

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you should consult your stockbroker, solicitor, accountant, bank manager or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 immediately.**

If you have sold or otherwise transferred some or all of your Ordinary Shares, please send this document, together with the accompanying form of proxy, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.

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# ***centrica***

## **Centrica plc**

### **Proposed Special Dividend of 25 pence per Existing Ordinary Share, Share Consolidation, Share Repurchases and Notice of Extraordinary General Meeting**

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Notice of an Extraordinary General Meeting of Centrica plc to be held at 10 a.m. on Thursday 21 October 2004 at the Ibis London Earls Court Hotel, 47 Lillie Road, London SW6 1UD is set out on pages 13 and 14 of this document. Shareholders are requested to complete and return the enclosed form of proxy, whether or not they intend to be present at the meeting, so as to be received by no later than 10 a.m. on Tuesday, 19 October 2004. Assuming the Resolutions are then passed at the Extraordinary General Meeting, no further action will be required in order for Shareholders to receive the Special Dividend, a cheque for their fractional entitlement (where applicable) and New Ordinary Shares.

Application will be made to the UK Listing Authority for the New Ordinary Shares arising from the proposed consolidation of the Company's ordinary share capital to be admitted to the Official List, and to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on the London Stock Exchange's market for listed securities. It is expected that dealings in the Existing Ordinary Shares will continue until close of business on 22 October 2004 and that Admission of the New Ordinary Shares will become effective and dealings for normal settlement will commence at 8 a.m. on 25 October 2004.

If you have any questions, please telephone the Centrica shareholder helpline on 0870 600 3985 (or +44 121 415 7061 from outside the UK) between 9 a.m. and 5 p.m. Monday to Friday. All calls from within the United Kingdom will be charged at national rates.

Cazenove & Co. Ltd is acting for Centrica plc and no one else in connection with the Special Dividend and Share Consolidation and will not be responsible to anyone other than Centrica plc for providing the protections afforded to its clients or for giving advice in relation to the Special Dividend and Share Consolidation.

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## Expected timetable of events

**2004**

Latest time and date for receipt of forms of proxy	10 a.m. on 19 October
Shares marked ex-dividend in respect of the Interim Dividend	20 October
Extraordinary General Meeting	10 a.m. on 21 October
Record Date for entitlement to the Special Dividend, Interim Dividend and for the Share Consolidation	close of business on 22 October
Shares marked ex-Special Dividend	25 October
Commencement of dealings in New Ordinary Shares	8 a.m. on 25 October
CREST accounts credited with New Ordinary Shares	25 October
Payment (where applicable) of fractional entitlements, despatch of certificates for New Ordinary Shares and FlexiShare notifications	by 5 November
Payment of the Special Dividend and Interim Dividend	17 November

*If any of the above times and/or dates change, the revised times and/or dates will be notified to Shareholders by announcement through the Regulatory News Service of the London Stock Exchange.*

### Shareholder helpline

If you have any questions, please call our shareholder helpline on 0870 600 3985 (or + 44 121 415 7061 from outside the UK) between 9 a.m. and 5 p.m. Monday to Friday. All calls from within the United Kingdom will be charged at national rates. For legal reasons, the shareholder helpline cannot provide advice on the merits of the Special Dividend, the Interim Dividend, the Share Consolidation or the Share Repurchases, or provide financial advice.

*Directors:*

Roger Carr (Chairman)  
Sir Roy Gardner (Chief Executive)  
Phil Bentley  
Mark Clare  
Helen Alexander\*  
Mary Francis\*  
Patricia Mann\*  
Paul Rayner\*  
Paul Walsh\*

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*Registered in England  
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*\*Independent non-executive*

