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## What's important to us

Centrica's vision is clear. We are determined to establish ourselves as the consumer's first choice for energy supply and services.

We're applying all our experience, knowledge and business strength to achieve that aim in the newly competitive energy market. In British Gas, we have a brand that has earned the trust of millions of consumers, giving us a platform from which to expand our offer into areas such as electricity, home security and financial services. Our success so far confirms that this is the right strategy.

Our values remain constant in everything we do. We will continue to provide warmth and comfort, security and expertise to our customers. We will continue to meet our broader responsibilities within society. And we will seek to deepen our understanding of what customers want and to deliver it.



## Chairman's statement

1998 was a very important year in the evolution of Centrica as we positioned ourselves to compete in the fast emerging energy market and laid the foundations for future growth.

By the end of May the domestic gas market was fully opened to competition bringing real benefit to customers in the form of freedom of choice and better value.

September saw the start of competition in the domestic electricity market which is expected to be fully opened by June 1999. So far, we are the only major new entrant in this market, which has brought a new dimension to our business. We are delighted with the number of customers choosing British Gas as their electricity supplier and we intend to build on this success. However, certain changes need to take place if competition in the electricity industry is to be fully effective. These include the reform of the electricity pool, increased competition in power generation, separation of supply and distribution, and the review of distribution price controls.

For the 20 million domestic customers with both electricity and gas, a new market for energy supply is emerging and we aim to be the customer's first choice in this market.

**Customer Service** Excellent customer service is our first priority and we continue to monitor customer satisfaction levels very closely. The acceleration of the completion of competition in gas brought high levels of customer contact and the process for switching supplier created a substantial additional workload for our customer service centres. Despite this, I am pleased to report that the trend of improvement in customer satisfaction I referred to last year continued during 1998.

**Performance** In 1998 warmer than average weather once again had an adverse impact on sales and profits.

Nevertheless, before exceptional charges, group operating profit was £208 million, up £33 million compared with 1997, and earnings were £174 million, £130 million ahead of last year. After allowing for exceptional charges, profit after tax for the year was £89 million, compared with a loss of £791 million in 1997.

Cash generation has continued to be strong, with a cash inflow before money market investments, financing and exceptional payments of £543 million (1997 £877 million).

**Dividend** While recognising the resources that may be required to develop our strategy, the Board has proposed a distribution to shareholders by way of a special dividend of 12 pence per share together with a consolidation of the share capital, under which ten existing ordinary shares will be consolidated into nine new ordinary shares.

In respect of 1999, the Board intends to propose, in the absence of unforeseen circumstances, a total dividend of 2.5 pence per new ordinary share.

**The Board** After 28 years with British Gas and Centrica, Peter Lehmann, Commercial Director, left the Company at the end of December 1998. He made an outstanding contribution during Centrica's formative period, for which we are indebted.

1998 was a testing year for our people, systems and processes. I have been delighted by the positive response to these challenges that I have observed throughout the Group. On behalf of the Board I would like to thank all employees for their contribution to the progress that Centrica has made.



Sir Michael Perry, CBE Chairman

### Key achievements of the year

- | strong profit progress
- | substantial cash generation
- | encouraging gas market share in tough competitive environment
- | promising start as electricity supplier
- | Services business in profit
- | continued improvement in customer satisfaction levels

A handwritten signature in blue ink, appearing to read 'Michael Perry'.

Sir Michael Perry, CBE  
Chairman



Energy for the way we live now.  
To make the home warmer,  
cooler, brighter... cook a soufflé  
or slow roast to perfection...  
you are in control.

## warmth and comfort

Home is where the heart is. And when it comes to products for heating and cooking – or for making your home safer, more secure and more comfortable – nobody understands your needs quite like Centrica.

Now that we can supply electricity as well as gas, getting the right energy package for your home has never been easier or better value. And we offer much more besides. For example, we can carry out a free ‘energy efficiency profile’ of your home, show you how you can save money on fuel bills, and bring you excellent value at our British Gas Energy Centres.

In a busy world, time and simplicity are precious. So besides offering a ‘one stop shop’ for all your energy needs, we can advise you on domestic heating, and the best gas and electrical products for your lifestyle.

Centrica’s products, service and value. Helping you make your house a home.

Customers choose electricity from British Gas because they know they can depend on us.



No one can match British Gas for choice, design and installation of central heating. We can find the right combination and payment options to suit you.



# security and expertise

When it comes to energy and services in the home, peace of mind is the overriding consideration for most of us.

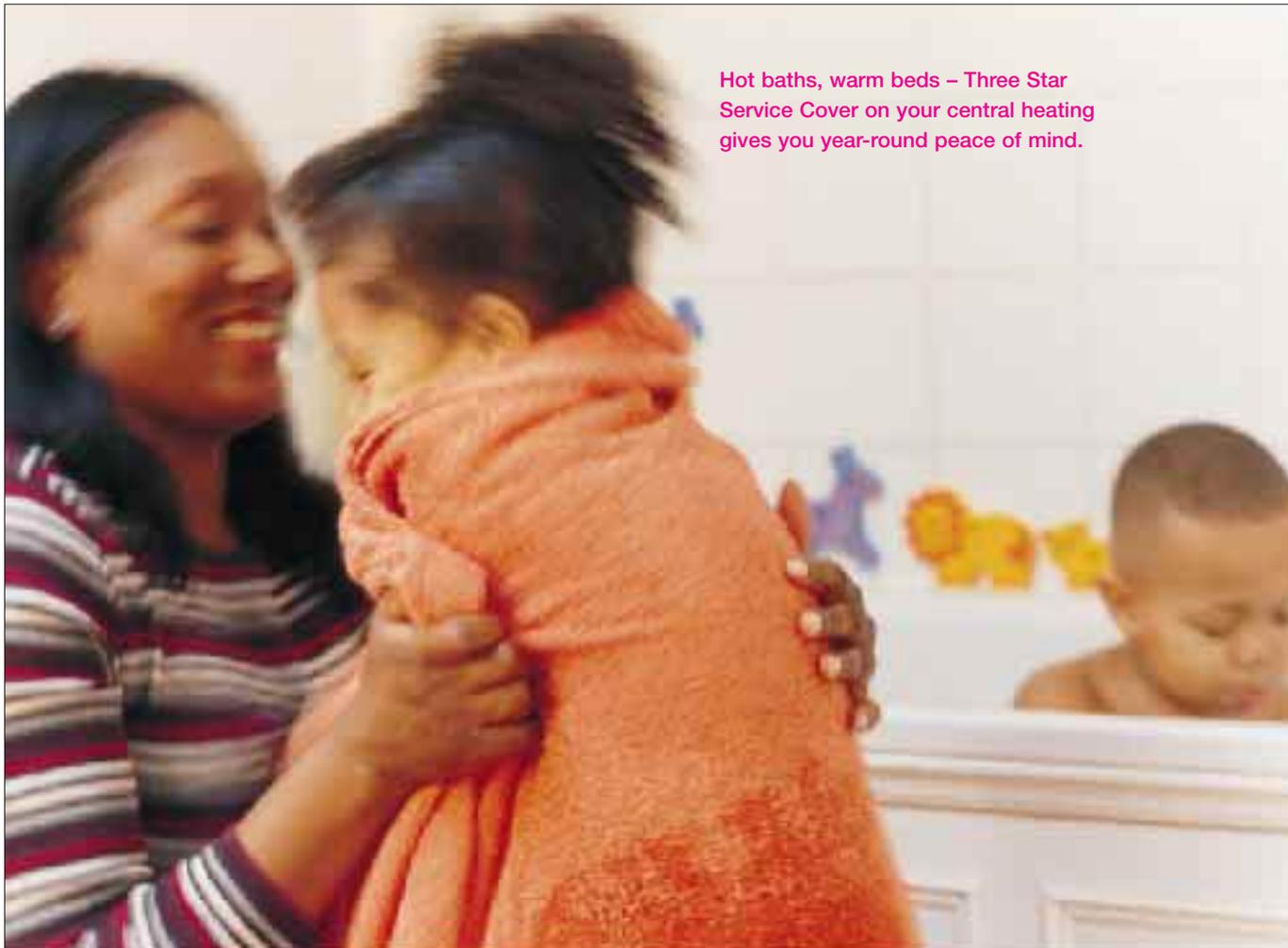
You want to be sure of a secure supply, whatever the weather. You want to be sure that your heating and hot water systems are safe and tested to the highest standards. You want to be sure that if those systems break down, they'll be repaired quickly and expertly, at reasonable cost. And you want to be assured that your appliances are safe and efficient.

