquiries service. Mobile customers have a broad choice of free handsets and flexible tariffs and our internet service caters for customers with a range of dial up and broadband packages.

One.Tel also provides telecoms services to British Gas customers.

Turnover

£218m

Operating profit*

£16m

www.onetel.co.uk

Centrica North America

Direct Energy is North America's largest competitive energy and home services provider. In Canada we serve residential customers in Ontario, Manitoba and Alberta.

In the US, Direct Energy supplies customers in Pennsylvania, Ohio, Michigan and those parts of Texas not served by our subsidiary companies CPL Retail Energy and WTU Retail Energy.

Direct Energy Business Services provides comprehensive energy solutions to businesses throughout Canada and many parts of the US.

Turnover

£2,375m

Operating profit*

£134m

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

Europe

We are active participants in the liberalising energy markets of Belgium and Spain.

Our energy supply joint venture, Luminus, supplies customers in both the residential and business markets of Belgium.

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

Turnover***

£287m

Operating profit*

£4m

www.luminus.be
www.luseoenergia.com

* operating profit is shown before goodwill amortisation and exceptional items, including joint ventures and associates

** excluding Accord trading revenue

*** includes group share of Luminus joint venture turnover



Maximising our energy expertise

The year saw another stage in the evolution of Centrica as we refocused our business on those core areas of expertise and value which will drive our future growth

In reviewing 2004, one particular theme dominates the energy landscape – that is wholesale gas prices, which were as much as 29% higher than 2003.

It is particularly important, therefore, that this document should achieve three things. Firstly, to demonstrate the way that we managed our business within the context of this uniquely challenging environment to raise profitability and shareholder value. Secondly, to assess accurately the underlying performance of the individual businesses within Centrica. And thirdly, to illustrate the measures we took to strengthen the foundations on which our business is based.

Key indicators

With last year's wholesale price increases we faced markedly higher customer churn than in previous years. However, the intrinsic strength of the business is reflected in our financial performance: group operating profit* in 2004 was 16% higher than 2003, at £1,227 million, earnings* were up by 18% in the year and we also raised our dividend payout ratio to 40% of earnings*.

We are now seeing the positive impact of measures in British Gas which were put in place to address churn. The enhanced upstream investment programme which we announced in 2004 will further help Centrica to mitigate

the influence of forward energy pricing that is, in our view, not supported by market fundamentals.

2005 operating plan

We expect 2005 to be no less challenging than 2004, in terms of wholesale prices. We will continue to focus on the core businesses of energy and related services. In the UK, in particular, we will look to optimise our gross margin by reinforcing the link between the customer business and our upstream supply operation. By restructuring our support operations around this single focus, we are already removing duplicated activities, driving out inefficiencies and reducing our cost base.

Building our market

A number of measures have already been put in place to grow the British Gas customer base. We will intensify these efforts in 2005, alongside the wider transformation of British Gas.

Marketing under the British Gas Business brand, Centrica Business Services is already the leading supplier of energy products to the commercial sector in Britain. Extending our unique new service propositions from British Gas Residential into this sector will help us to build on our market leadership.

Centrica Energy will play an increasingly important role in the group as we continue, in 2005, to seek opportunities to acquire value-adding assets

and agree further long-term gas and power contracts. Our strong balance sheet, healthy supply position, and existing energy assets enable us to approach this with the necessary discipline and patience. A number of renewables projects will also reach fruition during 2005.

Given the low levels of storage capacity in the UK and increasing dependency on imported gas, Centrica Storage remains in a very strong position.

Firm foundations

We intend to take advantage, in 2005, of the firm foundations we have built in North America by extending our reach in retail markets, building our power generation portfolio, and by increasing our presence in the business and home services markets.

In telecoms we will continue to work with Ofcom on its Telecoms Strategic Review. And we will complete an internal restructure designed to enhance our ability to build the One.Tel business.

Despite the slow pace of deregulation in Europe, there are opportunities for us to create value as we build out from our current positions in Belgium and Spain. We will not hesitate to move rapidly when we identify value-creating opportunities.

Summary

In summary, the outlook for commodity prices will continue to dominate the landscape. I am confident that the decisive steps we are taking to meet this and other challenges will enable us to continue creating shareholder value.

Sir Roy Gardner
Chief Executive



“It's an exciting project which is playing a key role in improving security of gas supplies for Centrica customers.”

John, Centrica project manager, Langed terminal, Easington

Investing for the future

Strengthening our position in the wholesale markets through carefully planned acquisitions and strategic alliances has been a major theme of 2004

Across Centrica Energy, day-to-day business was dominated by the rising and fluctuating wholesale prices of both electricity and gas. Operating profit* fell by 9%.

At a strategic level, we reinforced our ability to manage wholesale price volatility to support our downstream energy businesses.

Gas production

During the year we acquired a 33% interest in the UK side of the Statfjord oil and gas field and 50% ownership of the Horne and Wren development. We also began an infrastructure project which will reduce the operating costs at the South Morecambe field, resulting in a slight increase in future profitability.

In the overall context of the market-place, a 19% rise in operating profit* to £573 million – helped by an increase in the price we charge to our downstream businesses, but offset by a 63% increase in the petroleum revenue tax – represents a strong performance.

Electricity generation

The total electricity generated by our own plants rose by 33% in 2004, giving us the ability to meet more than a quarter of residential demand.

We acquired the Killingholme power station, taking the electricity generating capacity of plants in which Centrica has a stake to 2,910MW.

In August, we completed the 100% acquisition of a company which owns land and consents to develop a gas-fired power station of up to 1,000MW in the south-west of England – an area which has little existing generation capacity.

Industrial sales and wholesaling

This business suffered its first year of operating losses* at £38 million as selling prices in our 18 industrial supply contracts fell, whilst the input price of gas rose, during 2004.