1 October 2004

Dear Shareholder

**Special Dividend, Share Consolidation and Share Repurchases**

**Introduction**

On 1 July, Centrica announced that it had agreed to sell the AA to a company formed by CVC Capital Partners Ltd and Permira Advisers Ltd for a total consideration of £1.75 billion. It also announced a proposed return of capital to Shareholders amounting to £1.5 billion. This will comprise a special dividend of 25 pence per Existing Ordinary Share (amounting, in total, to approximately £1 billion) and a twelve-month rolling share repurchase programme of approximately £500 million, which has already commenced. The Special Dividend will be accompanied by a share consolidation of 9 shares for every 10 shares currently held, subject to the passing of Resolution 1 at the Extraordinary General Meeting to be held on 21 October. To the extent Share Repurchases are required to be conducted in the period following the Share Consolidation, these will be subject to the passing of the relevant resolutions at the Extraordinary General Meeting and at the Annual General Meeting in 2005. Given the value created from the disposal of the AA and Centrica's strong cashflows and balance sheet, your Board considers that it is appropriate to pay a special dividend and to implement the rolling share repurchase programme.

For the reasons explained in this letter, it is proposed that the payment of the Special Dividend be accompanied by a consolidation of the Company's ordinary share capital.

The purpose of this circular is to provide further details of the Special Dividend, the Share Consolidation and the share repurchase programme and to seek your consent to the Share Consolidation and to the renewal of the Company's existing authority to make market purchases of its Ordinary Shares.

Your approval to the Share Consolidation will be sought at the Extraordinary General Meeting to be held at the Ibis London Earls Court Hotel, 47 Lillie Road, London SW6 1UD at 10 a.m. on 21 October 2004. Notice of this meeting is set out at the end of this document. Provided Shareholders approve the resolution regarding the Share Consolidation and renew the authority to make market purchases, the next stage is for the New Ordinary Shares to be admitted to the Official List by the UK Listing Authority and admitted to trading by the London Stock Exchange. Subject to these approvals and to Admission, Shareholders who are on the Register at close of business on 22 October 2004 (the Record Date for the Special Dividend, the Interim Dividend and the Share Consolidation) will receive the Special Dividend and have their holdings consolidated.

**Special Dividend**

Your Board is proposing that a special dividend of 25 pence per Existing Ordinary Share be paid to Shareholders on the Register at close of business on the Record Date. This is in addition to the Interim Dividend of 2.5 pence per Existing Ordinary Share announced on 29 July 2004 and payable to Shareholders who are on the Register at close of business on the Record Date. The Special Dividend equates to an aggregate return of funds to Shareholders of approximately £1 billion. The

Special Dividend will be paid as a further interim dividend in respect of the financial year ending 31 December 2004 and is expected to be paid to Shareholders on 17 November 2004, along with the Interim Dividend.

### Share Consolidation

The total amount of the Special Dividend is equivalent to approximately 10 per cent of the market capitalisation of the Company (as adjusted for the Interim Dividend) at the close of business on 30 September 2004, the last practicable trading date prior to the publication of this circular. The effect of the Share Consolidation will be to reduce the number of Ordinary Shares in issue by approximately the same percentage, with the result that you will receive 9 New Ordinary Shares for every 10 Existing Ordinary Shares you hold on the Record Date and in that proportion for any other number of Existing Ordinary Shares then held. Although its nominal value will change from 5<sup>5</sup>/<sub>9</sub> pence to 6<sup>14</sup>/<sub>81</sub> pence, each New Ordinary Share will carry the same rights as set out in the Company's Articles of Association as the Existing Ordinary Shares.

If your shareholding comprises fewer than 10 Existing Ordinary Shares, but more than one, your shareholding will still be consolidated. Any relevant shareholding not exactly divisible by 10 will generate New Ordinary Shares as well as an entitlement to a fraction of a New Ordinary Share. Arrangements will be put in place for such fractional entitlements arising from the Share Consolidation to be aggregated and sold in the market on your behalf. For purely illustrative purposes, an example of these effects of the Special Dividend and the Share Consolidation is set out in the table below. A cheque in respect of any fractional entitlement (where appropriate) from the net proceeds of sale will be sent to you by 5 November 2004. The amount involved will be small but your Board decided that this is the fairest way to ensure Shareholders receive their full entitlement.

