Centrica

'We have established a solid platform from which our strategy will produce strong growth.'
Sir Michael Perry, Chairman

Annual report and accounts 2003

centrica
taking care of the essentials

Vision, Strategy, Values

Our **vision** is to be a leading supplier of essential services in our chosen markets in order to provide maximum value to our shareholders.

Our distinctive **strategy** is to create value for shareholders through:

Deepening our relationships with customers
Gaining and retaining valuable customers by understanding their needs and offering them tailored products and services through our strong brands.

Managing risk in the energy markets
Identifying and implementing the right blend of owning production assets, negotiating long term contracts and daily buying activities.

Sharing knowledge and best practice
Making Centrica greater than the sum of its parts both by implementing common processes and by sharing knowledge, best practice and learning across the company.

Our **values** are the core of our corporate philosophy:

Passion for customers
This value is central to the way we work. We have an ethos of delivering outstanding customer service. We must be able to anticipate our customers' needs and correct any errors promptly. We must give value for money and deliver efficient and effective products and services.

Pride
Pride comes from the satisfaction of our customers and from delivering high quality products and services. We're proud of our staff and their achievements, and we recognise and reward success.

Trust
Trust is at the heart of our relationships with customers. Trust means doing what we say and acting with integrity. We demonstrate trust by respecting and empowering our employees. Building trust will help us develop strong future relationships with our stakeholders.

Challenge
We are constantly striving for continual improvement; we are never satisfied. We engage constructively with advocates and critics from within and outside the company. We do this to maintain our competitive edge and deliver consistently outstanding shareholder returns.

Support
We support employees seeking to meet and own challenges. We foster teamworking and knowledge sharing, and give our employees the tools and training they need to do their job well.

Contents

Throughout this report references to British Gas include Scottish Gas.

Earnings and operating profit numbers are stated, throughout the commentary, before goodwill amortisation and exceptional charges where applicable. The directors believe this measure assists with understanding the underlying performance of the group. The equivalent amounts after goodwill amortisation and exceptional charges are reflected in note 2 and are reconciled at group level in the group profit and loss account on page 38, with descriptions of the exceptional items in note 4. Adjusted earnings and adjusted basic earnings per share are reconciled to their statutory equivalents in note 9.

All current financial results listed are for the year ended 31 December 2003. All references to 'the prior year', '2002' and 'last year' mean the year ended 31 December 2002.

Chairman's statement

Our continued focus on understanding and providing what our customers want has helped us to achieve growth in both revenues and earnings.

Earnings per share (pence)

	After goodwill amortisation and exceptional charges, including joint ventures and associates.	Before goodwill amortisation and exceptional charges, including joint ventures and associates.
03	11.8	16.8
02	11.4	15.2
01	8.1	12.1
00	8.4	10.2
99	4.3	7.9

Dividend (pence)

03	5.4
02	4.0
01	3.1
00	2.8
99	2.5

Centrica has made steady progress during 2003 against a backdrop of uncertain economic conditions, rising energy prices and challenging regulatory issues in some of our markets. Our continued focus on understanding and providing what our customers want, and our skill in managing the risks of sourcing the energy to meet their needs, have helped us to achieve growth to record levels in both revenues and earnings.

The development of competitive markets is important for our strategy. In 2003 we saw a continuing commitment to a fully transparent energy market in Britain, with new legislation to introduce a competitive electricity trading system in Scotland. In Europe, the new energy directives are now in place, and we look forward to the establishment of a properly competitive market. The regulatory environment in North America remains varied, but overall we have continued to prosper in our chosen markets. There has been further progress in improving the competitive nature of the UK telecommunications market, but there is some way to go before a level playing field is firmly established.

In 2003 there were sharp rises in UK wholesale prices in both gas and electricity despite lower than average consumption due to warmer weather. The long term outlook for gas supply in the UK is improving, with an increasing diversity of supply and further links between the UK and mainland Europe. It seems inevitable, however, that the increasing costs of complying with the UK and EU regulations designed to deliver a low carbon economy will create upward pressure on consumer electricity prices.

Dividend

The board of directors is proposing a final dividend of 3.7 pence per share to be paid in June 2004. This means that, when combined with the interim dividend of 1.7 pence per share paid in November 2003, the total dividend for 2003 will be 5.4 pence per share. This total per share increase of 35% reflects our continuing confidence in the outlook for both cash flow and earnings in the medium term.

The commitment and dedication of our employees have ensured that 2003 has been a very successful year for the group.

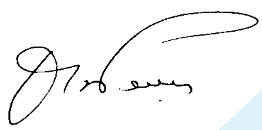
The board of directors

Sir Brian Shaw retired in May 2003 and we are most grateful for the part he played in the development of Centrica. It is fitting that he continues to chair the AA Motoring Trust, an independent charity supported by Centrica. Mike Alexander, who made a considerable contribution to the success of Centrica, retired from the company in February 2003. In December, my own retirement was announced and my successor, Roger Carr, subject to re-election to the board, will be taking over as chairman at the end of the annual general meeting (AGM) in May.

The future

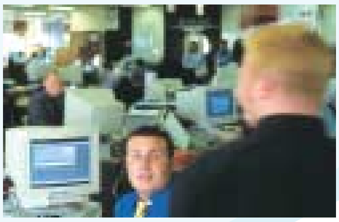
Centrica has made enormous progress over the past seven years, rising from the bottom half of the FTSE 100 Index to position itself in the top 30 companies in the UK; growing from our British Gas base through the acquisition of the AA, the movement into telecommunications and international expansion. I am delighted that we have established a solid platform from which continued delivery of our strategy will produce strong medium term growth.

The commitment and dedication of our employees have ensured that 2003 has been another very successful year for the group and I would like to thank them all for their hard work. I am confident that, with the excellent management team led by Sir Roy Gardner, along with the experience brought by Roger Carr as the new chairman, and the collective efforts of all our employees, the company will continue to go from strength to strength.



Sir Michael Perry GBE
Chairman

Centrica at a glance



British Gas

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

We continue to be the first choice gas supplier for millions of people. Since the market opened to competition in 1998 we've become the largest supplier of electricity to residential customers in Britain.

Apart from supplying energy we are also the largest domestic central heating and gas appliance installation company with maintenance and breakdown services provided under our HomeCare range. We also provide HomeCare for plumbing and drains, home electrics and kitchen appliances and are a national installer of domestic, monitored home security systems.

British Gas Communications offers an integrated package of fixed line, mobile and internet services to customers across Britain.

www.house.co.uk

Centrica Business Services

Centrica Business Services aims to be recognised as the most innovative and flexible provider of energy and other essential services for businesses.

The business markets gas, electricity and telecoms services under the British Gas brand across Britain. It is now the number one supplier of energy to the commercial sector.

The creation of Centrica Business Services enabled the business to focus on the specific needs of its customers, from large industrial and commercial companies, to small and medium size businesses.

www.britishgasbusiness.co.uk

Centrica Energy Management Group

We source the gas and electricity we need to supply our customers in Britain through a team of specialists working in Centrica Energy Management Group (CEMG). The business consists of our upstream gas production, electricity generation, wholesale and industrial gas sales activities and our energy optimisation unit.

Through its provision of appropriate access to competitively priced gas and power supplies, CEMG is key to the success of our retail energy businesses.

We now produce approximately 25% of peak demand for our electricity customers through our interests in six gas-fired power stations. In addition, we are committed to investing in renewable generation, and already have interests in developments in the Irish Sea and North Sea.

www.centrica.com

Centrica Storage

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

www.centrica-sl.co.uk

Taking care of the essentials

The AA

We provide reassurance and services to motorists in the UK and Ireland through the AA. The roadside assistance service remains at the core of our activities, with members choosing the level of cover that best suits their needs.

The AA is the UK's number one independent insurance intermediary and we are a growing provider of personal loans and financial services.

AA Service Centres offer a range of maintenance and repair services to motorists across Britain, and AA Tyre Fit is the UK's first all-mobile fleet and retail tyre network. We are the only national driving school exclusively using fully qualified driving instructors.

www.theaa.com

One.Tel

With a fresh and innovative approach, we provide a range of landline, mobile and internet services across the UK.

One.Tel landline customers are offered a range of call plans, including unlimited usage. Customers also benefit from free directory enquiries calls to One.Tel's 118 111 service. Mobile phone customers have a choice of the latest handsets and flexible tariffs.

Internet users are offered a choice of packages, whether for casual home use or business needs. The service includes broadband options for people who require high speed access and 'always on' connection.

www.onetel.co.uk

Europe

Our energy supply joint venture, Luminus, has provided a launch pad for developing our activities in Europe. Competition in the Flanders region of Belgium, which had been open at industrial and commercial level was extended in July 2003, to residential gas and electricity customers.

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

www.luminus.be
www.luseoenergia.com

Centrica North America

In Ontario, Direct Energy Essential Home Services offers gas and electricity and a range of home services.

In Texas we supply electricity under the Direct Energy, WTU Retail Energy and CPL Retail Energy brands to homes and businesses.

We supply gas under the Energy America brand in Michigan, Ohio and Pennsylvania.

Direct Energy Business Services provides comprehensive energy solutions to businesses throughout Canada and in Texas.

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

Every day we touch the lives of millions of people. Through our leading brands, Centrica provides warmth, comfort and peace of mind.

Chief executive's review

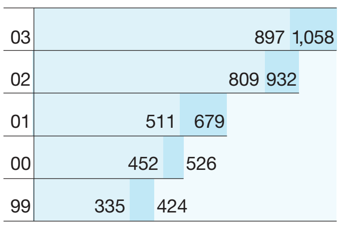
We believe that the fundamental drivers of profitability within our brand units will continue to improve as we broaden and deepen the relationships we have with our customers.

Overall the group delivered a strong performance in 2003 with adjusted basic earnings per share up 11% on 2002. This was delivered despite the impact of the second consecutive year of warm weather which, unusually, in 2003 also brought with it higher commodity costs; both of these depressed reported margins in our gas supply businesses. However, the underlying strength of the Centrica model with its unique balance of upstream and downstream positions, together with the positive impact of acquisitions, has enabled us again to deliver record profits despite these adverse external factors.

Turnover and profitability

Group turnover (excluding Accord trading revenue) was £11.7 billion in 2003, up 17% from 2002. Increases were achieved in all of the main customer facing businesses as well as in the industrial and wholesaling division of the Centrica Energy Management Group (CEMG). The highest growth came from North America (up 112%) due mainly to the full year impact of the 2002 acquisitions in Texas. Despite the unseasonably warm weather, turnover in British Gas increased with positive year-on-year contributions from energy, home services and telecoms.

Operating profit (£m)



After goodwill amortisation and exceptional charges, including joint ventures and associates.
Before goodwill amortisation and exceptional charges, including joint ventures and associates.

Group operating profit* of £1,058 million was up 14% from £932 million in 2002. The lower profits in British Gas residential and Centrica Business Services, due to the impact of weather and higher commodity and transportation costs, were more than offset by significant improvements in other units, particularly North America, the AA and CEMG, and the full year contribution from Centrica Storage.

Cash flow, capital expenditure and acquisitions

Group operating cash flow (from continuing operations, including dividends from joint ventures and associates, before exceptional payments) was £1,321 million for 2003 compared with £795 million for 2002. An increase of £141 million to £1,463 million in operating profit* before depreciation was supplemented by a decrease in petroleum revenue tax (PRT) payments of £109 million and the acceleration in 2002 of transportation payments of £168 million.

In 2003 there was a considerable reduction in acquisition expenditure compared to the prior year. Receipts from disposals net of acquisitions were £292 million versus net expenditure in 2002 of £935 million. This was primarily due to the net receipt on the disposal of Goldfish Bank, partially offset by both our purchases of the Roosecote and Barry power stations, and deferred consideration on the 2002 acquisition of customers in Texas. Operating cash outflow on discontinued activities of £301 million mainly reflected the repayment of Goldfish Bank deposit accounts.

Lower spend in respect of the business transformation programme within British Gas was the main contributor to the reduction in net capital expenditure and financial investment, down £120 million at £282 million (2002: £402 million).

The group's net cash inflow (before management of liquid resources and financing) was £652 million, against a net outflow of £918 million in 2002.

Outlook

We believe that the fundamental drivers of profitability within our customer facing brand units will continue to improve as we broaden and deepen the relationships we have with our customers through innovative product offerings and improved service and targeting. This will be underpinned by further investment in our gas and power asset base.

British Gas is now part way through its transformation with the heavy financial investment in hardware and software having taken place. We believe this root and branch reform of systems and processes will genuinely transform the customer experience which is at the heart of the profitability of the business. We are now allocating £40 million to the programme for costs which were previously in other British Gas budgets; for example property costs, post-commissioning running costs and the cost of staff back-filling. Together with some additional home services functionality now specified (£10 million) we expect the programme to cost around £400 million. We have decided to extend both the pilot and deployment phase for the cross-selling technology and are now around nine months behind the original timeline; this decision was taken to ensure the integrity of the system and to preserve our customer service levels as we roll-out to the wider user base. The delay in implementation is not expected to materially impact either costs or benefits from the programme. The next two years will be challenging as we put the remaining elements of the systems infrastructure in place and the investment continues in the wider transformation programme. The first material net financial benefits are still expected in 2005 and we retain our 2005 margin target for British Gas at 8%.

With churn rates within the British retail energy industry stabilising, we expect recent levels of customer losses in gas and gains in electricity to be maintained throughout 2004. As yet it is too early to assess the precise effect of the price rise

*Including joint ventures and associates, before goodwill amortisation.

Operating profit by business* (£m)

	2003	2002
British Gas residential	**206**	244
Centrica Business Services	**51**	65
Centrica Energy Management Group	**561**	519
Centrica Storage	**40**	1
The AA	**93**	73
One.Tel	**4**	2
Centrica North America	**130**	63
Other operations	**–**	5
Goldfish Bank	**(27)**	(40)
Group	**1,058**	932

*Including joint ventures and associations, before goodwill amortisation.

in January 2004 aimed at restoring gross margins to 2002 levels. A key aim for us will be to build on our success in 2003 in retaining in gas, and gaining in electricity, a greater proportion of higher value customers. To assist the expansion of the British Gas brand, early in 2004 we will trial a wholesale line rental (WLR) telecoms solution in the UK which would allow us to provide a single bill to customers for both line rental and call charges. This will enhance the customer experience and give us the platform we require to accelerate the growth of British Gas Communications and so further contribute to strengthening the relationship we have with our customers.

With Centrica Business Services we will seek to consolidate our position as the leading supplier of energy products to the commercial sector in Britain. Having integrated the businesses acquired over the last two years, we are now concentrating on investing to transform the customer experience, on enhancing our ability to react to market changes and on cross-selling.

We intend to add to our gas and power asset portfolio in 2004. We continue to target further investment of around £100 million per year in gas reserves to support our UK customer demand and we also intend to increase our equity hedge in electricity in the UK with an investment of around £250 million over the next three years. 2004 may also bring the first material spend on our renewable generation assets as, with successful surveys, we begin construction of the 90MW offshore wind farm at Barrow. We are also actively seeking further assets in North America, particularly in Texas, where we aim to acquire electricity generation plant to support our retail business.

We have taken measures over recent years to increase the deliverability from our gas fields. While on average, over the medium term, gas production from Morecambe will decline by around 10% per year, we expect production levels in 2004 to be similar to 2003.

We have an ongoing programme of maintenance work on our Rough storage asset which will further improve the operational performance of the asset and reduce the risk of material outages. With this, and the market-driven movement in the summer/winter gas price differential, we expect Rough's profitability to exceed our initial expectations and to show a marked year-on-year improvement.

The AA will continue to seek revenue growth through value-adding product developments underpinned by further improvements in operational efficiency. We expect to see real benefits from the roll-out of new technology to the roadside patrols with improved service to our customers and reduced cost-to-serve. An integrated single customer services organisation will help to further deepen the customer relationship and enhance the cross-selling opportunities within the AA.

In order to maintain its competitive position in the UK telecoms market, One.Tel is establishing a call centre in India. We expect this to lower the cost base significantly while maintaining the current levels of customer service. A successful trial in 2004 of a WLR solution will further enhance the customer experience.

In North America we have achieved a scale which allows us to move steadily forward. We will add organically to our top-line with a concentration on value. Alongside this we will use our new business services organisation to support our current retail positions and enter new markets, targeting medium sized enterprises with a full range of energy and related services. We continue to pursue acquisition opportunities but, in the current regulatory environment and given our concentration on value, these are likely to be complex and difficult to execute.

The competitive environment is likely to continue to develop at different speeds across Europe in the short term. However there is a clear timeline for deregulation and we are well positioned to enter the available markets at the right time and when the right opportunity appears.

Our progress in 2003 has only been possible because of the efforts of our employees. We recognise that the further growth of Centrica depends on having people with appropriate skills who are committed to the success of the company. I am pleased that in 2003 we achieved a very high response rate to our employee survey which allows us to identify the issues and areas for improvement as we progress our people strategy.

In summary, our strategy has always been and remains to maximise long term value by deepening our relationships with customers assisted by sharing knowledge and best practice across the company. At the same time we must achieve a cost of goods advantage through optimal upstream procurement. This strategy and our clear focus on value delivery, including value-adding acquisitions when identified, will enable us to grow both top-line revenue and, through improving operational performance, bottom line earnings in the medium term. We remain committed to a financial structure, including appropriate debt levels, which best rewards our shareholders. We expect this to include, in 2004, another significant step towards our targeted dividend payout ratio of 40%.

Sir Roy Gardner
Chief executive

Operating and financial review

Our Engineering Academy recruited and trained hundreds of new engineers during 2003.

In the home did you know...?

> British Gas is the biggest supplier of both residential gas and electricity in Britain.

> We have 7,160 qualified engineers and 844 contractors who completed around 7.2 million jobs during the year.

> One in four homes in Britain with gas central heating has a ServiceCare contract with British Gas.

> Almost 130,000 customers have signed up to online e-bills since the launch of paperless billing in May 2003.

British Gas residential
Adverse external factors mask strong underlying fundamentals

In a challenging year for the retail energy industry in Britain with the impacts of warm weather unusually coupled with rises in commodity costs, British Gas increased its turnover by 2.4% to £6.2 billion (2002: £6.0 billion). This was due to an increase in our electricity market share, higher energy pricing and continued growth in our home services business.

However, operating profit* was down 16% at £206 million (2002: £244 million). The main elements of this year-on-year fall were the impact of a £54 million National Transmission System (NTS) credit in 2002 and a significant increase in commodity and transportation costs in the second half of 2003. Transportation costs for British Gas increased by around 5% in 2003 as Transco made up for a cost under-recovery in 2002 when lower gas volumes were transported as a result of the warm weather. We also made further investments of £61 million (2002: £38 million) to meet our obligations under the government's Energy Efficiency Commitment and £32 million (2002: £22 million) on our engineer training academy to increase our engineer numbers to meet the projected demand for energy related services. Correspondingly, the number of training centres and partnerships with further education establishments has now increased to 13 across the country with 1,267 engineers currently in training.

The British Gas transformation programme to deliver improved customer service has continued to progress in 2003 across the areas of data, processes, systems and people. The transformation impacts every area of the business and will deliver a 'one stop shop' experience for our customers, where a single customer service agent will be able to deal with all of their enquiries. The customer relationship management infrastructure has now been rolled out to 9,700 staff, enabling them to have a single view of the customer and giving them the ability to serve customers appropriately. This insight will in turn create a different and enhanced customer experience. For integrated cross-selling functionality, we have extended the testing period between pilot and full ramp-up to ensure system integrity throughout. As a consequence, we will now be testing the billing engine in the second half of 2004, with full roll-out by early 2006. During 2003 we incurred £11 million in revenue costs and £67 million in capitalised costs (cumulative spend to the end of 2003, £325 million).

During 2003, British Gas launched a significant culture change programme entitled 'Doing the Right Thing' designed to enhance customer service performance and to embed new ways of working to derive maximum benefits from the investment in business transformation. The initiative has been embraced by staff across British Gas. It has also formed the creative focus of the updated British Gas branding and become the strapline of a highly successful marketing campaign. Following our online billing television advertisement, the British Gas website, house.co.uk, saw an increase in unique visitors from 140,000 to 203,000 per week.

Energy

During 2003 we continued to focus on the value we derive from our customer relationships rather than simply on the number of customers we supply. This involved greater emphasis on investing to retain customers. Our analysis shows that retention is enhanced by higher product holdings and improved customer service. Churn rates have fallen in both fuels with gas churn down to 10% (2002: 13%) and electricity down to 16% (2002: 23%).

Key residential energy performance indicators

	2003	2002	Δ%
Customer numbers (year end) (000)			
Residential gas	**12,590**	12,839	(1.9)
Residential electricity	**6,189**	5,795	7
Estimated market share (%)			
Residential gas	**62**	64	(2 ppts)
Residential electricity	**24**	22	2 ppts
Average consumption			
Residential gas (therms)	**614**	609	0.8
Residential electricity (kWh)	**4,178**	4,146	0.8
Weighted average sales price			
Residential gas (p/therm)	**47.57**	47.01	1.2
Residential electricity (p/kWh)	**6.19**	6.03	2.7
Weighted average unit costs			
Residential gas (WACOG, p/therm)	**22.65**	21.81	3.8
Residential electricity (WACOE, p/kWh)	**2.46**	2.47	(0.4)
Transportation and distribution (£m)			
Residential gas	**1,305**	1,256	3.9
Residential electricity	**479**	444	8
Total	**1,784**	1,700	4.9
Turnover (£m)			
Residential gas	**3,742**	3,805	(1.7)
Residential electricity	**1,547**	1,380	12
Total	**5,289**	5,185	2.0
Operating profit (£m)			
Residential energy	**136**	218	(38)
Operating margin (%)			
Residential energy	**2.6**	4.2	(1.6 ppts)
British Gas product holding**			
Average British Gas products per customer (year end)	**1.62**	1.53	6

** British Gas brand.

*Including joint ventures and associates, before goodwill amortisation.
Δ% has been used to express 'percentage change'.

British Gas takes care of kitchen appliances from microwaves to washing machines.

British Gas residential segmental turnover (£m)

	2003	2002
Residential gas	**3,742**	3,805
Residential electricity	**1,547**	1,380
Home services	**847**	810
British Gas Communications	**56**	52
Total	**6,192**	6,047

The net result of this was that we increased our energy customer relationships in 2003 by 145,000 against a loss of 191,000 in 2002 while spending £30 million less on acquisition activities. In 2003 our ability to target more accurately our sales activity resulted in higher conversion rates and an increase in product holdings per customer to 1.62 from 1.53. As part of our drive to reduce cost-to-serve, almost 130,000 customers have now signed up for online e-bills since the launch of paperless billing in May 2003.

Putting the customer at the heart of the business has seen improved service delivery. This year British Gas was voted the best gas supplier in the UK for customer satisfaction in the annual survey by research firm JD Power & Associates. The quality of acquisition processes has also improved as we have implemented customer needs-based targeting and a sales code of practice. Our commitment to stamping out incidents of mis-selling has yielded significant further progress in reducing the number of complaints about British Gas sales practice reported to energywatch. British Gas is also leading industry-wide work, supported by Ofgem and energywatch, to simplify the transfer processes, particularly in the electricity market, which will further improve the customer experience. By the end of 2003 energywatch figures showed complaints about our selling practices at just 38% of the level they were in April 2002 with complaints about the transfer process down 49% over the same time period.

Average gas consumption in 2003 was in line with 2002 with similarly warm temperatures through the year. However, the 2002 Transco recovery and differing weather patterns, along with a consequent lower payout from our weather hedging activities, led to a reduction in gross margin of £32 million.

Energy gross margin was also impacted by increased commodity cost. Wholesale market prices in gas and electricity increased by approximately 15% in 2003. The full impact of commodity cost increases, particularly in the second half, was not anticipated and therefore was not recovered from customers in 2003 in the 2.5% price rise in April. The 5.9% price rise from 10 January 2004 (1 March 2004 for prepayment customers) reflects the commodity cost increases experienced late in 2003.

Home services

British Gas home services reported strong growth in 2003 with turnover increasing by 4.6% to £847 million (2002: £810 million). Operating profit* increased by 38% to £84 million (2002: £61 million) with full year operating margins up over two percentage points at 10%. Our continuing growth in the home services market is an indication of the trust in and strength of the British Gas brand. One in four homes in Britain with gas central heating now has a service contract with British Gas while the newer products of home electrical care, kitchen appliance care and plumbing and drains care continued to grow rapidly, displaying our ability to understand and service customer requirements. Our central heating installations activity was down in 2003 with the number of installations lower by 16% and turnover down by 12% at £228 million (2002: £260 million) due to a contraction in the overall market.

We see home services as a unique and growing opportunity to increase profitability, improve customer service and strengthen the brand attributes differentiating British Gas from our competitors. Home services products continue to have a positive impact on the retention of energy customers. We are targeting significant growth in our share of the home services market and therefore have continued to increase our staff numbers throughout 2003 with the total number of qualified engineers growing by 955 to 7,160.

British Gas Communications

Turnover increased by 8% to £56 million (2002: £52 million) driven by a significant improvement in average revenues per customer (up 13%). In the absence of a workable WLR solution

Key home services performance indicators

	2003	2002	Δ%
Customer product holdings (year end) (000)			
Central heating service contracts	**3,250**	3,093	5
Other central heating service contracts	**837**	849	(1.4)
Kitchen appliances care (no. of appliances)	**1,109**	871	27
Plumbing and drains care	**1,084**	905	20
Electrical care	**598**	367	63
Home security	**28**	28	–
Total holdings	**6,906**	6,113	13
Central heating installations	**86**	102	(16)
Turnover (£m)			
Central heating service contracts	**391**	349	12
Central heating installations	**228**	260	(12)
Other	**228**	201	13
Total	**847**	810	4.6
Engineering staff employed	**7,160**	6,205	15
Operating profit* (£m)			
Home services	**84**	61	38
Operating margin (%)			
Home services	**10**	8	2 ppts

*Including joint ventures and associates, before goodwill amortisation.

We supply energy to businesses of all sizes, from plcs to garden centres.

Key British Gas Communications performance indicators

	2003	2002	Δ%
Customer numbers (fixed line) (year end) (000)	376	367	2.5
Average minutes used per month (fixed line)	374	340	10
ARPU (fixed line) (£)	11.86	10.52	13
Turnover (£m)	56	52	8
Operating loss (£m)	(14)	(35)	60

we have intentionally acquired fewer customers this year and focused on significantly reducing customer churn. This has reduced by nine percentage points driven primarily by the promotion of the enhanced carrier pre-selection (CPS) product that was introduced in July 2002. Ninety-one per cent of our fixed line customer base is now on CPS. These actions have significantly reduced the operating loss of the business to £14 million (2002: £35 million).

Centrica Business Services
Consolidating our leading supply position in the commercial sector

Centrica Business Services continues to consolidate and improve its position as the number one supplier of energy to the commercial sector in Britain, measured by supply points, with an overall market share of 29% (2002: 27%). As with the residential business, 2003 has proved a challenging year. Turnover was up by 16% at £1.1 billion due to the full year effect of the Electricity Direct (ED) acquisition and growth of the electricity customer base.

Operating profit* fell to £51 million (2002: £65 million), hit mainly by warmer than average weather which lowered gas consumption and a higher than forecast rise in wholesale prices. The business also expensed £5 million of integration costs for ED and £4 million in the overhaul of customer systems and processes. The £6 million one-off NTS credit received in 2002 was more than matched by the full year effect of £7 million from the ED acquisition.

Improving customer service continues to be a major initiative. In total we expect investment here to be £40 million over three years. The intention is to rationalise the disparate systems the business has inherited and so enhance service levels, lower cost-to-serve and lower costs to acquire new product relationships. Roll-out of new systems to the business will commence in 2005.

Centrica Energy Management Group
Further well timed investments made in power generation and renewables

CEMG continued to apply its assets and skills to minimise input costs for the downstream businesses whilst at the same time delivering steady upstream revenues against a backdrop of warmer than average weather and volatile commodity prices. Operating profit for 2003 was up by 8% to £561 million.

Gas production

Despite a 4% reduction in production volumes year-on-year, upstream gas profits increased by 7% to £480 million. The impact of reduced volumes was offset by a 4% increase in average selling prices and lower operating costs due to the full year effect of the abolition of royalties on offshore gas production net of the additional PRT charge.

An extremely successful reperforation campaign in our South Morecambe field has increased daily deliverability from four wells by an average of 15%. Plans are in place to reperforate a further 10 wells in the North and South Morecambe fields which would increase deliverability and therefore medium term production flexibility. After completing the acquisition of the remaining 60% of Rose field, development progressed more rapidly than originally anticipated, bringing first gas on stream in January 2004.

We also secured a contract to develop and operate a new gas reception terminal at Easington, which will land gas from Norway's Ormen Lange field. First gas through the terminal is expected in 2006. The project will make more efficient use of the Easington

Key Centrica Business Services performance indicators

	2003	2002	Δ%
Customer supply points (year end) (000)			
Gas	370	383	(3.4)
Electricity	535	516	3.7
Total	905	899	0.7
Average consumption			
Gas (therms)	3,124	3,276	(4.6)
Electricity (kWh)	25,700	23,785	8
Weighted average sales price			
Gas (p/therm)	37.75	36.72	2.8
Electricity (p/kWh)	4.84	4.79	1.0
Weighted average unit costs			
Gas (WACOG, p/therm)	21.56	20.71	4.1
Electricity (WACOE, p/kWh)	2.29	2.25	1.8
Transportation and distribution (£m)			
Gas	130	126	3.2
Electricity	221	170	30
Total	351	296	19
Turnover (£m)			
Gas	455	457	(0.4)
Electricity	670	514	30
Total	1,125	971	16
Operating profit* (£m)	51	65	(22)
Operating margin (%)	4.5	7	(2.5 ppts)

*Including joint ventures and associates, before goodwill amortisation.