Energy trading

Accord operating profit* was down 18% at £14 million. The trading environment was particularly challenging,

given the huge swings in commodity prices in both the UK and continental Europe as well as the continuing lack of market liquidity.

Renewables

Between April 2003 and March 2004, 4.3% of all the electricity that we supplied was from renewable sources, thus meeting the government target. We also made positive progress on developments that will guarantee our ability to continue meeting renewable energy obligations.

We expect to see the first power from the Barrow offshore wind farm by the end of 2005. We acquired a 26MW onshore wind farm project in Aberdeenshire, which will deliver green energy in 2005.

Centrica Energy
Gas production volumes (therms)

3,938m

Power generated (GWh)

11,554

centrica
energy

Improving reliability for our customers

Centrica Storage is a real success story for the group, reporting excellent levels of performance and profitability in 2004

Centrica Storage
Increase in price per storage unit
23%

With higher differentials between winter and summer prices Centrica Storage achieved a 72% increase in operating profit* to £69 million.

We have already sold 100% of standard bundled units for the storage year 2005/06, at prices significantly higher than the previous year (which themselves were up 23% on 2003).

The £13 million investment that we made in the field and facilities contributed to good injection reliability throughout the spring, summer and autumn.

centrica
storage

Centrica won the contract to develop a gas terminal in East Yorkshire on behalf of a consortium of energy companies. The terminal will land gas from the huge Norwegian Ormen Lange field, which together with a 745-mile pipeline to Britain will be one of the world's largest gas development projects. The project takes advantage of the strengths of the team at Easington to bring in additional revenue without the need for capital outlay.

“It's good to know that a company with Centrica's experience is helping bring new gas supplies to Britain.”

Alison, British Gas customer



Offering customers gre

Our wide-ranging transformation programme is already delivering the benefits of operational efficiency, improved customer service and strong business performance

To date British Gas has invested £361 million in this programme. The new system improves understanding of customer needs and has led to a 2.5% increase in average product holdings. New format bills are expected in the middle of 2005. And, with the restructuring of our support services we are well positioned to achieve our business goals. With operating profit* up by 64% on increased turnover of 12%, we are rightly positive

about our results in this area. These partly reflect the fact that the preceding year, 2003, saw profits that were substantially depressed as a result of the unforecast wholesale price increases.

Residential Energy

Operating profit* in the energy business rose by 83% to £249 million in 2004.

Whilst our financial results for the year were extremely positive overall, our Residential Energy business was hard hit by the wholesale gas and power price increases. In net terms, we lost just over one million gas and electricity accounts.

Our retention campaign, designed to decisively address this situation, started to take effect towards the end of 2004. A new three-winter capped-price dual fuel product, launched in October 2004, has been well received by our customers, with sales reaching 345,000 by the end of the year.

Residential Energy

Gas customers

11.8m

Electricity customers

6.0m



Manage your account online:
www.house.co.uk



For residential sales call:
0845 607 0200

“I received excellent training and now, as a fully qualified engineer, I have the skills and confidence to help customers with all types of repairs.”

Sue, British Gas service engineer

Water choice

Within the year our costs included £88 million, as we prepare to meet the next stage of the government's Energy Efficiency Commitment (EEC).

Home Services

British Gas Home Services continues to develop both financially and commercially.

Home Services
Product holdings
increased by

7%

Number of
engineers employed
8,033

We made substantial investments in new product development, equipment, training and systems in 2004 and still showed a 13% rise in operating profit* to £95 million, on 11% greater turnover.

Our core central heating care product continues to grow. And it is also satisfying to see excellent sales of our newer kitchen appliance, home electrical, plumbing and drains care products.

We anticipate good take-up of our newly-launched

emergency call-out proposition, which gives all our energy customers access to our highly skilled and trusted engineers. We expect this to be a valuable tool for customer retention and cross-selling products.

With 10,000 engineers, qualified or in training, planned by the end of 2006, our business is well positioned to meet all challenges and competition.

October's acquisition of the Dyno group gives us access to the on-demand plumbing and drains business, allowing us to grow our market share more quickly.

Communications

Having developed sales of £62 million in a highly-competitive market place, all British Gas Communications products will now be placed under the umbrella of One.Tel. In future, British Gas will sell One.Tel branded products.

Communications
Number of customers

384k

Average monthly revenue
per user (fixed line)

£12.97

Centrica Business Services

Maintaining our number one position

**Overall operating profit* rose by 25%
to £64 million in 2004**

Centrica Business Services is the number one supplier of energy to the commercial sector in Britain (measured by supply points). We maintained this position in 2004, with increased turnover (up 7% to £1.2 billion) and profitability, as well as the roll-out of a number of initiatives designed to further consolidate our position. This has, of course, been a year of unprecedented volatility in the wholesale energy market.

The year-on-year improvement was heightened by the fact that 2003 was hit by wholesale prices movements, particularly in the fourth quarter.

The level of contract sales in electricity fell during 2004 with signs of the market maturing. This was partially offset by an increase in retention levels, resulting in only a slight decline in customer numbers.

New developments

In August we launched a central heating care product, leveraging the resources and

Centrica Business Services

Gas supply points

368k

Electricity supply points

515k

expertise of British Gas Home Services to deliver the service. Initial take-up rates are very encouraging, with 2,500 signed up by the middle of February. With an eye to the future efficiency of our business, we successfully completed high-level systems design on our new invoice and billing system which will underpin customer service enhancements and reduce our cost to serve. We will invest £40 million over the next two years with roll-out of the system due to start in 2006.

As with British Gas Residential, telecoms will be sold under the One.Tel brand in the future.



Continued investment in the training of our engineers is underpinning the growth of the British Gas Home Services business. More than 5,000 engineers have graduated from the British Gas Engineering Academy, helping meet demand for a growing range of services. New recruits are training at the rate of 1,000 a year to become domestic gas engineers, plumbers and electricians. Equipped with the latest laptop technology, our 8,000 engineers handled around eight million jobs last year.