Although each Shareholder will hold fewer Centrica shares than before, his or her shareholding as a proportion of the total number of shares in issue, and therefore his or her ownership in the Company, will be the same before and after the Share Consolidation, subject to adjustments to reflect fractional entitlements.

The purpose of the Share Consolidation, amongst other things, is to try to ensure that (subject to normal market movements) the market price of each of your New Ordinary Shares is approximately the same as the market price of each of your Existing Ordinary Shares. Hence, it will allow comparability in earnings per share and share prices with prior financial periods.

Employees who are participants in the Share Incentive Plan will be entitled to receive the Special Dividend and to participate in the Share Consolidation in the same way as other Shareholders. Employees who are participants in the Share Schemes will not be entitled to receive the Special Dividend but the effect of the Share Consolidation will be to preserve the value of their options and awards (subject to normal market fluctuations). Details of the Special Dividend and the Share Consolidation with respect to the Share Incentive Plan and the Share Schemes are set out in paragraph 4 of Appendix I.

For purely illustrative purposes, examples of the effects of the Special Dividend and the Share Consolidation in respect of certain holdings of Existing Ordinary Shares are set out below:

<i>Existing Ordinary Shares</i>	<i>New Ordinary Shares</i>	<i>Special Dividend</i>	<i>Fractional Entitlement*</i>
5	4	£1.25	0.5
10	9	£2.50	—
25	22	£6.25	0.5
100	90	£25.00	—
198	178	£49.50	0.2
500	450	£125.00	—
1,000	900	£250.00	—

\* The fractional entitlement represents the fraction of a share which will be sold on 25 October 2004 on your behalf at the time of the Share Consolidation. The net proceeds will be sent to you by 5 November 2004.

Following the Share Consolidation, the Company's authorised ordinary share capital will comprise 4,455,000,000 New Ordinary Shares and, assuming no further shares are issued or repurchased between the date of this circular and the Share Consolidation becoming effective, the issued share capital will comprise 3,809,981,421 New Ordinary Shares. As a result, the general authority granted by Shareholders at the Annual General Meeting earlier this year to make market purchases of Ordinary Shares may no longer be used and will have to be renewed. Further details are set out below and in paragraph 2 of Appendix I.

Further details of the Special Dividend and Share Consolidation are included in Appendix I.

### **Taxation**

A summary of the taxation consequences of the Special Dividend, the Share Consolidation and the rolling share repurchase programme for certain categories of UK-resident Shareholders is set out in paragraph 5 of Appendix I.

As more particularly set out in paragraph 5 of Appendix I, the Directors have been advised that:

- the tax treatment of UK-resident Shareholders who receive the Special Dividend will generally be similar to the tax treatment of such holders receiving any other dividend paid by the Company since 6 April 2004;
- UK-resident Shareholders should generally not be treated as having made a disposal of their Existing Ordinary Shares for the purposes of UK taxation of chargeable gains as a result of the Share Consolidation; and
- UK-resident Shareholders who sell their Ordinary Shares to a broker (acting as principal) pursuant to the rolling share repurchase programme may, depending on each Shareholder's circumstances, be subject to tax on the amount of any chargeable gain realised.

**Shareholders should read paragraph 5 of Appendix I. If they are in any doubt as to their own tax position, they should consult their professional adviser.**

### **Extraordinary General Meeting**

A notice convening the Extraordinary General Meeting of the Company is set out on pages 13 and 14 of this circular. The meeting will be held at 10 a.m. on Thursday 21 October 2004 at the Ibis London Earls Court Hotel, 47 Lillie Road, London SW6 1UD.

### **Share Consolidation**

The first resolution will effect the Share Consolidation, following which the total number of Existing Ordinary Shares will be reduced and the nominal value of the Existing Ordinary Shares will change. As a result, the general authority to make market purchases of Ordinary Shares which was given to the Company at the Annual General Meeting of the Company held on 10 May 2004 can no longer be used.