Centrica's businesses offer you all this and more. From constant gas supplies and guaranteed prices to comprehensive safety checks and domestic heating cover, we pride ourselves on the expertise we've developed over many years in the industry and our investment in advanced technology. Our commercial skills, in the way we produce, buy and sell gas keeps our business competitive and prices under control.

As a dynamic service provider, we can also offer our customers choice and flexibility with home insurance, home security systems and the innovative range of Goldfish products. Expertise is all part of the service.



Points collected on a Goldfish credit card can save customers money on essentials for the home or make those dreams come true.



Hot baths, warm beds – Three Star Service Cover on your central heating gives you year-round peace of mind.



The latest pet-friendly movement detector can be linked to our easy to operate, state of the art home security system.

Our work with Carers National Association has made us more aware of the needs of carers as customers and employees; our GasCare scheme offers a range of special services to our older or disabled customers.



## making the difference

We take our broader role in society very seriously. Energy for heating, lighting and cooking is something everyone should be able to take for granted. We are especially concerned that the vulnerable in society, particularly the disabled, the elderly and the very young, are given special consideration.

At the heart of our approach is a service that goes beyond the purely financial. We're constantly looking at ways to be more responsive and accessible to customers – whether it's through extending our call centre opening hours and choice of payment methods, or putting together the most cost-effective package of products and services for a customer, or providing extra help for those with special needs. For example, older people can be assured of priority service by registering with our GasCare scheme.

Environmental matters are also important to us. Gas is the cleanest fossil fuel. We're leading the development of gas as a vehicle fuel, and free energy efficiency checks are an important part of our offer to consumers. On the educational front, we help run two highly successful teaching programmes about saving energy.

A young family demands round-the-clock energy – for energy saving tips turn to British Gas.



In one of a number of initiatives with Help the Aged and the police, British Gas supplies older customers with advice on checking the identity of callers.



## Review of our business



Roy Gardner Chief Executive

Our aim is to be the first choice for energy and services to homes and businesses. We have been successful in retaining many of our gas customers and, with the advent of competition in electricity, have made great strides in establishing ourselves in the rapidly converging energy market.

The Chairman has referred to the major changes that occurred during 1998 and against this background I am very pleased with the progress that we have made to develop the business and to deliver substantially improved financial results.

### Our Strategy

I began by describing Centrica's aim. We are determined to play a major role in the rapidly transforming energy market and to take advantage of opportunities that will arise. To support this, we will continue to seek opportunities for growth through our low cost channels to market.

Our priority is to expand our electricity business and capitalise on the opportunity to provide a total energy service to customers. We will also use the strength of our service infrastructure to introduce products that support the growth and development of services we offer to the home. We will continue to build our financial services business and look at other opportunities in the service sector where our strengths can be applied. We also see opportunities to apply the experience we have gained to other energy markets as they become accessible.

To support our supply business we will develop our sourcing options and extend our trading relationships in both gas and electricity. The acquisition in 1998 of PowerGen North Sea Limited is an example of this development.

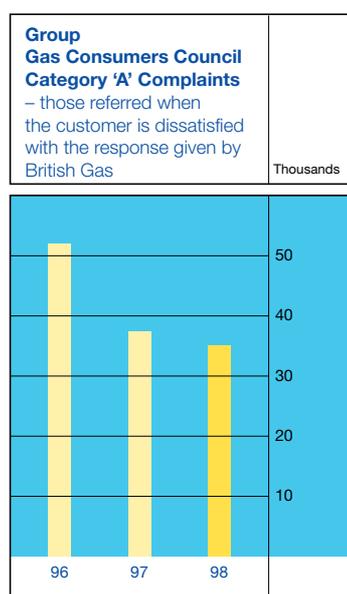
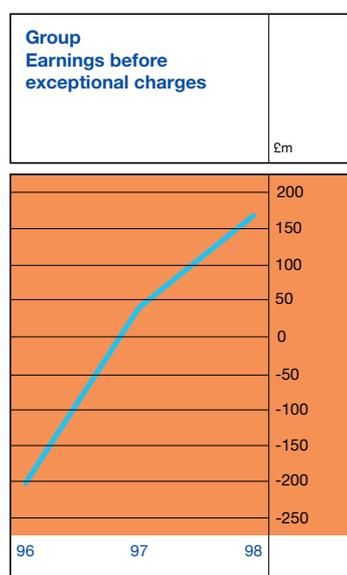
### Our Culture

Centrica is now a very different business to the British Gas of a few years ago. While significant change has been achieved already, we are only part way through our journey to transform our approach to and relationship with our customers. We are now beginning to implement a further series of initiatives designed to give a more integrated approach to meeting our customers' needs and support the consumer-led behaviour that will drive our commercial success.

The flexibility and dedication shown by our employees has served us well so far and I have every confidence that we will rise to the challenge and succeed.

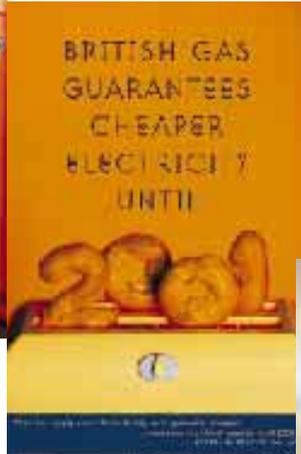
The following pages of this report describe our business and review the progress we have made during 1998.