**"I know I can trust
British Gas engineers
to do a thoroughly
good job."**

**Pete (and Holly), British Gas
plumbing and drains care customer**



One.Tel

Gearing up for future growth

In a highly competitive marketplace, One.Tel delivered a 300% increase in operating profit*

A combination of profitable revenue from Telco Global, which we acquired in September 2004, cost reductions and increased revenue from existing customers underpinned a very successful year.

Operating profit, turnover and average revenue per user all rose. We were the first company to bundle a 512k broadband product with unlimited local and national fixed-line calls within the UK, and this innovative approach helped quadruple our broadband numbers to 50,000. Our overall customer base now consists of a good mixture of residential and corporate accounts, fixed-line and mobile users.

Looking forward

There are further reasons to have confidence in the performance of Centrica's telecoms business. By the end of 2004, we had more than 1.3 million customers delivering operating profit* of £16 million. We also initiated a consolidation of all group telecoms activity. One.Tel will manage all the infrastructure and customer support functions. It will develop, brand and market telecoms products, and take advantage of British Gas residential and business distribution channels to maximise sales opportunities.

In such an active and aggressive marketplace it is essential that the playing field should be absolutely level, and we remain determined to ensure that customers get the best possible deal.

We welcomed the findings of Ofcom's investigation into BT's pricing, following our complaint, which resulted in a rebalancing of the cost of local call conveyancing, backdated to July 2004. We also welcomed phase two of the

One.Tel
Number of customers
1.3m
Average monthly revenue per user (fixed line)
£16.74

Telecoms Strategic Review, published on 1 November, which highlighted the shortcomings which have held back competition in this sector. We are particularly pleased to see that the proposals now place the onus on BT to provide solutions in all of the areas lacking equivalence between BT and its competitors.



Manage your account online:
www.onetel.co.uk

For residential sales call:
0800 957 0000

Centrica North America

Strengthening customer p

Acquisitions and organic growth helped build our energy and home services capability in North America

In North America overall, we achieved a 3% growth in operating profit*, up from £130 million in 2003 to £134 million. This is despite the adverse impact of exchange rate movements – accounting for a reduction in profit of £10 million.

As in Britain, our strategic focus has been on ensuring a balance between upstream capacity and downstream demand that will provide solid foundations for our future ambitions in this market place.

Canada residential and small commercial energy

Turnover in this segment increased by 94% to £819 million, mainly reflecting the acquisition, in May, of around one million gas and electricity customers from the ATCO Group in Alberta.

We achieved a much improved renewal rate of 89% for existing gas customers in Ontario, against 50% in 2003, whereas the electricity market remained effectively closed to new sales under the price cap introduced in November 2002.

We are hopeful that new legislation will allow marketing to small commercial customers to recommence so we can develop this business further.

Operating profit* in this segment fell by 9% to £30 million.

Texas residential and small commercial electricity

Operating profit* in this segment remained stable at £60 million, despite a 20% reduction in turnover to £744 million.

In 2004 we began to underpin our retail position in Texas with our own power generation assets. In April we acquired the Bastrop Energy Center followed by the Frontera power station in December, giving us just over 1GW of generation capacity and the ability to meet around 25% of our projected 2005 peak demand.

Other USA Energy

In our US gas markets we moved into profit for the first time, although turnover was down by 22% to £191 million. The regulatory climate and volatile gas prices continue



“We are an important link in the chain to deliver power to our customers across the state.”

Brad, power station shift engineer, Bastrop Energy Center

ng our roposition

Europe

Extending our reach into Europe

Our businesses in Belgium and Spain are now contributing to group profits and turnover

**Centrica
North America**
Energy customers

3.3m

Home Services
customers

1.8m

to make it difficult to add value-creating customers.

Home Services

An operating profit* of £36 million reflects a year of decisive action in the home services market. We grew sales of our core cover products and developed our waterheater rental and maintenance business.

We acquired a home services business which operates in Texas and nine other states. We transformed our operations in Ontario, including the closure of nine retail stores, and withdrew from the loss-making Pennsylvania operations.

Business Markets

The development of our Business Services proposition has been very encouraging, delivering a £4 million operating profit* after meeting the first year costs of entry. We signed high-profile energy contracts in all key states, and with continued growth in Ontario and the start-up of operations in Texas and Alberta, turnover reached £204 million, up 62% year-on-year.

We continued to develop our retail businesses in Belgium and Spain in 2004, while seeking opportunities to build out from this base.

Luminus in Belgium produced its first full year results since the market opened in the middle of 2003 and made an operating profit* of £7 million (2003: £3 million). As anticipated, however, customer numbers declined in the year with new entrants beginning to compete in the market.

In Spain, Luseo doubled its sites-on-supply to 4,000 in the second half of the year.



Securing cost-effective supplies of energy to support our customer businesses is as important in North America as it is in Britain. The acquisition of power generation in Texas is helping support the large customer base we have in the state, where electricity consumption per head is significantly higher than in Britain.

“By choosing Direct Energy as my supplier, I’m getting a great value deal.”

Roxanne, Direct Energy Business Services customer



Turning strategy into action

We are committed to the highest ethical standards and are working hard to embed responsibility in all aspects of our business activities

Centrica's operations touch millions of lives and we believe that meeting and exceeding our responsibilities to society as a whole contributes to long-term, sustainable commercial success.

Our innovative corporate responsibility strategy helps to shape the way we do business.

Translating this strategy into action builds customer loyalty, encourages investors to put their trust in us, and suppliers

and business partners to work with us. This will help us to become an employer of choice for the best people in the marketplace and motivates communities to welcome us.

WorkWise means greater flexibility

Because our people play a vital role in the creation of shareholder value, we aim to help them enjoy a work/life balance that's right for them and enables them to give of their best.