### **Share Repurchases**

The purpose of the second resolution is, therefore, to put in place a new authority to enable the Company to make market purchases of New Ordinary Shares. This authority will apply to up to 349,705,272 New Ordinary Shares, representing 9.2 per cent of the Company's expected issued ordinary share capital after the Share Consolidation (assuming no further shares are issued or repurchased). As noted above, a twelve-month rolling share repurchase programme of approximately £500 million was also announced on 1 July and has already commenced. Shares repurchased under this programme will be cancelled. As at the date of this circular, and under an authority passed at the 2004 Annual General Meeting, a total of 38,050,000 Ordinary Shares have been repurchased and cancelled since 1 July 2004 for an aggregate consideration of £92.7 million.

To the extent that Share Repurchases are conducted in the period following the Share Consolidation, these will be subject to the passing of the second resolution at the Extraordinary General Meeting and obtaining the usual shareholder authority at the next Annual General Meeting in 2005. As discussed earlier, this forms part of the Board's proposal announced on 1 July 2004.

The disposal of the AA would have been expected to be dilutive to the Company's earnings per share in the absence of significant re-investment assumptions. The proposed Share Consolidation and the

rolling share repurchase programme, however, are expected to more than offset any dilution to the Company's earnings per share in 2005 and beyond that otherwise may have occurred.

### **Dealings and settlement**

Application will be made to the UK Listing Authority for the New Ordinary Shares to be admitted to the Official List and to the London Stock Exchange for the New Ordinary Shares to be admitted to trading. Subject to the Share Consolidation becoming effective, it is expected that dealings in the New Ordinary Shares will commence at 8 a.m. on 25 October 2004. Dealings in Existing Ordinary Shares will cease at the close of business on 22 October 2004.

New share certificates in respect of the New Ordinary Shares are expected to be posted, at the risk of Shareholders, by 5 November 2004 to those Shareholders who, at the Record Date, hold their shares in certificated form. These will replace existing certificates which should then be destroyed. Pending the receipt of new certificates, transfers of New Ordinary Shares held in certificated form will be certified against the Register.

Shareholders who, at the Record Date, hold their entitlement to New Ordinary Shares in uncertificated form through CREST will have their CREST accounts adjusted to reflect their entitlement to New Ordinary Shares on 25 October 2004. As from 25 October 2004, each holding of Existing Ordinary Shares credited to any stock account in CREST will be disabled and all Existing Ordinary Shares will be removed from CREST in due course.

Shareholders who, at the Record Date, hold their entitlement to New Ordinary Shares in uncertificated form as a consequence of participation in FlexiShare, the Centrica-sponsored nominee, will have their accounts adjusted to reflect their entitlement to New Ordinary Shares on 25 October 2004. FlexiShare statements showing the new entitlements will be posted by 5 November 2004 although dealing will be permitted from 25 October.

### **Action to be taken**


A form of proxy is enclosed for your use in respect of the Extraordinary General Meeting. Whether or not you propose to attend, please complete and sign the enclosed form of proxy before returning it to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex as soon as possible, and in any event so as to be received by no later than 10 a.m. on 19 October 2004. Even if you complete and return a proxy form, you may still attend the meeting and vote in person if you so wish.

### **Board recommendation**

**The Directors of Centrica plc, who have received financial advice from Cazenove & Co. Ltd, consider the proposal for the Special Dividend and the accompanying Share Consolidation, together with the related renewal of the Company's authority to make market purchases of its Ordinary Shares, to be in the best interests of the Company and its Shareholders as a whole. In giving its financial advice, Cazenove & Co. Ltd has placed reliance on the Directors' commercial assessments.**

**Accordingly, the Directors unanimously recommend Shareholders to vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting as they intend to do in respect of their own beneficial holdings.**