Sourcing energy did you know...?

- > We met 25% of our customers' demand during the year from our own equity gas production.
- > During the year our power stations supplied 21% of our customers' electricity demand.
- > We are now the biggest operator of gas-turbined power generation in the UK.
- > In the Irish Sea we are providing gas production and operations expertise to third party gas producers.

We have gas interests in both the North and Irish Seas.

terminal operation and bring in further revenue in the form of fees, with Centrica managing the design, construction and commissioning of this terminal.

As announced in January 2004, we reached agreement to acquire a further 280 million therms of gas reserves with the acquisition of interests in the Orwell and Statfjord fields for £60.7 million. The agreement included nine million barrels of oil reserves which will produce a revenue stream and act as a valuable hedge to our exposure to gas contracts linked to oil prices.

Industrial sales and wholesaling

Sales volumes were up by 7% against 2002 due to increased wholesaling activity. As with 2002, warm weather depressed consumption in our retailing businesses, allowing profitable sales of excess contracted gas into the wholesale market, particularly in the first half of the year. However, operating profits were down by 11% at £64 million due to a number of one-off costs including an adjusting payment of £10 million related to prior year charges for a wholesale electricity purchase contract.

Electricity generation

In April, we acquired the 229MW Roosecote plant in Barrow and, in July, the 240MW Barry plant in South Wales, taking our total equity generation capacity to 2,174MW. Total electricity generated in the

Key Centrica Energy Management Group performance indicators

	2003	2002	Δ%
Gas production			
Production volumes (m therms)			
Morecambe	**3,429**	3,639	(6)
Other	**457**	417	10
Total	**3,886**	4,056	(4.2)
Average sales price (p/therm)	**22.4**	21.5	4.2
Turnover (£m)	**919**	932	(1.4)
External turnover (£m)	**54**	74	(27)
Operating costs (£m)			
Royalties	**(3)**	67	n/m
Petroleum revenue tax	**128**	76	68
Volume related production costs	**213**	237	(10)
Other production costs	**101**	105	(3.8)
Total	**439**	485	(9)
Operating profit (£m)	**480**	447	7
Power stations			
Power generated (GWh)	**8,668**	7,662	13
Industrial and wholesale			
Sales volumes (m therms)	**6,093**	5,694	7
Average sales price (p/therm)	**20.5**	19.8	3.5
Turnover (£m)	**809**	784	3
Operating profit (£m)	**64**	72	(11)
Accord			
Traded volumes (physical)			
Gas (m therms)	**24,546**	20,399	20
Electricity (TWh)	**139**	95	46
Turnover (£m)	**6,218**	4,304	44
Operating profit (£m)	**17**	–	n/m
CEMG operating profit (£m)	**561**	519	8

year was 8.7TWh (21% of our downstream requirements) with the stations running on average, for the portion of the year they were in the portfolio, at a load factor of 59%.

Renewables

In the supply year April 2002 to March 2003, Centrica fulfilled its obligation to source 3% of all electricity supplied from renewable sources through the purchase of certificates and is on track to meet the target of 4.3% for the current supply year. To meet the Government's renewable power generation target, Centrica announced an investment programme of £500 million over the next five years, working alongside joint venture partners. In 2003, investments included the joint venture with DONG and Statkraft to build a 90MW wind farm offshore at Barrow-in-Furness; and the acquisition of the Inner Dowsing and Lynn offshore wind farm developments in the Greater Wash area (with a combined generation potential of at least 180MW). Centrica was also successful in acquiring sufficient Round 2 licences to give the flexibility to build up to a further 1,250MW of offshore wind capacity.

Accord

Despite the anticipated tough trading environment with fewer counterparties participating, Accord made an operating profit of £17 million in 2003, £13 million of which came in the first half. In the second half, Accord experienced reduced gas trading profits due to the severe unplanned restrictions in gas flow through the continental interconnector and field closures in the UK North Sea. Physical volumes traded during 2003 were equal to 2.7 times the gas and 3.4 times the electricity volumes supplied to our UK downstream customers (2002: 1.4 times and 2.2 times, respectively), and reflected increased activity in Europe to support our retail operations in Belgium and Spain.

Centrica Storage

On 18 December the Secretary of State gave final clearance to Centrica's acquisition of the Rough storage field and associated assets, with the behavioural undertakings offered addressing all competition concerns. This removal of any remaining uncertainty allowed the forward selling of storage services to recommence.

Operational difficulties in the first half were resolved and the field experienced no major outages during the second half of the year. The

Operating and financial review continued

On the road did you know...?

> Our patrols repair around 8 out of 10 breakdowns at the roadside.

> The AA has the largest dedicated breakdown patrol force in the UK, with approximately 3,500 patrols.

> The AA's website is the UK's number one automotive and insurance site.

> AA Tyre Fit is the UK's first all-mobile fleet and retail tyre network.

maintenance backlog inherited at the time of acquisition has been significantly reduced and a related HSE deferred prohibition order was lifted. Operating profits increased to £40 million (2002: £1 million) due to a full year's operation and the selling of a proportion of 2003/2004 storage services at prices more reflective of the current market differential between summer and winter. This differential, which was between 6.5p and 7p per therm at the time of acquisition, has traded since November 2003 at between 10p and 13p.

The AA

Strong growth in AA core business leading to 27% increase in operating profit*

In 2003 the AA delivered strong growth in the profitability of its core roadside and personal finance operations and continued its investment in technology, infrastructure and training. Overall, turnover grew 4.9% to £797 million and operating profit* increased by 27% to £93 million.

The 'Just AAsk' marketing campaign has continued to focus consumer attention on the breadth of the AA's product range. Latest research shows that prompted recognition of the 'Just AAsk' logo is now at an all-time high of 86%. The campaign, which began in May 2002, was recognised by the UK's marketing industry at the Marketing Week Effectiveness Awards 2003.

We have reorganised our internal operations by bringing together all of the core sales and customer service teams under one umbrella through the creation of a new customer services organisation. This new structure will improve our customer service through multi-skilling and integrated management focus and standardise processes across our sites. Creating a single customer services team will also enable us to build upon our successes in cross-selling. By the end of 2003 the average product holdings per customer had increased to 1.31 (2002: 1.23).

Our website, theaa.com, continues to be developed and the number of website visits increased by 45% to 31 million, with a high demand for online routes and maps. This increase in visits led to record online sales figures for personal loans, up year-on-year from 8,647 to 16,452, and membership sales, up from 61,677 to 79,507.

Key AA performance indicators

	2003	2002	△ %
Roadside services			
Customer numbers (year end) (000)	**13,522**	12,975	4.2
Customer renewal rate (%)	**85**	85	–
Average transaction value (£)	**36**	34	6
Roadside patrols employed	**3,479**	3,651	(4.7)
Personal finance			
Insurance customers (000)			
Motor	**952**	959	(0.7)
Home	**693**	664	4.4
Overall renewal rate (%)	**82**	78	4 ppts
Average annual premium (£)	**257**	261	(1.5)
Motor and home insurance commissions (£m)	**94**	93	1.1
Loans (fixed term) book size (£m)	**1,043**	661	58
Lending share of JV operating profit (£m)	**19**	17	12
Number of fixed term personal loans (000)	**160**	123	30
AA Service Centres			
Site numbers	**127**	129	(1.6)
Average turnover per site (£000)	**356**	320	11
Turnover (£m)			
AA roadside services	**492**	476	3.4
AA personal finance	**186**	172	8
Other AA services	**119**	112	6
Total	**797**	760	4.9
Operating profit/(loss)* (£m)			
AA roadside services	**61**	54	13
AA personal finance	**50**	47	6
Other AA services	**(18)**	(28)	36
Total	**93**	73	27
Operating margin (%)			
Total AA	**12**	10	2 ppts
AA product holding			
Average AA products per customer (year end)	**1.31**	1.23	7

AA roadside services

Turnover increased by 3% to £492 million due to growth in the business services market and an increase in personal membership income. The continued drive towards increasing customer value rather than volume growth led to an increase in operating profit* of 13% to £61 million. Further measures to contain the cost base, including the closure of loss making sales channels, together with increasing productivity, improved the operating margin to 12% (2002: 10%).

AA business services won the contract to provide breakdown assistance to the 365,000-strong fleet of new and used Volkswagen vehicles, and recruited additional dedicated patrols to service this contract. Investment in roadside assistance continued with all patrols now equipped with specialised all weather portable computer systems with fault diagnostic capability, which will enhance patrols' ability to fix faults at the roadside. Called VIxEN, the laptop computer also provides AA patrols with GPRS communications functionality which enables more efficient deployment and better management of call to arrive times. In November 2003, VIxEN was recognised by the automotive industry

*Including joint ventures and associates, before goodwill amortisation.

Specialised computer systems enable our patrols to fix more breakdowns at the side of the road.

The AA now has an integrated customer services team.

when it won the 2003 Autocar Idea of the Year Award.

The AA won the annual JD Power & Associates UK Roadside Assistance Study award for customer satisfaction for the second successive year and for the fourth time in the six years it has been awarded.

AA personal finance

Turnover increased by 8% to £186 million (2002: £172 million). Although motor insurance premiums fell year-on-year, improved customer targeting and more competitive products enabled the business to increase operating profit* by 6% to £50 million (2002: £47 million). The total value of personal finance advances reached £1 billion for the first time following the continued success of the AA personal loan and development of the new AA Visa card, which broke even a year ahead of schedule. The year closed with a portfolio of 160,000 loans (2002: 123,000); 20% of new AA loans were sold online in 2003.

The value of motor and home insurance commissions grew by 1% despite a 2% reduction in the average annual premium, driven mainly by the cyclical nature of pricing conditions in the motor insurance industry. This was achieved through a major differentiating service initiative, 'Keeping the Customer Mobile', launched in March. In December this mobility initiative was recognised by the insurance industry with the Insurance Times Award for innovation of the year. This and other initiatives resulted in a record renewal rate of 82% (2002: 78%).

The growing success of the AA's specialist insurance service, AA Select, was recognised by the British Insurance Brokers Association (BIBA), which represents around 2,500 UK brokers, in 2003. BIBA has agreed that any member company unable to provide a competitive quote for non-standard insurance will refer the caller to AA Select.

The innovative parts and labour product, where AA members are covered for the cost of breakdown repairs, has continued its rapid take-up rate. By the end of the year the total number sold had reached 214,000 (2002: 114,000). All of these sales have been as a result of cross-selling to current AA members.

Relaunched on 1 January 2003, the AA's innovative and flexible travel insurance products have achieved record sales during the year despite a flat overseas tourism market. Sales of single trip cover are up 78% and annual multi-trip cover is up 76%.

Other AA services

The AA Service Centres made an operating loss* of £20 million (2002: £15 million). We have continued to take actions to reduce the losses, including a staff redeployment programme which has reduced the operating cost base. There are a number of new initiatives in place aimed at growing the customer base in order to build on the year-on-year turnover increase of 10%.

AA Tyre Fit, the mobile tyre fitting business acquired last year, made an operating loss* of £7 million, although turnover has increased by £6 million following the expansion of the fleet from 50 vans to 170 to provide nationwide coverage. AA Tyre Fit is the UK's first all-mobile retail tyre network.

Operating profit* in the driving school more than doubled over 2002 as pupil and instructor numbers reached record levels. Publishing, car data check and roadside signs also made positive contributions. In the Republic of Ireland, the AA nearly doubled its profits to £3 million, due to growth in both insurance and roadside assistance, remaining the leading roadside assistance provider and personal insurance intermediary in the country.

One.Tel
Operating profits double with continued brand investment

For One.Tel, 2003 has been a year of continued development and growth. We have maintained our focus on developing new products and internal processes that offer a best total cost solution to our customers, whilst lobbying for regulatory improvements to enable the enhancement of CPS and the delivery of WLR to encourage open competition.

In 2003 turnover grew by 16% to £178 million (2002: £153 million), as a result of the growth in customer numbers along with an increase in the average products per customer to 1.29 (2002: 1.21). Fixed line monthly average revenue per user (ARPU) has declined slightly year-on-year to £16.18 (2002: £16.20), as a result of significant competition-related price reductions, especially in international and national rates. However, the further uptake of CPS has enabled us largely to offset these price reductions. Thirty-seven per cent of the fixed line customer base is now on CPS tariffs with the ARPU on these tariffs being more than 35% higher than non-CPS tariffs. The average minutes of use per month increased by 21% to 345 minutes and, as a result of product enhancements and service improvements, fixed line churn levels declined by seven percentage points year-on-year.

Our variable gross margin was sustained as we continue to leverage our least-cost routing capability and negotiate favourable transmission rates with our carriers. We further developed our switched reseller model, entering into an agreement with Cable & Wireless in the third quarter

*Including joint ventures and associates, before goodwill amortisation.

We offer a range of packages for internet users including high speed broadband access.

In telecoms did you know...?

> **On One.Tel's busiest day in 2003 our customers spent approximately 9.93 million minutes on the phone.**

> **One.Tel was named the UK's Best Consumer ISP 2003 by the Internet Service Providers Association.**

> **We are a leading competitor to BT and already 37% of One.Tel's fixed line customers have chosen carrier pre-selection.**

> **One.Tel customers can call directory enquiries free by dialling 118 111.**

Direct Energy

cpl Retail Energy

to carry our local and national traffic over their network, thereby freeing up capacity on our switches whilst retaining our multiple arrangements with other carriers.

Operating profit* for 2003 was £4 million, double that of 2002 (£2 million). Investment in our brand campaign has increased by £1.7 million to £3.6 million as we highlighted the comprehensive range of telecommunications services available from One.Tel. Compared to the end of 2002, when we had one call-inclusive package, we now offer a complete range of fixed line, mobile and internet tariffs addressing the many varied needs of customers in today's market. In addition, since the deregulation of the directory enquiries market in August 2003, we have provided a free, brand differentiating, directory enquiries service to our customers. Acquisition costs were up 31% at £29 million supporting a 13% growth in the customer base. This reflects the higher costs of acquiring customers, associated with offering a greater range of products through a wider array of distribution channels, as well as a full year of mobile acquisition costs. Our mobile base continues to grow steadily, reaching 73,000 customers at the end of 2003 with the new call and text inclusive tariffs (launched in March 2003) successfully attracting high value customers.

Since February 2003, all our customers (including the broadband customers acquired from Iomart in 2001) have been on our single customer care and billing system, enabling us to offer an integrated service to our customers with all their One.Tel services summarised on one bill. In 2003 there was significant progress in the industry debate around WLR deregulation, and we, along with other market entrants, will trial a WLR product in early 2004, enabling our customers to benefit from a single relationship for all their telecommunications requirements. Following the success of a pilot in 2003, in January 2004 we announced the setting up of a call centre in Bangalore, which will lower One.Tel's cost base.

Key One.Tel performance indicators

	2003	2002	Δ %
Customer numbers (year end) (000)			
Fixed line	**793**	746	6
Mobile	**73**	36	103
Other services	**218**	180	21
Total (30 day tolling)	**1,084**	962	13
Average minutes used per month (fixed line)	**345**	284	21
ARPU (fixed line) (£)	**16.18**	16.20	(0.1)
ARPU (mobile) (£)	**14.44**	12.77	13
One.Tel product holding			
Average products per customer (year end)	**1.29**	1.21	7
Turnover (£m)	**178**	153	16
Operating profit* (£m)	**4**	2	100
Operating margin (%)	**2.2**	1.3	0.9 ppts

Centrica North America
Operating profits more than double that of 2002

We have continued to expand and develop our presence in North America despite the challenging business and regulatory environments. In 2003, we successfully integrated and rationalised the businesses acquired in 2002 and improved their profitability by renewing or acquiring only customers who create value. In 2003 operating profit* increased by 106% to £130 million (2002: £63 million), after £10 million of costs relating to our exit from Pennsylvania home services, the entry into Alberta and adverse foreign exchange movements. This reflected strong performances in our electricity markets, especially in Texas where the full year impact of the acquisition exceeded expectations.

Residential and small commercial gas

Turnover increased by 9% over 2002 reflecting the colder winter, together with revenues from approximately 300,000 customers acquired in 2002. Higher wholesale gas costs in the second half lowered margins on renewing customers and contributed to a reduction in operating profit* to £1 million (2002: £16 million). In addition, we increased our investment in brand building and experienced increased costs of customer renewals in Ontario associated with regulatory changes which significantly affected customer renewals in the prime mid-year renewal period. Our intensive efforts brought about favourable changes to the regulations in June and resulted in renewal rates rising and the costs of renewals falling late in the year. The second half performance reflected the seasonal weighting of sales volumes towards the first half against a much flatter profile of operating costs.

In our US gas markets, the regulatory climate, together with a volatile gas price environment, has continued to make it difficult to add value-creating customers. We will participate only in markets that offer an appropriate return on capital and accordingly we announced our withdrawal from Georgia and Maryland.

In the first half we re-evaluated the returns achievable on our original investment in Energy America in the light of the current regulatory and business environments and increased the amortisation charge by £12 million in respect of part of the goodwill and shortened the life over which the remaining goodwill is to be amortised.

*Including joint ventures and associates, before goodwill amortisation.

Direct Energy provides a range of services in the home.

In North America did you know...?

> In 2003, Direct Energy Essential Home Services technicians made 730,240 home visits.

> We completed an average of 20,000 service calls each week during the autumn and winter – an average of about 3,000 calls every day.

Residential and small commercial electricity

Turnover and operating profit* increased sharply, reflecting the full year contribution and performance of our recently acquired businesses in Texas and a full year of Ontario electricity sales. Owing to the high electricity consumption per customer in Texas, overall average consumption rose by 56%.

Our Texas customers fall into two categories. For those in West and South Texas, acquired at the end of 2002, energy prices were increased in March by an average of 17% under the Price to Beat (PTB) mechanism, allowing us to maintain target margins despite a sharp increase in gas costs, a key driver of power prices. Customer numbers have reduced by 10% in this category as expected in a PTB environment, which is designed to encourage competition by inhibiting incumbent suppliers from competing on price before 1 January 2005. In the second category, we continue to build an organic electricity business, now under the Direct Energy brand name, principally in the Houston and Dallas/Fort Worth areas. Customer numbers grew year-on-year by 59% and our focus on value has raised average annual consumption per customer from 98% to 121% of the overall Texas average and significantly reduced bad debt levels.

Key North America performance indicators

	2003	2002	Δ %
Customer numbers (year end)			
Residential and small commercial gas (000)	**1,116**	1,339	(17)
Residential and small commercial electricity (000)	**1,318**	1,416	(7)
Home and business services (000)	**1,690**	1,627	3.9
Average consumption			
Residential and small commercial gas (therms)	**1,340**	1,138	18
Residential and small commercial electricity (kWh)	**16,630**	10,666	56
Gas production			
Gas production volumes (m therms)	**362**	380	(4.7)
Average sales price (p/therm)	**19.3**	20.1	(4)
Turnover (£m)			
Residential and small commercial gas	**531**	486	9
Residential and small commercial electricity	**1,144**	189	505
Home and business services	**193**	159	21
Gas production and energy trading (including I&C)	**501**	284	76
Total	**2,369**	1,118	112
Operating profit/(loss)* (£m)			
Residential and small commercial gas	**1**	16	(94)
Residential and small commercial electricity	**87**	(10)	n/m
Home and business services	**29**	23	26
Gas production and energy trading (including I&C)	**13**	34	(62)
Total	**130**	63	106
Operating margin (%)			
Total North America	**5**	6	(1 ppt)

The Ontario electricity market for residential and small commercial customers remains effectively closed to further growth under the price cap introduced in November 2002.

Customer churn has reduced and our margins remain strong but it has not been possible to acquire new customers in the price cap environment. The new government recently announced its intention to increase the level of the price cap from 1 May 2004 and that the provincial regulator, the Ontario Energy Board, will take back the responsibility for setting retail power rates by 1 May 2005.

Home and business services

Turnover and operating profit* improved with the benefits of increases in customer numbers and margins being partially offset by investment in customer service and capacity expansion. We rebranded the Enbridge Services Inc business acquired in May 2002 as Direct Energy Essential Home Services and Direct Energy Business Services, and focused on driving efficiency and growth using our experience in the British Gas home services business. Integration of our home services and retail energy businesses in Ontario enables us to leverage cross-selling opportunities. Customer numbers in the core heating and cooling protection products increased by 16% to over 390,000.

During 2003, the formation of a new business services group enabled us to market energy and services to medium sized commercial and industrial customers. Early signs are encouraging with several large contracts already signed. This will be an area of particular focus for 2004.

In February 2003 we reduced our holding in the Consumers' Waterheater Income Fund from 41.9% to 19.9%, realising further proceeds of £46 million in addition to the £304 million raised in 2002. We continue to account for the earnings, assets and liabilities of the fund on a fully consolidated basis as required under FRS 5.

At the end of 2003, we announced the closure of the remaining nine retail stores in Ontario with a £16 million exceptional pre-tax charge taken on closure.

Upstream activities

Gas production volumes declined marginally with a successful new well development programme largely offsetting the natural decline rates inherent in mature fields. Additionally, we drilled, completed and began production on 131 wells during 2003 compared with 218 in 2002. Our production met 22% (24% in 2002) of our customer requirements in Canada and the northern

*Including joint ventures and associates, before goodwill amortisation.

With the full opening of the market in July, Luminus is now supplying gas and electricity in Belgium.

US in 2003. Despite increases in market price, our average gas selling prices reduced by 4% compared with the same period in 2002 following the expiry of favourably priced forward sales contracts in November 2002. Together with higher royalty charges, this had a significant dampening effect on operating profit*.

Europe
Well positioned as European supply market deregulates

In Belgium, the residential gas and electricity market in Flanders opened fully for competition on 1 July 2003. Centrica's joint venture, Luminus, successfully switched across its 800,000 customers (approximately 600,000 electricity and 200,000 gas). Luminus is the clear number two in the Flanders market which is already beginning to see increasing competition as new entrants respond to the market opening. Luminus had a turnover of £362 million and produced a positive contribution in the year. The Walloon and Brussels markets will open, on a phased basis, from July 2004 to July 2007, at which point the residential markets will be fully open to competition.

Centrica entered the Spanish energy market under the Luseo Energía brand and has been actively acquiring commercial electricity customers organically since the launch in June 2003. Reaction has been promising and we are gaining some valuable insights into the operation of the market.

The European energy directives are now in place and are being implemented. The pace of actual market opening will vary across Europe but we are well positioned to take advantage of opportunities as they emerge.

Discontinued business

On 1 August Centrica announced that Goldfish Bank Ltd had agreed to sell its credit card and personal loan business to Lloyds TSB, the joint venture partner, for a premium of £112.5 million above the receivables book value. The sale included the brand, the loyalty programme and the associated business assets. This transaction was completed on 30 September 2003.

The Goldfish credit card and its associated loyalty scheme were originally developed as a customer retention initiative within the group's energy supply business. Since then Centrica has retained its position as Britain's leading household gas supplier and transformed itself into the leading domestic electricity supplier. With around 41% of the overall household energy market the strategic significance of Goldfish was reduced. The capital commitment required to grow real scale in the near term, coupled with an attractive offer for the business from Lloyds TSB, meant that disposal of its share of the business was in the best interests of Centrica shareholders.

The operating loss* up to the September 2003 disposal was £27 million. The transaction triggered a pre-tax exceptional loss on disposal of £51 million, which after tax and minority interests, amounted to a net loss of £43 million.

*Including joint ventures and associates, before goodwill amortisation.

We aim to grow our earnings and cash flow within a prudent risk management framework. During the year our share price outperformed the market by nearly 10% and since demerger in February 1997 we have outperformed the index by 221%.

Centrica's aim is to achieve a total shareholder return (TSR) ranking in the first quartile of UK FTSE 100 companies, taking account of share price growth and dividends received and reinvested over a sustained period. Centrica promotes continuing growth in earnings and cash flow and seeks to maximise the return on capital it achieves in excess of its cost of capital, within a prudent risk management framework. The remuneration report on pages 29 to 36 summarises our TSR performance over recent years against our comparator FTSE 100 group.

The group's closing share price on 31 December 2003 was 211 pence (31 December 2002: 171 pence), resulting in a market capitalisation of £9.0 billion (2002: £7.3 billion). World stock markets recovered somewhat in 2003 with the FTSE 100 Index rising by over 13%. The group's share price outperformed the FTSE 100 by 9.8% (2002: 3.1%). Since demerger in February 1997, Centrica's share price has outperformed the FTSE 100 Index by 221%.

Earnings

Earnings increased by £22 million to £500 million in 2003. This reflected improved operating profit* up £126 million, offset by taxation up from £250 million to £266 million and higher goodwill amortisation, up by £38 million to £161 million.

Earnings before exceptional charges and goodwill amortisation were up 12% to £714 million. This represents a return on capital employed over the year of nearly 28% or 8.8% on our average market capitalisation.

Operating profit

Operating profit* increased to £1,058 million from £932 million in 2002, benefiting from a full year of profits from our 2002 acquisitions in North America.

Exceptional charges and goodwill amortisation

During the year, non-operating exceptional charges of £51 million net of tax arose (2002: £26 million non-operating exceptionals net of tax). These related to the closure of our retail outlets in Ontario and the disposal of the Goldfish credit card and loan business for a premium of £112.5 million. Together these resulted in a pre-tax non-operating loss of £67 million, related tax credits of £16 million and a minority interest charge of £2 million. The group's goodwill amortisation charge for the year increased to £161 million from £123 million in 2002, mainly as a result of our recent acquisitions in North America.

Net interest

Net interest charged to the profit and loss account was £52 million compared with £62 million in 2002 and was covered 20 times by operating profit* compared with 15 times a year earlier. The reduction in interest payable was due to lower average indebtedness mainly as a result of a reduction in spending on fixed assets and acquisitions, and improved working capital management.

Taxation

The tax charge for the year on profit before goodwill amortisation and exceptional charges of £282 million for 2003 represented a 28% rate on profits* (2002 comparative rate 28%). The overall charge is less than the UK 30% statutory rate, primarily due to the utilisation of tax losses in the year.

Earnings per share and dividends

Basic earnings per share grew from 11.4 pence to 11.8 pence and adjusted earnings per share from 15.2 pence to 16.8 pence. Over the last three years the adjusted earnings per share has grown by a compound annual average of over 18%, facilitating a progressive dividend policy. We are proposing a final dividend of 3.7 pence giving a total of 5.4 pence (2002: 4.0 pence), an increase of 35%.

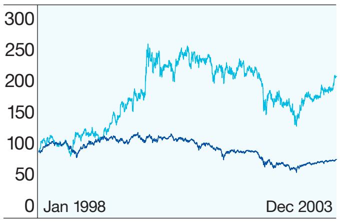
Cash flow

Group operating cash flow from continuing operations (including dividends from joint ventures and associates, before exceptional payments) was £1,321 million for 2003, compared with £795 million in 2002. The improvement resulted from an increase of £123 million in operating profit* (from continuing operations before depreciation and amortisation of investments), as well as improvements in working capital management.

*Including joint ventures and associates, before goodwill amortisation.

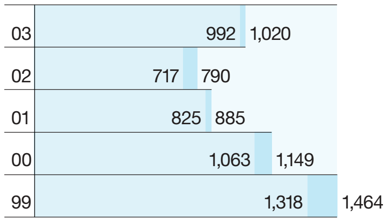
Group financial review continued

Centrica share performance (pence)



Smoothed five day average
Centrica plc
FTSE 100 relative

Group operating cash flow (£m)



Excluding dividends from joint ventures and associates after exceptional payments.
Including dividends from joint ventures and associates before exceptional payments.

Group operating cash outflow from discontinued operations was £301 million, compared to an outflow in 2002 of £5 million.

Total capital expenditure was £323 million this year, down from £449 million in 2002. This includes £72 million (2002: £180 million) of costs capitalised for information technology investments associated with our new customer relationship management (CRM) infrastructure. Proceeds from disposals of £409 million (2002: £54 million) included receipts on disposal of the Goldfish credit card and loan business, net of the repayment of the working capital facility. Acquisition expenditures of £117 million (2002: £989 million, net of cash and overdrafts acquired) consisted primarily of our purchases of Roosecote and Barry power stations in the UK, as well as the payment of deferred consideration on 2002 acquisitions. The group's net cash inflow before management of liquid resources and financing was, as a result, £652 million, against a net outflow of £918 million in 2002.

Consolidated balance sheet

The net assets of the group increased during the year from £2,402 million to £2,754 million.

Fixed assets

Intangible fixed assets of £1,614 million (2002: £1,813 million) represented goodwill that has arisen on acquisitions. During the year, a further £44 million arose, £40 million of which resulted from the final determination of the fair values of 2002 acquisitions. Goodwill is amortised by way of charges against profits over periods ranging from 5 to 20 years.

Tangible fixed assets, mainly comprising gas field assets and power stations, had a net book value of £2,730 million (2002: £2,763 million). During the year gas field assets and power stations were acquired for £85 million. At the year end, the net proven and probable gas reserves represented by our field interests amounted to 2,611 billion cubic feet (bcf) (2002: 2,846 bcf), which included 351 bcf (2002: 404 bcf) in North America. At the year end, hardware and software costs relating to our major investments in CRM had a net book value of £297 million (2002: £237 million).