Our policy is to explore and encourage new ways of working that enhance productivity and morale, increase diversity, develop talent and reduce costs, provided always that both business performance and high-quality service to customers are maintained or improved.

Using new technology, our WorkWise programme, for example, provided flexible working arrangements for more than 1,000 employees in 2004.

Supporting vulnerable customers

At the heart of our service ethic is our commitment to help make life better for some of Britain's most disadvantaged individuals and communities. The British Gas 'here to HELP' programme – a unique

Employee volunteers making a real difference

Encouraging and supporting employee involvement in the community is at the heart of our approach to corporate citizenship. We believe that the involvement of employees in local communities helps address issues of social concern, provides important development opportunities and benefits us as a business.

At the beginning of 2004, we launched a volunteering programme in British Gas, encouraging employees to spend up to two days a year working in their local communities. In total, during the year, Centrica employees invested around 13,000 hours in community activity.

Reducing our carbon profile

We have a responsibility to manage the impact of our activities on the environment and to help our customers use our products and services in an environmentally responsible way.

In 2004, we made significant improvements in our own energy management, waste reduction and recycling. And we began the process of involving our customers by, for example, offering them online billing and energy from renewable sources.

Currently, about 5% of the electricity we supply comes from renewable sources, and we plan to increase this percentage every year, in order to meet our target of 15% by 2015/16.

Unclaimed benefits identified for vulnerable households

£5.6m

Staff fundraising for Cancer Research UK

£690k

collaboration between the public, voluntary and private sectors – is providing simple, practical ways to make homes warm, safe and comfortable. We have committed £290 million over the next three years to assist our vulnerable customers and tackle the issue of fuel poverty.

An independent trust fund – set up in 2004 with initial British Gas funding of £10 million over three years – is providing grants to customers who are experiencing difficulty paying their bills.

 For more information on our corporate responsibility activities see our corporate responsibility report 2004 or visit: www.centrica.com/responsibility

“Customers have been surprised and delighted to be dealt with in their mother tongue, and as a result they recommend us to their family and friends.”

Mandeep, British Gas customer service adviser

British Gas has set up an in-house language line service to help customers whose first language is not English. The company has a network of more than 200 staff who speak a total of 35 languages. Callers welcome the chance to explain their query in their native language. Surveys show this service, launched in 2003, has brought high levels of customer satisfaction and improves customer retention. The company recognised how the diversity of its own staff could benefit its diverse customer base.



Returning more value to shareholders

During the year we returned over £1.5 billion to shareholders and our share price outperformed the FTSE 100 Index by more than 4%

Centrica's aim is to achieve a total shareholder return (TSR) ranking in the first quartile of the UK FTSE 100 Index. Centrica promotes continuing growth in earnings and cash flow and seeks to maximise the return on capital it achieves in excess of its cost of capital, within a prudent risk management framework.

The group's closing share price on 31 December 2004 was 236.25 pence (31 December 2003: 211 pence), resulting in a market capitalisation of £8.9 billion (2003: £9.0 billion). This is after returning over £1.5 billion to shareholders by way of special and ordinary dividends and the commencement of a share buyback programme.

Earnings and dividends

Earnings increased by £882 million to £1,382 million in 2004 (2003: £500 million). This reflected improved operating profit, up £103 million, offset by taxation up from £266 million to £306 million, lower goodwill amortisation and the exceptional items discussed below. Operating profits improved in all areas except Centrica Energy's industrial and wholesaling division.

Earnings before exceptional items and goodwill amortisation were up 18% to £839 million (2003: £714 million). This represents a return on capital employed over the year of nearly 32% and nearly 9.4% on our average market capitalisation. Basic earnings per share grew from 11.8 pence to 33.0 pence and adjusted earnings per share from 16.8 pence to 20.0 pence. Over the last three years, the adjusted earnings per share have grown by a compound annual average of over 18% facilitating a progressive dividend policy. The total ordinary dividend for this year is 8.6

pence compared to 5.4 pence in 2003. This is consistent with our previous commitment to increase our payout ratio to 40% of earnings before goodwill and exceptional items in 2004.

Exceptional items and goodwill amortisation

Operating exceptional charges of £104 million (2003: £nil) arose in the year as a result of business restructuring costs (£105 million) and an impairment cost as a result of water ingress into a gas well (£50 million), offset in part by the release of a provision (£51 million) in respect of a long-term take-or-pay contract. In addition, an after tax non-operating exceptional profit of £740 million arose from the disposal of the AA (2003: £41 million charge after tax). The group's goodwill amortisation charge for the year reduced to £123 million from £161 million in 2003.

Net interest and taxation

Net interest charged to the profit and loss account was £19 million compared with £52 million in 2003 and was covered 64 times by operating profit*, compared with 20 times a year earlier.

The tax charge of £349 million in 2004 represented an effective 29% rate on profits adjusted for goodwill amortisation and exceptional items (2003: £282 million, representing an effective rate of 28%).

Cash flow

Group operating cash flow from continuing operations was £1,234 million for 2004, up from £1,216 million last year.

Total capital expenditure and financial investment was £351 million this year, up from £282 million in 2003, with spending on acquisitions totalling £591 million (2003: £117 million).

Balance sheet

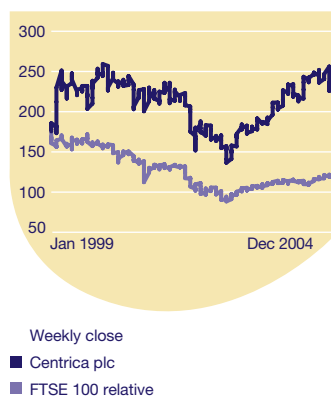
The net assets of the group decreased during the year from £2,737 million to £2,571 million as a result of the payment of the special dividend and the share buyback programme.

The group's net cash balances at 31 December 2004 were £296 million (2003: £163 million) excluding £217 million of non-recourse debt (2003: £216 million of non-recourse debt). Cash and money market investments increased by £181 million to £1,207 million.