Yours sincerely



Roger Carr  
*Chairman*



## Appendix I

### Further details of the Special Dividend, Share Consolidation and Share Repurchases

#### 1. Share Consolidation

The effect of the Share Consolidation will be that Shareholders on the Register at the close of business on the Record Date will, on the implementation of the Share Consolidation, exchange:

##### 10 Existing Ordinary Shares for 9 New Ordinary Shares

and in that proportion for any other number of Existing Ordinary Shares then held. The proportion of the issued ordinary share capital of the Company held by each Shareholder following the Share Consolidation will, save for fractional entitlements, remain unchanged. Apart from having a different nominal value, each New Ordinary Share will carry the same rights as set out in the Company's Articles of Association that currently attach to the Existing Ordinary Shares.

##### *The Share Consolidation*

Each Existing Ordinary Share of  $5\frac{5}{9}$  pence in the capital of the Company will first be subdivided into 9 Intermediate Ordinary Shares of  $\frac{50}{81}$  pence each (paragraph (a) of Resolution 1). This will immediately be followed by a consolidation of every 10 Intermediate Ordinary Shares into one New Ordinary Share of  $6\frac{14}{81}$  pence (paragraph (c) of Resolution 1).

To effect the Share Consolidation it may be necessary to issue an additional number of Existing Ordinary Shares (up to a maximum of 9) so that the number of New Ordinary Shares in issue after the Share Consolidation is a whole number.

##### *Fractional entitlements*

Shareholders whose holdings of Existing Ordinary Shares cannot be consolidated into an exact number of New Ordinary Shares will be left with a fractional entitlement. Such Shareholders will receive cash in respect of fractional entitlements to New Ordinary Shares following the Share Consolidation. New Ordinary Shares representing the aggregate amount of such fractional entitlements will be sold in the market on 25 October 2004 on behalf of the relevant Shareholders. Cheques in respect of the net proceeds of sale are expected to be despatched by 5 November 2004. Shareholders who hold one Existing Ordinary Share will receive cash only.

#### 2. Effects of the Share Consolidation and Share Repurchases

The table below sets out the authorised and issued ordinary share capital as at 30 September 2004 (the latest practicable date prior to the printing of this document) and as it is expected to be following the Share Consolidation.

	<i>Existing Ordinary Shares</i>	<i>New Ordinary Shares</i>
Authorised	4,950,000,000	4,455,000,000
Issued	4,233,312,690	3,809,981,421

*The table above does not include the effect of any Existing Ordinary Shares that may be repurchased pursuant to the share repurchase programme or issued in connection with the Company's Share Incentive Plan or Share Schemes or otherwise between 30 September 2004 and the Record Date.*

As noted above, a twelve-month rolling share repurchase programme of approximately £500 million was also announced on 1 July and has already commenced. As at the date of this circular, and under an authority passed at the 2004 Annual General Meeting, a total of 38,050,000 Ordinary Shares have been repurchased and cancelled since 1 July 2004 for an aggregate consideration of £92.7 million.

Existing Ordinary Shares purchased on or prior to the Record Date will be acquired pursuant to the authority granted to the Company at the Annual General Meeting held on 10 May 2004. Share Repurchases following 25 October will, however, be subject to the passing of the second resolution at the Extraordinary General Meeting and obtaining the usual Shareholder authority at the next Annual General Meeting in 2005. Existing Ordinary Shares purchased on or prior to

the Record Date and New Ordinary Shares purchased on or after 25 October 2004 will be cancelled automatically and the number of Ordinary Shares in issue will be reduced accordingly. The total number of options to subscribe for Ordinary Shares that were outstanding as at 30 September 2004 was 129,579,449, representing approximately 3.1 per cent of the issued share capital of the Company at that date and approximately 3.4 per cent of the issued share capital following the Share Consolidation. This would amount to approximately 3.7 per cent of the new issued share capital following the Share Consolidation if the authority to purchase shares under Resolution 2 were used in full. The above percentages assume that no further shares are issued or repurchased between the date of this circular and the Share Consolidation becoming effective. Centrica does not currently hold any treasury shares purchased pursuant to the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003.