Roy Gardner  
Chief Executive





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### Overview

Centrica plc uses the British Gas and Scottish Gas brands in three key areas of activity – energy supply, servicing and retail. We have also extended our activities into financial services: most notably home insurance under both the British Gas and Goldfish brands, and our joint venture credit card using the Goldfish brand.

### Energy Supply

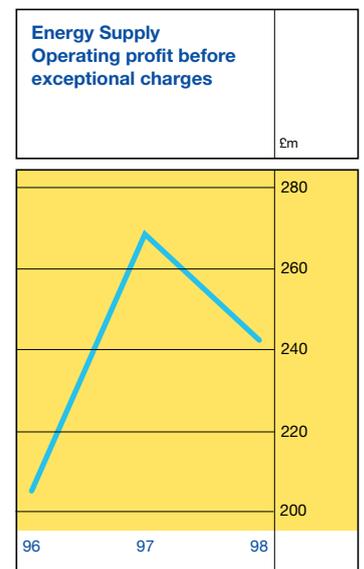
In Energy Supply the operating profit of £242 million in 1998 was down £27 million compared with 1997, having absorbed an increase of £61 million in electricity business investment. British Gas Trading supplies gas and electricity to domestic and business customers. In the domestic market it trades as British Gas Home Energy and Scottish Gas. In the industrial and commercial market it trades primarily as Business Gas.

**Domestic Energy Market** The operating loss before exceptionals in 1998 was £4 million, compared with a £10 million profit in 1997, reflecting the considerable increase in investment in electricity. Adjusting for these costs, the underlying business achieved a much improved profit. This year we have focused on increasing efficiency, enabling us to improve service and pass on savings to our customers.

By the end of May, competition in the domestic gas market had been extended to all areas of Great Britain. At the end of the year, we had retained just over 80% of that market. We believe that this is a result of improving standards of service in the regular contact we have with customers in their homes, on the high street and in the community. Underlying Category ‘A’ complaints to the Gas Consumers Council (‘GCC’), excluding complaints on the switching of supplier, fell by 6% against 1997. Our entry into electricity has been particularly successful, thanks to high-profile advertising and

### British Gas Trading

1. Customers far from a gas pipeline can still enjoy gas central heating and cooking, thanks to clean, efficient and environmentally-friendly liquefied petroleum gas
2. Our popular marketing campaign brings home the message of cheaper electricity prices
3. An independent survey showed customer satisfaction levels continued to improve





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- Centrica Energy Management Group**
4. Improvements to our South Morecambe platform increased production rates
  5. The new Interconnector gas pipeline gives Centrica access to Europe
  6. Our team ensure that the fluctuating customer demand is met from our gas portfolio

awareness campaigns. At the end of the year, over 850,000 customers had signed electricity supply contracts with British Gas – a figure which exceeded our initial expectations. This success marks our first step into a single energy market. We welcome the Government’s appointment of a single regulator to ensure that competition works in the interests of both gas and electricity customers.

**Centrica gas fields**

- North and South Morecambe (wholly owned fields)
- Joint venture fields in production
- Undeveloped joint venture fields



**Business Gas** We have retained just under a quarter of the industrial and commercial market. This market has been fully competitive since 1992 and our financial losses continue to decrease from £323 million in 1997 to £129 million in 1998. The improvement of £194 million was mainly due to lower unit gas and transportation costs.

**British Gas LP Gas** We deliver liquefied petroleum gas to homes without access to the mains supply. In March 1998 we acquired Supergas Limited and integrated it into British Gas LP Gas. We also launched a new brand, British Gas Vehicle Fuels.

**Energy Management Group** Centrica’s Energy Management Group is responsible for our energy portfolio, trading in gas and sourcing electricity. This includes responsibility for the Morecambe fields, where many improvements were made this year, including drilling a new well. As Morecambe’s reserves begin to decline we will need access to new gas supplies. For this reason, in November 1998, we acquired PowerGen North Sea Limited, a company with £275 million of upstream gas and oil interests. We have renamed the company Centrica Resources Limited.

The team also trades in the wholesale and European markets. With the opening of the UK-Continent Interconnector pipeline in October 1998, we have begun selling gas to Europe under previously arranged contracts.



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**British Gas Services**

We are the leading company in the installation, service and maintenance of domestic heating systems and other gas heating and cooking appliances in Great Britain.

Thanks to productivity improvements and more effective marketing, we turned our business around in 1998 – from a pre-exceptional operating loss of £49 million in 1997 to a pre-exceptional operating profit this year of £9 million.

Importantly, compared with 1997, customer satisfaction levels showed a great improvement and complaints to the GCC declined by 36%. Moreover, despite losing nearly 20% of domestic supply gas customers, British Gas Services succeeded in maintaining service contract levels, and actually increased the business’ share of the domestic heating installation market by 3%.

Our extended range now offers home security nationwide and air-conditioning products in the South East and we have also been trialling electrical appliance maintenance and plumbing services. We are now a leading national supplier of domestic security alarm systems.

We take every opportunity to heighten awareness of the dangers of carbon monoxide. Detectors are now fitted as standard on new central heating installations, and are offered at a competitive price to all our customers during their annual service visit.

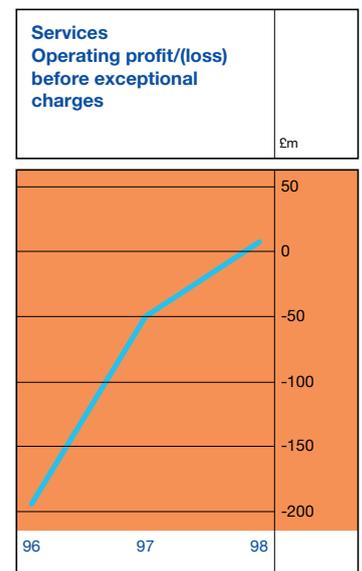
**British Gas Energy Centres**

We offer a wide range of gas and electric cooking, heating and other household products in our stores throughout Great Britain. One of our major assets is our high street presence; we are also trialling concessions in other outlets elsewhere.

Consumer spending was down this year and trading conditions were difficult. The operating loss before exceptionals for the year of £31 million was an improvement of £14 million over the loss sustained in 1997.

**British Gas Services**

- 7. We are a leading national supplier of home security products
- 8. British Gas radiators come in an extensive range of styles and sizes





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**British Gas Energy Centres**

9. Located in high streets across the country, British Gas Energy Centres shops offer the opportunity to promote other products and services from British Gas

**Goldfish**

10. The redesigned Goldfish credit card: now even more distinctive

We introduced a programme of performance improvement to counteract the effects of a downturn in trading and this has already led to cost reductions. Our new, experienced retail management team has improved both buying and selling efficiency and reduced store operating costs. We also rationalised our warehousing and delivery operations.