The group is well placed to implement International Financial Reporting Standards from January 2005. Our annual report to shareholders for 2005 will be presented under these conventions.

Phil Bentley
Group Finance Director

Centrica share performance (pence)



“This company is making a big effort to be helpful... it feels like I'm getting great value for money.”

Jaswinder, British Gas customer



*including joint ventures and associates, before goodwill amortisation and exceptional items

Summary group profit and loss account

Glossary

Group turnover

Turnover represents amounts receivable for goods and services provided, excluding the group's share of turnover from joint ventures and associates.

Profit attributable to the group

Profit earned in the year available to pay dividends and to re-invest in the business.

Transfer (from)/to reserves

(Loss)/profit retained in the group and transferred to capital employed, representing funds available to re-invest in the business less distributions to shareholders.

Earnings per ordinary share

basic
Profit earned of £1,382 million divided by the average number of shares in issue during the year of 4,184 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 goodwill amortisation, of £839 million divided by the average number of shares in issue.

| | 2004 | | | 2003 | | |
|---|---|---|----------------------------|---|---|----------------------------|
| Year ended 31 December | Results for the year before goodwill amortisation and exceptional items £m | Goodwill amortisation and exceptional items £m | Results for the year £m | Results for the year before goodwill amortisation and exceptional items £m | Goodwill amortisation and exceptional items £m | Results for the year £m |
| Group turnover | 18,303 | – | 18,303 | 17,931 | – | 17,931 |
| Cost of sales | (14,712) | – | (14,712) | (14,572) | – | (14,572) |
| Gross profit | 3,591 | – | 3,591 | 3,359 | – | 3,359 |
| Operating costs | (2,432) | (221) | (2,653) | (2,367) | (155) | (2,522) |
| Group operating profit | 1,159 | (221) | 938 | 992 | (155) | 837 |
| Share of operating profit/(loss) in joint ventures and associates | 68 | (6) | 62 | 66 | (6) | 60 |
| Operating profit including joint ventures and associates | 1,227 | (227) | 1,000 | 1,058 | (161) | 897 |
| Loss on closure of business | – | – | – | – | (16) | (16) |
| Profit/(loss) on disposal of business | – | 727 | 727 | – | (51) | (51) |
| Net interest payable | (19) | – | (19) | (52) | – | (52) |
| Profit on ordinary activities before taxation | 1,208 | 500 | 1,708 | 1,006 | (228) | 778 |
| Taxation | (349) | 43 | (306) | (282) | 16 | (266) |
| Profit on ordinary activities after taxation | 859 | 543 | 1,402 | 724 | (212) | 512 |
| Minority interests (equity and non-equity) | (20) | – | (20) | (10) | (2) | (12) |
| Profit attributable to the group | 839 | 543 | 1,382 | 714 | (214) | 500 |
| Dividends | | | (1,387) | | | (229) |
| Transfer (from)/to reserves | | | (5) | | | 271 |
| | Pence | | Pence | Pence | | Pence |
| Earnings per ordinary share | | | | | | |
| basic | | | 33.0 | | | 11.8 |
| diluted | | | 32.5 | | | 11.6 |
| adjusted basic | 20.0 | | | 16.8 | | |
| | | | £000 | | | £000 |
| Directors' emoluments | | | 4,603 | | | 4,327 |

Shareholders' funds

The total interest of shareholders in the group's net assets.

Minority interests (equity and non-equity)

The interests of others who hold shares in the group's subsidiary companies.

Capital employed

Cumulative retained profits and capital required to support the business.

Summary group balance sheet

| 31 December | 2004 £m | 2003 £m |
|---|------------|------------|
| Fixed assets | 3,950 | 4,441 |
| Current assets | 4,701 | 4,237 |
| Creditors (amounts falling due within one year) | (4,253) | (3,996) |
| Net current assets | 448 | 241 |
| Total assets less current liabilities | 4,398 | 4,682 |
| Creditors (amounts falling due after more than one year) | (753) | (885) |
| Provisions for liabilities and charges | (1,074) | (1,060) |
| Net assets | 2,571 | 2,737 |
| Shareholders' funds | 2,352 | 2,520 |
| Minority interests (equity and non-equity) | 219 | 217 |
| Capital employed | 2,571 | 2,737 |

Summary group cash flow statement

| Year ended 31 December | 2004 £m | 2003 £m |
|---|--------------|-------------|
| Cash inflow from continuing operating activities | 1,234 | 1,216 |
| Cash inflow/(outflow) from discontinued operating activities | 120 | (224) |
| Cash inflow from operating activities | 1,354 | 992 |
| Dividends received from joint ventures and associates | 28 | 28 |
| Returns on investments and servicing of finance | 6 | (15) |
| Taxation paid | (239) | (181) |
| Capital expenditure and financial investment | (351) | (282) |
| Disposals and acquisitions | 998 | 292 |
| Equity dividends paid | (1,314) | (182) |
| Cash inflow before use of liquid resources and financing | 482 | 652 |
| Management of liquid resources | (377) | (669) |
| Financing | (130) | (13) |
| Decrease in net cash | (25) | (30) |

Glossary

Equity dividends paid

Dividends paid to shareholders in the year. Includes final 2003 dividend of 3.7p per share, interim 2004 dividend of 2.5p per share and special dividend of 25p per share.

Cash inflow before use of liquid resources and financing

Cash generated in the year used to finance the business, after payment of dividends and re-investment in the business.

Liquid resources

Short-term deposits with banks which mature within one year of the date of deposit.

Financing

Includes net cash inflow on borrowings of £18 million, issue of ordinary share capital £24 million, share buyback cash outflow of £205 million, distribution to minority shareholders of £18 million and a realised gain on foreign exchange of £51 million.