### **3. Conditions**

The Special Dividend and Share Consolidation are conditional on Resolution 1 as set out in the notice of Extraordinary General Meeting being passed and becoming unconditional. This resolution is conditional on the New Ordinary Shares being admitted to the Official List by the UK Listing Authority and being admitted to trading by the London Stock Exchange.

If Resolution 1 as set out in the Notice of Extraordinary General Meeting is passed and becomes unconditional, further repurchases of Ordinary Shares under the rolling share repurchase programme are dependent on Resolution 2 as set out in the Notice of Extraordinary General Meeting being passed. Under this authority, the proposed Share Repurchases may be made until the next Annual General Meeting in 2005 or up to 9 August 2005, whichever is the earliest. Thereafter, share repurchases will be subject to the passing of the relevant resolution at the Annual General Meeting in 2005.

### **4. Employee share schemes**

Participants in the Share Incentive Plan will be entitled to receive the Special Dividend on the Existing Ordinary Shares held on their behalf under this plan and to participate in the Share Consolidation in a similar way to other Shareholders.

Participants in the Share Schemes will not be entitled to receive the Special Dividend. The effect of the Share Consolidation will, however, be to preserve the value of their options and awards, subject to normal market fluctuations, and so no adjustment will be made to either the number of shares subject to those options or awards or the amount payable on exercise or vesting of such options or awards. Following the Share Consolidation, participants will be entitled to the same number of New Ordinary Shares as their previous entitlement to Existing Ordinary Shares.

Centrica will be writing separately to participants in the Share Incentive Plan to explain the impact of the Special Dividend and the Share Consolidation on their options or awards.

### **5. Taxation**

**The following summary is intended as a general guide only and relates only to the UK taxation treatment of the Special Dividend and the related Share Consolidation. It is based on current UK law and current Inland Revenue practice for Shareholders who (except where otherwise indicated) are resident in the UK for tax purposes, who are the beneficial owners of those shares and who hold them as investments. Shareholders who are in any doubt about their tax position, or who are subject to tax in any jurisdiction other than the UK, should consult their own appropriate professional advisers.**

#### *Special Dividend*

There is no UK withholding tax on dividends.

An individual Shareholder should generally be entitled to a tax credit in respect of the Special Dividend which he or she can offset against his or her total income tax liability. The amount of the tax credit is equal to 10 per cent of the aggregate of the dividend and the tax credit (the “**gross dividend**”) (one-ninth of the amount of the net cash dividend). The gross dividend is included in computing the income of such an individual holder for UK tax purposes.



The rate of income tax on dividends is 10 per cent of the gross dividend for taxpayers liable to income tax at rates not exceeding the basic rate. The tax credit will discharge the income tax liability on the Special Dividend of an individual Shareholder who is not liable to income tax at a rate higher than the basic rate. A higher rate taxpayer will be liable to tax on the Special Dividend at the rate of 32.5 per cent of the gross dividend; so after the tax credit has been set against his or her tax liability, he or she will have to account for tax equal to 22.5 per cent of the gross dividend (25 per cent of the net cash dividend received) to the extent that the gross dividend, being treated as the top slice of his or her income, falls above the threshold for higher rate income tax.

A UK-resident corporate shareholder will not normally be liable to corporation tax in respect of the Special Dividend.

UK-resident taxpayers who are not liable to UK tax on the Special Dividend, including most companies, pension funds, charities and individuals holding their Ordinary Shares in a Personal Equity Plan or an Individual Savings Account, will generally not be entitled to claim repayment of the tax credit in respect of the Special Dividend.

The right of Shareholders who are not resident in the UK for tax purposes to reclaim tax credits attaching to the Special Dividend will depend upon the existence and terms of an applicable double tax treaty. In most cases, the amount that can be paid to such Shareholders will be reduced to nil as a result of the terms of the relevant treaty. Shareholders who are not resident in the UK for tax purposes should consult their own tax advisers concerning their tax liabilities in the UK and any other country on the Special Dividend.