The group's investment in joint ventures was £94 million (2002: £74 million), comprising its share of gross assets of £1,014 million and share of gross liabilities of £920 million. The group's share of net debt in joint ventures was £788 million. These investments related principally to the group's 60% interest in Humber Power Limited, its 50% interest in the AA's joint ventures with HBOS and 50% of Luminus NV.

Working capital

Current assets less current liabilities, excluding net indebtedness, amounted to a deficit of £487 million (2002: deficit of £243 million excluding Goldfish balances). The increase is attributable largely to tax and to the final dividend payable in June 2004.

Net debt

The group's cash balances reversed from a net debt position of £529 million at 31 December 2002 (excluding the Goldfish facility and the Consumers' Waterheater Income Fund (non-recourse) debt) to a net cash position at 31 December 2003 of £163 million (excluding £216 million of non-recourse debt). Money market investments increased by £672 million to £992 million.

Provisions and other creditors due after more than one year

Provisions and other creditors due after more than one year decreased during the year to £1,164 million (2002: £1,384 million), mainly due to decreases in deferred petroleum revenue tax and pension and other retirement benefit provisions.

Financial risk management

The board has established objectives and policies for managing financial risks, to enable Centrica to achieve its long term shareholder value growth targets within a prudent risk management framework. These objectives and policies are regularly reviewed.

Currency, interest rate, liquidity and counterparty risks are managed centrally by a treasury team, within parameters set by the board. This team is also responsible for monitoring the group's credit ratings and managing the cost of its debt capital. An energy management team manages energy market price and weather risks. Where appropriate, financial instruments are used to manage financial risks as explained below and in note 28 on pages 67 to 71. Until its sale in September 2003, Goldfish Bank interest risks were managed by a treasury team with Lloyds TSB Bank plc within parameters set by the Goldfish board.

Credit rating

The group's debt ratings from Moody's Investors Service/Standard & Poor's remain unchanged at A2/A (long term) and P1/A-1 (short term) and with a stable outlook.

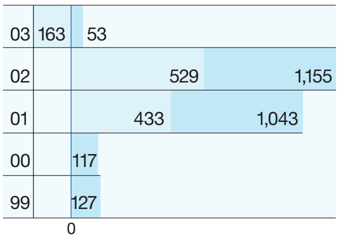
Currency risk

Through wholly-owned US and Canadian subsidiaries, the group has operational exposure in Canadian and US dollars. Canadian dollar translation exposure is hedged by maintaining a portfolio of Canadian dollar financial liabilities, which approximate to the net asset value of the Canadian operations. US dollar translation exposure has been hedged by borrowing on a short term basis through a US commercial paper programme. In addition there is an element of translation exposure to the euro through the 50% interest

Capital funding 31 December 2003

Net debt £53 million.
Equity including minority interest – £2,754 million.

Net cash/debt (£m)



Net cash/debt excluding Goldfish Bank and non-recourse debt.
Net debt.

in Luminus, which has been hedged by selling euros forward on a rolling basis. Exposures to foreign currency movements from operating activities are also hedged through the use of forward foreign exchange contracts. All debt raised in US dollars through the US commercial paper programme, apart from that hedging the US translation exposure, is either swapped into sterling or another functional currency as part of the translation hedging operations described above.

Interest rate risk

The group's policy is actively to manage interest rate risk on long term borrowings while ensuring that the exposure to fixed rates remains within a 30% to 70% range. This is achieved by using derivative financial instruments, such as interest rate swaps, to adjust the interest basis of the portfolio of long term debt (see note 28 on pages 67 to 71). At the year end debt has been raised on both a fixed and floating rate basis.

Liquidity

Cash forecasts identifying the liquidity requirements of the group are produced frequently. These are reviewed regularly by the board to ensure that sufficient financial headroom exists for at least a 12 month period. The group policy includes maintaining a minimum level of committed facilities and an objective that a proportion of debt should be long term, spread over a range of maturities. Details of the maturity profile of borrowings are given in note 28 on pages 67 to 71. As at 31 December 2003, the group had undrawn committed facilities of £915 million, which were used as a backstop for the US commercial paper programme.

Counterparty risk

The board's policy is to limit counterparty exposures by setting credit limits for each counterparty, where possible by reference to published credit ratings. Exposures are measured in relation to the nature, market value and maturity of each contract or financial instrument. Surplus cash is invested in short term financial instruments and only deposited with counterparties with a minimum credit rating of A3/A- and P1/A-1 in Moody's Investors Service/Standard & Poor's long term and short term ratings respectively. Energy trading activities are undertaken with counterparties for whom specific credit limits are set. All contracted and potential exposures are reported to the financial risk management committee of the board.

Commodity price risk

The key commodity price risks facing the group are first, natural gas and electricity prices both in the short term market and in respect of long term contracts and, secondly, escalation indexes on long term gas contracts, of which the most influential are oil product prices and general price inflation.

The group's policy is to hedge a proportion of the exposure for a number of years ahead matched to the underlying sale and purchase risk profiles. The group aims to manage its risk by using financial instruments such as oil and gas swaps and gas derivatives and bilateral agreements for gas and power, as well as asset ownership.

The financial risk management committee regularly monitors the extent of the group's commodity price exposure and the level of hedging activity alongside the availability of forward prices and market liquidity. The net gains from trading in energy derivatives are set out in note 28 on pages 67 to 71.

The acquisition of the Roosecote and Barry power stations has further contributed to the group's target to cover around a quarter of its electricity requirement from its own sources.

Weather risk

Gas sales volumes, and to a lesser extent electricity volumes, are influenced by temperature and other weather factors. In Britain, the weather derivatives market remains relatively immature. We again entered into a number of weather derivative transactions for the winter period October 2003 to March 2004 in order to hedge part of the group's weather exposure.

Accounting policies

The principal accounting policies remain unchanged over last year and are described in note 1 to the accounts on pages 41 to 44.

The group complies with the disclosure requirements of FRS 17 Retirement Benefits. These disclosures are contained in note 25 on pages 62 to 65. If the standard had been fully adopted in 2003, profit would have been reduced by £71 million (2002: £47 million) and net assets would have been reduced by £720 million (2002: £507 million).

Conversion to International Financial Reporting Standards

Centrica is preparing to comply with the European regulation requiring companies listed in the EU to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) from 2005 onwards.

The main impact of adopting IFRS is the potential for earnings volatility resulting from the requirement to mark to market certain of the group's energy contracts. The accounting treatment of pensions, share schemes and goodwill will also change significantly.

Phil Bentley
Group finance director

Corporate responsibility

Remaining within the FTSE4Good indices requires us continually to improve our corporate responsibility performance.

We were pleased to be included in the Dow Jones Sustainability World Index for the first time.

Our ongoing success and sustainability depend on the people we employ.

As a commercial organisation, our first responsibility is to meet our residential and commercial customers' needs for essential services in and around the home. Through our business activities, we are an integral part of local communities. We create wealth for employees, generate taxes to government, create jobs among suppliers and deliver a fair reward to investors who finance the business.

We also understand that success in the marketplace can only be sustained if we accept and respond to a set of responsibilities to society as a whole. By understanding our impact on society, the economy and the wider environment, we can build positive relationships with the communities of which we are part of. This approach benefits our shareholders and employees through the development of a successful and sustainable approach to doing business.

It is important that corporate responsibility becomes an integral part of our company culture. At the heart of this approach is a clear articulation of our vision and values. This is supported by our business principles, which outline our commitment to operating responsibly. By doing all this we aim to create the service our customers, suppliers, business partners and colleagues expect.

Our corporate responsibility strategy is based on:

- identifying, consulting with and responding to the views of stakeholders;
- identifying key impact areas and ensuring that challenges and issues are properly addressed by our brands;
- seeking to give a balanced view of performance by participating in independent benchmarking; and
- presenting information on our impact and performance in an intelligible and accessible way.

In order to lead the development and application of our corporate responsibility strategy, the Centrica board has established a corporate responsibility committee, comprising senior executives from across the group. During 2003, the committee has worked at group and business unit level to define and agree the level of performance and reporting to be achieved for all key impact areas of Centrica business activity and to ensure that corporate responsibility strategies provide effective business support.

We review our performance through external benchmarking. In 2003, Centrica remained within the FTSE4Good indices, an indication that we had continued to improve our corporate responsibility performance. We were also ranked middle quintile in the Business in the Community CR Index. We were pleased to be included within the Dow Jones Sustainability World Index for the first time.

Our aim is to continue to report fairly and transparently on the range of factors that affect us, including our impact on the environment and society. This section highlights our major issues, based around a framework developed by Business in the Community, under the headings workplace, marketplace, the environment and community.

Workplace

Our ongoing success and sustainability as a company critically depend on the people we employ. Through normal business activity, we have millions of customer contacts every year. The conduct of each and every one of our employees is the basis on which we build effective relationships with our customers, with fellow employees and with the communities in which we operate.

We want to be an employer of choice, developing initiatives that help attract, develop, retain and motivate the best people to work with us to succeed in our business objectives. During the year, a coherent global people strategy was developed to enable us to meet specific business needs. The strategy has been widely shared and communicated within and across the group. In many areas, there is still much to be done but we believe we have a framework in place that will allow us to continue to invest in our employees.

Our corporate responsibility strategy in the workplace seeks to bring alive our values and to realise our objective of becoming an employer of choice. The priorities for action that we have set are:

- to ensure responsible behaviour by being clear on our expectations of our employees and of what we offer in return;
- to ensure the people we employ reflect the customers we serve so that we can deliver appropriate services;
- to attract the best people to work with us in achieving our business objectives;
- to ensure that our leaders understand and apply our values in all that they do;
- to develop our people in a structured way to further their skills and understanding of our values; and
- to promote a safe and healthy working environment.

Values

Centrica has articulated its values and introduced a new guide to sound business practice, setting out the standards of behaviour we expect from our employees on a range of issues. The guide was circulated to all UK employees.

Our values and business principles are supported by policies that ensure the support we provide employees is both effective and relevant. Following a comprehensive review process, 36 new or revised policies have been introduced in the last year.

Diversity

We are working to build an employee profile that is both representative and inclusive and that understands the requirements of the broad customer base we serve.

In 2003, Centrica introduced a new diversity strategy that includes both employees and customers.

A new graduate brand was developed in 2003.

As of November 2003, British Gas is the second largest business in the UK with Investors in People accreditation.

In 2003, Centrica introduced a new diversity strategy that includes both employees and customers. We have appointed a new diversity director, and established a diversity action group chaired by a senior executive. The group is driving an integrated approach that will build on the excellent practices we have currently developed and ensure they are consistent throughout our business.

During 2003, Centrica conducted a review of the pay levels between men and women in accordance with our commitment made in the Kingsmill Report. The results showed that the gender pay gap in Centrica is much narrower than national norms and our current pay policies and practices contain no gender bias. This review will now be a regular report to our executive committee.

We are working with a number of organisations that enable us to share best practice, learn from others and continually improve our approach to diversity. These include the Employers' Forum on Disability, the Institute of Employment Studies, the Employers' Forum on Age and Business in the Community.

Centrica participated in the 2003 Employers' Forum on Disability Global Inclusion Benchmark that monitors the inclusion of disability in a company's social reporting process. Having been placed sixth in 2002, our performance improved during 2003 when we achieved second position in the survey.

Attracting talent
We continue to be involved in a range of employment initiatives across the UK to recruit people from different backgrounds and groups in the community including people with disabilities, lone parents, carers and the long term unemployed.

A new UK graduate recruitment brand was developed in 2003. The website was extensively overhauled to enable applicants to apply online and we developed on-campus support to help with marketing activities. The number of UK graduates Centrica recruited in 2003 increased to 42 from 12.

Leadership
Centrica recognises that quality of leadership is a central factor in achieving our business objectives and in ensuring that the behaviour of our employees truly reflects our values. This is a priority area for us.

During 2003 we identified the key behaviours required by leaders at all levels if Centrica is to achieve its business goals. Following research with our employees, we created a clear and concise set of behavioural competencies for leadership that are consistent with our culture and values. We believe this will create an environment that provides the right challenges and support to allow our people to achieve their potential.

Based on these competencies, a new performance management system was developed to provide greater clarity from the business strategy and management agendas to individual objectives. The new system seeks to create and maintain a high performance culture across the group with greater emphasis on helping to manage underperformance. From 2004 onwards, managers will use the behavioural competencies to identify their development needs and then receive feedback on how they are doing.

Training programmes have equipped managers with the necessary support to review and manage the performance of their teams. We have also initiated a new framework across the group that aligns individual rewards even more closely to business objectives.

In June, the executive committee agreed actions to develop talented managers across the business. The management talent review enables the organisation to plan succession for the most senior roles in the business. Succession plans were developed in 2003 and used to increase the movement of a number of people between brands and across functions.

In 2003, we launched a new range of personal and professional development opportunities to provide us with a clear understanding of the future leadership talent within the organisation. The programme offers our people a range of opportunities to develop their skills, whether they are new to the group or existing managers facing new challenges. Programmes cover company induction, change management and leadership skills, personal effectiveness and team building.

Our graduate development programme seeks to develop future senior managers through a thorough understanding of the operational aspects of our businesses, before developing into a specialist role. Our programme is structured to provide a number of key placements including time spent within our customer service operation.

People development
Investors in People (IIP) provides an ideal opportunity to benchmark the continual development of everyone who contributes to our success against a recognised standard. The AA gained IIP accreditation across all of its business in October 2002 as part of its internal 'Just AAsk' launch and in support of its brand values. In November 2003, it was announced that British Gas had achieved business wide recognition to the new IIP standard, underpinning our commitment to the development of our people. As of November 2003, British Gas is now the second largest business in the UK with such accreditation.

The creation of the British Gas Engineering Academy has

The creation of the British Gas Engineering Academy has helped us develop and re-focus our training facilities.

We have maintained a low frequency of major injuries through a continuing programme of risk assessment, training and auditing.

Centrica is committed to continually improving standards of customer service.

helped us develop and re-focus our training facilities to handle the extra training requirements for an additional 5,000 recruits into our engineering work force. The academy's strategy is to use not only our own training centres but also to engage in partnerships with further education colleges. This enables us to handle our peak training requirements for technical training within British Gas.

Our commitment to training has been recognised by government. Our chief executive chairs the National Modern Apprenticeship Task Force and Ambition:Energy, a New Deal initiative to get unemployed people into employment. We will be extending the concept of modern apprenticeships into other areas of our business during 2004, in particular into customer service roles.

In 2003, the British Gas Engineering Academy trained more than 500 modern apprentices and 1,000 adult recruits. Our Direct Energy Essential Home Services business in Canada is also initiating an apprenticeship programme and is now a recognised, certified body to license technicians.

Health and safety
Making proper provision for the health, safety and welfare at work of our employees and others who could be affected by the group's activities is a top priority for our business. Centrica's health and safety targets are linked to specific performance indicators. All targets and key performance indicators are monitored and reported regularly to the Centrica board. Detailed scrutiny of actual or potentially significant incidents identifies lessons to be learned and preventative action to be taken. Again we are pleased to report no fatal accidents in 2003 – the group having experienced only one fatality since demerger. We have maintained a low frequency of major injuries, despite the significant growth in our operational businesses. This has been due to our continuing programme of risk assessment, training, team briefs and auditing.

We introduced a number of occupational health and safety initiatives to highlight and manage particular risks within our business. Examples included managing occupational road risk, managing stress in the workplace and reinforcing our policy on the use of mobile phones. In North America, a confidential Employee Assistance Programme is available to all employees.

British Gas was awarded the Gas Industry Safety Award in 2003 for supporting the furtherance of gas safety throughout the UK and Europe.

Communication and engagement
Employment policies and a range of other information are also included on Essential, a new intranet portal that was launched in 2003 across all our UK businesses. Reaching our employees with relevant information is critical if they are to interact productively with colleagues and customers in their day-to-day activities. Feedback to the communications channel has been positive and Essential will be extended to other parts of our business during 2004.

This year we enhanced our employee survey to get a better insight into their engagement with Centrica and understand what actions are needed. The shift from satisfaction to engagement is consistent with our culture and values. Seventy-four per cent of our employees responded to the 2003 survey with more than 50% completing the survey online using the Essential intranet portal.

Marketplace
Passion for customers is the cornerstone of the organisational values that we have set for Centrica. Being responsible in how we behave in our customer relationships is central to how we achieve our company vision and how we define our values.

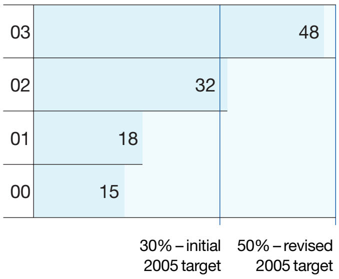
Our main brands are known and trusted in their markets. All our brands, new and old, share a passion for customers and interpret this in ways appropriate for the markets and communities where they operate.

Our main impacts are in the following areas:
- ensuring that our customers enjoy high quality service;
- making access to our services easy through meeting the diverse needs of all our customers;
- ensuring that our sales techniques inspire trust and are credible;
- offering advice to customers on safe and responsible use of our services; and
- ensuring our suppliers reflect and embody our values in their relationships with us.

Customer service
We are committed to improving our standards of customer service and have a range of quality management programmes in place across the group. We measure customer satisfaction on an annual basis whilst monthly indicators of service delivery are reported to senior managers throughout the group. Information is also fed through to the Centrica customer service committee who determine and monitor key customer service targets.

This reporting process enables us to track both the performance of our own service delivery and that of our suppliers in areas such as alternative media provision and text phone availability for disabled people. We also provide the facility of a voluntary service register for older or disabled people, so they can help us develop the services we offer, and a language translation service for customers whose first language is not English.

Material recycled from Centrica offices (%)



The textphone is part of our approach to meeting the diverse needs of customers.

Reducing our emissions to air is one of our key environmental objectives.

Meeting diverse needs

We have a responsibility to meet the diverse needs of all our customers. Many need help to benefit fully from the services we offer and we are investing in initiatives to enhance customer choice, safety and energy efficiency, with a particular emphasis on alleviating the burden of fuel poverty.

Through the Energy Efficiency Commitment programme, British Gas provides free and discounted energy efficiency measures to help customers save energy and reduce their fuel bills.

Since the start of the programme in April 2002 British Gas has provided energy saving measures to over 4 million homes, nearly 45% of which are low income households. We have insulated more than 360,000 homes, provided 1.3 million households with energy efficient appliances, installed 65,000 energy efficient boilers and heating controls and provided more than 2.3 million homes with low energy light bulbs. By the end of 2003, we had delivered more than 60% of our three year energy saving target.

At the heart of our service ethic is a commitment to treat all our customers both fairly and equally. Each month we publish an internal diversity report, which looks specifically at the services we provide to diverse groups of customers. More than 750,000 customers are included on British Gas, AA and One.Tel registers, advising us of their service needs as a result of their age or disability.

In Britain, we send out over 17,000 alternative format bills, statements, letters and marketing communications each month to our customers. These formats include Braille, large print and audio tape. In August 2003, Centrica launched a customer diversity intranet site, to provide additional advice and information on a range of customer diversity issues to our employees.

Sales

Centrica uses a variety of channels to sell its products and is committed to ensure that the same standards of responsibility apply regardless of the sales channel. A particular focus is face-to-face selling through our direct sales agents. We have reviewed our own recruitment and training procedures as well as encouraged the emergence of industry standards.

All British Gas energy sales staff are EnergySure accredited, showing they are appropriately trained and registered on a nationwide database designed to protect consumers. As founder-members of the Association of Energy Suppliers (AES), we have worked with the industry, regulator and consumer bodies to agree the AES Code of Practice for face-to-face selling.

Supplier relationships

We expect our suppliers to have similar high standards to our own in terms of workforce practices, production procedures for goods and services, health and safety, and the environment.

Centrica has set up a team dedicated to managing our top 20 strategic supplier relationships. Establishing this formal group-wide relationship with our key suppliers has certainly proved positive and encouraged suppliers to work more proactively with Centrica, enabling us to gain maximum value from the relationships. As a group we have derived significant tangible benefits and suppliers in turn have also benefited.

This more structured and co-ordinated approach has resulted in stronger group-wide contract management for some suppliers and in a greater focus on process improvement with others. Some suppliers are now providing consultancy, advice and training within their fields of expertise. This support benefited the group by more than £2.3 million in 2003.

Environment

We are working to ensure that we effectively manage our impacts on the environment through:

- reducing our emissions;
- our renewable energy strategy; and
- involving our employees.

Renewable energy

We are required in the UK to source 4.3% of our electricity from renewable sources in 2003/2004, rising to 15.4% in 2015/2016. We continue actively to support the development of a traded market, to promote development of renewables.

In July, we announced our investment strategy for renewable generation assets. The intention is eventually to source around half of our renewable obligation from our own assets.

Environmental management systems

The acquisition of gas-fired power stations and a major gas storage facility have influenced our environmental impact. We are introducing environmental management systems (EMS) across all of our businesses to manage this and to help identify opportunities for improving our performance. We aim to implement an EMS that meets the requirements of ISO 14001 across our established UK businesses and key activities by 2005. Targets have been set for 2005 and we have so far achieved certification for 13 of the 15 selected businesses. Currently, the major elements of EMS are in place for the AA, British Gas, power generation and gas production.

Transport and energy

In 2003, Centrica's commercial vehicles covered more than 191 million miles and used 29 million litres of fuel to deliver

In July, we announced a major commitment to build renewable generation assets.

Anne Minto, group director, human resources, planting a tree as part of the 'Natural Capital' campaign.

'here to HELP' progress as at 31 December 2003

Activity	Status
Zones signed up	517
Households included	262,380
Zones completed	41
Household assessments completed	51,952
Charity referrals (of which 90% are completely new clients for the charities)	10,230
Completed benefit checks	3,171
Total unclaimed benefits identified	£1,826,537
Potential average benefit gain per qualifying household (pa)	£1,619

roadside service and install, maintain and repair central heating, white goods and other products in the home. We prioritise fuel efficiency in new vehicles and implement travel and fuel reduction policies. We also run a fleet management programme to reduce the amount of travel by employees, and in turn reduce impact on the environment.

We are committed to reducing building energy use per employee and increasing the amount of waste recycled, particularly in offices. In 2003, energy consumption per office-based employee was reduced by 10%. All energy for Centrica offices is sourced from certified renewable supplies. Our waste recycling programme has achieved significant results, the office recycling rate rising to 48%.

Involving our employees
Our employees play a vital role in helping us to reduce the environmental impact of our operations. We rely on them to work in ways that influence our customers and suppliers to use our products and services in a more environmentally sensitive way.

In early 2003, we launched 'Natural Capital', a UK campaign that aims to increase levels of employee awareness of environmental issues and encourage direct action through behavioural change.

The first stage of the campaign has targeted office employees, with an environmental champion on each site to promote the initiatives of the campaign. Roadshows have been run at 24 sites and 3,000 individual pledges have been signed. Feedback has been very positive and increased awareness is beginning to show results in terms of the site environmental programmes and the annual employee survey.

Community
Our community investment programme focuses on projects that address social issues most closely aligned with our business. During 2003, we contributed £6.6 million to community causes. Community contributions are measured using the London Benchmarking Group model that includes cash, time and in-kind support and helps us assess what these resources really achieve for our community partners. Our strategy is to focus on programmes that reflect our core business, skills and experience. The main programmes operated by our brands are described below including examples where the knowledge of our community partners has helped us improve the experience of our customers. In addition, our aim is to provide opportunities for our employees to become involved in their communities.

British Gas
A key social issue for British Gas is ensuring sustainable access to energy. Through our 'here to HELP' programme, British Gas is working in partnership with social housing providers and seven national charities to improve the quality of life for individuals and families in some of Britain's most deprived communities. The programme is providing practical ways to make homes warm, safe and comfortable. To date, some 50,000 household assessments have been completed resulting in the installation of over 17,000 energy efficiency measures, 10,000 referrals to our charity partners and the identification of over £1.8 million of unclaimed benefits, which equates to a potential average benefit gain of around £1,600 per qualifying household each year.

We also engage in education, training and job creation. British Gas worked in partnership with Mencap and the Employers' Forum on Disability to publish 'Paying your Bills'. The booklet was developed with the help of a cross-section of people with a learning disability. It is a guide to help manage household bills and covers issues including how to find the easiest method of payment, how to get support if problems arise and tips on saving energy and money.

In July 2003, we were delighted to receive the Business in the Community Award for Excellence in Education and Lifelong Learning for the British Gas 'Think Energy' programme. 'Think Energy' is an energy education programme for 7 to 18 year olds and has reached 49% of schools in the UK since its launch in 2000. It combines a mixture of classroom learning and home study, helping young people learn about the importance of energy efficiency. To date, more than 17,000 UK schools have requested 'Think Energy' resources.

The AA
The key social impacts of the AA are related motoring and transport issues. Our main impacts are road safety, for drivers and pedestrians, and car use impacts, such as traffic and road management.

Centrica established The AA Motoring Trust in 2002 to carry forward and strengthen the AA's historic public interest role looking after the interests and safety of road users. The charity was launched in February 2003.

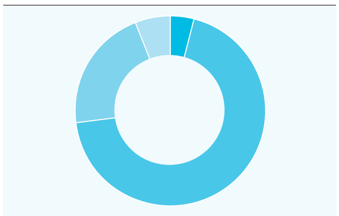
The Trust's key road safety programme is its European Road Assessment Programme (EuroRAP), which promotes road safety by highlighting poor road design. EuroRAP's second set of results were released in September 2003 and the following month 24 EU transport ministers declared action on dangerous roads when the programme was launched in Italy. In its first year, the AA Trust has won international recognition for EuroRAP and also received the Autocar 2003 award for safety.

The Trust also played a key role in representing motorists' views over congestion charging in London and elsewhere in the UK. Other work in 2003 included

Sir Roy Gardner launched our partnership with Cancer Research UK, our employee charity of the year 2003-2004.

British Gas has developed an employee volunteering programme to encourage direct involvement in community activities while meeting self-development objectives.

Focus of contribution in 2003



Centrica's community spend is focused on a number of priority areas, linked to issues relevant to our business.

demonstrating the danger of people talking on mobile phones while driving, whether hand-held or hands-free. After crash testing child car seats, a campaign was launched to encourage higher safety standards.

North America

In North America, Direct Energy, through our 'direct in the community' programme, focuses on social issues related to safe and affordable housing, especially for families, older people and the disabled. This work combines charitable giving with activities designed to foster and encourage our employees to volunteer in their communities and support causes they value.

Important initiatives include support of Raising the Roof, Canada's only national charity solely dedicated to finding long term solutions to homelessness. Direct Energy provided C$250,000 (£108,800) in corporate donations and employees raised close to C$30,000 (£13,050) during the 'Fall Pledge' campaign.

The mad cow disease scare of 2003 badly damaged the Alberta beef industry. Direct Energy donated C$50,000 (£21,800) to the Alberta Food Bank network and also donated C$2 for each Albertan who contacted Direct Energy Preferred for information on products and services. Through this offer, a further C$15,000 (£6,500) was raised.

In Texas, Direct Energy supports a 'neighbour-to-neighbour' programme, which helps South and West Texas families in crisis pay their home energy bills. Following an initial contribution, we will be contributing US$350,000 (£213,700) to the programme on an annual basis.

Our employees

The Centrica employee charity of the year is supported by the vast majority of our UK employees. During 2003 our charity partner was Meningitis Trust for which we raised more than £500,000. We are hoping for similar success with our current charity partner, Cancer Research UK.

Launched in 2003 in North America, the 'direct in the community' programme also supports our employees through the 'Dollars for Doers' programme. Employees who volunteer more than 10 hours per month are eligible to apply for a corporate donation of up to C$500 (£220) for the registered charity they support. In addition, the 'Donated Expertise' programme encourages employees to provide assistance to charitable organisations in their community by providing paid time off during their working day for this important voluntary work.

Centrica has continued its partnership with Carers UK. In December, we supported 'Carers' Rights Day', which aimed to raise awareness of the rights of people with caring responsibilities and the benefits that are available to them.

Centrica is also a member of Employers for Carers, a group that includes major employers, employers' organisations and government agencies. It promotes the business benefits of supporting carers in the workplace and seeks to influence current employment policy and practice to support carers in and into work.

Reporting and assurance

In addition to this overview of our corporate responsibility activities, there is more detailed information available on our website at www.centrica.com/responsibility. We have also produced a short, printed report that can be accessed via the website.

For the first time, we have commissioned an impartial assessment of our website information by a specialist external agency, The Corporate Citizenship Company. It has conducted an assurance process on the information presented and provided a commentary on our progress towards being a more socially responsible company. The full statement is available online.

In summary, this commends our systems to manage and implement our corporate responsibility policies, especially the adoption this year of the statement of Centrica's values and business principles. It highlights the fact that we are addressing responsibility issues in our mainstream business practice, such as customer satisfaction, workplace morale and the environmental impact of our products and services, as well as our long-standing community engagement.

The external commentary also identifies areas where we have room to improve. These include improving performance measurement against our stated business principles, setting clear targets for managers to achieve and understanding better the implications of our commitment to sustainability, especially for our energy and motoring services businesses. We will seek to address these issues in everything we do.

Board of directors

Sir Michael Perry GBE
Chairman (70) A.N.R.
Sir Michael Perry became chairman of Centrica plc in 1997. He was a non-executive director of British Gas plc from June 1994 until Centrica was demerged in February 1997. He is a member of the Supervisory Board of Royal Ahold NV, president of the Marketing Council, chairman of the Shakespeare Globe Trust and chairman of the Oxford University Faculty Board for Management.
Sir Michael will retire from the board at the end of the AGM on 10 May 2004.