Segmental analysis

| Year ended 31 December | Turnover | | Operating profit/(loss) before goodwill amortisation and exceptional items, including share of results of joint ventures and associates | | Operating profit/(loss) after goodwill amortisation and exceptional items, including share of results of joint ventures and associates | |
|----------------------------|---------------|---------------|---|--------------|--|------------|
| | 2004 £m | 2003 £m | 2004 £m | 2003 £m | 2004 £m | 2003 £m |
| Continuing operations: | | | | | | |
| British Gas Residential | 6,906 | 6,192 | 337 | 206 | 326 | 205 |
| Centrica Business Services | 1,200 | 1,125 | 64 | 51 | 54 | 40 |
| Centrica Energy | 6,823 | 7,081 | 512 | 561 | 461 | 561 |
| Centrica Storage | 133 | 82 | 69 | 40 | 69 | 40 |
| One.Tel | 218 | 178 | 16 | 4 | 10 | 1 |
| Centrica North America | 2,375 | 2,369 | 134 | 130 | 71 | 50 |
| Other operations | 11 | 6 | 5 | - | (43) | (6) |
| | 17,666 | 17,033 | 1,137 | 992 | 948 | 891 |
| Discontinued operations: | | | | | | |
| The AA | 637 | 797 | 90 | 93 | 52 | 44 |
| Goldfish Bank | - | 101 | - | (27) | - | (38) |
| | 18,303 | 17,931 | 1,227 | 1,058 | 1,000 | 897 |

Discontinued operations relate to the disposal of the group's interest in the AA on 30 September 2004 and of the group's interest in the Goldfish credit card and loan business on 30 September 2003.

The summary financial statement on pages 12 and 13 was approved by the board of directors on 24 February 2005 and was signed on its behalf by:



Sir Roy Gardner
Chief Executive



Phil Bentley
Group Finance Director



1



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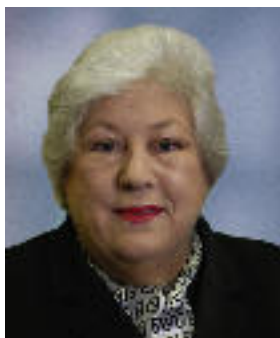
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9



10

1. Roger Carr

Chairman (58) 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. He was previously chief executive of Williams plc and chairman of Thames Water plc and Chubb plc.

2. Helen Alexander CBE

Non-executive director (48) 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.

3. Phil Bentley

Group finance director (46) E.

Phil Bentley joined Centrica plc as group finance director in 2000. Prior to that, 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 in several international finance roles. He is also a non-executive director of Kingfisher plc.

4. Mark Clare

Deputy chief executive and managing director, British Gas (47) E.

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

5. Mary Francis

Non-executive director (56) A.R.

Mary Francis joined the board in June 2004. She is Director General of the Association of British Insurers until 31 March 2005 and was formerly a senior civil servant in the Treasury and the Prime Minister's office. She is a director of the Bank of England, a member of the Press Complaints Commission and a trustee of the Almeida Theatre.

6. Sir Roy Gardner

Chief executive (59) 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 chairman of Manchester United plc, president of Carers UK, president of the Employers' Forum on Disability and chairman of the National Apprenticeship Task Force.

7. Patricia Mann OBE

Senior non-executive director (67) A.N.R.

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

8. Paul Rayner

Non-executive director (50) 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.

9. Jake Ulrich

Managing director, Centrica Energy (52) E. US citizen

Jake Ulrich was appointed to the board on 1 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. He previously worked for NGC, Union Carbide Corporation and the OXY/Mid Con/Peoples Energy Group.

10. Paul Walsh

Non-executive director (49) 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 served in a variety of finance roles. He is a non-executive director of Federal Express Corporation and a governor of the Henley Management Centre.

Note

Sir Michael Perry (chairman), Robert Tobin and Roger Wood were directors of the company until 10 May, 23 September and 30 September 2004 respectively.

Key to membership of committees

A Audit committee

E Centrica executive committee

N Nominations committee

R Remuneration committee

Independent auditors' statement to the members of Centrica plc

We have examined the summary financial statement of Centrica plc.

Respective responsibilities of directors and auditors

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

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with section 251 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

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

Opinion

In our opinion the summary financial statement is consistent with the annual financial statements, the directors' report and the directors' remuneration report of Centrica plc for the year ended 31 December 2004 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
24 February 2005

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

Full report and accounts

This summary financial statement is a summary of the full Centrica annual report and accounts. It does not contain sufficient information to allow as full an understanding of the results and state of affairs of the group and of its policies and arrangements concerning the directors' remuneration as would be provided by the full report and accounts. 2003 comparatives have been restated following the adoption of UITF 38. If you would like a copy of the Centrica annual report and accounts for 2004 and/or future years, free of charge, please contact the Centrica shareholder helpline (see page 18 for contact details). The report can also be downloaded from our website at www.centrica.com.

Summary directors' report

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

Directors

The biographical details of the directors appear on page 14.

Principal activities

The principal activities during the year were:

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

The provision of roadside assistance in the UK and Ireland ceased on 30 September 2004 on completion of the sale of the AA.

Post balance sheet events

Details of share repurchases carried out from 1 January to 21 February 2005 are disclosed in the full annual report and accounts.

Dividends

An interim dividend for 2004 of 2.5 pence per ordinary share and a special dividend of 25 pence per ordinary share were paid on 17 November 2004. The directors recommend that, subject to approval at the annual general meeting, a final dividend of 6.1 pence per ordinary share will be paid on 15 June 2005 to those shareholders registered on 29 April 2005. This would make a total ordinary dividend for the year of 8.6 pence per share (2003: 5.4 pence per share) in addition to the special dividend of 25 pence per share.

Charitable and political donations

An outline of the group's involvement in the community appears on page 10. Charitable donations in the UK during the year amounted to £5.8 million (2003: £5.3 million). In line with group policy, no donations were made for political purposes.