### ***Share Consolidation***

It is expected that for the purposes of UK taxation on chargeable gains the Share Consolidation will be treated as follows:

- (a) the New Ordinary Shares arising from the Share Consolidation will result from a reorganisation of the share capital of the Company. Accordingly, a Shareholder will not generally be treated as making a disposal of all or part of his or her holding of Existing Ordinary Shares by reason of the Share Consolidation being implemented, and the New Ordinary Shares which replace a Shareholder's holding of Existing Ordinary Shares ("**the new holding**") as a result of the Share Consolidation will be treated as the same asset acquired at the same time as the Shareholder's holding of Existing Ordinary Shares was acquired;
- (b) to the extent that a Shareholder receives cash by virtue of a sale on his or her behalf of any New Ordinary Shares to which he or she has a fractional entitlement, the Shareholder will not in practice normally be treated as making a part disposal of his or her holding of Ordinary Shares, the proceeds instead being deducted from the base cost of the Shareholder's new holding. If those proceeds exceed that base cost, however, or if a Shareholder holds one Existing Ordinary Share and so is not entitled to any New Ordinary Shares on the Share Consolidation, the Shareholder will be treated as disposing of part or all of his or her Ordinary Shares and will be subject to tax in respect of any chargeable gain thereby realised; and
- (c) on a subsequent disposal of the whole or part of the New Ordinary Shares comprised in the new holding, a Shareholder may, depending on his or her circumstances, be subject to tax on the amount of any chargeable gain realised.

### ***Section 703 of the Income and Corporation Taxes Act 1988 ("ICTA")***

Under the provisions of section 703 ICTA, the Inland Revenue can, in certain circumstances, counteract tax advantages arising in relation to certain transactions in securities. No clearance has been or will be sought under section 707 ICTA that the Inland Revenue will not seek to apply those provisions in relation to the Special Dividend.

Shareholders are advised to take independent advice on the potential application of section 703 ICTA in the light of their own particular circumstances.

### ***Share Repurchases***

The rolling share repurchase programme is being effected by a two-stage process. First, there are on-market purchases by brokers, acting as principal, of Ordinary Shares from Shareholders. The disposal of all or part of the Ordinary Shares of a Shareholder that is resident or ordinarily resident in the United Kingdom for tax purposes to these brokers may, depending on the Shareholder's circumstances, be subject to tax on the amount of any chargeable gain realised. A Shareholder who is an individual and is only temporarily non-resident for tax purposes, may, under anti-avoidance legislation, still be liable to United Kingdom tax on any chargeable gain realised on a return to the United Kingdom. Secondly, there is a repurchase by the Company of the Ordinary Shares from the brokers.

### ***Consolidated tax vouchers***

Shareholders who have an instruction in place for the direct payments of their dividends into their bank or building society accounts would normally receive a consolidated tax voucher each March listing the dividend payments in the previous year. Details of the Special Dividend will also be included on the March 2005 voucher and no tax information will be sent to those Shareholders at the time of the Special Dividend payment.

## **6. Record Date**

Subject to the New Ordinary Shares being admitted to the Official List by the UK Listing Authority, and being admitted to trading by the London Stock Exchange, Shareholders who are on the Register on the Record Date will receive the Interim Dividend, the Special Dividend and have their holdings consolidated.

Persons who acquire Existing Ordinary Shares before the close of business on 22 October 2004 but who are not on the Register as at the Record Date should apply to the broker or other intermediary through whom they bought the Existing Ordinary Shares to arrange for delivery to them of the New Ordinary Shares, the Special Dividend and related tax voucher and the proceeds of the sale of any fractional entitlement.

Persons who acquire Existing Ordinary Shares before the close of business on 20 October 2004 but who are not on the Register as at the Record Date should apply to the broker or intermediary through whom they bought the Existing Ordinary Shares to arrange for delivery to them of the Interim Dividend and related tax voucher.