Complaints to the GCC were down by 30% this year. We have now appointed British Gas Services to carry out the more complex installation work, which we expect to improve customer satisfaction further.

**Financial Services**

Our Financial Services division is responsible for development of the Goldfish brand, which has become a household name. Nearly 900,000 cards have been issued, giving us a 3% share of the credit card market. Card users accumulate points which offer savings on our gas and electricity bills or can be redeemed through a number of retail partners.

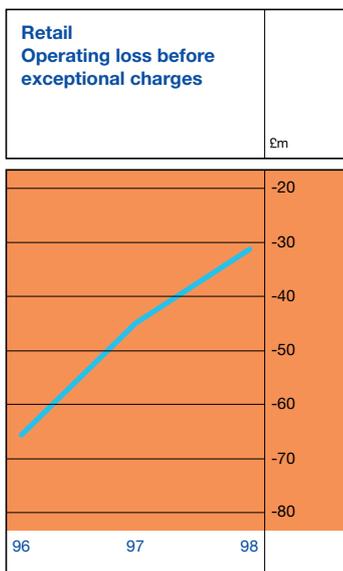
In June 1998 we launched the Goldfish Guides, comprehensive, independently-written buying guides on a range of products and services. By the end of December 135,000 guides had been sent out, from the 19 titles then available. Our home insurance products provide excellent value for money.

**Year 2000**

By the end of 1998 we had achieved business-readiness of all but a few of our key systems. Our plans are in place to complete this task in 1999, to carry out comprehensive testing and to ensure necessary contingency planning. Further details are included on page 17.

**Health, Safety and the Environment**

New guidelines were introduced across the Group in March 1998. In 1999, we will develop our ISO 14001 environmental management programme.





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Gas is the cleanest fossil fuel, with the lowest carbon content, and can play a critical role in reducing greenhouse gas emissions and improving air quality.

**Our community involvement**

In 1998 the Centrica group contributed £1.85 million (1997 £1.75 million) to projects throughout Great Britain under the British Gas brand. We encourage employees to become involved in such projects, which are generally developed with national charity partners and delivered at a local level. Examples include:

**Older or disabled customers** More than one million customers in this category benefit from a range of services provided through the GasCare scheme. Our community support in this area has included provision of administrative and financial support for Age Concern’s HandyPerson scheme and a simulation workshop for employees in which they experience life as an older person.

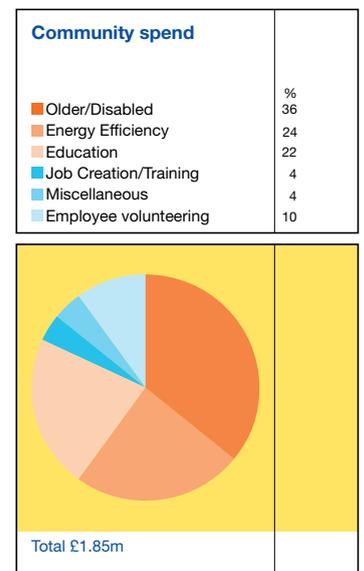
**Carers** Our work with the Carers National Association has made us more aware of the needs of carers as customers and employees. In 1998 we supported National Carers Week and provided funding for their CarersLine.

**Energy efficiency** On average, schools spend three times more on energy than they do on books. Run in conjunction with the Energy Saving Trust, the SchoolEnergy programme promotes energy efficiency by providing rebates on identified actions. Powersavers is a national programme with the Department of the Environment, Transport and the Regions to encourage pupils to help cut fuel bills.

**Job creation** In what the Government has described as “an innovative scheme”, Centrica is working with partners on a New Deal project to resource opportunities for disabled people and carers in our North West offices. The Scottish Gas Youth Challenge project provides job training to young residents in an area of acute deprivation. It won the 1998 Utility Industry Achievement Award for Community Involvement.

**Community involvement**

- 11. Energy conscious school children welcome our Powersaver robot
- 12. Drumming up support for the Scottish Gas Youth Challenge – Community Initiative of the Year in the 1998 Utility Industry Achievement Awards



## Summary group profit and loss account

for the year ended 31 December

	1998			1997		
	Underlying business performance £m	Exceptional charges £m	Results for the year £m	Underlying business performance £m as restated	Exceptional charges £m	Results for the year £m as restated
<b>Sales</b>	<b>7 481</b>	<b>-</b>	<b>7 481</b>	7 842	-	7 842
Cost of sales	(6 218)	(63)	(6 281)	(6 631)	(608)	(7 239)
<b>Gross profit</b>	<b>1 263</b>	<b>(63)</b>	<b>1 200</b>	1 211	(608)	603
Operating costs	(1 055)	(22)	(1 077)	(1 036)	(227)	(1 263)
<b>Group operating profit/(loss)</b>	<b>208</b>	<b>(85)</b>	<b>123</b>	175	(835)	(660)
Share of operating loss in associates and joint ventures	(1)	-	(1)	(1)	-	(1)
	<b>207</b>	<b>(85)</b>	<b>122</b>	174	(835)	(661)
Net interest receivable	42	-	42	38	-	38
<b>Profit/(loss) before tax</b>	<b>249</b>	<b>(85)</b>	<b>164</b>	212	(835)	(623)
Tax	(75)	-	(75)	(168)	-	(168)
<b>Profit/(loss) after tax</b>	<b>174</b>	<b>(85)</b>	<b>89</b>	44	(835)	(791)
Dividend			(530)			-
<b>Transfer from reserves</b>			<b>(441)</b>			(791)

	Pence	Pence	Pence	Pence
<b>Profit/(loss) per ordinary share – basic</b>		<b>2.0</b>		(17.9)
– diluted		<b>2.0</b>		(17.8)
– adjusted	<b>3.9</b>		1.0	

The aggregate remuneration of the Directors is disclosed on page 20.

The 1997 figure for interest relating to joint venture activities has been re-positioned, in accordance with a new accounting standard. There was no impact upon profit/(loss) before tax.

## Segmental analysis

for the year ended 31 December

	Turnover		Operating profit/(loss) before exceptional charges		Operating profit/(loss) after exceptional charges	
	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m
Energy Supply	<b>6 784</b>	7 192	<b>242</b>	269	<b>165</b>	(339)
Services	<b>526</b>	467	<b>9</b>	(49)	<b>3</b>	(82)
Retail	<b>169</b>	183	<b>(31)</b>	(45)	<b>(33)</b>	(47)
Other	<b>2</b>	-	<b>(12)</b>	-	<b>(12)</b>	-
Windfall Tax	-	-	-	-	-	(192)
	<b>7 481</b>	7 842	<b>208</b>	175	<b>123</b>	(660)