Helen Alexander
Non-executive director (47) A.C.R.
Helen Alexander joined the board on 1 January 2003. She is chief executive of The Economist Group, a trustee of the Tate Gallery and an honorary fellow of Hertford College, Oxford. Formerly, she was a non-executive director of BT Group plc and Northern Foods plc.

Phil Bentley
Group finance director (45) E.
Phil Bentley joined Centrica plc in 2000 from Diageo plc, where he was finance director of GuinnessUDV. Prior to that, he was group treasurer and director of risk management of Diageo plc from 1997, and group treasurer of Grand Metropolitan plc from 1995. Previously, he spent 15 years with BP. He is also a non-executive director of Kingfisher plc.

Roger Carr
Non-executive director (57) A.R.
Roger Carr was appointed to the board in 2001. He is chairman of Mitchells & Butlers plc, deputy chairman of Cadbury Schweppes plc and a senior adviser to Kohlberg Kravis Roberts Co. Ltd. He was previously chief executive of Williams plc and chairman of Thames Water plc and Chubb plc. He is a member of the Industrial Development Advisory Board and the CBI council. He will become chairman with effect from the end of the AGM on 10 May 2004.

Mark Clare
Deputy chief executive and Managing director, British Gas (46) C.E.
Mark Clare joined British Gas plc in 1994 as group financial controller, and was appointed finance director of Centrica plc, in 1997. In 2000, he was appointed deputy chief executive, and from 1 January 2002, managing director of British Gas. He is a non-executive director of BAA plc, The Energy Saving Trust Ltd and The Energy Retail Association Ltd.

Sir Roy Gardner
Chief executive (58) E.N.
Sir Roy Gardner was appointed finance director of British Gas plc in 1994. From 1995, he had responsibility for the business units which subsequently formed Centrica plc. Prior to joining British Gas plc, he was managing director of GEC-Marconi Ltd and a director of GEC plc. He is non-executive chairman of Manchester United plc, president of Carers UK, chairman of the Employers' Forum on Disability and chairman of the National Modern Apprenticeship Task Force.

Patricia Mann OBE
Senior non-executive director (66) A.C.N.R.
Patricia Mann was a non-executive director of British Gas plc from December 1995 until Centrica was demerged in February 1997. She was a vice president international of J Walter Thompson Co Ltd and remains a director of JWT Trustees Ltd. She is on the board of the UK Centre for Economic and Environmental Development and National Trust Enterprises, and was formerly a director of the Woolwich Building Society and Yale and Valor plc.

Robert Tobin
Non-executive director (65) A.R.
Robert Tobin, a US citizen, was appointed to the board on 1 January 2003. He is a member of the Supervisory Board of Royal Ahold NV. Between 2000 and May 2003 he was chairman of the board of directors of the Worldwide Retail Exchange.

Paul Walsh
Non-executive director (48) A.R.
Paul Walsh was appointed to the board on 1 March 2003. He is chief executive of Diageo plc and a non-executive director of Federal Express Corporation and General Mills Inc.

Roger Wood
Managing director, the AA (61) C.E.
Roger Wood joined British Gas plc in 1996 as managing director of British Gas Services, and was appointed a director of Centrica plc in 1997. In 1999, following the acquisition of the AA business, he became managing director, home & road services. He has been managing director of the AA since 1 January 2002. Before joining British Gas plc, he was director general of Matra Marconi Space NV, group vice president of Northern Telecom Ltd and a UK director at ICL.

Note
Mike Alexander and Sir Brian Shaw were directors until 28 February 2003 and 12 May 2003 respectively.

Key to membership of committees
A Audit committee
C Customer service committee
E Centrica executive committee
N Nominations committee
R Remuneration committee

Directors' report

The directors present their report and the audited financial statements of Centrica plc for the year ended 31 December 2003.

Directors

The board of directors section on page 24 gives details of the current directors. All served throughout the year except for Paul Walsh who was appointed as a non-executive director on 1 March 2003.

Sir Michael Perry will retire at the end of the annual general meeting (AGM) to be held on 10 May 2004, having reached the age of 70. Subject to his re-election as a director at the AGM, Roger Carr will succeed Sir Michael Perry as chairman.

In accordance with the articles of association, Phil Bentley, Roger Carr and Mark Clare will retire by rotation at the 2004 AGM. Upon the recommendation of the nominations committee, these directors will be proposed for re-election. The board believes that Roger Carr will provide strong leadership and wise counsel in his new role as chairman.

The biographical details of those directors being proposed for re-election are given in the notice of AGM (full details of directors' service contracts, emoluments and share interests can be found in the remuneration report on pages 29 to 36).

Mike Alexander retired from the board on 28 February 2003 and Sir Brian Shaw retired from the board on 12 May 2003.

Principal activities

The principal activities during the year were:

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

Business review

The chairman's statement on page 1 and the operating and financial review on pages 6 to 14 report on the activities of the group during the year, recent events and any likely further business developments.

Financial results

The financial results of the group are discussed in the group financial review on pages 15 to 17 of this report.

Major acquisitions and disposals

In March, an underwritten equity offering reduced the group's interest in the Consumers' Waterheater Income Fund (which was set up to refinance assets acquired with Enbridge Services Inc) from 41.9% to 19.9% for which Centrica received C$112 million (£46 million) in net proceeds.

In April, the 229MW Roosecote gas-fired power station, located near to the group's existing assets in Barrow-in-Furness, was acquired for £25 million. In July, the 204MW gas-fired power station at Barry, South Wales, was acquired for £40 million. Following these acquisitions, the company's total electricity generation capacity was increased to 2,174MW. Details relating to investments in renewable energy resources are given on pages 9 and 21.

In September, the sale of the Goldfish credit card and loan business was completed for a premium of £112.5 million above the receivables book value.

Post balance sheet events

Details of post balance sheet events are disclosed in note 29 to the financial statements.

Dividends

An interim dividend of 1.7 pence per ordinary share was paid on 12 November 2003. The directors recommend that, subject to approval at the AGM, a final dividend of 3.7 pence per ordinary share will be paid on 16 June 2004 to those shareholders registered on 30 April 2004. This would make a total dividend for the year of 5.4 pence per share (2002: 4.0 pence per share).

Related party transactions

Details of related party transactions are set out in note 27 on pages 66 to 67.

Creditor payment policy

It is the group's policy to:

- agree the terms of payment in advance with the supplier;
- ensure that suppliers are aware of the terms of payment; and
- pay in accordance with contractual and other legal obligations.

The number of days' purchases outstanding as at 31 December 2003 was 33 (2002: 34) for the group (excluding Accord Energy Limited) and 20 days (2002: 41 days) for the company.

Employment policies

During 2003, the group employed an average of 42,573 people; 39,571 were employed in the UK, 501 in the rest of Europe and 2,501 in North America.

The group is committed to pursuing equality and diversity in all its employment activities and continues to support initiatives to provide employment for disabled people and carers. Centrica is a member of the Employers' Forum on Disability and the Employers' Forum on Age.

The group's business principles and policies set out standards and expectations of behaviour of its employees in conducting business in an ethical way. Centrica supports the principles of the UN Global Compact on human rights and labour standards. The group encourages its business partners and suppliers to respect and follow this approach.

Employees are regularly updated on performance against group strategy. There are regular employee surveys, action planning forums and dialogue with representatives of recognised trade unions. Employees' views are also sought using a network of local consultative bodies. Further details of the group's employment policies and employee communications can be found on pages 18 to 20.

Employee share schemes

The group encourages employee share ownership by operating tax authority approved share schemes open to all eligible employees, including executive directors.

Each year, sharesave schemes in the UK and Ireland enable eligible employees to acquire shares in the company at the end of a three or five year saving period. A total of 17,448 employees participate in the schemes.

The company also operates a share incentive plan, which enables eligible UK employees to buy Centrica shares, subject to monthly limits, out of pre-tax pay. In addition, the company awards one free matching share for every two shares an employee buys, subject to a monthly limit of 20 matching shares. A total of 6,398 employees participate in the plan.

Corporate responsibility

Information relating to the group's impact on society, the economy and the wider environment is given on pages 18 to 23. The system of internal control, described on page 28, covers significant risks associated with social, environment and health and safety matters.

Charitable and political donations

An outline of the group's involvement in the community appears on pages 22 to 23. Charitable donations in the UK during the year amounted to £5.3 million (2002: £4.7 million). In line with group policy, no donations were made for political purposes.

Share capital

The company's authorised and issued share capital as at 31 December 2003, together with details of shares issued during the year, is set out in note 19 on page 56.

Material shareholdings

At 9 February 2004, the following material shareholdings were recorded in the register maintained in accordance with the Companies Act 1985:

Fidelity	179,465,013	4.21%
Legal & General Group	155,266,781	3.64%
Barclays	138,903,214	3.26%

Auditors

PricewaterhouseCoopers LLP have expressed their willingness to be reappointed as auditors of the company. Upon the recommendation of the audit committee, a resolution to reappoint them as the company's auditors and authorise the directors to determine their remuneration will be proposed at the AGM.

Authority to purchase shares

The directors were authorised at the 2003 AGM to purchase the company's own shares, within certain limits and as permitted by the articles of association. Although no such purchases have been made to date under this authority, the directors will seek to renew this authority at the 2004 AGM.

Corporate governance

The group is committed to high standards of corporate governance. During the year, the board has reviewed its governance arrangements in the light of the new Combined Code on Corporate Governance (the new Code) and the Guidance on Audit Committees (the Smith Guidance) and has made changes as necessary and appropriate. As the new Code took effect in respect of accounting periods commencing on or after 1 November 2003, this report has been prepared on the basis of the previous Combined Code on Corporate Governance (the Code). Some additional disclosures have been made as a transition towards compliance with the new Code. Throughout the year, the company fully complied with the provisions of the Code and applied its principles as follows:

The board

An effective board of directors leads and controls the group. The board, which meets at least 10 times a year, has a schedule of matters reserved for its approval. The board is responsible for determination of strategy and major policies; review of management performance; and approval of the annual operating plan, the financial statements, major projects and corporate governance. One of its meetings each year is substantially devoted to the development of strategy.

Overall attendance during 2003 was 92% for the board, 88% for the audit committee, 90% for the remuneration committee and 100% for the nominations committee. Non-attendance was due mainly to previously arranged commitments of the newly appointed directors.

Comprehensive briefing papers including management accounts are circulated to each director one week prior to board meetings. A procedure is in place for directors to obtain independent professional advice in respect of their duties. They also have access to the advice and services of the company secretary.

The names of the directors and their details including committee memberships, appear on page 24. All of the non-executive directors, including the chairman, are members of the audit and remuneration committees as the board believes that each of them adds value to the business of those meetings. This membership structure gives the non-executive directors detailed insight into the nature of the matters being discussed, brings continuity to membership and avoids undue reliance on particular individuals. Throughout the year, the chairman and the other non-executive directors were independent of management and the senior independent director was Patricia Mann. In November, the board considered the independence of the non-executive directors (other than the chairman) against the criteria in the new Code and determined that each was independent.

The non-executive directors, including the chairman, meet independently of management on a regular basis.

All directors joining the board are required to submit themselves for election at the AGM following their appointment. Thereafter, they are subject to re-election every third year. The non-executive directors are initially appointed for a three year term and, subject to review and re-election, can serve up to a maximum of three such terms.

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

The board has delegated authority to a number of committees to deal with specific aspects of the management and control of the group. These committees have specific terms of reference and meet on a regular basis. The minutes of the meetings of these committees are made available to all the directors on a timely basis.

Executive committee

The executive committee comprises the executive directors and the general counsel and company secretary. It is chaired by Sir Roy Gardner. It meets weekly and oversees the management of the group and is the decision making body for those matters not reserved to the board and within the limits set out in the group's delegated authority and expenditure control policies.

There are four sub-committees of the executive committee: the group risk management committee; the group financial risk management committee; the corporate responsibility committee; and the health, safety and environment committee. The membership of these committees is drawn from senior management.

Audit committee

The audit committee, which meets four times a year, consists of the chairman and independent non-executive directors. It was chaired throughout the year by Roger Carr.

The audit committee, which reports its findings to the board, is authorised to:

- monitor the integrity of the interim and annual financial statements, including a review of significant financial reporting judgements contained in them;
- review the company's internal financial controls and internal control and risk management systems;
- monitor and review the effectiveness of the company's internal audit function; and
- establish and oversee the company's relationship with the external auditors, including the monitoring of their independence.

Note 3(v) to the financial statements on page 47 sets out the group's policy to seek competitive tenders for all major consultancies and advisory projects. The board has approved policies that restrict the types of non-audit work that can be undertaken by the external auditors and restrict the employment by the group of former employees of the external audit firms. The award of non-audit work within categories that the external auditors are permitted to carry out under the board approved policies is subject to pre-clearance by the audit committee if the fee exceeds specified thresholds. All non-audit assignments awarded to the external auditors are reported to the audit committee on a quarterly basis, along with a full breakdown of non-audit fees incurred during the year.

As a matter of best practice and in accordance with auditing standard 610, the external auditors have held discussions with the audit committee on the subject of audit independence and have confirmed their independence in writing.

Remuneration committee

The remuneration committee, which met six times during 2003, consists of the chairman and independent non-executive directors. It is chaired by Patricia Mann. The role of this committee and details of how the company applies the principles of the Code in respect of directors' remuneration are set out on pages 29 to 36.

Nominations committee

The nominations committee consists of Sir Roy Gardner, Patricia Mann and Sir Michael Perry, who chairs it. It makes recommendations to the board for the appointment of replacement or additional directors. At its three meetings during the year it considered the succession to Sir Michael Perry as chairman of the company and, accordingly, Patricia Mann chaired the second and third of these meetings. Having taken advice from executive recruitment agents and having drawn up a list of required attributes, members of the committee gave careful consideration to a number of individuals, both external candidates and existing independent non-executive directors. The committee concluded that Roger Carr was the most appropriate person to succeed Sir Michael Perry as chairman of the company, having sought and received assurance that he had sufficient time available to devote to the position, and recommended his appointment to the board.

The nominations committee is also responsible for succession planning and board evaluation. It is intended that a formal evaluation of the performance of the board, assisted by external consultants, will be undertaken during 2004.

Customer service committee

This committee determines and monitors customer service targets, as key drivers of the long term success of the group. It was chaired on an interim basis by Mark Clare between May 2002 and January 2003. Helen Alexander succeeded Mark Clare as chairman of this committee with effect from February 2003.

Relations with shareholders
The company has a programme of communication with its shareholders. As well as share price information, news releases and the annual report, the Centrica website includes speeches from the AGM, presentations to the investment community and a section for shareholder services.

The board believes that the AGM presents an important opportunity for dialogue with private shareholders, many of whom are also customers. At the AGM, the chairman and the chief executive present a review of the businesses of the group. Representatives from across the group are available to answer questions both before and after the meeting.

All shareholders have the opportunity to cast their votes at the AGM by proxy, by post or via the internet. Shareholders can register to receive all their communications online, benefiting both themselves and the company.

Centrica also holds regular meetings with its major shareholders. The chairman attends the meeting at which the preliminary results are presented to major investors and analysts. Formal reports of investor feedback are presented to the board at least twice a year.

Internal control
The board of directors is responsible for the group's system of internal control, which is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Identification, assessment and management of risks
The company places great importance on internal control and risk management. A risk aware and control conscious environment is encouraged throughout the group. The board, either directly or through its committees, sets objectives, performance targets and policies for management of key risks facing the group. These include strategic planning, acquisitions, political and regulatory, investments, expenditure control, treasury, environment, health and safety, trading and customer service.

Across the group, each business has a risk management committee that seeks to identify, assess and advise on the management of operational risks. In addition, the group risk management committee considers the risks that might affect the company at group level. The processes of newly acquired companies are integrated with those of the group. Centrica Storage operates to the same standards of internal control and risk management as the rest of the group; however, as a result of undertakings given to the Secretary of State for Trade and Industry, a high level of separation is maintained between the management of Centrica Storage and that of the rest of the group.

Assurance
The business assurance function undertakes internal audit reviews according to a plan approved by the audit committee. The results of their work are reported to the audit committee on a quarterly basis.

The board's review of the system of internal control
The board of directors, with the advice of the audit committee, has reviewed the effectiveness of the internal control system operated (as described above) throughout the period from 1 January 2003 to the date of this report and is satisfied that the group complies with the Turnbull Guidance on Internal Control.

Going concern
After making enquiries, the board has a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, we continue to adopt the going concern basis in preparing the financial statements, which are shown on pages 38 to 77.

This directors' report has been approved by the board and signed on its behalf by

Grant Dawson
General Counsel and Company Secretary
12 February 2004

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire SL4 5GD
Company registered in England and Wales No. 3033654

Remuneration report

Composition and role of the remuneration committee

The board has established a remuneration committee, which is chaired by Patricia Mann. Helen Alexander, Roger Carr, Sir Michael Perry and Robert Tobin were members of the committee throughout 2003. Paul Walsh became a member when he joined the board on 1 March 2003. All members are non-executive directors and, with the exception of Sir Michael Perry, are independent.

The committee makes recommendations to the board, within formal terms of reference, on the policy and framework of executive remuneration and its cost to the company. The committee is also responsible for the implementation of remuneration policy and determining specific remuneration packages for each of the executive directors. It has access to advice provided by the group human resources director (Anne Minto), the group head of reward (Mike New), the company secretary (Grant Dawson), the chief executive (Sir Roy Gardner) and external consultants. During 2003, the committee consulted, but did not formally appoint, Towers Perrin, who provided information and advice on executive compensation to assist in the formulation of the committee's recommendations. Towers Perrin also provided advice to the group on retirement benefits and non-executive directors' fees during the year.

This report explains how the company has applied the principles in the 1998 Combined Code on Corporate Governance that relate to directors' remuneration. It will be submitted to the forthcoming AGM for approval. No director votes on any matter relating to his or her own remuneration.

Framework and policy on executive directors' remuneration

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

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

To recognise performance against agreed objectives, the committee has put in place an annual bonus scheme for executive directors similar to that applying to other senior executives in the group. Annual bonuses for executive directors are determined by the achievement of demanding individual, business and corporate objectives.

Under both the executive share option scheme (ESOS) and the long term incentive scheme (LTIS) the current practice is to make conditional awards each year up to a maximum of 200% and 75% of base salary respectively. These schemes are designed to align the interests of executive directors and other senior executives with the longer term interests of shareholders by rewarding them for delivering increased shareholder value.

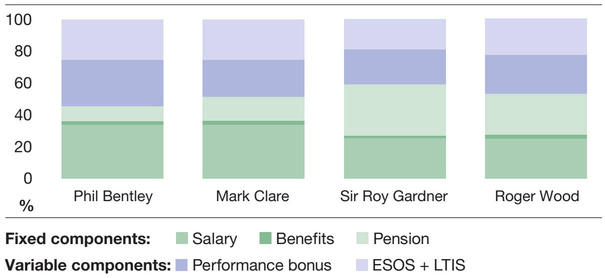
As a matter of policy, all executive directors and certain senior executives are expected to retain a minimum shareholding in the company at least equal in value to the executive's base salary.

Executive directors also participate in a contributory, final salary pension scheme (details of which are given on pages 35 and 36).

The committee believes that these arrangements, which are further explained below, are important in providing a potential remuneration package that will attract, retain and continue to motivate executive directors and senior executives in a marketplace that is increasingly challenging and competitive in both commercial and human resource terms. It is intended that the current remuneration policy, the ESOS and LTIS elements of which have been approved by shareholders, will continue for 2004 and succeeding years.

In 2003, the total compensation of the executive directors, detailed on page 32, consisted of components in the following proportions:

Relative proportions of components of executive directors' remuneration: 2003



Note: Salary and benefits are amounts received during 2003; pension is the increase in transfer value less directors' contributions during 2003; performance bonus is that paid in respect of 2003; and ESOS and LTIS are the estimated value of the awards made in 2003 based on a Black Scholes model, provided that all performance conditions are met at the end of the relevant performance periods. In 2003, Mike Alexander served as a director for January and February only. Because of his retirement he was not eligible to participate in ESOS grants and LTIS allocations made in 2003, nor did he receive a bonus in respect of the year. Accordingly, no part of his remuneration was performance related.

Components of remuneration

Base salary

The committee seeks to establish a base salary for each executive director determined by individual performance and having regard to market salary levels for similar positions in comparable companies derived from independent sources. Base salaries are reviewed annually. Base salary is the only element of remuneration that is pensionable.

Annual performance bonus

At the beginning of each year, the committee reviews the bonus scheme to ensure that it remains competitive in the market and continues to incentivise the executive directors and align their interests with those of shareholders. For 2003, having reviewed comparative data provided by Towers Perrin, the committee increased the relative weight given to financial performance targets and adjusted the maximum bonus payable should every element of every objective be achieved in full from 60% to 100% of base salary. In 2003, 50% of the maximum bonus achievable related to financial performance targets, 25% to customer and employee satisfaction and 25% to personal performance. For executive directors with business unit responsibilities, the scheme is structured to reflect the performance of their business unit as well as that of the group. No bonus at all is payable to an individual whose agreed minimum personal targets are not met.

Executive share option scheme (ESOS)
Options granted under the ESOS only become exercisable if and to the extent that performance conditions are satisfied three years after the date of grant. If exercisable, they remain so until the tenth anniversary of grant. Performance conditions are based on the extent to which growth in the company's earnings per share (EPS growth) exceeds growth in the Retail Prices Index (RPI growth) over a three year performance period. EPS is calculated as fully diluted earnings per share adjusted for exceptional charges and goodwill amortisation. The committee believes that this method of calculating EPS provides an independent and verifiable measure of the company's performance.

In respect of each grant of options, the committee has determined that, for the option to be exercisable in full, EPS growth must exceed RPI growth by 18 percentage points or more over the three year performance period. No part of the option grant will be exercisable if EPS growth fails to exceed RPI growth by at least 9 percentage points over the performance period. The proportion of the option grant exercisable by the executive will increase on a sliding scale between 40% and 100% if EPS growth exceeds RPI growth by between 9 and 18 percentage points over the performance period.

The company's EPS growth may be re-measured annually for a further two years, but always from the date of grant of the options, with the performance conditions increasing proportionately. The committee believes that, in relation to the ESOS, EPS growth in excess of RPI growth is the most appropriate measure for determining the increase in value delivered to shareholders by the company's executive directors and senior executives. The committee reviews the appropriateness of the performance measure and the specific targets set when considering each new grant of options.

In March 2003, options were granted to each executive director equal to 200% of his base salary and, at the same or lower rates, to certain other senior executives. Details of options granted to executive directors are shown on page 34. It is the company's intention that new shares be issued, subject to institutional guidelines, to satisfy the exercise of options granted under the ESOS.

One executive director holds an option under the restructured executive share option scheme (RESOS). The RESOS was put in place to replace options which executives had previously held over British Gas plc shares and which were cancelled at demerger. There are no performance conditions attaching to options under the RESOS. Further details are given on page 34.

Long term incentive scheme (LTIS)
Allocations of shares are made annually to executive directors and other senior executives under the LTIS. These awards are subject to challenging performance conditions based on the company's total shareholder return (TSR) relative to the returns of a comparator group, since this ensures that the executives are not rewarded unless the company has outperformed its peers in creating shareholder value. The committee has determined that, in the absence of a meaningful 'natural' comparator group for the company, the companies comprising the FTSE 100 at the start of the relevant performance period (the LTIS comparator group) constitute the most appropriate comparator group for the purpose of the LTIS. The committee reviews the appropriateness of the performance measure and the specific target set when considering each new allocation of shares under the LTIS. In assessing the extent of satisfaction of the performance condition, the committee uses data provided by Alithos Limited.

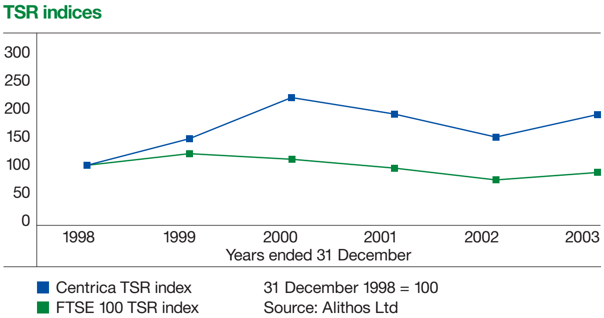
Allocations made prior to May 2001 are subject to a performance period of either three or four years (at the participant's choice), followed by a retention period of two years. Changes to these arrangements were approved at the 2001 AGM. Allocations made from May 2001 will be released to the participant under normal circumstances after the three year performance period, provided the performance conditions have been met.

The actual number of shares eventually released to the participant depends on the company's TSR over the entire performance period relative to the LTIS comparator group. The maximum annual allocation of shares only vests and is released to the executive if the company's TSR over the performance period is ranked in 25th position or above relative to the 99 other companies in the LTIS comparator group. No shares vest if the TSR over the performance period is ranked below 50th position in the LTIS comparator group. Between 25th and 50th position, shares vest on a sliding scale from 100% to 40%.

In April 2003, LTIS allocations equal to 75% of base salary were awarded to executive directors and, at the same or lower rates, to certain other senior executives. The maximum number of shares that could eventually be transferred to each executive director upon satisfaction of the performance criteria appears on page 33.

Prior to 2002, the trustee of the LTIS bought shares in the market to match the likely future requirements for shares under LTIS releases. Any shortfall will be satisfied by the issue of new shares.

TSR – Centrica and FTSE 100: 1999-2003



The table above shows graphs of the company's TSR performance and that of the FTSE 100 Index for the five years ended 31 December 2003. As required by the Directors' Remuneration Report Regulations 2002, this uses a rolling definition of the FTSE 100, whereas the definition used for the purposes of the LTIS is the FTSE 100 as constituted at the beginning of the period. In order to demonstrate the delivery of shareholder value during the relevant performance period, the TSR graph for the LTIS award that vested in October 2003 is shown on page 33.

Pension

Executive directors also participate in a contributory, final salary pension scheme (details of which are given on pages 35 and 36).

Other employment benefits

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

Service contracts

It is the company's policy for the notice period in executive directors' service contracts not to exceed one year. The committee retains a level of flexibility in order to offer contracts to new executive directors that contain an initial notice period in excess of one year, provided that after the first such period the notice period reduces to one year.

The executive directors' service contracts have no fixed term but provide that either the director or the company may terminate the employment by giving one year's written notice and that the company may pay compensation in lieu of notice.

The dates of the executive directors' service contracts are set out in the table on page 32.

Upon Mike Alexander's retirement from the board on 28 February 2003, he forfeited all of the options granted to him under the ESOS (see the table on page 34) and the conditional allocations of shares made to him under the LTIS on 2 October 2000, 1 October 2001 and 2 April 2002 (see the table on page 33). The performance targets in respect of the allocations of shares made to him under the LTIS on 1 October 1998 and 7 October 1999 had previously been achieved and those shares were or will be released to him at the end of the retention periods on 30 September 2003 and 30 September 2004 respectively. Mike Alexander has not received and will not receive any payments other than his pension, the details of which are disclosed on pages 35 to 36.

External appointments of executive directors

The board believes that experience of other companies' practices and challenges is valuable both for the personal development of its executive directors and for the company. It is therefore the company's policy to allow each executive director to accept one non-executive directorship of another company, although the board retains the discretion to vary this policy. Fees are retained by the individual director.

Non-executive directors

Non-executive directors do not hold service contracts. The dates of their appointment are shown in the table on page 32. Their appointment is subject to the articles of association. Their fees are determined having regard to the need to attract individuals of the right calibre and experience, the time and responsibilities entailed and the fees paid by other companies. Their fees are approved by the board, upon the recommendation of the executive committee, whose members are the executive directors listed in the second table on page 32, together with Grant Dawson, general counsel and company secretary. The executive committee received survey and other information from the remuneration consultants, Towers Perrin. The non-executive directors, including the chairman, do not participate in any of the company's share schemes, incentive plans or pension schemes.

In addition to his fees as a non-executive director of the company, Sir Brian Shaw received fees for consultancy services to The Automobile Association Limited.

The remuneration report from page 29 to page 31 up to this statement has not been audited. From this point until the end of the report on page 36, the disclosures, with the exception of the line graph on page 33, have been audited.

Directors' emoluments

Executive directors	Date of service contract	Base salary/fees £000	Annual performance bonus £000	Benefits(i) £000	**Total emoluments(ii) 2003 £000**	Total emoluments(ii) 2002(iii) £000
Mike Alexander	10 January 2002	66	–	5	**71**	617
Phil Bentley	13 September 2000	440	376	27	**843**	647
Mark Clare	21 March 2001	448	308	31	**787**	626
Sir Roy Gardner	21 March 2001	768	662	50	**1,480**	1,098
Roger Wood	21 March 2001	403	324	30	**757**	608
		2,125	1,670	143	**3,938**	3,596
Non-executive directors	Date of appointment					
Helen Alexander	1 January 2003	35	–	–	**35**	–
Roger Carr	1 January 2001	35	–	–	**35**	34
Patricia Mann	4 December 1996	35	–	–	**35**	34
Sir Michael Perry	4 December 1996	200	–	–	**200**	195
Sir Brian Shaw(iv)	23 September 1999	20	–	–	**20**	54
Robert Tobin	1 January 2003	35	–	–	**35**	–
Paul Walsh	1 March 2003	29	–	–	**29**	–
		389	–	–	**389**	317
Total emoluments		2,514	1,670	143	**4,327**	3,913

(i) Benefits include all taxable benefits arising from employment by the company, mainly the provision of a company car.
(ii) The following are excluded from the table above:
(a) pensions – see pages 35 and 36.
(b) share options – see page 34. The aggregate of the amount of gains made by executive directors on the exercise of share options was £1,029,874 (2002: £305,950); and
(c) long term incentive scheme – see pages 32 and 33. The aggregate value of shares vested to executive directors under the LTIS was £1,648,680 (2002: £4,630,479).
(iii) The total emoluments figure for 2002 excludes £22,000 paid to Sir Sydney Lipworth for his services as a director of the company and one of its subsidiaries during part of that year.
(iv) The figure for Sir Brian Shaw includes fees of £7,232 (2002: £20,000) in respect of consultancy services to The Automobile Association Limited while a director of Centrica plc.