## **7. Overseas Shareholders**

Cheques in respect of the Interim Dividend and the Special Dividend, certificates in respect of New Ordinary Shares and, where applicable, cheques in respect of fractional entitlements will be distributed to overseas Shareholders by post in accordance with the timetable set out in this document.

## **8. Consents**

Cazenove & Co. Ltd has given and not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which it appears.

## Appendix II

### Definitions

The following definitions apply throughout this document and the accompanying form of proxy unless the context requires otherwise.

<b>AA</b>	AA Corporation Limited and its subsidiaries
<b>Act</b>	the Companies Act 1985 (as amended)
<b>Admission</b>	admission of the New Ordinary Shares to the Official List and to trading on the market for listed securities of the London Stock Exchange
<b>Board</b>	the Board of Directors of the Company
<b>Centrica or the Company</b>	Centrica plc
<b>certificated or in certificated form</b>	recorded on the Register without reference to the CREST system or FlexiShare, the Centrica-sponsored nominee
<b>CREST</b>	the relevant system (as defined in the CREST Regulations) in respect of which CRESTCo Limited is the Operator (as defined in the CREST Regulations)
<b>CREST Regulations</b>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
<b>Directors</b>	the directors of the Company
<b>Existing Ordinary Shares</b>	the existing issued ordinary shares of $5\frac{5}{8}$ pence each in the capital of the Company
<b>Extraordinary General Meeting or EGM</b>	the Extraordinary General Meeting of the Company convened for 10 a.m. on 21 October 2004 (and any adjournment thereof), notice of which is set out on pages 13 and 14 of this document
<b>Interim Dividend</b>	an interim dividend of 2.5 pence per Existing Ordinary Share announced by the Company on 29 July 2004
<b>Intermediate Ordinary Shares</b>	ordinary shares of $5\frac{0}{81}$ pence each in the capital of the Company arising in the course of the Share Consolidation described in this document
<b>London Stock Exchange</b>	London Stock Exchange plc
<b>New Ordinary Shares</b>	the proposed new ordinary shares of $6\frac{14}{81}$ pence each in the capital of the Company resulting from the Share Consolidation
<b>Official List</b>	the Official List of the UK Listing Authority
<b>Ordinary Shares</b>	prior to the Share Consolidation, Existing Ordinary Shares, during the Share Consolidation, Intermediate Ordinary Shares and, thereafter, New Ordinary Shares
<b>Record Date</b>	close of business on 22 October 2004 (or such other time and date as the Directors may determine), being the date on which Shareholders are required to be on the Register in order to be entitled to the Interim Dividend and the Special Dividend and by reference to which the Share Consolidation is calculated
<b>Register</b>	the register of members of the Company
<b>Registrars</b>	Lloyds TSB Registrars
<b>Resolutions</b>	the resolutions set out in the notice convening the Extraordinary General Meeting
<b>Share Consolidation</b>	the proposed consolidation to be achieved by consolidating every 10 Existing Ordinary Shares into 9 New Ordinary Shares and becoming effective on Admission

<b>Shareholder</b>	holder of Ordinary Shares in the Company
<b>Share Incentive Plan</b>	the Centrica Share Incentive Plan
<b>Share Repurchases</b>	the repurchases of shares being made under the rolling share repurchase programme of approximately £500 million which Centrica announced on 1 July 2004
<b>Share Schemes</b>	the Centrica Sharesave Scheme, the Centrica Irish Sharesave Scheme, the Centrica Long Term Incentive Scheme and the Centrica Executive Share Option Scheme
<b>Special Dividend</b>	the proposed special dividend of 25 pence per Existing Ordinary Share
<b>UK Listing Authority</b>	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
<b>uncertificated or in uncertificated form</b>	recorded on the Register as being held in uncertificated form either in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST, or in FlexiShare, the Centrica-sponsored nominee
<b>United Kingdom or UK</b>	the United Kingdom of Great Britain and Northern Ireland