## Summary group cash flow statement

for the year ended 31 December

	1998 £m	1997 £m
<b>Cash inflow from operating activities before exceptional payments</b>	<b>870</b>	1 028
<b>Net interest and dividends received</b>	<b>59</b>	45
<b>Tax paid</b>	<b>(215)</b>	(112)
<b>Capital expenditure and financial investments</b>	<b>(70)</b>	(87)
<b>Acquisitions</b>	<b>(101)</b>	3
<b>Cash inflow before exceptional payments, use of money market investments and debt</b>	<b>543</b>	877
<b>Exceptional payments:</b>		
Contract renegotiations	(86)	(464)
Restructuring	(10)	(93)
Windfall Tax	(96)	(96)
Year 2000 expenditure	(19)	–
	<b>(211)</b>	(653)
<b>Cash inflow before use of money market investments and debt</b>	<b>332</b>	224
<b>Management of money market investments</b>	<b>(285)</b>	(44)
<b>Changes in borrowings and share capital</b>	<b>(42)</b>	(178)
<b>Net increase in cash for the year</b>	<b>5</b>	2

## Cash and money market investments, net of debt

	1998 £m	1997 £m
<b>Cash and money market investments, net of debt as at 1 January</b>	<b>41</b>	(178)
Net increase in money market investments	285	44
Net increase in cash for the year	5	2
Loans acquired	(139)	–
Reduction in debt, net of new finance leases	31	173
<b>Cash and money market investments, net of debt as at 31 December</b>	<b>223</b>	41

## Summary group balance sheet

as at 31 December

	1998 £m	1997 £m
<b>Fixed assets</b>	<b>1 904</b>	1 742
<b>Current assets</b>	<b>2 084</b>	2 359
<b>Current liabilities</b>	<b>(1 663)</b>	(1 462)
<b>Net current assets</b>	<b>421</b>	897
<b>Total assets less current liabilities</b>	<b>2 325</b>	2 639
<b>Creditors due for payment after more than one year</b>	<b>(169)</b>	(93)
<b>Provisions for liabilities and charges</b>	<b>(1 284)</b>	(1 235)
<b>Net assets</b>	<b>872</b>	1 311
<b>Centrica shareholders' funds</b>	<b>872</b>	1 311

The summary financial statement on pages 14 and 15 was approved by the Board of directors on 5 March 1999 and was signed on its behalf by:



Sir Michael Perry, CBE Chairman



Mark Clare Finance Director

# Summary financial review

## Group sales

Total sales at £7,481 million were £361 million lower than in 1997. Price reductions to domestic gas customers accounted for £290 million of the fall. Domestic gas sales volumes were also down, mainly as a result of customers transferring to competitors as the market fully opened to competition from May 1998, although this was partially offset by market growth. Our sales of electricity to domestic customers started in October 1998 and amounted to £5 million. Our Services business achieved sales of £526 million, which was 13% higher than in 1997 as we grew our market share in domestic heating installation and ‘on demand’ work, whilst our shop sales at £169 million were down 8% in what turned out to be a difficult year for many retailers.

## Group operating profit before exceptional costs

Leaving aside exceptional costs, the Group made an operating profit of £208 million. This was £33 million more than in 1997. Our British Gas Services business turned a £49 million loss in 1997 into a £9 million profit in 1998 through increased productivity, margins and sales. This improvement, together with cost reductions in our Retail business, was partly offset by costs we incurred in supporting our entry into domestic electricity and in developing our financial service activities. As in 1997, our gas sales volumes were lower than they might otherwise have been because the winter months were not as cold as normal. Under average weather conditions we would have expected our profits to have been about £80 million higher in each of the last two years.

## Exceptional costs

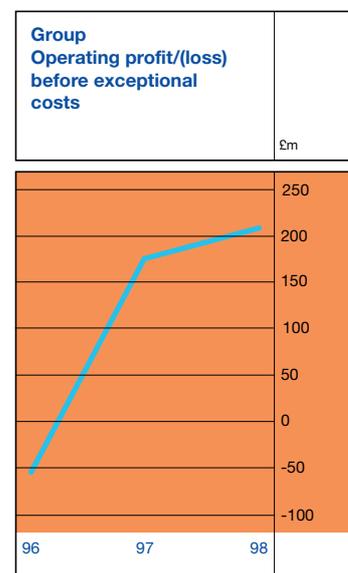
In order not to distort the underlying results of the business, we separately identify as exceptional costs a number of large abnormal items and in 1998 these costs amounted to £85 million compared to £835 million in 1997.

Prior to Centrica’s demerger from British Gas plc in February 1997, it became evident that there was a major problem with long-term commitments to purchase more gas than we needed and at higher prices than prevailed in the market. These contracts were originally established as part of British Gas’s statutory obligation to maintain supplies. From 1996, we embarked on a programme to address these problems by renegotiating contract volumes and prices with many of our suppliers while committing to sell some of our excess volumes through a number of long-term export sales contracts. By the end of 1997 our contractual difficulties had been brought largely into a manageable state when measured



“Our results reflect the fact that, having effectively tackled the once heavy burden of gas purchase contracts, we are now seeing healthy improvements in our earnings. We have again been successful in generating substantial cash flows and have made investments in future gas supplies, in developing our electricity supply business and in other product opportunities. In short, we have built very solid foundations for the Group’s future development and earnings growth.”

**Mark Clare** Finance Director



# Summary financial review

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## Exceptional costs

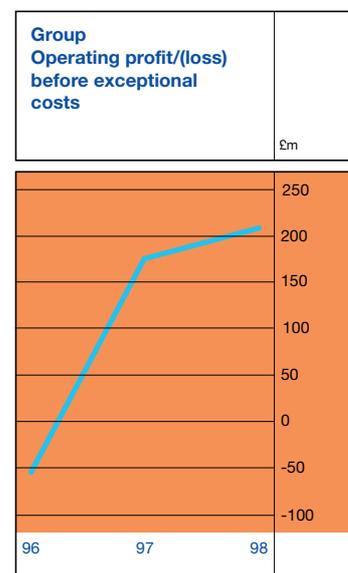
In order not to distort the underlying results of the business, we separately identify as exceptional costs a number of large abnormal items and in 1998 these costs amounted to £85 million compared to £835 million in 1997.

Prior to Centrica’s demerger from British Gas plc in February 1997, it became evident that there was a major problem with long-term commitments to purchase more gas than we needed and at higher prices than prevailed in the market. These contracts were originally established as part of British Gas’s statutory obligation to maintain supplies. From 1996, we embarked on a programme to address these problems by renegotiating contract volumes and prices with many of our suppliers while committing to sell some of our excess volumes through a number of long-term export sales contracts. By the end of 1997 our contractual difficulties had been brought largely into a manageable state when measured



“Our results reflect the fact that, having effectively tackled the once heavy burden of gas purchase contracts, we are now seeing healthy improvements in our earnings. We have again been successful in generating substantial cash flows and have made investments in future gas supplies, in developing our electricity supply business and in other product opportunities. In short, we have built very solid foundations for the Group’s future development and earnings growth.”

**Mark Clare** Finance Director



against long-term market prices, at an aggregate exceptional cost of £1,313 million, of which £608 million was incurred in 1997. During 1998 we took the opportunity to reduce our portfolio exposure further at a cost of £63 million.