Directors' interests in shares

The following table and the tables on pages 33 and 34 show the beneficial interests of the directors who held office at the end of the year in the ordinary shares of the company and the interests of the executive directors who served during the year in the company's share schemes:

Directors as at 31 December 2003	**Shareholdings as at 31 December 2003**	Shareholdings as at 1 January 2003	**LTIS total allocations as at 31 December 2003**	LTIS total allocations as at 1 January 2003
Executive directors				
Phil Bentley	**111,188**	80,095	**637,330**	453,857
Mark Clare	**472,762**	354,625	**835,542**	840,895
Sir Roy Gardner	**2,360,222**	771,661	**1,365,749**	1,382,870
Roger Wood	**498,080**	366,011	**769,692**	800,876
Non-executive directors				
Helen Alexander	**2,800**	2,800	**–**	–
Roger Carr	**4,700**	4,700	**–**	–
Patricia Mann	**2,142**	2,142	**–**	–
Sir Michael Perry	**25,900**	15,900	**–**	–
Robert Tobin	**20,000**	–	**–**	–
Paul Walsh	**5,000**	–	**–**	–

(i) Shareholdings shown as at 1 January 2003 or subsequent date of appointment of the director.
(ii) As at 9 February 2004, the beneficial shareholdings of the executive directors had increased from the totals shown at 31 December 2003 by the following numbers of shares: Phil Bentley 81; Mark Clare 81; and Sir Roy Gardner 81.
(iii) As at 31 December 2003, 21,200,505 shares (1 January 2003: 27,238,473) were held by the trustee of the employee share trust for the purposes of the LTIS. As with other employees, the directors are deemed to have a potential interest in those shares, being beneficiaries under the trust. These interests remained unchanged as at 9 February 2004.
(iv) From 1 January 2003 to 9 February 2004, none of the directors had any beneficial interests in the company's securities other than ordinary shares, nor any non-beneficial interests in any of the company's securities, nor in those of its subsidiary or associated undertakings.

The following table gives details of the LTIS allocations held by executive directors who served during the year:

	Vested during 2003	In retention period		In performance period		
	1 October 1998[i]	7 October 1999[ii]	2 October 2000[iii]	1 October 2001[iv]	2 April 2002[iv]	1 April 2003[iv]
Mike Alexander[v]	178,024	142,415	–	–	–	–
Phil Bentley	–	–	136,253	135,398	136,788	228,891
Mark Clare	181,431	151,703	166,066	144,547	141,792	231,434
Sir Roy Gardner	340,716	272,446	234,707	223,225	233,540	401,831
Roger Wood	189,949	154,799	141,710	135,398	131,783	206,002
Market price at allocation date	118.00p	161.50p	220.50p	214.50p	227.00p	148.00p
End of qualifying period[vi]	30/9/2003	30/9/2004	1/10/2005	30/9/2004	1/4/2005	31/3/2006
Market price at vesting date[vii]	185.22p					

(i) At the end of the performance period to 30 September 2001, the company ranked in fourth position in the relevant LTIS comparator group. Accordingly, 100% of the allocations were released on the vesting date of 1 October 2003 following the expiry of the two year retention period. These shares were subject to income tax at the individual's marginal rate and national insurance contributions (NICs) at the rate of 1%, based on the market value of the shares at the date of vesting. The income tax and NICs liability was satisfied by the sale of sufficient shares and, accordingly, the directors only received the net number of shares following disposal, which is reflected in the shareholdings as at 31 December 2003 in the second table on page 32.

(ii) At the end of the performance period to 30 September 2002, the company ranked fourth in the relevant LTIS comparator group. Accordingly, 100% of the allocations are being held in trust for a further two years, at the end of which time they will be released to the directors at the trustee's discretion.

(iii) At the end of the performance period to 1 October 2003, the company ranked in fortieth position in the relevant LTIS comparator group. Accordingly, 75% of the original allocations are being held in trust for a further two years, at the end of which time they will be released to the directors at the trustee's discretion.

(iv) The respective performance periods relating to these allocations will end on 30 September 2004, 1 April 2005 and 31 March 2006. If, and to the extent that, the performance conditions are met, the allocations will vest and the relevant number of shares will be released to the directors at the trustee's discretion.

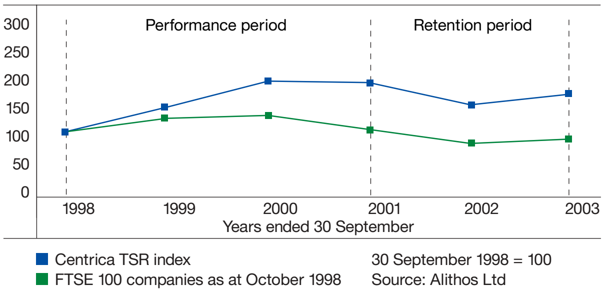
(v) Details of the treatment of allocations on Mike Alexander's retirement from the board on 28 February 2003 appear on page 31.

(vi) The end of the qualifying period is the date on which it is judged whether or not the qualifying conditions (see LTIS section on page 30) have been fulfilled.

(vii) The vesting date was the next business day after the end of the qualifying period.

The following table, which has not been audited, shows the TSR performance of Centrica and the relevant TSR comparator group over the qualifying period relating to the LTIS allocation that vested on 1 October 2003:

TSR indices – Centrica and FTSE 100: October 1998 LTIS allocation



Directors' interests in share options

Full details of the options over ordinary shares in the company held by executive directors who served during the year and any movements in those options in the year are shown below:

	Options held as at 1 January 2003	Options granted during year	Options exercised during year[iv]	Options lapsed during year	**Options held as at 31 December 2003**	Exercise price (pence)	Date from which exercisable	Expiry date
Mike Alexander								
ESOS[i]	308,269	–	–	308,269	**–**	240.050	Jun 2004	May 2011
ESOS[i]	351,423	–	–	351,423	**–**	224.800	Apr 2005	Apr 2012
Sharesave[ii]	14,967	–	14,967[a]	–	**–**	92.200	Jun 2003	Nov 2003
Sharesave[ii]	1,863	–	–	1,863	**–**	177.600	Jun 2007	Nov 2007
	676,522	–	14,967	661,555	**–**			
Phil Bentley								
ESOS[i]	308,269	–	–	–	**308,269**	240.050	Jun 2004	May 2011
ESOS[i]	364,768	–	–	–	**364,768**	224.800	Apr 2005	Apr 2012
ESOS[i]	–	559,345	–	–	**559,345**	146.600	Mar 2006	Mar 2013
Sharesave[ii]	5,071	–	–	–	**5,071**	191.000	Jun 2004	Nov 2004
	678,108	559,345	–	–	**1,237,453**			
Mark Clare								
ESOS[i]	329,098	–	–	–	**329,098**	240.050	Jun 2004	May 2011
ESOS[i]	378,113	–	–	–	**378,113**	224.800	Apr 2005	Apr 2012
ESOS[i]	–	579,809	–	–	**579,809**	146.600	Mar 2006	Mar 2013
Sharesave[ii]	9,318	–	–	–	**9,318**	177.600	Jun 2007	Nov 2007
RESOS[iii]	177,645	–	–	–	**177,645**	81.060	Oct 1997	Oct 2004
	894,174	579,809	–	–	**1,473,983**			
Sir Roy Gardner								
ESOS[i]	508,227	–	–	–	**508,227**	240.050	Jun 2004	May 2011
ESOS[i]	622,775	–	–	–	**622,775**	224.800	Apr 2005	Apr 2012
ESOS[i]	–	954,979	–	–	**954,979**	146.600	Mar 2006	Mar 2013
Sharesave[ii]	9,318	–	–	–	**9,318**	177.600	Jun 2007	Nov 2007
RESOS[iii]	1,336,446	–	1,336,446[b]	–	**–**	81.889	Nov 1997	Nov 2004
	2,476,766	954,979	1,336,446	–	**2,095,299**			
Roger Wood								
ESOS[i]	308,269	–	–	–	**308,269**	240.050	Jun 2004	May 2011
ESOS[i]	351,423	–	–	–	**351,423**	224.800	Apr 2005	Apr 2012
ESOS[i]	–	538,881	–	–	**538,881**	146.600	Mar 2006	Mar 2013
Sharesave[ii]	9,318	–	–	–	**9,318**	177.600	Jun 2007	Nov 2007
	669,010	538,881	–	–	**1,207,891**			

(i) **Executive share option scheme (ESOS)**
Options were granted to executives under the terms of the Centrica executive share option scheme on 31 May 2001, 2 April 2002 and 24 March 2003. Details of the operation of this scheme are provided on page 30.

(ii) **Sharesave scheme**
The company operates an Inland Revenue approved all-employee savings related share option scheme. The scheme is designed to provide a long term savings and investment opportunity for employees and is described on page 26.

(iii) **Restructured executive share option scheme (RESOS)**
Options granted to company employees under the British Gas plc executive share option scheme prior to February 1997 were cancelled and replaced at demerger by non-Inland Revenue approved options to acquire Centrica shares. The replacement options were granted on the same terms as British Gas executive share options, with the same exercise date and aggregate exercise price per share, and the number of shares placed under option was adjusted to take account of the demerger. No further options have been or will be granted under this scheme.

(iv) **Exercise of share options**
Options were exercised at the following dates and prices:
(a) 28 August 2003 at 177 pence; and
(b) 4 April 2003 at 158 pence.

The closing price of a Centrica ordinary share on the last trading day of 2003 (31 December) was 211 pence. The range during the year was 212.75 pence (high) and 131.5 pence (low).

Directors' pensions

The pension arrangements for the executive directors, all of whom are members of the Centrica pension scheme, are shown below.

The Centrica pension scheme is a funded, Inland Revenue approved, final salary, occupational pension scheme. Its rules provide for the following main features:

- normal retirement at age 65 (see note on normal retirement age below);
- right to an immediate, unreduced pension on retirement at age 60;
- right to an immediate, unreduced pension on leaving service after age 55, subject to 10 years' service and company consent;
- right to an immediate, unreduced pension on leaving service on reorganisation or for redundancy after age 50;
- life assurance cover of four times pensionable salary;
- spouse's pension on death in service payable at the rate of two thirds of the member's prospective pension and, on death after retirement, two thirds of accrued pension. Children's pensions are also payable;
- members' contributions payable at the rate of 4% of pensionable earnings;
- pension payable in the event of retirement due to ill health;
- pensions in payment and in deferment guaranteed to increase in line with the increase in the RPI; and
- no discretionary practices are taken into account in calculating transfer values.

All benefits are subject to Inland Revenue limits. Where such limitation is due to the earnings 'cap', benefits are increased to the level that would otherwise have been paid and are provided via the Centrica unapproved pension scheme. This scheme is unfunded but the benefits are secured by a charge over Centrica's assets to give security equivalent to the pensions provided to other employees. An appropriate provision in respect of their accrued value has been made in the company's balance sheet.

Normal retirement age

Having considered external market practice and the retirement provision made within Centrica for other senior managers, it has been agreed that the executive directors and certain other senior executives will be offered a one-off opportunity to leave the Centrica pension scheme and join the Centrica management pension scheme. This offer is consistent with the historical treatment of the Centrica senior management population.

The Centrica management pension scheme has a normal retirement age of 62. Individual accrual rates in respect of past and future service will be increased so that the pension expectations of individuals transferring across will be the same at the retirement age of 62 as they would have been had they retired at age 65. No individual transferring will receive benefits from Centrica which when added to their retained benefits elsewhere exceed two thirds of their final pensionable salary. Further, any request for early retirement will require company consent.

For those members who are affected by the operation of the earnings 'cap', Centrica provides top up benefits via an unapproved arrangement. The benefits that arise under this are treated as being subject to the same rules as apply in respect of the approved portion of the members' benefits.

Pension benefits earned by directors (£)

	Accrued pension as at 31 December 2003(i)	Accrued pension as at 31 December 2002	Increase in accrued pension(ii)	**Transfer value as at 31 December 2003**	Transfer value as at 31 December 2002	**Contributions paid in 2003**(iii)	Difference in transfer values less contributions	Transfer value of the increase in accrued pension excluding inflation(iv)
Mike Alexander(v)(vi)(vii)	**180,000**	176,700	3,300	**4,070,400**	2,598,800	**2,430**	1,469,170	–
Phil Bentley(viii)(x)	**31,700**	19,600	12,100	**335,500**	196,400	**14,782**	124,318	107,471
Mark Clare(vi)(x)	**89,900**	74,300	15,600	**1,008,300**	793,000	**14,782**	200,518	136,851
Sir Roy Gardner(ix)(x)	**233,400**	183,400	50,000	**3,885,000**	2,883,800	**14,782**	986,418	732,004
Roger Wood(ix)(x)	**103,400**	89,300	14,100	**2,004,700**	1,645,400	**14,782**	344,518	210,109

(i) Accrued pension is that which would be paid annually on retirement at age 65, based on eligible service to 31 December 2003.

(ii) The increase in accrued pension during the year excludes any pension arising from additional voluntary contributions. The increase in accrued pension adjusted to exclude inflation may be derived by discounting the figure in the first column by the rate of inflation (2.8% – see note (iv)) and subtracting the figure in the second column.

(iii) Contributions were paid in the year by the directors under the terms of the scheme up to the maximum rate of 15% of the earnings 'cap'.

(iv) The rate of inflation used was 2.8%, the annual rate to 30 September 2003, the date used for pension increases under the scheme.

(v) The accrued pension shown for Mike Alexander includes a credit in relation to a transfer from a previous employer's pension scheme.

(vi) With effect from 1 January 1998, the pensions for Mike Alexander and Mark Clare have accrued at the rate of 2.26% (approximately $^1/_{44}$) and 2.28% (approximately $^1/_{44}$) of pensionable salary respectively for each year of pensionable service. Pensions in relation to service prior to 1 January 1998 will continue to accrue at the rate of 1.67% ($^1/_{60}$) of pensionable salary.

(vii) Mike Alexander retired from the Company on 28 February 2003. In accordance with the rules of the scheme he receives an unreduced pension. The significant increase in the transfer value between 31 December 2002 and 31 December 2003 is almost all accounted for by the fact that the pension is now in payment whereas, as at 31 December 2002, it was calculated on the basis of an assumed retirement date at age 60. Because the increase in the amount of pension is less than the rate of inflation (see note (iv)) no figure is given in the final column of the table. This is because that column is derived from the increase in pension as distinct from the increase in the value of the pension.

(viii) The pension for Phil Bentley accrues at the rate of 2.31% (approximately $^1/_{43}$) of pensionable salary for each year of pensionable service.

(ix) The pensions for Sir Roy Gardner and Roger Wood accrue at the rate of 3.33% ($^1/_{30}$) of pensionable salary per year of service.

(x) Had the change in normal retirement age for individuals referred to above been implemented at 31 December 2003 it would have resulted in the transfer value of the increase in accrued pension excluding inflation for Phil Bentley, Mark Clare, Sir Roy Gardner and Roger Wood being £156,155, £344,343, £1,640,835 and £937,152 respectively; and the increase in accrued pension for those directors being £16,700, £34,000, £104,600 and £51,600 respectively.

This report on remuneration has been approved by the board and signed on its behalf by

Grant Dawson
General Counsel and Company Secretary
12 February 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period.

In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Centrica plc

Independent auditors' report to the members of Centrica plc

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in the principal accounting policies note. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ('the auditable part').

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report including the opinion has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the chief executive's statement, the operating and financial review, the group financial review, the statement of corporate responsibility, the corporate governance statement and the gas and liquids reserves.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code issued in 1998 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2003 and of the profit and cash flows of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
12 February 2004

Group profit and loss account
Year ended 31 December

		2003			2002		
	Notes	Results for the year before goodwill amortisation and exceptional charges £m	Goodwill amortisation and exceptional charges £m	Results for the year £m	Results for the year before goodwill amortisation and exceptional charges £m	Goodwill amortisation and exceptional charges £m	Results for the year £m
Turnover:							
Group and share of joint ventures' turnover – continuing operations		18,177	–	18,177	14,429	–	14,429
Less share of joint ventures' turnover		(347)	–	(347)	(207)	–	(207)
Group turnover – continuing operations		17,830	–	17,830	14,222	–	14,222
Discontinued operations		101	–	101	123	–	123
Group turnover	2	17,931	–	17,931	14,345	–	14,345
Cost of sales	3	(14,572)	–	(14,572)	(11,358)	–	(11,358)
Gross profit		3,359	–	3,359	2,987	–	2,987
Operating costs	3	(2,367)	(155)	(2,522)	(2,108)	(116)	(2,224)
Group operating profit:							
Continuing operations		1,019	(144)	875	919	(102)	817
Discontinued operations		(27)	(11)	(38)	(40)	(14)	(54)
		992	(155)	837	879	(116)	763
Share of operating profit/(loss) in joint ventures and associates – continuing operations	2	66	(6)	60	53	(7)	46
Operating profit including joint ventures and associates:							
Continuing operations	2	1,085	(150)	935	972	(109)	863
Discontinued operations	2	(27)	(11)	(38)	(40)	(14)	(54)
	2	1,058	(161)	897	932	(123)	809
Continuing operations:							
Loss on closure of business	4	–	(16)	(16)	–	–	–
Loss on disposal of business	4	–	–	–	–	(14)	(14)
Loss on disposal of fixed assets	4	–	–	–	–	(14)	(14)
Discontinued operations:							
Loss on disposal of business	4	–	(51)	(51)	–	–	–
	4	–	(67)	(67)	–	(28)	(28)
Net interest payable:							
Group		(36)	–	(36)	(47)	–	(47)
Share of joint ventures and associates		(16)	–	(16)	(15)	–	(15)
	6	(52)	–	(52)	(62)	–	(62)
Profit on ordinary activities before taxation		1,006	(228)	778	870	(151)	719
Taxation on profit on ordinary activities	7	(282)	16	(266)	(243)	(7)	(250)
Profit on ordinary activities after taxation for the year		724	(212)	512	627	(158)	469
Minority interests (equity and non-equity)	22	(10)	(2)	(12)	9	–	9
Profit attributable to the group		714	(214)	500	636	(158)	478
Dividends	8			(229)			(172)
Transfer to reserves	20			271			306

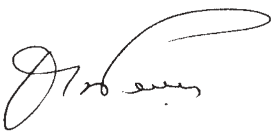
		Pence		Pence	Pence		Pence
Earnings per ordinary share							
basic	9			11.8			11.4
diluted	9			11.6			11.3
adjusted basic	9	16.8			15.2		

The notes on pages 41 to 73 form part of these financial statements.

Group balance sheet

31 December	Notes	2003 £m	2002 £m
Fixed assets			
Intangible assets	10	**1,614**	1,813
Tangible assets	11	**2,730**	2,763
Investments:			
Share of gross assets of joint ventures	12	**1,014**	810
Share of gross liabilities of joint ventures	12	**(920)**	(736)
	12	**94**	74
Other investments	12	**20**	28
		4,458	4,678
Current assets			
Stocks	13	**173**	180
Debtors:			
Debtors (amounts falling due within one year)	14	**2,921**	2,692
Debtors (amounts falling due after more than one year)	14	**117**	134
Goldfish Bank debtors (amounts falling due within one year)	14	**–**	781
Goldfish Bank debtors (amounts falling due after more than one year)	14	**–**	11
	14	**3,038**	3,618
Current asset investments	15	**992**	320
Cash at bank and in hand		**34**	28
		4,237	4,146
Creditors (amounts falling due within one year)			
Borrowings	16	**(298)**	(289)
Goldfish Bank borrowings	16	**–**	(430)
Other amounts falling due within one year:			
Creditors	17	**(3,698)**	(3,249)
Goldfish Bank customer deposits	17	**–**	(286)
	17	**(3,698)**	(3,535)
		(3,996)	(4,254)
Net current assets/(liabilities)		**241**	(108)
Total assets less current liabilities		**4,699**	4,570
Creditors (amounts falling due after more than one year)			
Borrowings	16	**(781)**	(784)
Creditors	17	**(104)**	(122)
		(885)	(906)
Provisions for liabilities and charges	18	**(1,060)**	(1,262)
Net assets		**2,754**	2,402
Capital and reserves – equity interests			
Called up share capital	19	**237**	236
Share premium account	20	**549**	537
Merger reserve	20	**467**	467
Profit and loss account	20	**1,284**	1,008
Shareholders' funds	21	**2,537**	2,248
Minority interests (equity and non-equity)	22	**217**	154
Capital employed		**2,754**	2,402

The financial statements were approved by the board of directors on 12 February 2004 and were signed on its behalf by:



Sir Michael Perry GBE
Chairman

Phil Bentley
Group finance director

The notes on pages 41 to 73 form part of these financial statements.

Financial statements continued

Statement of total recognised gains and losses

Year ended 31 December	Notes	2003 £m	2002 £m
Profit for the year		**500**	478
Exchange translation differences		**(4)**	(8)
Total recognised gains and losses for the year		**496**	470

Profit for the year includes joint ventures' and associates' profit after tax of £32 million (2002: £15 million).

Group cash flow statement

Year ended 31 December	Notes	2003 £m	2002 £m
Cash inflow from continuing operating activities		**1,293**	722
Cash outflow from discontinued operating activities[i]		**(301)**	(5)
Cash inflow from operating activities	24a	**992**	717
Dividends received from joint ventures and associates		**28**	57
Returns on investments and servicing of finance	24b	**(15)**	(25)
Taxation paid	24c	**(181)**	(192)
Capital expenditure and financial investment	24d	**(282)**	(402)
Disposals and acquisitions	24e	**292**	(935)
Equity dividends paid		**(182)**	(138)
Cash inflow/(outflow) before use of liquid resources and financing		**652**	(918)
Management of liquid resources	24f	**(669)**	134
Financing	24g	**(13)**	747
Decrease in net cash		**(30)**	(37)

(i) Cash outflow from discontinued operating activities in 2003 includes the repayment of the Goldfish Bank savings deposits of £286 million.

Reconciliation of net cash flow to movement in debt, net of cash and current asset investments

Year ended 31 December	Notes	2003 £m	2002 £m
Decrease in net cash		**(30)**	(37)
Repayment of Goldfish Bank working capital facility		**430**	180
Cash outflow/(inflow) from decrease/(increase)in other debt and lease financing		**53**	(117)
Cash outflow/(inflow) from increase/(decrease) in liquid resources		**669**	(134)
Change in debt, net of cash and current asset investments resulting from cash flows		**1,122**	(108)
Exchange adjustments		**(20)**	(4)
Movement in debt, net of cash and current asset investments		**1,102**	(112)
Debt, net of cash and current asset investments, at 1 January		**(1,155)**	(1,043)
Debt, net of cash and current asset investments, at 31 December	24h	**(53)**	(1,155)
Of which:			
Net cash/(debt) (excluding Goldfish Bank and non-recourse debt)		**163**	(529)
Goldfish Bank working capital facility		**–**	(430)
Consumers' Waterheater Income Fund (non-recourse) debt		**(216)**	(196)
		(53)	(1,155)

The notes on pages 41 to 73 form part of these financial statements.

Notes to the financial statements

1 Principal accounting policies

Accounting principles

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention and the Companies Act 1985 except for the accounting policy for energy trading activities. Further details explaining this departure are contained in note 28(f) to the financial statements.

The accounting policies, where applicable, are in accordance with the SORP issued by the Oil Industry Accounting Committee entitled Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities.

Basis of preparation

The group financial statements consolidate the accounts of the company, all of its subsidiary undertakings and incorporate the results of its share of all joint ventures and associates. The results of undertakings acquired are consolidated from the date the group gains control. No profit and loss account is presented for the company as permitted by Section 230(3) of the Companies Act 1985.

The Consumers' Waterheater Income Fund has been consolidated as a quasi-subsidiary in accordance with FRS 5 Reporting the Substance of Transactions.

A joint venture is an entity in which the group has a long term interest and shares control with one or more co-venturers. The consolidated financial statements include the group portion of turnover, operating profit or loss, exceptional items, interest, taxation, gross assets and gross liabilities of the joint venture (the gross equity method).

An associated undertaking (associate) is an entity in which the group has a long term equity interest and over which it exercises significant influence. The consolidated financial statements include the group portion of the operating profit or loss, exceptional items, interest, taxation and net assets of associates (the equity method).

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Energy supply: Turnover for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity is estimated using historical consumption patterns and is included in accrued energy income within debtors.

Energy trading: Turnover comprises amounts realised from physical sales of natural gas and electricity recognised in the period of delivery.

Storage services: Storage capacity revenues are recognised evenly over the contract period, whilst commodity revenues for the injection and withdrawal of gas are recognised at the point of gas flowing into or out of the storage facilities.

Home services: Where the group has an ongoing obligation to provide services, revenues are apportioned on a time basis and amounts billed in advance are treated as deferred income and excluded from current turnover.

AA road services: Membership subscriptions are apportioned on a time basis over the period of the membership.

Financial services: Turnover includes interest, fees and commissions receivable from financial services activities.

Telecommunications: Turnover is recognised on the basis of telephony services provided to customers in the financial period.

Cost of sales

Energy supply includes the cost of gas and electricity produced and purchased, and related transportation, royalty costs and bought in materials and services. Gas production costs include petroleum revenue taxes (PRT) calculated on a unit of production basis, with changes in estimates dealt with prospectively over the remaining lives of gas fields. Home services cost of sales include direct labour and related overheads on installation works, repairs and service contracts. AA road services cost of sales includes AA patrol and third party agents costs, as well as central deployment costs. Financial services cost of sales includes finance charges on working capital facilities used to finance banking receivables and interest payable on customer deposits.

Employee share schemes

The group has a number of employee share schemes, detailed in the directors' report on page 26 and on pages 30 to 31. As permitted by UITF Abstract 17, the group does not recognise the difference between market value and option price to employees in relation to the UK and Irish sharesave schemes within the profit and loss account, on the basis that the schemes are offered to all employees in those countries. The cost of potential share awards under the group's long term incentive scheme is charged to the profit and loss account over the period to which the performance criteria of each allocation relates. Cost is defined as the difference between the contribution receivable from employees and the market value at the date of grant, or the actual cost of shares where market purchases are made at, or around, grant date. Cost also includes provision for employer's National Insurance charges expected to arise at exercise dates.

Research and development expenditure

Research and development expenditure is charged to the profit and loss account as incurred.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at closing rates of exchange. The results of overseas subsidiary undertakings and joint ventures are translated into sterling at average rates of exchange for the relevant period. Differences resulting from the retranslation of the opening net investment in overseas subsidiary undertakings and from the retranslation of the

1 Principal accounting policies continued
opening net assets and the results of these entities for the year are taken to reserves, and are reported in the statement of total recognised gains and losses.

Exchange differences on foreign currency borrowings, foreign currency swaps and forward exchange contracts used to finance or hedge foreign currency net investments in overseas subsidiary undertakings and joint ventures are taken directly to reserves and are reported in the statement of total recognised gains and losses. All other exchange movements are recognised through the profit and loss account.

Intangible fixed assets
Goodwill arising on the acquisition of a business acquired after 1 January 1998 is included in the balance sheet at cost, less accumulated amortisation and any provisions for impairment. On the acquisition of a subsidiary undertaking (including unincorporated businesses), joint venture or associate, fair values are attributed to the assets and liabilities acquired. Goodwill, which represents the difference between the purchase consideration and the fair values of those net assets, is capitalised and amortised on a straight-line basis over a period which represents the directors' estimate of its useful economic life. Goodwill which arose on acquisitions after 1 January 1998 is being amortised over periods ranging from 5 to 20 years. Goodwill which arose prior to 1998 was written off directly to the profit and loss reserve. If an undertaking is subsequently sold, the appropriate unamortised goodwill or goodwill written off to reserves is dealt with through the profit and loss account in the period of disposal as part of the gain or loss on disposal.

Tangible fixed assets
Tangible fixed assets are included in the balance sheet at cost, less accumulated depreciation and any provisions for impairment.

In the case of investments in customer relationship management (CRM) and other technology infrastructure, cost includes contractors' charges, materials, direct labour and directly attributable overheads. Capitalisation begins when expenditures for the asset are being incurred and activities that are necessary to prepare the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Depreciation commences at the point of commercial deployment.

Freehold land is not depreciated. Other tangible fixed assets, except exploration and production assets, are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives. The depreciation periods for the principal categories of assets are as follows:

Freehold and leasehold buildings	up to 50 years
Plant	5 to 20 years
Power stations	20 years
Equipment and vehicles	3 to 10 years
Storage	up to 28 years

Assets held under finance leases are depreciated over the shorter of the lease term or their useful economic life.