Corporate governance

The group is committed to the highest standards of corporate governance. During 2003, the board reviewed its governance arrangements in the light of the new Combined Code on Corporate Governance (the Code) and the Guidance on Audit Committees (the Smith Report) and made changes as necessary and appropriate at the time. Although the company did not fully comply with all the provisions of the Code throughout 2004, further governance changes were approved by the board in the year that will ensure full compliance throughout 2005 and beyond. Details of these changes and of non-compliance during the year, together with a report on how the principles of the Code were applied, are set out in the report on corporate governance in the full report and accounts for the year ended 31 December 2004 and are summarised below.

The board

An effective board of directors leads and controls the group. The board, which met 11 times during the year, has a schedule of matters reserved for its approval. This schedule and the terms of reference for the board committees have been made available on request throughout the year and, since December 2004, 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 board meeting each year is substantially devoted to the development of strategy. Comprehensive briefing papers including financial information are circulated to each director one 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 executive, audit, remuneration and nominations committees. Directors' membership of these committees is shown on page 14. Full details of their respective terms of reference can be found in the annual report and accounts and 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, Spencer Stuart, a formal and rigorous evaluation of its own performance and that of its committees and individual directors, including the chairman.

The directors receive ongoing training including an induction programme tailored to meet the needs of the individual and they 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 (as described above) throughout the period from 1 January 2004 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 their work are reported to the audit committee on a quarterly basis.

Summary remuneration report

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

Composition and role of the remuneration committee

The board's remuneration committee comprises the independent non-executive directors and is chaired by Patricia Mann. Helen Alexander and Paul Walsh were members of the committee throughout 2004. Mary Francis and Paul Rayner became members of the committee when they joined the board. Roger Carr was a member until he became chairman of the company in May 2004 and Sir Michael Perry and Robert Tobin were members until they stepped down from the board.

The committee makes recommendations to the board, within formal terms of reference, on the policy and framework of executive remuneration and its cost to the company. The committee is also responsible for the implementation of remuneration policy and determining specific remuneration packages for each of the executive directors. It has access to advice provided by the group head of reward (Mike New), the group human resources director (Anne Minto), the general counsel & company secretary (Grant Dawson), the chief executive (Sir Roy Gardner) and external consultants.

Framework and policy on executive directors' remuneration

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

In constructing the remuneration packages, the committee aims to achieve a balance between fixed and variable compensation for each director. Accordingly, a significant proportion of the remuneration package depends on the attainment of demanding performance objectives, both short and long-term. In agreeing the level of base salaries and the annual performance bonus scheme, the committee takes into consideration the total remuneration that executives could receive. The committee reviews the packages and varies individual elements when appropriate from year to year.

As a matter of policy, the notice periods of the executive directors' service contracts do not exceed one year. It is intended that the current remuneration policy, of which the executive share option scheme (ESOS) and the long term incentive scheme (LTIS) elements have been approved by shareholders, will continue for 2005 and succeeding years.

Components of remuneration

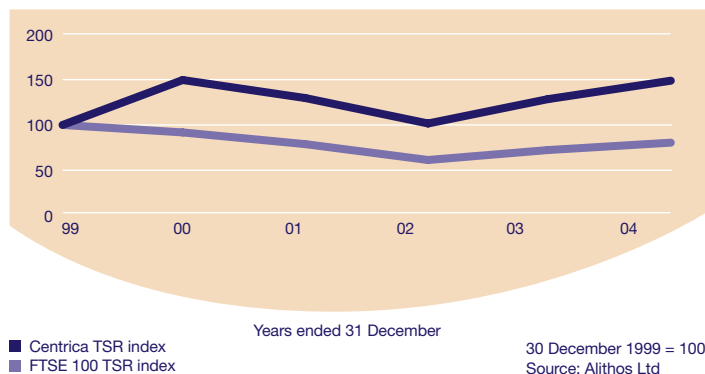
The components of remuneration for each executive director include a base salary and an annual performance bonus. For 2004 and 2005, the maximum bonus payable should every single element of every objective be achieved in full is 100% of base salary. The objectives comprise targets for personal performance, 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 addition, an annual grant of options is made under the ESOS and an allocation of shares is made under the LTIS, both of which are subject to performance conditions.

The performance conditions for LTIS awards are based on the company's total shareholder return (TSR) relative to the returns of FTSE 100 companies over a three-year performance period. The 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 LTIS comparator group). The committee reviews the appropriateness of the performance measure and the specific target set when considering each new allocation of shares under the LTIS. In addition, prior to the release of share allocations, the committee reviews whether the extent to which the performance condition has been achieved is a genuine reflection of the company's performance.

The performance conditions for the ESOS are based on the extent to which growth in the company's earnings per share exceeds growth in the Retail Prices Index over a three-year performance period. The committee continues to believe that, in relation to the ESOS, EPS growth in excess of RPI growth is the most appropriate measure for determining the increase in value delivered to shareholders by the company's executive directors and other senior executives. The committee reviews the appropriateness of the performance measure and the specific targets set when considering each new grant of options.

The following table compares the company's TSR performance with that of the FTSE 100 Index for the five years ended 31 December 2004.