In 1998 we incurred £21 million on Year 2000 computer system business-readiness, of which £19 million of bought-in services has been treated as exceptional. The remainder represented internal resources which have been diverted from other activities. In 1997 we incurred £3 million, none of which was treated as exceptional. Progress against our detailed plans to deal with the risks associated with Year 2000 business-readiness is monitored monthly by the Board. By the end of 1998 we had achieved business-readiness of all but a few of our key systems. In 1999 we will work with our IT and service suppliers to complete this task, to carry out comprehensive testing and to ensure that the necessary contingency plans are put in place. We continue to play an active part in a cross-utility interest group and in the Government body 'Action 2000'. We are also working closely with our suppliers to ensure that they meet our timetable. During 1999, we expect to spend approximately £16 million, bringing the total cost over a three-year period to £40 million.

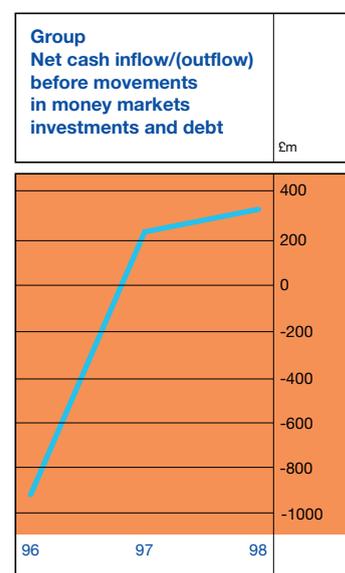
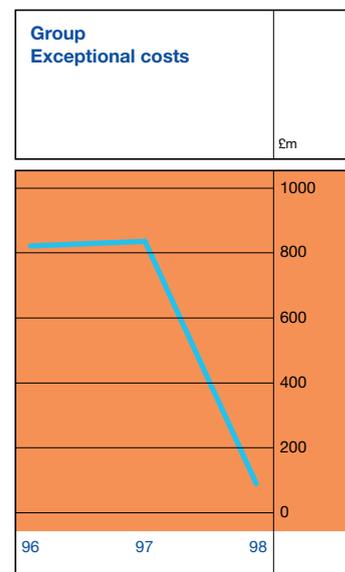
In 1997 we made full provision for an exceptional Windfall Tax amounting to £192 million, half of which was paid in December 1997 and the remainder was paid in December 1998. In 1998 we also incurred £3 million on restructuring costs compared with £35 million in 1997.

#### Interest and taxation

Net interest income during 1998, at £42 million, was £4 million more than in 1997. Taxation of £75 million arose primarily on our 'ring fenced' offshore gas production activities. This was £93 million lower than that incurred in 1997, mainly due to a lower internal sales price, for tax purposes, from our South Morecambe gas field.

#### Cash flow

During 1998 the Group generated £332 million of cash prior to movements in money market investments and debt, compared with £224 million in 1997. In both years, substantial sums came from reducing the amounts tied up in debtors. In 1998 £211 million was paid for exceptional items compared with £653 million in 1997. Corporation tax payments were £215 million in 1998, much higher than the £112 million in 1997 which included only half a year's tax charge on our Morecambe gas field activities. Within acquisition payments of £101 million, the main item



Summary financial review

was £87 million paid in November 1998 to acquire 100% of the share capital of PowerGen North Sea Limited, subsequently renamed Centrica Resources Limited. This company has interests in a number of gas and oil fields which fit well with our energy portfolio of assets and contracts. This purchase also supports our physical gas requirements for the future, as extraction rates from our Morecambe fields decline from their current level.

Companies purchased during the year had loans in place when they were acquired amounting to £139 million, of which £134 million was in Centrica Resources Limited. The Group has funded the repayments of those loans, partly financed by selling and leasing back some of the assets used on our offshore South Morecambe platforms. As at 31 December 1998, the Group had cash and investments, net of debt, of £223 million, up £182 million on the net balance of £41 million at the beginning of the year.

Shareholders' funds and market capitalisation

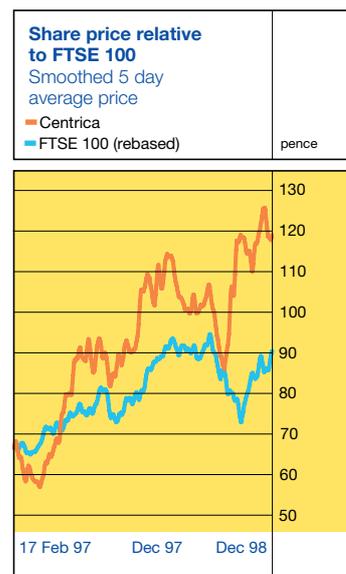
The net assets of the Group, as represented by shareholders' funds decreased during the year from £1,311 million to £872 million as a result of the proposed special dividend, totalling £530 million, exceeding the profit after tax for the year.

The Company's mid-market share price on the last trading day of 1998 (30 December) was 121 pence compared to 90.25 pence at the end of 1997. This gave a market capitalisation of £5,371 million at the end of the year, up from £4,004 million a year earlier. The highest share price during the year was 126.75 pence and the lowest was 83 pence.

During 1998 Centrica's share price outperformed the FTSE 100 by 18%. In the period from demerger to the end of 1998, the outperformance was 37%.



**Mark Clare**  
Finance Director



## Summary reports

### Auditors' report

We have examined the summary financial statement on pages 14 and 15.

#### Respective responsibilities of directors and auditors

The summary financial statement is the responsibility of the Directors. Our responsibility is to report to you our opinion on its preparation and consistency with the full financial statements and Directors' report.

#### Basis of audit opinion

We conducted our work in accordance with Auditing Guideline 'The auditors' statement on the summary financial statement' adopted by the Auditing Practices Board.

#### Opinion

In our opinion the summary financial statement is consistent with the full financial statements and Directors' report of Centrica plc for the year ended 31 December 1998 and complies with the requirements of Section 251 of the Companies Act 1985, and regulations made thereunder, applicable to summary financial statements.



#### PricewaterhouseCoopers

Chartered Accountants and Registered Auditors  
1 Embankment Place, London WC2N 6NN  
5 March 1999

The Auditors have issued an unqualified report on the full Financial Statements containing no statement under Section 237 (2) or Section 237 (3) of the Companies Act 1985.

### Corporate governance

The Company has considered the Combined Code (which embraces the Cadbury, Greenbury and Hampel reports) and supports the principles of Corporate Governance which it sets out. Details of how the principles are applied, any areas of non-compliance with the provisions of the Code, and the full report on Corporate Governance is shown in the full Report and Accounts for the year to 31 December 1998. In keeping with good Corporate Governance, the Board has appointed a number of board committees, namely Audit, Customer Service, Executive, Nominations and Remuneration, which deal with different aspects of the management of the Company. Membership of these committees is shown on page 21.