Exploration and production assets are capitalised using the successful efforts method and depreciated from the commencement of production in the fields concerned, using the unit of production method, based on all of the proven and probable reserves of those fields. Changes in these estimates are dealt with prospectively. The net carrying value of fields in production is compared on a field-by-field basis, with the likely future net revenues to be derived from the estimated remaining commercial reserves. A provision is made where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues.

Leases
Assets held under finance leases are capitalised and included in tangible fixed assets at cost. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within borrowings. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect the constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to the profit and loss account on a straight-line basis.

Asset impairments
Intangible and tangible fixed assets are reviewed for impairments if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant income generating unit or disposal value, if higher. If an asset is impaired, a provision is made to reduce the carrying amount to its estimated recoverable amount.

Investments
Other fixed asset investments are included in the balance sheet at cost, less accumulated provisions for amortisation and any impairment.

Current asset investments are stated at the lower of cost and net realisable value.

Stocks
Stocks are valued at the lower of cost or estimated net realisable value.

Take or Pay contracts
Where payments are made to external suppliers under Take or Pay obligations for gas not taken, they are treated as prepayments and included within debtors.

Decommissioning costs
Provision is made for the net present value of the estimated cost of decommissioning gas production facilities at the end of the producing lives of fields, and decommissioning storage facilities at the end of the useful life of storage

1 Principal accounting policies continued

facilities based on price levels and technology at the balance sheet date. Changes in these estimates are dealt with prospectively. When this provision gives access to future economic benefits, a decommissioning asset is recognised. The decommissioning asset is amortised using the unit of production method, based on proven and probable reserves. The unwinding of the discount on the provision is included in the profit and loss account within the net interest charge.

Pensions and other post retirement benefits

Pensions and other post retirement benefits are accounted for in accordance with SSAP 24 Pension Costs. Additional disclosures are also made in the notes to the financial statements as required under FRS 17 Retirement Benefits. The cost of providing retirement pensions and other benefits is charged to the profit and loss account over the periods benefiting from employees' service. The difference between the charge to the profit and loss account and the contributions paid to the pension schemes is shown as a provision in the balance sheet. The regular pension cost, variations from the regular pension cost and interest are all charged within employee costs, and the straight-line method is applied for amortising surpluses and interest.

Long term sales contracts

Provision is made for the net present cost, using a risk free discount rate, of any expected losses on long term sales contracts, which at inception are onerous. The provision is based on the difference between the contracted sales price and the expected weighted average cost of gas.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless, by the balance sheet date, there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Deferred tax is not recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in the future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

Financial instruments

a) Debt instruments

Debt instruments are stated at the amount of net proceeds received after deduction of issue costs, adjusted to amortise any discount or premium evenly over the term of the debt.

b) Derivative financial instruments

The group uses a range of derivative financial instruments for both trading purposes and to manage (hedge) exposures to financial risks, such as interest rate, foreign exchange and energy price risks arising in the normal course of business. The accounting treatment for these instruments is dependent on whether they are entered into for trading or non-trading (hedging) purposes. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the group in line with the group's risk management policies. In addition, there must be a demonstrable link to an underlying transaction, pool of transactions or specified future transaction or transactions. Specified future transactions must be reasonably certain to arise for the derivative to be accounted for as a hedge.

A discussion on how the group manages its financial risks is included in the group financial review on pages 15 to 17.

Derivative financial instruments are accounted for as follows:

Energy trading activities: The group engages in swaps, futures, forwards and options in gas, electricity and weather, for trading purposes. Financial and physical trading positions are marked to market using externally derived market prices. Marked to market gains and losses are recognised immediately in the profit and loss account, within cost of sales. This is a departure from the Companies Act 1985 as disclosed within note 28(f). The corresponding fair value debtors or creditors are included within the balance sheet.

Energy hedging activities: The group engages in gas, electricity, oil and weather derivatives to hedge against price exposures arising within the energy supply, procurement and retail operations. The derivatives are

1 Principal accounting policies continued

matched to the specific exposures they are designed to reduce, with gains and losses recognised in the profit and loss account in the same period as the income and costs of the underlying hedged transactions.

Treasury hedging activities: The group uses interest rate swaps, forward rate agreements, foreign currency swaps and forward exchange contracts to manage exposures to interest rates arising on underlying debt and cash positions or probable future commitments and foreign exchange risks arising on foreign currency assets and borrowings, foreign currency forecasted transactions and the retranslation of overseas net investments. All instruments are used for hedging purposes to alter the risk profile on existing underlying exposures and probable future commitments in line with the group's risk management policies.

Amounts payable or receivable in respect of interest rate swaps and forward rate agreements are recognised as adjustments to the net interest charge over the term of the contracts.

Currency swap agreements and forward exchange contracts are retranslated at the rates ruling in the agreements and contracts. Resulting gains or losses are offset against foreign exchange gains or losses on the related borrowings or, where the instrument is used to hedge a committed future transaction, are deferred until the transaction occurs. Where used to hedge overseas net investments, gains or losses are recorded in the statement of total recognised gains and losses, with interest recorded in the profit and loss account.

Where derivatives used to manage interest rate risk or to hedge other anticipated cash flows are terminated before the underlying debt matures or the hedged transaction occurs, the resulting gain or loss is recognised on a basis that matches the timing and accounting treatment of the underlying debt or hedged transaction. When an anticipated transaction is no longer likely to occur or finance debt is terminated before maturity, any deferred gain or loss that has arisen on the related derivative is recognised in the profit and loss account, together with any gain or loss on the terminated item.

Comparative figures

Where the presentation of the financial statements and notes has been revised, prior year amounts have been reclassified in line with the revised presentation. The profit and loss account, balance sheet and notes 2, 3, 5, 13, 14, 17 and 28 are affected by this change.

2 Segmental analysis

The segmental analysis reflects, in the opinion of the directors, how the group's activities were managed during the year.

a) By business segment	Turnover year ended 31 December 2003 £m	Turnover year ended 31 December 2002 £m	Operating profit/(loss) before goodwill amortisation, including share of results of joint ventures and associates year ended 31 December 2003 £m	Operating profit/(loss) before goodwill amortisation 2002 £m	Operating profit/(loss) after goodwill amortisation, including share of results of joint ventures and associates year ended 31 December 2003 £m	Operating profit/(loss) after goodwill amortisation 2002 £m	Net assets/(liabilities) 31 December 2003 £m	Net assets/(liabilities) 31 December 2002 £m
Continuing operations:								
Residential energy	**5,289**	5,185	**136**	218	**136**	218		
Home services	**847**	810	**84**	61	**83**	60		
British Gas Communications	**56**	52	**(14)**	(35)	**(14)**	(35)		
British Gas residential	**6,192**	6,047	**206**	244	**205**	243	**486**	347
Centrica Business Services	**1,125**	971	**51**	65	**40**	59	**347**	353
Industrial sales and wholesaling	**809**	784	**64**	72	**64**	72		
Gas production	**54**	74	**480**	447	**480**	447		
Accord energy trading	**6,218**	4,304	**17**	–	**17**	–		
Centrica Energy Management Group(i)(ii)	**7,081**	5,162	**561**	519	**561**	519	**556**	314
Centrica Storage(ii)	**82**	9	**40**	1	**40**	1	**367**	390
The AA	**797**	760	**93**	73	**44**	23	**645**	685
One.Tel	**178**	153	**4**	2	**1**	(4)	**47**	53
Centrica North America	**2,369**	1,118	**130**	63	**50**	24	**1,159**	1,192
Other operations	**6**	2	**–**	5	**(6)**	(2)	**60**	49
	17,830	14,222	**1,085**	972	**935**	863	**3,667**	3,383
Discontinued operations:(iii) Goldfish Bank	**101**	123	**(27)**	(40)	**(38)**	(54)	**(4)**	181
Unallocated net liabilities(iv)							**(909)**	(1,162)
	17,931	14,345	**1,058**	932	**897**	809	**2,754**	2,402

b) By geographical area of operation	Turnover 2003 £m	Turnover 2002 £m	Operating profit before goodwill 2003 £m	Operating profit before goodwill 2002 £m	Operating profit after goodwill 2003 £m	Operating profit after goodwill 2002 £m	Net assets 2003 £m	Net assets 2002 £m
UK:								
Continuing operations	**15,442**	13,089	**955**	914	**891**	850	**2,536**	2,140
Discontinued operations(iii)	**101**	123	**(27)**	(40)	**(38)**	(54)	**(4)**	181
	15,543	13,212	**928**	874	**853**	796	**2,532**	2,321
Rest of Europe	**19**	15	**–**	(5)	**(6)**	(11)	**(28)**	51
North America	**2,369**	1,118	**130**	63	**50**	24	**1,159**	1,192
Unallocated net liabilities(iv)							**(909)**	(1,162)
	17,931	14,345	**1,058**	932	**897**	809	**2,754**	2,402

See overleaf for footnotes (i) – (iv).

2 Segmental analysis continued

c) Turnover by geographical destination

	2003 £m	2002 £m
UK:		
Continuing operations	**14,797**	12,608
Discontinued operations(iii)	**101**	123
	14,898	12,731
Rest of Europe	**664**	496
North America	**2,369**	1,118
	17,931	14,345

The group's share of operating profits of associates before goodwill amortisation for the year ended 31 December 2003 was £nil (2002: loss of £1 million) and after goodwill amortisation for the year ended 31 December 2003 was £nil (2002: loss of £2 million).

The group's share of turnover and operating profits/(losses) of joint ventures by business segment for the year ended 31 December was:

	Turnover		Operating profit/(loss) before goodwill amortisation		Operating profit/(loss) after goodwill amortisation	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
British Gas residential	**17**	25	**5**	2	**5**	2
Centrica Energy Management Group	**73**	77	**37**	40	**37**	40
The AA	**76**	63	**21**	16	**21**	16
Other operations (including Luminus NV)	**181**	42	**3**	(4)	**(3)**	(10)
	347	207	**66**	54	**60**	48

(i) Inter-segment transfers from Centrica Energy Management Group to British Gas residential and Centrica Business Services totalled £4,323 million (2002: £4,142 million).
(ii) Centrica Storage activities are managed separately from the activities of the Centrica Energy Management Group. The effect of this change on the 2002 segmental analysis is to report turnover of £9 million, operating profit after goodwill amortisation of £1 million and net assets of £390 million within the Centrica Storage business segment previously reported in the Centrica Energy Management Group business segment.
(iii) Goldfish Bank loyalty scheme costs of £30 million were reclassified in the prior year from turnover to cost of sales.
(iv) Unallocated net liabilities (including Goldfish Bank related balances, principally money market investments of £143 million) comprised:

	2003 £m	2002 £m
Fixed asset investments	**20**	26
Accrued interest payable	**(19)**	(7)
Dividends payable	**(157)**	(110)
Taxation	**(700)**	(346)
Debt, net of cash and money market investments	**(53)**	(725)
	(909)	(1,162)

3 Costs

	2003 Before goodwill amortisation £m	2003 Goodwill amortisation £m	2003 Total £m	2002 Before goodwill amortisation £m	2002 Goodwill amortisation £m	2002 Total £m
Cost of sales(i):						
Continuing operations	**14,529**	**–**	**14,529**	11,299	–	11,299
Discontinued operations(ii)	**43**	**–**	**43**	59	–	59
	14,572	**–**	**14,572**	11,358	–	11,358
Operating costs(i):						
Continuing operations	**2,282**	**144**	**2,426**	2,004	102	2,106
Discontinued operations	**85**	**11**	**96**	104	14	118
	2,367	**155**	**2,522**	2,108	116	2,224
Total costs recognised in arriving at group operating profit	**16,939**	**155**	**17,094**	13,466	116	13,582

3 Costs continued

	2003 £m	2002 £m
Group operating profit is stated after charging:		
Amortisation of goodwill	**155**	116
Amortisation of fixed asset investments	**5**	7
Depreciation:		
Owned assets	**382**	357
Leased assets	**23**	33
	405	390
Profit on disposal of fixed assets(iii)	**11**	18
Operating lease rentals:		
Plant and machinery	**31**	31
Other	**70**	42
	101	73
Auditors' remuneration(iv) (v):		
Audit services		
Statutory audit		
Company	**0.2**	0.2
Subsidiary undertakings(vi)	**2.1**	1.5
Audit related regulatory reporting	**0.3**	0.2
Further assurance services	**0.5**	1.5
Tax services		
Tax compliance services	**0.2**	0.2
Tax advisory services	**0.4**	0.4
Other services	**0.2**	5.2
	3.9	9.2

(i) Gas transportation costs of £1,522 million (2002: £1,459 million) and electricity transportation and distribution charges of £726 million (2002: £647 million) were included within cost of sales. Operating costs consist entirely of administrative expenses.

(ii) Goldfish Bank loyalty scheme costs of £30 million were reclassified in the prior year from turnover to cost of sales.

(iii) The profit on disposal of tangible fixed assets was £3 million (2002: £6 million) and profit on sale of fixed asset investments was £8 million (2002: £12 million).

(iv) Included in auditors' remuneration, excluding the statutory audit, were non-audit fees payable arising in the UK of £1.1 million (2002: £6.2 million). In addition, the group's auditors acted as auditor to the group's pension schemes. The appointment of auditors to the group's pension schemes and the fees paid in respect of these audits are agreed by the trustees of each scheme, who act independently from the management of the group.

(v) It is the group's policy to seek competitive tenders for all major consultancy and advisory projects. Appointments are made taking into account other factors including expertise and experience. In addition, the board has approved a detailed policy defining the types of work for which the auditors can tender and the approvals required. The auditors have been engaged on assignments additional to their statutory audit duties where their expertise and experience with the group are particularly important, including tax advice and due diligence reporting on acquisitions. In 2002, other services included £5 million paid to the consulting business of the auditors prior to its sale in October 2002.

(vi) Audit fees for subsidiary undertakings in 2003 included £0.2 million in respect of 2002.

4 Exceptional items

Recognised after operating profit	2003 £m	2002 £m
Continuing operations:		
Loss on closure of business(i)	**(16)**	–
Loss on disposal of business(ii)	**–**	(14)
Loss on disposal of fixed assets(iii)	**–**	(14)
Discontinued operations:		
Loss on disposal of business(iv)	**(51)**	–
Total recognised after operating profit	**(67)**	(28)

(i) Loss on closure of business relates to the closure of the Direct Energy home services retail stores in Ontario on which a tax credit of £6 million has been recognised.

(ii) In 2002 a £14 million loss arose on the disposal of the LPG business.

(iii) Following the reduction in operation of Golf England Limited, a subsidiary undertaking, a £14 million provision was recognised in respect of losses on disposal of fixed assets.

(iv) Discontinued operations relate to the disposal of the group's interest in the Goldfish credit card and loan business for a premium of £112.5 million over the receivables book value, resulting in a pre-tax non-operating loss on disposal of £51 million on which a tax credit of £10 million and a minority interest charge of £2 million have been recognised.

5 Directors and employees

a) Employee costs	2003 £m	2002 £m
Wages and salaries	**1,089**	905
Social security costs	**99**	73
Other pension and retirement benefits costs (note 25)	**79**	68
Long term incentive scheme	**14**	11
Share incentive plan	**2**	–
	1,283	1,057

Details of directors' remuneration, share options, long term incentive scheme interests and pension entitlements in the remuneration report on pages 29 to 36 form part of these financial statements. Details of employee share schemes are given on page 26 and in note 19.

b) Average number of employees during the year	2003 Number	2002 Number
British Gas residential	**23,064**	19,584
Centrica Business Services	**1,417**	842
Centrica Energy Management Group	**740**	574
Centrica Storage	**138**	11
The AA	**11,409**	11,640
Goldfish Bank	**270**	189
One.Tel	**930**	740
Centrica North America	**2,501**	2,187
Other operations	**2,104**	2,284
	42,573	38,051
UK	**39,571**	35,563
North America	**2,501**	2,187
Rest of Europe	**501**	301
	42,573	38,051

6 Net interest

	2003			2002		
	Interest payable £m	Interest receivable £m	Total £m	Interest payable £m	Interest receivable £m	Total £m
Cost of servicing net debt (excluding Goldfish Bank)						
Interest receivable	**–**	**36**	**36**	–	16	16
Interest payable on bank loans and overdrafts	**(57)**	**–**	**(57)**	(40)	–	(40)
Finance lease charges	**(8)**	**–**	**(8)**	(11)	–	(11)
	(65)	**36**	**(29)**	(51)	16	(35)
Other interest						
Share of joint ventures' interest payable	**(16)**	**–**	**(16)**	(15)	–	(15)
Notional interest arising on discounted items	**(19)**	**–**	**(19)**	(15)	–	(15)
Interest on supplier early payment arrangements(i)	**–**	**13**	**13**	–	13	13
Interest on customer finance arrangements(ii)	**(5)**	**–**	**(5)**	(7)	–	(7)
Other	**–**	**4**	**4**	(3)	–	(3)
	(40)	**17**	**(23)**	(40)	13	(27)
Interest (payable)/receivable	**(105)**	**53**	**(52)**	(91)	29	(62)

Product income generated by AA personal finance, and Goldfish Bank for the year ended 31 December 2003 was £89 million (2002: £100 million). Financial services product charges were £26 million (2002: £33 million) relating entirely to Goldfish Bank. Both financial services' income and charges have been included within group operating profit.

(i) Interest on supplier early payment arrangements arose on the prepayment of gas transportation charges.

(ii) The interest cost relates to subsidised credit arrangements provided to customers purchasing central heating installation.

7 Tax

	2003 £m	2002 £m
a) Analysis of tax charge for the year		
The tax charge comprises:		
Current tax		
UK corporation tax	**257**	148
Tax on exceptional items(i)	**(10)**	(2)
Adjustments in respect of prior years	**–**	16
	247	162
Foreign tax	**32**	17
Adjustments in respect of prior years	**6**	–
	38	17
	285	179
Deferred tax		
Origination and reversal of timing differences	**(33)**	(9)
Deferred petroleum revenue tax relief	**39**	55
Tax on exceptional items(i)	**(6)**	–
Adjustments in respect of prior years	**(31)**	–
Exceptional deferred tax charge(ii)	**–**	9
	(31)	55
Share of joint ventures' tax	**12**	16
Total tax on profit on ordinary activities	**266**	250

(i) The tax credit arising on the exceptional loss on disposal of business was £10 million and on the exceptional loss on closure of business was £6 million (note 4).

(ii) The exceptional tax charge in 2002 comprised an increase in deferred tax provisions arising from the supplementary charge applicable to profits on ring-fenced offshore gas production.

b) Factors affecting the tax charge for the year

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2003 £m	2002 £m
Profit on ordinary activities before tax	**778**	719
Less: share of joint ventures' and associates' profit before tax	**(44)**	(31)
Group profit on ordinary activities before tax	**734**	688
Tax on group profit on ordinary activities at standard UK corporation tax rate of 30% (2002: 30%)	**220**	207
Effects of:		
Expenses not deductible for tax purposes, including goodwill amortisation	**48**	51
Depreciation in excess of capital allowances	**23**	7
Utilisation of tax losses and other short term timing differences	**(25)**	(82)
Deferred petroleum revenue tax relief	**(39)**	(55)
Higher tax rates on overseas earnings	**5**	6
Adjustments to tax charge in respect of prior years	**6**	16
Supplementary charge applicable to upstream profits	**47**	12
Overseas losses or taxation not available for credit	**–**	17
Group current tax charge for the year	**285**	179

c) Factors that may affect future tax charges

The group earns its profits primarily in the UK, therefore the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, currently 30%. A supplementary charge of 10% is also currently applicable on the group's UK upstream profits. Fair values are attributed to fixed assets on acquisition of businesses and companies and amortisation or depreciation is subsequently provided based upon those amounts. Were the assets to be sold at the book values at the balance sheet date without the benefit of tax planning arrangements, the amount of tax that would be payable is estimated in aggregate to be £180 million (2002: £168 million) of which £121 million (2002: £146 million) is provided as a deferred tax liability. There is, however, no intention to sell any of these assets in the foreseeable future and therefore the crystallisation of the above tax charge is considered to be remote.

Notes to the financial statements continued

8 Dividends	2003 £m	2002 £m
Interim dividend of 1.7p (2002: 1.4p) per ordinary share	**72**	59
Proposed final dividend of 3.7p (2002: 2.6p) per ordinary share	**157**	110
Final dividend in respect of share issues after the balance sheet date	**–**	3
	229	172

The interim dividend was paid on 12 November 2003 and the proposed final dividend is payable on 16 June 2004 to shareholders on the register at the close of business on 30 April 2004.

9 Earnings per ordinary share

Earnings per ordinary share has been calculated by dividing the earnings for the year of £500 million (2002: £478 million) by the weighted average number of ordinary shares in issue during the year of 4,235 million (2002: 4,181 million). The number of shares excluded 26 million ordinary shares (2002: 27 million), being the weighted average number of the company's own shares recorded on the group balance sheet during the year in accordance with UITF Abstract 13 ESOP Trusts.

The directors believe that the presentation of an adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for goodwill amortisation and exceptional charges assists with understanding the underlying performance of the group. The reconciliation of basic to adjusted basic earnings per ordinary share is as follows:

	2003		2002	
	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	**500**	**11.8**	478	11.4
Exceptional items after tax and minority interests	**53**	**1.2**	35	0.9
Goodwill amortisation	**161**	**3.8**	123	2.9
Earnings – adjusted basic	**714**	**16.8**	636	15.2
Earnings – diluted[i]	**500**	**11.6**	478	11.3

(i) In addition to basic and adjusted earnings per ordinary share, information is presented for diluted earnings per ordinary share. Under this presentation, no adjustments are made to the reported earnings for either 2003 or 2002, but the weighted average number of shares used as the denominator is adjusted. The adjustments relate to notional share awards made to employees under the long term incentive scheme and the share options granted to employees under the sharesave schemes were as follows:

	2003 million shares	2002 million shares
Weighted average number of shares in issue	**4,235**	4,181
Estimated vesting of long term incentive scheme shares	**39**	35
Dilutive effect of shares to be issued at a discount to market value under the sharesave schemes	**20**	10
Potentially dilutive shares issuable under the executive share option scheme	**2**	1
Weighted average number of shares used in the calculation of diluted earnings per ordinary share	**4,296**	4,227

10 Intangible fixed assets – goodwill

	£m
Cost	
1 January 2003	2,077
Acquisitions[(i)]	44
Disposals (note 23)	(145)
Exchange adjustments	26
31 December 2003	**2,002**
Amortisation	
1 January 2003	264
Charge for the year	155
Disposals (note 23)	(32)
Exchange adjustments	1
31 December 2003	**388**
Net book value	
31 December 2003[(ii)]	**1,614**
31 December 2002	1,813

(i) Acquisitions include adjustments to goodwill totalling £40 million, following final determinations of the provisional fair value estimated for Direct Energy Services Inc (formerly Enbridge Services Inc), Electricity Direct, Rough storage and WTU/CPL acquisitions made in 2002. Details of the revisions are provided below:

Direct Energy Services Inc

The goodwill arising on the acquisition of Direct Energy Services Inc has increased by £10 million to £203 million as a result of: a reduction in tangible fixed assets of £7 million to £220 million following final determination of the depreciated replacement cost; an increase in net current liabilities of £9 million to £13 million following final determination of debtor recoverable amounts and liabilities arising at acquisition; a decrease in provisions of £13 million to £31 million following final determination of deferred tax at acquisition; and increased consideration of £7 million to £445 million relating to the costs of the acquisition.

Electricity Direct

The goodwill arising on the acquisition of Electricity Direct has increased by £12 million to £92 million as a result of: a reduction in debtors (amounts falling due within one year) of £17 million to £32 million following final determination of the recoverable amounts at acquisition; and increased creditors (amounts falling due within one year) of £7 million to £62 million following final determination of liabilities at the date of acquisition. On the acquisition of Electricity Direct, consideration of £12 million was paid but held in escrow, contingent upon verification of certain working capital balances acquired. Following verification, an amount of £12 million was repaid to the group. Final consideration totalled £38 million.

Centrica Storage

The goodwill arising on the acquisition of Rough storage has remained unchanged at £nil, however the following adjustments were made to the fair values at acquisition: a reduction in tangible fixed assets by £18 million to £445 million following final determination of the value in use; a reduction in creditors (amounts falling due within one year) by £2 million to £16 million; a reduction in provisions of £17 million to £140 million following identification of certain non-qualifying deferred tax assets during the completion period; and increased consideration of £1 million to £489 million relating to the costs of the acquisition.

WTU/CPL

The goodwill arising on the acquisition of WTU/CPL has increased by £18 million to £185 million as a result of: a reduction in debtors (amounts falling due within one year) of £19 million to £84 million following final determination of the recoverable amounts at acquisition; a reduction in creditors (amounts falling due after more than one year) of £17 million to £23 million following final determination of liabilities arising at acquisition; and an increase in contingent consideration of £16 million to £17 million to reflect expectations at 31 December 2003. Contingent consideration is dependent on business performance to 2006 and is stated net of an amount recoverable from the vendor in relation to the liability for regulatory clawback, dependent upon the retention of customers above specific levels in 2002 and 2003.

10 Intangible fixed assets – goodwill continued

(ii)The net book value of goodwill at 31 December related to the following acquisitions:

	2003 £m	2002 £m	Amortisation period years
The AA	**780**	829	15-20
Goldfish Bank	**–**	124	10
Direct Energy	**284**	279	15
Energy America[iii]	**20**	41	5
Enron Direct	**49**	53	15
One.Tel	**45**	49	15
Direct Energy Services Inc	**176**	167	15
Electricity Direct	**84**	78	15
WTU/CPL	**158**	167	15
NewPower	**5**	8	5
Other	**13**	18	5-20
	1,614	1,813	

(iii) The amortisation period in relation to the carrying value of Energy America goodwill was shortened during the year from 15 years to 5 years.

11 Tangible fixed assets

	Land and buildings[i] £m	Plant, equipment[ii][iii] and vehicles[iv] £m	Power generation[ii] £m	Storage, exploration and production[ii][v] £m	Total £m
Cost					
1 January 2003	111	1,144	217	3,745	5,217
Additions	–	263	17	95	375
Acquisitions[vi]	–	(6)	71	(4)	61
Disposals	(24)	(356)	–	(7)	(387)
Disposal of subsidiary	–	(58)	–	(12)	(70)
Revision of decommissioning asset	–	–	–	5	5
Transfers	(1)	1	–	–	–
Exchange adjustments	–	36	–	22	58
31 December 2003	**86**	**1,024**	**305**	**3,844**	**5,259**
Depreciation and amortisation					
1 January 2003	26	330	12	2,086	2,454
Charge for the year	3	148	18	236	405
Disposals	(11)	(322)	–	(2)	(335)
Disposal of subsidiary	–	(12)	–	–	(12)
Exchange adjustments	–	13	–	4	17
31 December 2003	**18**	**157**	**30**	**2,324**	**2,529**
Net book value					
31 December 2003	**68**	**867**	**275**	**1,520**	**2,730**
31 December 2002	85	814	205	1,659	2,763

(i) The net book value of the group's land and buildings at 31 December 2003 comprised freehold of £34 million (2002: £44 million), long leasehold of £19 million (2002: £23 million) and short leasehold of £15 million (2002: £18 million).

(ii) The net book value of the group's tangible fixed assets held under finance leases at 31 December 2003 within plant, equipment and vehicles was £4 million (2002: £8 million), power generation £nil (2002: £73 million) and within storage, exploration and production was £96 million (2002: £120 million). The depreciation and amortisation charge for the year in respect of finance leased assets included £6 million (2002: £4 million) on plant, equipment and vehicles, £nil (2002: £10 million) on power generation and £17 million (2002: £19 million) on storage, exploration and production assets.

(iii) The amounts capitalised in the year in respect of customer relationship management infrastructure included within plant, equipment and vehicles at 31 December 2003 amounted to £72 million (2002: £180 million).

(iv) The net book value of the fixed assets of the Consumers' Waterheater Income Fund (the Fund) within plant, equipment and vehicles was £190 million (2002: £182 million). Debt issued by a subsidiary of the Fund, without recourse to the group, is secured on the assets as set out in note 31.

(v) Included within the group's exploration and production assets at 31 December 2003 were costs of £19 million pending determination (2002: £60 million). The net book value of the group's decommissioning costs at 31 December 2003 was £40 million (2002: £17 million).

(vi) Included within acquisitions are revisions to fair values totalling a credit of £25 million, as explained in the footnotes to note 10.

12 Fixed asset investments

	Joint ventures and associates Shares(i) £m	Joint ventures and associates Loans £m	Own shares(ii) £m	Other investments £m	Total £m
Share of net assets/cost					
1 January 2003	22	4	51	5	82
Additions(iii)	10	–	–	–	10
Disposals and transfers(ii) (iv)	–	(4)	(6)	–	(10)
Dividends receivable	(26)	–	–	–	(26)
Share of profits less losses for the year	38	–	–	–	38
Exchange adjustments	(1)	–	–	–	(1)
31 December 2003	**43**	**–**	**45**	**5**	**93**
Goodwill					
1 January 2003	55	–	–	–	55
Disposals	(1)	–	–	–	(1)
Goodwill amortisation	(6)	–	–	–	(6)
Exchange adjustments	4	–	–	–	4
31 December 2003	**52**	**–**	**–**	**–**	**52**
Amounts written off					
1 January 2003	(1)	(2)	(29)	(3)	(35)
Amortisation under long term incentive schemes	–	–	(5)	–	(5)
Disposals(ii) (iv)	1	2	6	–	9
31 December 2003	**–**	**–**	**(28)**	**(3)**	**(31)**
Net book value					
31 December 2003	**95**	**–**	**17**	**2**	**114**
31 December 2002	76	2	22	2	102

(i) The group's share of net assets of associates was £1 million (2002: £2 million). The group's share of joint ventures' gross assets and gross liabilities principally comprised its interests in Humber Power Limited (power generation), Centrica Personal Finance Limited (AA and British Gas personal loans activities), AA Financial Services (AA credit card activities) and Luminus NV (energy supply).
The group's share of joint ventures' gross liabilities included loans payable to the group amounting to £nil (2002: £4 million). The share of Humber Power Limited's gross liabilities included £268 million (2002: £269 million) of lease finance, of which £249 million (2002: £254 million) was repayable after more than five years. Although the group holds a majority of the voting rights in Humber Power Limited, it is restricted in its ability to exercise these rights under an agreement with the other shareholder. Consequently the investment has not been consolidated but has been accounted for as a joint venture.