TSR – Centrica and FTSE 100: 2000-2004



Other employment benefits

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

Directors' emoluments, pension benefits and interests in shares

| As at 31 December 2004 | Total emoluments excluding pension 2004 £000 ⁽ⁱ⁾ | Total emoluments excluding pension 2003 £000 ⁽ⁱ⁾ | Accrued annual pension 2004 £ p.a. ⁽ⁱⁱ⁾ | Beneficial interests in ordinary shares 2004 | Total options under Sharesave 2004 | Total options under the ESOS ⁽ⁱⁱⁱ⁾ 2004 | Total allocations under the LTIS ^(iv) 2004 |
|---|--|--|---|--|------------------------------------|--|---|
| Executive directors | | | | | | | |
| Phil Bentley | 931 | 843 | 70,000 | 188,454 | 5,161 | 1,634,257 | 663,501 |
| Mark Clare | 870 | 787 | 123,100 | 641,118 | 9,318 | 1,693,360 | 702,190 |
| Sir Roy Gardner | 1,623 | 1,480 | 335,800 | 2,175,014 | 9,318 | 2,791,495 | 1,157,644 |
| Roger Wood ^(v) | 750 | 757 | 153,700 | n/a | n/a | 1,198,573 | 354,564 |
| | 4,174 | 3,867 | | | | | |
| Non-executive directors | | | | | | | |
| Helen Alexander | 39 | 35 | – | 2,520 | – | – | – |
| Roger Carr | 173 | 35 | – | 19,230 | – | – | – |
| Mary Francis | 22 | – | – | 981 | – | – | – |
| Patricia Mann | 41 | 35 | – | 1,927 | – | – | – |
| Sir Michael Perry | 72 | 200 | – | n/a | – | – | – |
| Paul Rayner ^(vi) | 17 | – | – | – | – | – | – |
| Robert Tobin | 26 | 35 | – | n/a | – | – | – |
| Paul Walsh | 39 | 29 | – | 4,500 | – | – | – |
| | 429 | 369 | | | | | |
| Directors who stood down in 2003 | | | | | | | |
| Mike Alexander | – | 71 | n/a | n/a | – | – | – |
| Sir Brian Shaw | – | 20 | n/a | n/a | – | – | – |
| Total emoluments | 4,603 | 4,327 | | | | | |

- (i) Total emoluments include all taxable benefits arising from employment by the company, mainly the provision of a company car.
- (ii) Accrued pension is that which would be paid annually on retirement at age 62, based on eligible service to 31 December 2004. As reported last year, individual accrual rates in respect of past and future service were increased to take account of the change in normal retirement age from age 65 in the previous scheme to age 62. Full details of the directors' pension scheme arrangements can be found in the annual report.
- (iii) Options were granted under the ESOS on 31 May 2001, 2 April 2002, 24 March 2003 and 18 March 2004.
- (iv) Total allocations held under the LTIS shown above include allocations of shares that are subject to performance conditions and allocations that have reached the conclusion of the performance period but are subject to a two-year retention period.
- (v) Roger Wood stepped down as a director and left the company on 30 September 2004. He has six months from this date in which to exercise his share options, after which time they will lapse. The LTIS allocations still in their performance period have been reduced to reflect the proportion of the performance period for which he was employed. The total number of shares eventually released to him (at the end of the relevant performance period) will depend on the extent to which the relevant performance conditions are satisfied.
- (vi) Fees in respect of Paul Rayner's non-executive directorship are paid to his employer, British American Tobacco plc.
- (vii) The aggregate of the amount of gains made by executive directors on the exercise of share options was £258,854; and the aggregate value of shares vested to executive directors under the LTIS was £1,862,490. As at 21 February 2005, the beneficial shareholdings of Phil Bentley, Mark Clare and Sir Roy Gardner had each increased by 144 shares.

Four great reasons to join FlexiShare

a modern way to manage your Centrica shares



How would I benefit?

1. A lump-sum buy or sell facility – FlexiShare participants have the opportunity to use low-cost share dealing facilities provided by a panel of independent brokers.
2. Dividend reinvestment plan – your cash dividend can be used to buy additional Centrica shares (for a small dealing charge) which are then credited to your account.
3. Quicker settlement periods.
4. No certificates to lose.

How do I participate?

- Your first step is to call the Centrica shareholder helpline on 0870 600 3985. You will be sent a joining pack including details of the FlexiShare service and all the relevant forms and contacts that you will require. You can also visit www.centrica.com/flexishare for these forms. There is no 'closing date' and you can join at any time.
- Instructions to join the dividend reinvestment plan must be received at least 28 days before the payment date.

Services for shareholders

0870 600 3985

To find out more visit:
www.centrica.com/shareholders

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

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

Financial Calendar

- 27 April 2005 – Ex-dividend date for 2004 final dividend
- 29 April 2005 – Record date for 2004 final dividend
- 9 May 2005 – Annual general meeting, Queen Elizabeth II Conference Centre, London SW1
- 15 June 2005 – Final dividend payment date
- 15 September 2005 – 2005 interim results announced
- 16 November 2005 – 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@lloydtsb-registrars.co.uk

What's happened to my shares?

In October 2004, following the sale of the AA, we paid a special dividend of 25 pence per share. At the same time, there was a share consolidation on the basis of 9 new shares for every 10 shares held.

Shareholders were sent a new orange certificate (or FlexiShare notification) on 5 November; the old blue certificate became invalid.

If your shareholding wasn't divisible by 10, a cheque was attached to the new certificate, representing the entitlement to a fraction of one share left over from the calculation. Centrica gave shareholders the opportunity to send back these small cheques for donation to charity. In the past year, a combination of these cheques and donations through our share dealing programmes have raised over £1 million for charity through ShareGift – thank you!

The special dividend was paid on 17 November 2004 together with the interim

dividend of 2.5 pence, making a total dividend of 27.5 pence per share held before the consolidation. Shareholders who joined FlexiShare and had signed up for the dividend reinvestment plan before 19 October had their dividends reinvested on 17 November. Following a review of FlexiShare service charges, the £10 exit fee has been abolished. There is no charge for holding your shares in the service, nor for transferring in or out at any time.

ShareGift

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

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 historical and current share price information. You can also find out more about the special dividend and share consolidation.

Your share donations have raised

£1 million

for charity through Centrica programmes

Centrica plc

Company registered in England and Wales no. 3033654

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Windsor

Berkshire SL4 5GD

Tel 01753 494000

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www.centrica.com

Disclaimers

This review does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Centrica shares. This review contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Centrica plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements and forecasts.

Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.