### Summary Directors' report

The Directors present a summary report for the year ended 31 December 1998. This report is a summary of the information contained in the Annual Report and Accounts for the year ended 31 December 1998.

#### Principal activities and business review

A description of the principal activities of the Centrica Group is set out on page 8 and a review of the business and likely future developments of the business are described in the Chairman's statement and operating review on pages 1, and 8 to 13.

#### Dividend

While recognising the resources that may be required to develop our strategy, the Board has proposed a distribution to shareholders by way of a special dividend of 12 pence per share together with a consolidation of the share capital, under which ten existing ordinary shares will be consolidated into nine new ordinary shares.

In respect of 1999, the Board intends to propose, in the absence of unforeseen circumstances, a total dividend of 2.5 pence per new ordinary share.

#### Directors

Details of the current members of the Board are shown on page 21. All served as directors throughout the year. Peter Lehmann, an Executive Director, left the Company on 31 December 1998.

#### Annual General Meeting and Extraordinary General Meeting

Details of the Annual General Meeting to be held on 10 May 1999 at 11 am at The Queen Elizabeth II Conference Centre and an explanation of the resolutions to be proposed at the meeting are contained in the accompanying Notice of Meeting.

There will be an Extraordinary General Meeting which will follow the Annual General Meeting. It will deal with the proposal to pay a special dividend of 12 pence per ordinary share and the related share consolidation. Details are enclosed in the accompanying circular.

#### Donations

The Company has made no political contributions during the period. The Group made charitable donations of £1.85 million (1997 £1.75 million) during the year and details of the Company's involvement in the community are contained on page 13.

## Summary Remuneration report

The full Remuneration report, which complies with the Listing Rules of the London Stock Exchange, is contained in the 1998 Annual Report, copies of which are available from the Company's Registrar.

The extract below provides information on the directors' emoluments, pensions and share interests (including those of their families).

Directors' emoluments and pension benefits	Base salary/fees £000	Annual performance bonus £000	Benefits <sup>a</sup> £000	Total emoluments excluding pension 1998 £000	Total emoluments excluding pension 1997 £000	Accrued annual pension at 31 December 1998 <sup>b</sup> £ p.a.
<b>Executive Directors</b>						
M R Alexander	204	71	17	<b>292</b>	276	<b>83 700</b>
M S Clare	207	71	16	<b>294</b>	277	<b>22 500</b>
R A Gardner	384	130	29	<b>543</b>	493	<b>52 900</b>
P J Lehmann <sup>c</sup>	177	56	11	<b>244</b>	244	<b>97 900</b>
R N B Wood	220	83	18	<b>321</b>	307	<b>23 800</b>
	1 192	411	91	<b>1 694</b>	1 597	–
<b>Non-Executive Directors</b>						
W Cockburn	25	–	–	<b>25</b>	25	–
F H MacKay	25	–	–	<b>25</b>	25	–
P K R Mann	25	–	–	<b>25</b>	25	–
Sir Michael Perry <sup>d</sup>	150	–	–	<b>150</b>	96	–
P J Wood	25	–	–	<b>25</b>	25	–
	250	–	–	<b>250</b>	196	–
<b>Total emoluments</b>	<b>1 442</b>	<b>411</b>	<b>91</b>	<b>1 944</b>	<b>1 793</b>	<b>–</b>

<sup>a</sup> Benefits incorporate all assessable tax benefits arising from employment by the Company, which relate in the main to the provision of a company car.

<sup>b</sup> Accrued pension is that which would be paid annually on retirement at age 65, based on service to 31 December 1998.

<sup>c</sup> P J Lehmann, Commercial Director, left the Company's employment on 31 December 1998. In addition to the emoluments shown above, he received a payment of £191,000 as compensation for termination of his employment.

<sup>d</sup> 1997 emoluments include those as Deputy Chairman up to 30 June 1997 and as Chairman thereafter.

Executive Directors' interests in shares	As at 31 December	Beneficial interests in ordinary shares	Restructured executive share options <sup>a</sup>	Sharesave options <sup>b</sup>	Notional allocations under the Long Term Incentive Scheme <sup>c</sup>
M R Alexander <sup>d</sup>	<b>1998</b> 1997	<b>30 000</b> 22 034	<b>86 145</b> 375 114	<b>22 402</b> 7 435	<b>774 746</b> 596 722
M S Clare	<b>1998</b> 1997	<b>25 855</b> 25 471	<b>177 645</b> 177 645	<b>37 176</b> 37 176	<b>715 923</b> 534 492
R A Gardner	<b>1998</b> 1997	<b>125 863</b> 125 479	<b>1 336 446</b> 1 336 446	<b>37 176</b> 37 176	<b>1 571 094</b> 1 230 378
P J Lehmann <sup>e</sup>	<b>1998</b> 1997	<b>13 236</b> 12 852	<b>394 659</b> 394 659	<b>14 870</b> 14 870	<b>545 350</b> 545 350
R N B Wood	<b>1998</b> 1997	<b>50 384</b> 50 000	– –	<b>37 176</b> 37 176	<b>729 347</b> 539 398

<sup>a</sup> Options granted to Company employees under the British Gas plc Executive Share Option Scheme were cancelled and replaced by options over Centrica plc shares to an equivalent value at the time of demerger. Options are no longer granted under this Scheme.

<sup>b</sup> The Company also operates a savings related share option scheme, the Sharesave Scheme.

<sup>c</sup> Notional allocations of shares were made under the Company's Long Term Incentive Scheme in 1997 and on 1 October 1998. Figures given represent the maximum award possible if all performance criteria are met at the end of the performance period (three or four years) and would not be made until the expiry of the retention period (a further two years). The figures above also include allocations made to Executive Directors under the British Gas Long Term Incentive Scheme which were replaced at demerger by awards over the Company's shares, as follows: M R Alexander (108,695 shares); M S Clare (46,465 shares); R A Gardner (367,341 shares); and P J Lehmann (108,695 shares). Full details of the replacement terms are given in the 1998 Annual Report.

<sup>d</sup> On 28 September 1998, M R Alexander exercised an Executive Share Option over 288,969 shares at an option price of £0.8106 and sold 281,387 shares. The market value of Centrica shares on this date was £1.1775.

<sup>e</sup> P J Lehmann left the Company on 31 December 1998. The notional allocations of shares held by him under the Long Term Incentive Scheme will be subject to time apportionment rules. The maximum number of shares that could vest, therefore, is 319,207. The dates on which P J Lehmann's executive and sharesave options will lapse are set out in full in the 1998 Annual Report.

At 31 December 1998 the following Non-Executive Directors also held shares in Centrica plc: W Cockburn 1,400 shares; P K R Mann 2,820 shares; and Sir Michael Perry 1,000 shares.

Since 31 December 1998, the following changes in Directors' interests have been notified to the Company: on 25 February 1999, P J Wood purchased 100,000 shares; on 26 February 1999, F H Mackay purchased 10,000 shares; and on 5 March 1999, R A Gardner purchased 20,000 shares.