Investments in joint ventures	Humber Power Limited £m	Centrica Personal Finance Limited £m	AA Financial Services £m	Luminus NV £m	Other £m	**2003 Total £m**	2002 Total £m
Share of gross assets	314	519	40	126	15	**1,014**	810
Share of gross liabilities	(292)	(516)	(40)	(66)	(6)	**(920)**	(736)
	22	3	–	60	9	**94**	74
Share of net assets of associates						**1**	2
						95	76
Net debt included in share of gross assets and share of gross liabilities	(236)	(506)	(39)	(5)	(2)	**(788)**	(627)

(ii) The Centrica employees share trust held 21 million (2002: 27 million) shares in the company. This represented 0.50% of the called up ordinary share capital (2002: 0.64%), which had a market value at 31 December 2003 of £45 million and a nominal value of £1 million (2002: £47 million and £2 million respectively). During the year 6 million shares (2002: 12 million shares) were transferred from the trust in respect of awards held by employees. All other investments were unlisted.

(iii) During 2003 Luminus NV called on previously unpaid share capital, the group's share of which amounted to €13 million (£9 million). On 24 September 2003 the group acquired a 25% interest for £1 million in Barrow Offshore Wind Limited, a company which intends to construct a wind farm at Barrow.

(iv) Loans of £2 million to AA Financial Services were also repaid in the year.

The principal undertakings of the group are listed in note 30 on page 72.

13 Stocks

	2003 £m	2002 £m
Gas in storage and transportation(i)	**114**	107
Other raw materials and consumables	**45**	56
Finished goods and goods for resale	**14**	17
	173	180

(i) Gas in transportation of £40 million in 2002 has been reclassified from other raw materials and consumables to gas in storage and transportation.

14 Debtors

Amounts falling due	2003 Within one year £m	2003 After one year £m	2002 Within one year £m	2002 After one year £m
a) Businesses' debtors (excluding Goldfish Bank debtors):				
Trade debtors	**718**	**53**	785	44
Accrued energy income	**1,670**	**–**	1,427	–
Deferred corporation tax (note 18)	**31**	**25**	–	36
Other debtors(i)	**360**	**–**	340	5
Prepayments and other accrued income:				
Take or Pay	**3**	**4**	13	–
Other	**139**	**35**	127	49
	142	**39**	140	49
	2,921	**117**	2,692	134
b) Goldfish Bank debtors:				
Trade debtors: loans and advances to customers	**–**	**–**	761	10
Prepayments and accrued income	**–**	**–**	1	1
Other	**–**	**–**	19	–
	–	**–**	781	11

(i) Included in other debtors is £125 million (2002: £94 million) relating to energy derivatives held for trading. Debtor balances relating to energy derivatives held for trading in 2002 of £94 million have been reclassified from other creditors to other debtors.

15 Current asset investments

	2003 £m	2002 £m
Money market investments	**992**	320

Current asset investments included £183 million (2002: £159 million) held by the group's insurance subsidiary undertakings, £7 million (2002: £nil) held by the Consumers' Waterheater Income Fund and £17 million (2002: £10 million) held by the Law Debenture Trust, on behalf of the company, as security in respect of the Centrica unapproved pension scheme, as described in note 25. These amounts were not readily available to be used for other purposes within the group.

16 Borrowings

Amounts falling due	2003 Within one year £m	2003 After one year £m	2002 Within one year £m	2002 After one year £m
a) Businesses' recourse borrowings (note 28d)				
Bank loans and overdrafts	**52**	**–**	13	–
Sterling bonds(i)	**–**	**535**	–	518
Commercial paper	**205**	**–**	237	–
Loan notes	**2**	**–**	3	–
Obligations under finance leases(ii)	**39**	**30**	36	70
b) Businesses' non-recourse borrowings				
Canadian dollar bonds(iii)	**–**	**216**	–	196
	298	**781**	289	784
c) Goldfish Bank borrowings(iv)				
Bank loans and overdrafts (note 28d)	**–**	**–**	430	–

(i) Sterling bonds were repayable as follows: between one and two years £125 million (2002: £nil); between two and five years £nil (2002: £125 million); and after five years £416 million (2002: £400 million). The bonds bear interest at fixed rates between 5.375% and 5.875% (2002: 5.375% and 5.875%). The bonds have a face value of £541 million (2002: £525 million) and are stated net of £6 million (2002: £7 million) of issuance discount.

(ii) Group obligations under finance leases after more than one year at 31 December 2003 were repayable as follows: between one and two years £30 million (2002: £39 million) and between two and five years £nil (2002: £31 million).

16 Borrowings continued

(iii) This is debt issued by the Consumers' Waterheater Income Trust, a wholly owned subsidiary of the Consumers' Waterheater Income Fund (the Fund), which is treated as a quasi-subsidiary and consolidated in the group accounts. The debt is secured solely on the assets of the Fund and its subsidiaries, without recourse to the group. Summary financial information for the Fund is given in note 31.
In January 2003 the Consumers' Waterheater Income Trust issued C$500 million of secured fixed rate bonds receiving net proceeds of C$497 million. The proceeds received were used to repay C$500 million of floating rate bonds previously issued in December 2002. The bonds were issued in two series and are repayable between 11 and 13 years bearing interest between 4.700% and 5.245% respectively.

(iv) The Goldfish Bank working capital facility was repaid on 30 September 2003 following the disposal of the Goldfish credit card and loan business.

17 Creditors

Amounts falling due	2003 Within one year £m	2003 After one year £m	2002 Within one year £m	2002 After one year £m
Trade creditors	**1,441**	**–**	1,343	–
Taxation and social security	**260**	**–**	137	–
Other creditors[i]	**827**	**80**	809	23
Accruals and deferred income:				
Transportation[ii]	**30**	**–**	18	–
Other accruals and deferred income	**983**	**24**	832	99
	1,013	**24**	850	99
Dividend payable (note 8)	**157**	**–**	110	–
Goldfish Bank customer deposits[iii]	**–**	**–**	286	–
	3,698	**104**	3,535	122

(i) Included in creditors is £115 million (2002: £111 million) relating to energy derivatives held for trading. Debtor balances relating to energy derivatives held for trading in 2002 of £94 million have been reclassified from other creditors to other debtors.

(ii) The group has the option to either prepay or accrue its gas transportation charges in Britain. For much of the year, the group prepaid these charges.

(iii) Goldfish Bank savings accounts were largely repaid by 31 December 2003 and unclaimed balances of £0.2 million were transferred to Barclays Bank to be held in trust.

18 Provisions for liabilities and charges

	1 January 2003 £m	Foreign exchange £m	Acquisitions and disposals £m	Revisions £m	Profit and loss charge £m	Utilised £m	31 December 2003 £m
Deferred corporation tax[i][ii]	278	7	(30)	–	(11)	–	**244**
Decommissioning costs[iii]	206	–	(3)	5	7	–	**215**
Deferred petroleum revenue tax[iv]	395	–	–	–	128	(226)	**297**
Pension and other retirement benefits[v]	75	–	–	–	79	(124)	**30**
Restructuring costs[vi]	21	–	–	–	18	(17)	**22**
Sales contract loss and renegotiation provisions[vii]	218	–	–	–	14	(15)	**217**
Other[viii]	69	–	(13)	–	38	(59)	**35**
	1,262	7	(46)	5	273	(441)	**1,060**

(i) Deferred corporation tax (assets)/liabilities comprised:

	Amounts provided 2003 £m	Amounts provided 2002 £m	Potential assets unrecognised 2003 £m	Potential assets unrecognised 2002 £m
Accelerated capital allowances	**351**	436	**(22)**	(56)
Deferred petroleum revenue tax	**(119)**	(158)	**–**	–
Other timing differences including losses carried forward	**(44)**	(36)	**(117)**	(107)
	188	242	**(139)**	(163)
Deferred corporation tax liability	**244**	278		
Deferred corporation tax asset included in debtors (note 14)	**(56)**	(36)		
	188	242		

(ii) A deferred tax provision has been made in respect of accelerated capital allowances and other timing differences, net of recognised deferred tax assets.

18 Provisions for liabilities and charges continued

(iii) Provision has been made for the estimated net present cost of decommissioning gas production and storage facilities at the end of their useful lives. The estimate has been based on proven and probable reserves, price levels and technology at the balance sheet date. The timing of decommissioning payments are dependent on the lives of the facilities but are anticipated to occur between 2005 and 2042. The profit and loss charge includes £6 million of notional interest (2002: £4 million).
(iv) The provision for tax on gas and oil activities has been calculated on a unit of production basis.
(v) This provision included the difference between charges to the profit and loss account and the contributions paid to the pension schemes in respect of retirement pensions and other related benefits (note 25).
(vi) The provision represented costs relating to surplus properties, redundancy and other costs relating to reorganisations. The provision relating to surplus properties was calculated as the lower of the difference between rental costs and sub-let income over the remainder of the leases and the potential cost to surrender those leases. The provision for redundancy costs reflected announced restructuring plans. The majority of these sums are expected to be spent between 2004 and 2005.
(vii) The sales contract loss provision represented the net present cost, using a risk free discount rate, of expected losses on long term sales contracts, which at inception are onerous, based on the difference between contracted sales prices and the expected weighted average cost of gas. These contracts terminate between 2005 and 2006. The profit and loss charge represents £14 million of notional interest (2002: £14 million).
In previous years, the group renegotiated certain long term Take or Pay contracts which would have resulted in commitments to pay for gas that would be excess to requirements and/or at prices above likely market rates. The provision represented the net present cost of estimated payments due to suppliers as consideration for the renegotiations, which are due for settlement in 2008.
(viii) Other provisions principally cover estimated liabilities in respect of claims reflected in the group's insurance subsidiaries, outstanding litigation and provision for National Insurance payable in respect of long term incentive scheme liabilities. The National Insurance provision was based on a share price of 211 pence at 31 December 2003 (2002: 171 pence).

19 Called up share capital

	2003 £m	2002 £m
Authorised share capital of the company		
4,950,000,000 ordinary shares of 5⁵⁄₉ pence each (2002: 4,950,000,000 ordinary shares of 5⁵⁄₉ pence each)	**275**	275
100,000 cumulative redeemable preference shares of £1 each	**–**	–
Allotted and fully paid share capital of the company		
4,265,901,206 ordinary shares of 5⁵⁄₉ pence each (2002: 4,252,856,414 ordinary shares of 5⁵⁄₉ pence each)	**237**	236

During 2003, 13,044,792 ordinary shares were allotted and issued to satisfy the exercise of share options and the matching element of the share incentive plan as follows:

For the year ended 31 December	2003	2002
Number	**13,044,792**	231,925,358
Nominal value (£m)	**0.7**	12.9
Consideration (£m) (net of issue costs 2003: £nil; 2002: £6 million)	**13**	488

	Options outstanding over ordinary shares 2003 million	Options outstanding over ordinary shares 2002 million	Latest exercise date	Exercise prices (pence)
RESOS(i)	**0.5**	2.1	November 2004	81.060 to 90.266
ESOS(ii)	**25.8**	13.5	September 2013	146.600 to 240.050
UK sharesave(iii) (iv)	**93.8**	61.6	November 2008	92.200 to 202.600
Irish sharesave(iii)	**0.3**	0.3	May 2009	132.800 to 168.700
Total 31 December	**120.4**	77.5		

(i) Details of the RESOS appear on page 34 in note (iii) to the table of directors' interests in share options.
(ii) Details of the ESOS appear on page 30.
(iii) Details of the UK and Irish sharesave schemes appear on page 26.
(iv) As permitted by UITF 17, the group does not recognise the cost of awards to employees in the profit and loss account for the year, on the basis that it operates a UK Inland Revenue approved sharesave scheme.

The closing price of a Centrica ordinary share on 31 December 2003 was 211 pence (2002: 171 pence).

19 Called up share capital continued

Long term incentive scheme

At 31 December 2003, 37 million shares (2002: 34 million) were outstanding in respect of allocations made under the long term incentive scheme, which includes allocations of 27 million shares (2002: 23 million) that are subject to performance conditions and allocations of 10 million shares (2002: 11 million) that have reached the conclusion of the performance period but are subject to a two year retention period. Details of the operation of the long term incentive scheme, in which the executive directors participate, can be found in the remuneration report on pages 30 and 31.

The Centrica employees share trusts were established to acquire ordinary shares in the company, by subscription or purchase, with funds provided by way of interest free loans from the company to satisfy rights to shares on the vesting of allocations made under the company's long term incentive arrangements.

Since the beginning of 2002, no further shares have been acquired by the trust. Any future shortfall will be satisfied by the allotment and issue of new shares.

At 31 December 2003, the trusts held 21 million ordinary shares in the company which had a market value of £45 million (2002: 27 million ordinary shares with a market value of £47 million). Dividends due on shares held in trust are waived in accordance with the trust deeds. All administration costs are borne by the group.

20 Reserves

	Share premium account £m	Merger reserve £m	Profit and loss account[i] £m	Total £m
1 January 2003	537	467	1,008	2,012
Retained profit for the year	–	–	271	271
Exchange translation differences[ii]	–	–	(4)	(4)
Issue of ordinary share capital	12	–	–	12
Shares to be issued under long term incentive scheme[iii]	–	–	9	9
31 December 2003	**549**	**467**	**1,284**	**2,300**

(i) Cumulative goodwill taken directly to the profit and loss reserve at 31 December 2003 amounted to £85 million (2002: £85 million). This goodwill had been taken to reserves as a matter of accounting policy and will be charged in the profit and loss account should there be a subsequent disposal of the business to which it related.

(ii) Exchange gains of £42 million (2002: £84 million) on net investment in overseas undertakings have been offset in full in reserves against exchange losses of £46 million (2002: £92 million) on foreign currency borrowings.

(iii) Centrica intends to fund certain of its long term incentive schemes through the issue of new shares when these schemes vest. The amount shown represents the expected value of the shares to be issued using the market price at the date allocations were granted.

21 Movements in shareholders' funds

	2003 £m	2002 £m
1 January	**2,248**	1,502
Profit attributable to the group	**500**	478
Dividends	**(229)**	(172)
Exchange translation differences	**(4)**	(8)
Issue of shares net of reserves movement on employee share schemes	**13**	444
Shares to be issued under long term incentive scheme	**9**	4
Net movement in shareholders' funds for the year	**289**	746
31 December	**2,537**	2,248

22 Minority interests

	Equity £m	Non-equity £m	Total £m
1 January 2003	46	108	154
Minority interest arising during the year (note 24g)	12	46	58
Exchange translation differences	–	10	10
(Loss)/profit on ordinary activities after taxation	(5)	17	12
Distribution	–	(17)	(17)
31 December 2003	**53**	**164**	**217**

Equity minority interests at 31 December 2003 related to a 30% economic interest held by Lloyds TSB Bank plc in Goldfish Bank. Non-equity minority interests at 31 December 2003 related to the 80.1% of units in the Consumers' Waterheater Income Fund (note 31), listed on the Toronto Stock Exchange.

23 Acquisitions and disposals

(i) Acquisitions

During the year the group acquired the business and assets of two gas fired power station businesses (Roosecote and Barry). The group also made a number of smaller acquisitions, including a further equity interest in the Rose gas field in exchange for its 1.5% equity interest in the Armada field which are aggregated in section (c). The acquisition method of accounting was adopted in all cases. The analysis of assets and liabilities acquired, and the fair value of these acquisitions were as shown below. The fair values stated below are provisional because the directors have not yet reached a final determination on all aspects of the fair value exercises.

a) Roosecote	Book value £m	Fair value adjustment(i) £m	Fair value £m
Tangible fixed assets	26	(3)	23
Stock	2	–	2
Net assets acquired	28	(3)	25
Goodwill arising			–
Consideration			25
Cash			24
Deferred consideration(ii)			1
			25

The group acquired the assets and business of Roosecote power station on 14 May 2003 from the administrative receivers of Lakeland Power Limited. Prior to acquisition the power station formed part of this legal entity and in the circumstances it is not practical to provide details of the results before acquisition.

(i) Tangible fixed assets have been adjusted to their estimated value in use.
(ii) Deferred consideration is due within one year.

b) Barry	Book value £m	Accounting policy alignment(i) £m	Fair value adjustment(ii) £m	Fair value £m
Tangible fixed assets	31	2	6	39
Stock	3	(1)	–	2
Creditors (amounts falling due within one year)	(1)	–	–	(1)
Net assets acquired	33	1	6	40
Goodwill arising				–
Cash consideration				40

The group acquired the assets and business of Barry power station on 29 July 2003 from AES Barry Limited. Prior to acquisition the power station formed part of this legal entity and in the circumstances it is not practical to provide details of the results before acquisition.

(i) Accounting policy alignments relate to the valuation of turbine parts.
(ii) Tangible fixed assets have been adjusted to their estimated value in use.

23 Acquisitions and disposals continued

c) Other

	Book value £m	Fair value adjustment £m	Fair value £m
Tangible fixed assets	10	14	24
Debtors (amounts falling due within one year)	7	–	7
Creditors (amounts falling due within one year)	(6)	–	(6)
Provisions	(1)	–	(1)
Net assets acquired	10	14	24
Goodwill arising[(i)]			4
Consideration			28
Cash			18
Contingent consideration[(ii)]			3
Fair and book value of assets disposed			7
			28

The group acquired DER Development Companies Nos 1-10 Limited (Alberta) on 13 January 2003 (consideration £5 million, goodwill arising £nil); the assets and business of the West Lancashire Heating Company on 28 February 2003 (consideration £2 million, goodwill arising £2 million); Integrated Building Technologies Inc (IBT) on 31 May 2003 (consideration £2 million, goodwill arising £2 million); and Amec Offshore Wind Power Limited, Offshore Wind Power Limited and Offshore Wind Power (Site No. 1) Limited (together, Offshore Wind Power) on 23 December 2003 (consideration £10 million, goodwill arising £nil). In addition the group acquired a 20% equity interest in the Rose field in exchange for cash consideration of £2 million and its 1.5% equity interest in the Armada field (goodwill arising £nil).

(i) Goodwill is being amortised over periods ranging from 5 to 15 years.

(ii) Contingent consideration comprises: £1 million in respect of IBT, payable within one year and dependent upon the performance of IBT in the period post acquisition; and £2 million in respect of Offshore Wind Power which is expected to be paid within one year and is contingent on achievement of key stages in the development of the wind farms.

(ii) Disposals

The group disposed of its interest in the Goldfish credit card and loan business on 30 September 2003 for a premium of £112.5 million above the receivables book value, resulting in a pre-tax non-operating loss on disposal of £51 million. A tax credit of £10 million and a minority interest charge of £2 million have been recognised in relation to this, giving a loss on disposal to the group of £43 million. The analysis of assets and liabilities sold and consideration received is given below:

	£m
Tangible fixed assets	45
Stock	1
Loans and advances to customers	1,019
Prepayments	4
Accruals, provisions and settlement accounts	(36)
Net assets	**1,033**
Related goodwill	113
Pre-tax non-operating loss on disposal	**(51)**
	1,095
Sale proceeds	
Cash consideration received	1,095
Deferred consideration	2
Disposal costs	(2)
	1,095

The loss made by Goldfish Bank from 1 January 2003 to the date of disposal was £38 million.

The group disposed of its equity interests in the Renee, Rochelle and Rubie fields on 10 March 2003 for a consideration of £5 million. The book value of the assets and liabilities sold amounted to £7 million and £2 million respectively, and no profit was recognised by the group in relation to the disposal. The result of the group's equity interest in the fields from 1 January 2003 to the date of disposal was £nil.

24 Notes to the group cash flow statement

a) Reconciliation of group operating profit to operating cash flow

	2003 £m	2002 £m
Continuing operations		
Group operating profit	**875**	817
Amortisation of goodwill	**144**	102
Depreciation and impairment	**394**	382
Shares issued to fund share incentive plan(i)	**2**	–
Amortisation of investments	**5**	7
Profit on sale of investments	**(8)**	(12)
Profit on sale of fixed assets	**(3)**	(6)
Provisions	**(150)**	(177)
Change in working capital:		
Stocks – (increase)/decrease	**(10)**	33
Debtors – increase	**(272)**	(542)
Creditors – increase(ii)	**316**	134
	34	(375)
Cash inflow from operating activities before exceptional payments:		
Continuing operations	**1,293**	738
Payments relating to exceptional charges	**–**	(16)
Cash inflow from operating activities after exceptional payments	**1,293**	722
Discontinued operations		
Operating loss	**(38)**	(54)
Amortisation of goodwill	**11**	14
Depreciation and impairment	**11**	8
Provisions	**(3)**	16
Change in working capital:		
Stocks – decrease/(increase)	**4**	(3)
Goldfish Bank debtors – increase(iii)	**(256)**	(119)
Goldfish Bank working capital facility – increase/(decrease)(iii) (iv)	**271**	(180)
Goldfish Bank customer accounts – (decrease)/increase	**(286)**	286
Debtors – decrease	**–**	1
Creditors – (decrease)/increase	**(15)**	26
	(282)	11
Cash outflow from discontinued operations	**(301)**	(5)
Total cash inflow from operating activities after exceptional payments	**992**	717

(i) This represents the grant date market value of matching shares issued to employees during the year under the share incentive plan (SIP). Further details of the SIP can be found on page 26 of the directors' report.
(ii) Included in 2002 was a reduction of £168 million from the acceleration of gas transportation payments, which the group has the option to prepay.
(iii) Sold as part of the disposal of the Goldfish credit card and loan business.
(iv) The Goldfish Bank working capital facility primarily financed the Goldfish credit card and loan balances. In accordance with generally accepted practice for banking activities, movements on this working capital facility are included within operating cash flow rather than financing. The repayment of this working capital facility of £701 million following the disposal on 30 September 2003 is included in note 24e.

b) Returns on investments and servicing of finance

	2003 £m	2002 £m
Interest received	**54**	29
Interest paid	**(61)**	(42)
Interest element of finance lease rental payments	**(8)**	(12)
	(15)	(25)

Interest income/(charges) on banking receivables and related working capital facilities are included within operating cash flow in note 24a.

24 Notes to the group cash flow statement continued

c) Taxation paid

	2003 £m	2002 £m
UK corporation tax paid	**(159)**	(196)
Overseas tax paid	**(24)**	–
Consortium tax relief received	**2**	4
	(181)	(192)

d) Capital expenditure and financial investment

	2003 £m	2002 £m
Purchase of tangible fixed assets	**(323)**	(449)
Sale of tangible fixed assets	**39**	28
Loans to joint ventures repaid	**2**	19
	(282)	(402)

e) Disposals and acquisitions

	2003 £m	2002 £m
Payments on acquisition of subsidiary undertakings and businesses	**(77)**	(1,107)
Payments on acquisition of joint ventures and associates	**(10)**	(4)
Payments of deferred consideration	**(30)**	(70)
Total cash payments	**(117)**	(1,181)
Cash acquired	**–**	222
Overdraft acquired	**–**	(30)
Receipts on disposal of Goldfish credit card and loan business	**1,095**	–
Repayment of Goldfish Bank working capital facility[(i)]	**(701)**	–
Proceeds from other disposals	**15**	54
	292	(935)

Cash consideration, net of cash and overdrafts acquired, at acquisition date rates of exchange, as included in note 23 totalled £82 million. The difference of £5 million to payments on acquisition of subsidiary undertakings and businesses is due to repayments relating to prior year acquisitions as explained in note 10 (i).

(i) The repayment of the Goldfish Bank working capital facility includes £271 million in respect of amounts drawn down during 2003. This movement is included within the reconciliation of operating profit to operating cash flow.

f) Management of liquid resources

	2003 £m	2002 £m
Net (purchase)/sale of current asset investments	**(669)**	134

Liquid resources comprised short term deposits with banks which mature within one year of the date of inception. Current asset investments increased by £143 million in relation to discontinued operations relating to the investment of sale proceeds.

g) Financing

	2003 £m	2002 £m
Commercial paper:		
Issued	**204**	309
Repaid	**(236)**	(381)
Capital element of finance lease rentals	**(38)**	(32)
Bonds issued	**17**	221
Realised net foreign exchange (loss)/gain[(i)]	**(12)**	57
Investment by equity and non-equity minority shareholders[(ii)]	**41**	129
Issue of ordinary share capital[(iii)]	**11**	444
	(13)	747

The net cash financing inflow in relation to discontinued operations was £46 million.

(i) Where currency swap agreements are used to hedge overseas net investments, the realised net (losses)/gains are recognised in financing cash flows.

(ii) Includes capital contributions to Goldfish Bank of £12 million (2002: £21 million) and £46 million (2002: £108 million) from the disposal of 22.0% (2002: 58.1%) of our holding in the Consumers' Waterheater Income Fund, net of distributions paid to non-equity minority unitholders of £17 million (2002: £nil).

(iii) Cash inflow from the issue of ordinary share capital is stated net of issue costs of £nil (2002: £6 million).

24 Notes to the group cash flow statement continued

h) Analysis of debt, net of cash and money market investments

	1 January 2003 £m	Cash flow £m	Exchange adjustments (and other non-cash investments)(i) £m	31 December 2003 £m
Cash at bank and in hand	28	**(3)**	9	**34**
Overdrafts	(13)	**(27)**	(12)	**(52)**
		(30)		
Bonds	(714)	**(17)**	(20)	**(751)**
Loan notes due within one year	(3)	**1**	–	**(2)**
Obligations under finance leases	(106)	**37**	–	**(69)**
Other borrowings	(237)	**32**	–	**(205)**
		53		
Current asset investments(ii)	320	**669**	3	**992**
Goldfish Bank working capital facility(iii)	(430)	**430**	–	**–**
	(1,155)	**1,122**	(20)	**(53)**
Of which:				
Net debt (excluding Goldfish Bank and non-recourse debt)	(529)	**692**	–	**163**
Goldfish Bank working capital facility	(430)	**430**	–	**–**
Consumers' Waterheater Income Fund (non-recourse) debt	(196)	**–**	(20)	**(216)**
	(1,155)	**1,122**	(20)	**(53)**

(i) This included an exchange loss on cash of £3 million (2002: loss £4 million).
(ii) £143 million of the current asset investment cash flow related to discontinued operations.
(iii) The Goldfish Bank working capital facility was repaid on 30 September 2003 on disposal of the Goldfish credit card and loan business.

25 Pensions

Substantially all of the group's UK employees at 31 December 2003 were members of one of the four main schemes in the group: the Centrica pension scheme (formerly the Centrica staff pension scheme), the Centrica engineers' pension scheme, the Centrica management pension scheme and the AA staff pension scheme. These schemes are defined benefit schemes and are subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contributions which, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes.

The Centrica unapproved pension scheme is an unfunded arrangement which provides benefits to certain employees whose benefits under the main schemes would otherwise be limited by the earnings cap.

Independent actuarial valuations for SSAP 24 purposes at 31 March 2001 showed aggregate actuarial asset values and those values relative to benefits due to members, (calculated on the basis of pensionable earnings and services on an ongoing basis using the projected unit method) as follows:

	Asset values £m	Asset values relative to liabilities %
Centrica pension scheme	713	105
Centrica engineers' pension scheme	396	106
Centrica management pension scheme	254	115
AA staff pension scheme	676	117

The long term assumptions applied to calculate group pension costs, as agreed with the independent actuary, are set out below:	2003 %	2002 %
Rate of price inflation and pension increases	**2.50**	2.50
Annual rate of return on investments	**6.70**	6.70
Future increases in employee earnings	**4.50**	4.50
Dividend growth	**3.75**	3.75

25 Pensions continued

The group's pension costs arising and the reconciliation to the balance sheet provision was as follows:	2003 £m	2002 £m
Regular pension costs	**105**	95
Amortisation of surplus	**(21)**	(21)
	84	74
Interest	**(10)**	(10)
Net pension costs	**74**	64
Contributions paid	**(124)**	(107)
Decrease in provision for pension costs	**(50)**	(43)
Pension provision at 1 January	**55**	98
Pension provision at 31 December	**5**	55
AA post retirement private medical insurance[i]	**24**	21
Direct Energy Marketing Limited post retirement benefits[ii]	**1**	(1)
Pension and other retirement benefits provision (note 18)	**30**	75

Other retirement benefits

(i) The group has a commitment to provide post retirement private medical insurance cover for certain AA current and past employees. The triennial independent actuarial valuation undertaken at 31 December 2001, assuming a 2.5% per annum real increase in premiums, disclosed a liability of £27 million. The provision under this scheme as recognised under SSAP 24 was £24 million (2002: £21 million). The net cost to the group of retirement benefits under this scheme was £3 million (2002: £3 million).