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## Board of directors

**1 Sir Michael Perry, CBE, Chairman (65)\*†‡#** Sir Michael Perry became Chairman of Centrica plc on 1 July 1997. He was a Non-Executive Director of British Gas plc from June 1994 until demerger. He is Non-Executive Chairman of Dunlop Slazenger Group Ltd, Non-Executive Deputy Chairman of Bass plc and a Non-Executive Director of Marks & Spencer plc.

**2 Mike Alexander, Managing Director British Gas Trading (51)†°** Mike Alexander joined British Gas plc in 1991, becoming Director CIS and Eastern Europe (E&P) in 1992, and Managing Director of Public Gas Supply in 1994. He is also a Non-Executive Director of The Energy Saving Trust Limited. He was previously with BP from 1966, where he held a variety of management positions, both in the UK and overseas.

**3 Mark Clare, Finance Director (41)°** Mark Clare joined British Gas plc in March 1994 as Group Financial Controller. He was previously with STC plc, which he joined in 1989 as Finance Manager in the telecoms business, where he rose to become Finance Director of STC Submarine Systems.

**4 Bill Cockburn, CBE, Non-Executive Director (56)\*#** Bill Cockburn is Group Managing Director of British Telecommunications plc. He was previously Chief Executive at both W H Smith Group plc and the Post Office Corporation. He is a Non-Executive Director of Lex Service plc and a member of the Board for Business in the Community.

**5 Roy Gardner, Chief Executive (53)†°** Roy Gardner was appointed Finance Director of British Gas plc in November 1994. From November 1995 he had responsibility for the business units which subsequently formed Centrica plc. Prior to joining British Gas plc, he was Managing Director of GEC-Marconi Limited and a director of GEC plc. He is a Non-Executive Director of Laporte plc and President of the Carers National Association.

**6 Francis MacKay, lead Non-Executive Director (54)\*#** Francis MacKay is Chief Executive and Deputy Chairman of the Compass Group plc.

**7 Patricia Mann, OBE, Non-Executive Director (61)\*†‡#** Patricia Mann was a Non-Executive Director of British Gas plc from December 1995 until demerger. She was Vice President International of J Walter Thompson Co Ltd and remains a director of JWT Trustees Ltd. She is on the Board of the UK Centre for Economic and Environmental Development and is a former director of the Woolwich Building Society and Yale and Valor plc.

**8 Peter Wood, CBE, Non-Executive Director (52)\*†#** Peter Wood was founder and former Chairman of Direct Line and a member of the Board of The Royal Bank of Scotland Group plc until June 1997. He is a Director of Linea Directa Aseguradora and also an Advisory Director of Bankinter SA in Spain and a Non-Executive Director of the Economist. He is Vice Chairman of Direct Response Corporation and Homeowners Direct Corporation – auto and homeowners insurance companies in the US.

**9 Roger Wood, Managing Director British Gas Services (56)†°** Roger Wood joined British Gas plc in April 1996. From 1993 to 1996 he was Director General of Matra Marconi Space NV. Previously he was Managing Director of STC Telecommunications and Group Vice President of Northern Telecom Limited. Prior to 1988 he was UK Director at ICL.

Member of: \*Audit Committee †Customer Service Committee °Executive Committee  
‡Nominations Committee #Remuneration Committee

# Shareholder information

## Registrar

Administration enquiries about the holding of Centrica shares (other than ADRs – see below) should be directed to the Company's Registrar. Changes of address and name should be communicated to the Registrar promptly. The Registrar can be contacted as follows:

Lloyds TSB Registrars  
54 Pershore Road South  
Birmingham B22 1AD  
Telephone: 0121 433 4344

## Amalgamation of accounts

Shareholders receiving duplicate sets of company mailings due to multiple accounts in their name should write to Lloyds TSB Registrars to have their accounts amalgamated.

## American Depository Receipts

On 11 February 1998 Centrica introduced an American Depository Receipt (ADR) programme. The ADRs, each of which is equivalent to 10 ordinary shares, are issued by The Bank of New York. For enquiries about the ADR service, please contact our representatives at The Bank of New York by dialling 1 888 BNY ADRS inside the US and 001 212 815 5204 outside the US or by writing to The Bank of New York, Shareholder Relations, PO Box 11258, Church Street Station, New York, NY 10286-1258.

## Share apportionment and capital gains tax base cost of shares at demerger

Shares were acquired in Centrica plc at demerger from BG plc on the basis of one Centrica share for every BG share held at demerger. Shares in Centrica plc acquired on demerger from BG plc will be treated as having a base cost for Capital Gains Tax purposes ascertained by reference to the values of Centrica and BG shares on 17 February 1997, calculated in accordance with the provisions of Section 272 of the Taxation of Chargeable Gains Act 1992. The base cost of any holding of BG shares on that date will be adjusted on the same basis. The relevant prices on the London Stock Exchange on 17 February 1997 were: Centrica 64.25 pence; BG 173.25 pence. The base cost of the pre-demerger British Gas plc shares will be split between the post demerger Centrica and BG shares in the proportion Centrica 27.053% and BG 72.947%.

## Share capital consolidation

A resolution will be put to an Extraordinary General Meeting on 10 May 1999 that the ordinary shares of the Company should be consolidated on the basis of nine new ordinary shares for every ten existing shares. This proposed consolidation is linked to the recommended payment of a special dividend of 12 pence per ordinary share which will be considered at the Extraordinary General Meeting.

## Share price

Details of the Centrica share price can be found on Ceefax and in the London Share Service pages 'Gas Distribution' section in the Financial Times.

## Centrica website

This report and further information about the Centrica Group can be found on the Centrica home page at [www.centrica.co.uk](http://www.centrica.co.uk). Other information on Group businesses can be found at [www.gas.co.uk](http://www.gas.co.uk) and [www.goldfish.com](http://www.goldfish.com).

## Financial calendar

Record Date for the proposed special dividend and share capital consolidation	7 May 1999
Annual General Meeting and Extraordinary General Meeting	10 May 1999
Whittle & Fleming Rooms The Queen Elizabeth II Conference Centre Broad Sanctuary, Whitehall, London SW1P 3EE	
Shares ex special dividend	11 May 1999
Special dividend payment	23 June 1999
1999 Interim results	9 September 1999

## Product Information

Shareholders who wish to find out more about any of our products and services should telephone:

0845 600 1 900

Open Monday to Friday, 8am – 8pm;

Saturday, 8am – 6pm.

Centrica plc: Registered Number: 3033654  
Charter Court, 50 Windsor Road, Slough, Berkshire SL1 2HA  
Telephone: 01753 758000 Facsimile: 01753 758011

The summary financial statement is only a summary of information in the Group's full report and accounts. It does not contain sufficient information to allow as full an understanding of the results of the Group as would be provided by the full report and accounts.

Shareholders who would like more detailed information are entitled to a free copy of the full report and accounts for 1998 on request to the Company's Registrar at the address above.