(ii) The group has a commitment to provide certain pension and other post retirement benefits to employees of Direct Energy Marketing Limited (Canada). The Direct Energy Marketing Limited pension plan was established on 1 March 2002 and an independent actuarial valuation carried out on 7 May 2002, which disclosed a surplus in respect of pension benefits of £6 million and a deficit in respect of non-pension post retirement benefits of £4 million, resulting in a net surplus of £2 million. The provision under this scheme as recognised under SSAP 24 was £1 million (2002: £1 million surplus). The net cost to the group of retirement benefits under this scheme was £2 million (2002: £1 million).

The total net cost to the group of other retirement benefits on a SSAP 24 basis was £5 million (2002: £4 million).

Additional disclosures regarding the group's defined benefit pension schemes, the unapproved pension arrangement and the post retirement medical plan are required under the transitional provisions of FRS 17 Retirement Benefits. The disclosures provide information which will be necessary for the full implementation of FRS 17 in due course.

The latest full actuarial valuations were carried out as at the following dates: the approved pension schemes at 31 March 2001, the unapproved pension scheme at 6 April 2002, the Direct Energy Marketing Limited pension plan at 7 May 2002 and the post retirement medical liability at 31 December 2001. These have been updated to 31 December 2003 for the purposes of meeting the requirements of FRS 17. Investments have been valued, for this purpose, at market value.

The major assumptions used for the actuarial valuation were:	31 December 2003 %	31 December 2002 %	31 December 2001 %
Rate of increase in employee earnings	**4.25**	4.3	4.5
Rate of increase in pensions in payment and deferred pensions	**2.75**	2.3	2.5
Discount rate	**5.50**	5.75	5.8
Inflation assumption	**2.75**	2.3	2.5

Notes to the financial statements continued

25 Pensions continued

The market value of the assets in the schemes, the present value of the liabilities in the schemes and the expected rate of return at the balance sheet date were:

31 December	Expected rate of return per annum 2003 %	Valuation 2003 £m	Expected rate of return per annum 2002 %	Valuation 2002 £m	Expected rate of return per annum 2001 %	Valuation 2001 £m
Equities	**8.4**	**1,859**	8.4	1,503	8.0	1,759
Bonds	**5.1**	**399**	4.8	267	5.2	274
Property	**7.1**	**68**	6.9	62	7.1	60
Cash and other assets	**3.8**	**33**	4.0	50	4.5	100
Total fair value of assets	**7.75**	**2,359**	7.7	1,882	7.5	2,193
Present value of schemes' liabilities		**(3,430)**		(2,713)		(2,526)
Deficit in the schemes		**(1,071)**		(831)		(333)
Related deferred tax asset		**321**		249		100
Net pension liability		**(750)**		(582)		(233)

Under SSAP 24 the balance sheet on page 39 includes a provision of £30 million at 31 December 2003 (2002: £75 million). Had FRS 17 been implemented in full at that date the net assets of the group would have been reduced by £720 million (2002: £507 million), and the net charge for pension costs in the profit and loss account would have increased by £71 million (2002: £47million) compared with that under SSAP 24, as set out below:

For the year ended 31 December	FRS 17 2003 £m	SSAP 24 2003 £m	Increase 2003 £m	FRS 17 2002 £m	SSAP 24 2002 £m	Increase/ (decrease) 2002 £m
Amount charged to operating profit	**138**	**79**	**59**	133	68	65
Amount charged/(credited) to interest	**12**	**–**	**12**	(18)	–	(18)
Net charge to profit and loss account	**150**	**79**	**71**	115	68	47

Analysis of the amount that would have been charged to operating profit under FRS 17	2003 £m	2002 £m
Current service cost	**135**	131
Past service cost	**3**	2

Analysis of the amount that would have been (charged)/credited to interest under FRS 17	2003 £m	2002 £m
Expected return on pension scheme assets	**149**	170
Interest on pension scheme liabilities	**(161)**	(152)

Analysis of the actuarial loss that would have been recognised in the statement of total recognised gains and losses	2003 £m	2002 £m
Actual return less expected return on pension scheme assets	**208**	(588)
Experience gains and losses arising on the scheme liabilities	**(3)**	(3)
Changes in assumptions underlying the present value of the scheme liabilities	**(419)**	99
Actuarial loss to be recognised in the statement of total recognised gains and losses before adjustment for tax	**(214)**	(492)

History of experience gains and losses	2003	2002
Difference between the expected and actual return on scheme assets:		
Amount (£m)	**208**	(588)
Percentage of scheme assets	**8.8%**	31.2%
Experience gains and losses on scheme liabilities:		
Amount (£m)	**(3)**	(3)
Percentage of the present value of scheme liabilities	**0.1%**	0.1%
Total actuarial loss recognised in the statement of total recognised gains and losses:		
Amount (£m)	**(214)**	(492)
Percentage of the present value of scheme liabilities	**6.2%**	18.1%

25 Pensions continued

The movement in deficit during the year under FRS 17 would have been:	2003 £m	2002 £m
Deficit in schemes at beginning of year	**(831)**	(333)
Movements in the year to 31 December:		
Current service cost	**(135)**	(131)
Past service cost	**(3)**	(2)
Employer contributions	**124**	107
Interest	**(12)**	18
Acquisition of surplus in year	**–**	2
Actuarial loss	**(214)**	(492)
Deficit in schemes at end of year	**(1,071)**	(831)

26 Commitments and contingencies

a) Acquisitions

On 10 December 2002 the group reached agreement to acquire the retail gas and electricity supply business of the ATCO Group in Alberta, Canada for consideration of approximately £52 million, payable over two years.

The transaction is subject to the satisfaction of certain conditions.

b) Capital expenditure

At 31 December 2003, the group had placed contracts for capital expenditure amounting to £74 million (2002: £106 million) of which £41 million relates to the investment in customer relationship management infrastructure (2002: £72 million).

c) Decommissioning costs

The company and its wholly owned subsidiary, Hydrocarbon Resources Limited, have agreed to provide security to BG International Limited, which, as original licence holder for the Morecambe gas fields, will have exposure to decommissioning costs relating to the Morecambe gas fields should liabilities not be fully discharged by the group. The security is to be provided when the estimated future net revenue stream from the Morecambe gas fields falls below 150% of the estimated cost of such decommissioning. The nature of the security may take a number of different forms and will remain in force unless and until the costs of such decommissioning have been irrevocably discharged and the relevant Department of Trade and Industry decommissioning notice in respect of the Morecambe gas fields has been revoked.

d) Lease commitments

At 31 December non-cancellable operating lease commitments of the group for the following year were:	Land and buildings 2003 £m	Land and buildings 2002 £m	Other 2003 £m	Other 2002 £m
Expiring:				
Within one year	**7**	4	**9**	1
Between one and five years	**13**	7	**36**	24
After five years	**48**	38	**3**	3
	68	49	**48**	28

At 31 December 2003 there were £1 million of finance lease commitments for which inception occurs after 31 December 2003 (2002: £nil).

e) Litigation

The group has a number of outstanding disputes arising out of its normal activities, for which provisions have been made, where appropriate, in accordance with FRS12.

f) Guarantees and indemnities

The company has £915 million of bilateral credit facilities (2002: £1 billion). Hydrocarbon Resources Limited and British Gas Trading Limited have guaranteed, jointly and severally, to pay on demand any sum which the company does not pay in accordance with the facility agreements.

The group and BG Group plc have agreed, subject to certain limitations, to indemnify each other against certain actual and contingent liabilities associated with their respective businesses.

In relation to the sale and leaseback of the Morecambe gas field tangible fixed assets recorded in these financial statements, the group has given guarantees amounting to £60 million (2002: £92 million).

The group has given guarantees in connection with the finance lease obligations relating to Humber Power Limited referred to in note 12. A fixed collateral payment amounting to £225 million (2002: £225 million) is required in the event of Centrica plc failing to retain at least one credit rating which is not on credit watch above the BBB+/Baa1 level, and further collateral of £75 million (2002: £75 million) is required if the credit rating falls further.

26 Commitments and contingencies continued

Group companies have given guarantees and indemnities, subject to certain limitations, to various counterparties in relation to wholesale energy trading and procurement activities, and to third parties in respect of gas production and energy transportation liabilities.

In connection with their energy trading, transportation and upstream activities, certain group companies have entered into contracts under which they may be required to prepay or provide credit support or other collateral in the event of a significant deterioration in credit worthiness. The extent of credit support is contingent upon the balance owing to the third party at the point of deterioration.

Following the closure of the British Gas Energy Centres Limited (Energy Centres) operations in July 1999, guarantees have been signed on certain former Energy Centres' properties as a result of reassignment of leases.

g) Gas purchase contracts

The group is contracted to purchase 76 billion therms of gas (2002: 65 billion therms) in Britain under long term contracts. The significant increase on last year is largely due to the addition of a contract agreed in 2002 with Statoil to procure 17 billion therms over 10 years from 1 July 2005. Last year this contract was not included in the numbers below as it was conditional, however during 2003 it became unconditional. The gas contract commitments include several contracts with prices linked to the market price for gas and legacy contracts at prices, mainly determined by various baskets of indices including oil prices and general inflation, which may exceed market gas prices from time to time.

The total volume of gas to be taken under these long term contracts depends upon a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis. Based upon the minimum volume of gas that the group is contracted to pay for in any year, the profile of the contract commitments is estimated as follows:

	2003 million therms	2002 million therms
Within five years	**43,500**	45,900
After five years	**32,400**	19,200
	75,900	65,100

The directors do not consider it feasible to estimate reliably the actual future cost of committed gas purchase as the group's weighted average cost of gas from these contracts is subject to a variety of indexation bases. The group's average cost of gas from its contracts with third parties for the year ended 31 December 2003 was 20.8 pence per therm (for the year ended 31 December 2002: 19.6 pence per therm).

The commitment profile on this same basis is set out below:	2003 £m	2002 £m
Within one year	**2,200**	1,900
Between one and five years	**6,800**	7,000
After five years	**6,700**	3,800
	15,700	12,700

As reported in 2002, the group entered into a contract with Gasunie to purchase an additional 27 billion therms over 10 years from 1 April 2005. This contract remains conditional and is therefore not included in the numbers above.

h) Other

The group's use of financial instruments is explained in the group financial review on pages 15 to 17 and in note 28.

27 Related party transactions

a) Joint ventures and associates	2003 £m	2002 £m
Sales for the year ended 31 December:		
Humber Power Limited(i)	**4**	–
Motorfile Limited	**2**	–
Centrica Personal Finance Limited	**1**	–
Purchases for the year ended 31 December:		
Accuread Limited	**34**	17
Humber Power Limited(i)	**75**	74
ACTA SA (an associate)	**2**	–
Loans receivable outstanding as at 31 December:		
Centrica Personal Finance Limited	**–**	2

27 Related party transactions continued

All other transactions with joint ventures and associates were not material to the group.

(i) The group had a creditor balance at 31 December 2003 with Humber Power Limited of £8 million (2002: £6 million).

b) Pension schemes

In 2003 the group incurred £2 million (2002: £2 million) of administrative costs relating to group pension schemes.

c) Transactions with directors

At 31 December 2003 the amount outstanding in respect of credit cards made available by the company to directors was £479.

d) Other

On 30 September 2003 the Goldfish credit card and loan business was sold to Lloyds TSB Bank plc. Details of the assets and liabilities disposed of are included in Note 23. Lloyds TSB Bank plc who have a 30% economic interest in Goldfish Bank made available a working capital facility of £850 million to Goldfish Bank. The facility was repaid and cancelled on 30 September 2003.

The group entered into several derivative transactions with Lloyds TSB Bank plc during the year to hedge against interest rate fluctuations on Goldfish Bank's activities. Other activity with Lloyds TSB Bank plc included interest receivable of £nil, interest payable of £9 million and charges of £6 million, of which £nil has been capitalised (2002: £27 million, £17 million and £6 million respectively). Balances with Lloyds TSB Bank plc at 31 December 2003 included £40 million in short term investments (2002: £nil).

28 Financial instruments

The group's use of financial instruments is explained under the heading financial risk management in the group financial review on pages 15 to 17. The related accounting policies are explained in note 1. As permitted within FRS 13, the disclosures set out below in 28a and 28c through 28g exclude short term debtors and creditors. Additional information on Goldfish Bank interest rate sensitivities is provided in note 28h below.

a) Interest rate risk profile of financial instruments

Financial assets

The interest rate risk profile of the group's financial assets at 31 December was as follows:

2003	US dollar	Canadian dollar	Sterling	Total
Floating interest rate (£m)	**15**	**12**	**982**	**1,009**
Fixed interest rate (£m)	**–**	**53**	**5**	**58**
No interest receivable (£m)[i]	**–**	**1**	**12**	**13**
Total financial assets (£m)	**15**	**66**	**999**	**1,080**
Weighted average fixed interest rate (%)	**–**	**15**	**4**	**14**
Weighted average period for which rate is fixed (months)	**–**	**43**	**62**	**44**
Weighted average period for which no interest is receivable (months)	**–**	**48**	**–**	**48**

2002	US dollar	Canadian dollar	Sterling	Total
Floating interest rate (£m)	10	9	331	350
Fixed interest rate (£m)	–	44	5	49
No interest receivable (£m)[i]	–	–	5	5
Total financial assets (£m)	10	53	341	404
Weighted average fixed interest rate (%)	–	15	6.5	14.1
Weighted average period for which rate is fixed (months)	–	38	58	40
Weighted average period for which no interest is receivable (months)	–	–	–	–

With the exception of uncleared items, floating rate financial assets attract interest rates mainly based upon LIBOR for periods of one year or less.

(i) Financial assets on which no interest is paid relate to unit trust investments, for which no maturity date is specified.

28 Financial instruments continued

Financial liabilities

After taking into account forward foreign currency swaps, the interest rate profile of the group's financial liabilities at 31 December was as follows:

	US dollar	Canadian dollar	Sterling	Total
				2003
Floating interest rate (£m)	**(274)**	**(3)**	**(433)**	**(710)**
Fixed interest rate (£m)	**–**	**(217)**	**(271)**	**(488)**
No interest payable (£m)[i]	**–**	**(164)**	**(32)**	**(196)**
Total financial liabilities (£m)	**(274)**	**(384)**	**(736)**	**(1,394)**
Weighted average fixed interest rate (%)	**–**	**5.0**	**5.8**	**5.4**
Weighted average period for which rate is fixed (months)	**–**	**131**	**85**	**106**
Weighted average period for which no interest is payable (months)	**–**	**–**	**58**	**58**

	US dollar	Canadian dollar	Sterling	Total
				2002
Floating interest rate (£m)	(80)	(196)	(973)	(1,249)
Fixed interest rate (£m)	–	(2)	(288)	(290)
No interest payable (£m)[i]	–	(108)	(33)	(141)
Total financial liabilities (£m)	(80)	(306)	(1,294)	(1,680)
Weighted average fixed interest rate (%)	–	6.5	6.0	6.0
Weighted average period for which rate is fixed (months)	–	28	101	100
Weighted average period for which no interest is payable (months)	–	–	62	62

Floating rate financial liabilities bear interest at rates based upon LIBOR for periods of one day to six months.

(i) Financial liabilities on which no interest is paid include £164 million (2002: £108 million) relating to non-equity minority interests. Non-equity minority interests relate to the 80.1% (2002: 58.1%) economic interest in the Consumers' Waterheater Income Fund, represented by units listed on the Toronto Stock Exchange, for which no maturity date is specified.

b) Currency risk

Sterling, Canadian and US dollars were the functional currencies for all material operations in 2003 and 2002. There were no material monetary assets and liabilities in currencies other than these functional currencies, except for £19 million of monetary assets denominated in euros (2002: £9 million). The euro assets represent short term cash flow timing differences and margin requirements on European gas trading activities.

c) Maturity of financial liabilities

The maturity profile of the group's financial liabilities at 31 December was as follows:

	Borrowings £m	Other financial liabilities £m	Total financial liabilities £m	Borrowings £m	Other financial liabilities £m	Total financial liabilities £m
			2003			2002
In one year or less, or on demand	**298**	**65**	**363**	721	13	734
In more than one year but not more than two years	**155**	**24**	**179**	39	1	40
In more than two years but not more than five years	**–**	**43**	**43**	349	36	385
In more than five years	**632**	**19**	**651**	401	19	420
Non-equity minority interests[i]	**–**	**164**	**164**	–	108	108
	1,085	**315**	**1,400**	1,510	177	1,687

The maturity profile of borrowings includes £541 million (2002: £525 million) of sterling bonds stated at face value. As disclosed in note 16, these bonds are stated in the group balance sheet net of £6 million (2002: £7 million) of issuance discount.

(i) As noted above, no maturity date is specified for non-equity minority interests.

28 Financial instruments continued

d) Borrowing facilities

At 31 December 2003, the group had undrawn committed bank borrowing facilities of £915 million (2002: £1 billion). Of these facilities, 50% mature during 2004, and the remainder in 2006.

In addition the group has access to a number of uncommitted facilities.

The principal debt facilities in use by the group at 31 December 2003 were uncommitted and consisted of a US commercial paper programme of US$2 billion (2002: US$2 billion) and a euro medium term note (EMTN) programme of US$2 billion (2002: US$2 billion). At 31 December 2003, US$369 million (£205 million) had been issued under the commercial paper programme (2002: US$374 million (£237 million)) and bonds totalling £541 million (2002: £525 million) had been issued under the EMTN programme. All the commercial paper issued was held in US dollars to hedge the group's net investments in North America. In relation to the bonds, 23% mature between one and two years and 77% mature after five years.

Prior to the disposal of its credit card and loan business, Goldfish Bank had an £850 million (2002: £850 million) borrowing facility from Lloyds TSB Bank plc. The amount outstanding on the facility at 30 September 2003 of £701 million was repaid on that date.

e) Fair values of financial assets and liabilities

The following table shows the book and fair values of the group's financial instruments at 31 December:

	2003		2002	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the group's operations:				
Cash at bank and in hand and current asset investments(i)	**1,026**	**1,026**	348	348
Loan to Centrica Personal Finance Limited	**–**	**–**	2	2
Long term trade debtors(i)	**53**	**53**	44	44
Other financial assets	**1**	**1**	10	10
	1,080	**1,080**	404	404
Bank loans and overdrafts(i)	**(52)**	**(52)**	(13)	(13)
Commercial paper(ii)	**(205)**	**(205)**	(237)	(237)
Goldfish Bank working capital facility	**–**	**–**	(430)	(430)
Bonds(iii) (vi)	**(751)**	**(778)**	(714)	(744)
Finance lease borrowings(v)	**(69)**	**(72)**	(106)	(111)
Loan notes(i)	**(2)**	**(2)**	(3)	(3)
Other financial liabilities(i)	**(151)**	**(151)**	(69)	(69)
	(1,230)	**(1,260)**	(1,572)	(1,607)
Non-equity minority interests(vi)	**(164)**	**(230)**	(108)	(119)
	(1,394)	**(1,490)**	(1,680)	(1,726)
Derivative financial instruments held to manage the group's currency, interest rate profile and energy price exposures:				
Forward foreign currency contracts(ii), interest rate swaps and forward rate agreements(vi)	**9**	**(10)**	45	30
Energy derivatives(iv)	**12**	**90**	11	93
Derivative financial instruments held for trading:				
Energy derivatives(iv)	**10**	**10**	(17)	(17)

(i) Due to the nature and/or short maturity of these financial instruments, book values approximated fair values.

(ii) Fair values have been determined by reference to closing exchange rates at 31 December.

(iii) Prior year amounts include C$500 million (£196 million) Canadian dollar bonds previously classified as loan notes.

(iv) The fair values of energy derivatives are calculated as the product of the volume and the difference between their strike or traded price and the corresponding market prices. The market price is based upon the corresponding closing price of that market. Where there is no organised market and/or the market is illiquid, the market price is based upon management estimates, taking into consideration all relevant current market and economic factors. Energy derivatives held for trading includes both physical and financial energy contracts entered into for trading purposes. Prior year amounts have been restated to include the fair value of physical energy trading contracts as explained in note 28f.

(v) The fair values of these financial instruments are based upon discounted cash flows, using discount rates based upon the group's cost of borrowing.

(vi) Fair values have been determined by reference to closing prices at 31 December.

28 Financial instruments continued

f) Gains and losses on financial instruments held for trading

The group engages in swaps, futures, forwards and options in gas, electricity and weather, for trading purposes. Financial and physical trading positions are marked to market using externally derived market prices and any gain or loss arising is recognised in the profit and loss account. This is not in accordance with the general provisions of Schedule 4 of the Companies Act 1985, which requires that these contracts be stated at the lower of cost and net realisable value or that, if revalued, any revaluation difference be taken to a revaluation reserve. However, the directors consider these requirements would fail to provide a true and fair view since the marketability of energy trading contracts enables decisions to be taken continually whether to hold or sell them. Accordingly the measure of profit in any period is properly made by reference to market values. The effect of this departure from the historical cost convention on the financial statements for the year is an increase in profit for the year amounting to £5 million (2002: £7 million) and an increase in net assets at 31 December 2003 of £14 million (2002: £9 million).

Energy derivatives held for trading include both physical and financial energy contracts entered into for trading purposes. Prior year amounts in note 28e have been restated to include the fair value of physical energy trading contracts amounting to a net liability of £22 million. The net gain from trading in energy derivatives included in the profit and loss account for the year ended 31 December 2003 is £17 million (2002: £nil). The fair value of financial assets and financial liabilities held for trading purposes at 31 December 2003 amounted to £125 million and £115 million respectively (2002: £94 million financial assets and £111 million financial liabilities). The average fair value of instruments held during the year ended 31 December 2003 did not materially differ from the year end position.

g) Gains and losses on hedges

The group uses financial instruments to hedge its currency, interest, energy price and weather exposures. Changes in the fair value of these derivatives used are not recognised in the financial statements until the hedged position itself is recorded therein. Unrecognised and deferred gains and losses on hedges arose as analysed below:

	Unrecognised			Deferred		
	Gains £m	Losses £m	Total net gains/(losses) £m	Gains £m	Losses £m	Total net gains/(losses) £m
At 1 January 2003	116	(49)	67	62	(6)	56
Arising in previous years that were recognised in 2003	(90)	24	(66)	(44)	6	(38)
Arising in previous years that were not recognised in 2003	26	(25)	1	18	–	18
Arising in 2003	118	(60)	58	6	(3)	3
At 31 December 2003	**144**	**(85)**	**59**	**24**	**(3)**	**21**
Of which:						
Expected to be recognised in 2004	87	(32)	55	22	(3)	19
Expected to be recognised in 2005 or later	57	(53)	4	2	–	2

h) Additional disclosures for Goldfish Bank

Prior to 30 September 2003, the three core products of Goldfish Bank were the Goldfish credit card, loans and savings accounts. On 30 September 2003 Goldfish Bank sold its credit card and loan business to Lloyds TSB Bank plc and on the same day repaid the balance on the working capital facility, with the surplus cash invested in short term deposits. Since that date, the company has wound down its savings product balances, and at 31 December 2003 transferred the small residual balances on these accounts to a trust managed by Barclays Bank plc. Goldfish Bank ceased trading on 31 December 2003 and ended all regulated business at that point.

Goldfish Bank did not hold any derivatives at 31 December 2003. All derivatives previously held were used to hedge interest rate risk. Goldfish Bank did not hold any derivatives for trading. At 31 December 2003 Goldfish Bank held short term deposits amounting to £143 million, with a maturity date of no more than three months, and other non-interest bearing assets of £15 million.

For the comparative period, an analysis of derivatives, interest rate sensitivity gap analysis and fair value of non-trading financial instruments held is provided opposite:

28 Financial instruments continued

Derivatives

The maturity of the notional amounts and replacement cost of non-trading financial instruments, all entered into with Lloyds TSB Bank plc at 31 December 2002 were as follows:

Interest rate related contracts	One year or less Notional principal £m	One year or less Replacement cost £m	Between one and five years Notional principal £m	Between one and five years Replacement cost £m	Over five years Notional principal £m	Over five years Replacement cost £m	Total Notional principal £m	Total Replacement cost £m
31 December 2002	52	–	236	–	–	–	288	–

Interest rate sensitivity gap analysis

The tables below summarise the repricing mismatches of Goldfish Bank's non-trading assets and liabilities. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

31 December 2002	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Non-interest bearing £m	Total £m
Loans and advances to customers	759	1	1	10	–	–	771
Other assets	–	–	–	–	–	271	271
Customer deposits[i]	(286)	–	–	–	–	–	(286)
Goldfish Bank working capital facility	(344)	(86)	–	–	–	–	(430)
Other liabilities and shareholders' funds	–	–	–	–	–	(326)	(326)
Interest rate swaps (off balance sheet)	288	–	(52)	(236)	–	–	–
Interest rate sensitivity gap	417	(85)	(51)	(226)	–	(55)	–
Cumulative gap	417	332	281	55	55	–	–

(i) Repayable on demand.

Fair value of non-trading instruments

At 31 December 2002 the notional principal amounts, fair values and book values of non-trading instruments entered into with third parties were as follows:

Interest rate swaps	Notional principal amount £m	Year end positive fair value £m	Year end positive book value £m	Year end negative fair value £m	Year end negative book value £m
31 December 2002	288	–	–	4	–

29 Post balance sheet events

On 19 January 2004 the group announced it had reached agreements with Chevron Texaco to acquire a 33.33% interest in the UK side of the Statfjord oil and gas field (the Statfjord field is located in both UK and Norwegian waters) and a 50% interest in the Orwell gas field (located in the Southern North Sea) for total consideration, including the value of associated tax allowances, of £60.7 million. The acquisitions will add approximately 280 million therms of gas and nine million barrels of oil to the group's portfolio, with a further development option.

30 Principal undertakings

31 December 2003(i)	Country of incorporation	% group holding in ordinary shares and net assets	Principal activity
Subsidiary undertakings			
AA Corporation Limited	England	100	Holding company and roadside services in Eire
AA Reinsurance Company (Guernsey) Limited	Guernsey	100	Insurance services
Accord Energy Limited	England	100	Wholesale energy trading
Automobile Association Developments Limited	England	100	Roadside and financial services
Automobile Association Insurance Services Limited	England	100	Financial services
Automobile Association Underwriting Services Limited	England	100	Roadside and financial services
British Gas Services Limited	England	100	Servicing and installation of gas heating systems
British Gas Trading Limited	England	100	Energy supply
Centrica America Limited	England	100	Holding company
Centrica Barry Limited	England	100	Power generation
Centrica Canada Limited	Canada	100	Holding company and gas production
Centrica Energia SL	Spain	100	Energy supply
Centrica Insurance Company Limited	Isle of Man	100	Insurance services
Centrica KL Limited	England	100	Power generation
Centrica Overseas Holdings Limited	England	100	Holding company
Centrica PB Limited	England	100	Power generation
Centrica Resources Limited	England	100	Gas and oil production
Centrica Risk Limited	Eire	100	Non-life insurance
Centrica RPS Limited	England	100	Power generation
Centrica Storage Holdings Limited	England	100	Gas storage
Centrica Telecommunications Limited	England	100	Telecommunications
CPL Retail Energy LP	USA	100	Energy supply
DER Development Nos. 1-10 Limited (Alberta)	Canada	100	Gas production
Direct Energy LP	USA	100	Energy supply
Direct Energy Marketing Limited	Canada	100	Energy supply
Direct Energy Services Inc.	Canada	100	Home services
Energy America LLC	USA	100	Energy supply
Electricity Direct (UK) Limited	England	100	Energy supply
GB Gas Holdings Limited	England	100	Holding company
Hydrocarbon Resources Limited	England	100	Gas production
Regional Power Generators Limited	England	100	Power generation
The Automobile Association Limited	Jersey	100	Roadside services
Volkswagen Assistance Limited	England	100	Roadside assistance
WTU Retail Energy LP	USA	100	Energy supply
Joint ventures			
AccuRead Limited	England	49	Meter reading
Automobile Association Financial Services(ii)	England	50	Financial services
Barrow Offshore Wind Limited(iii)	England	25	Wind farm construction
Centrica Personal Finance Limited	England	50	Financial services
Humber Power Limited	England	60	Power generation
Luminus NV	Belgium	50	Energy supply
Motorfile Limited(iv)	England	50	Used car data checking

(i) All principal undertakings are indirectly held by the company, except for GB Gas Holdings Limited, which is a direct subsidiary undertaking.
(ii) Automobile Association Financial Services is unincorporated and its principal place of business is Capital House, Queen's Park Road, Handbridge, Chester CH88 3AN.
(iii) Barrow Offshore Wind Limited is a joint venture with DONG AS (37.5%) and Statkraft Energy Europe (37.5%).
(iv) Motorfile Limited is a joint venture with Experian Limited and has a 31 March year end.

31 Summary financial information for the Consumers' Waterheater Income Fund (the Fund)

The Consumers' Waterheater Income Fund is consolidated as a quasi-subsidiary in accordance with FRS 5 Reporting the Substance of Transactions. Summary financial information is provided below, showing each main heading in the primary statements for which there is a material item included within the group's accounts, as prepared under UK generally accepted accounting practices.

a) Profit and loss account

Period ending 31 December	**2003 £m**	2002 £m
Turnover	**60**	3
Profit before tax	**17**	2
Distribution to unit holders	**(23)**	(2)

There are no other recognised gains and losses occurring in either the current or prior period.

b) Balance sheet

31 December	**2003 £m**	2002 £m
Tangible fixed assets	**190**	182
Net current assets	**9**	4
Creditors (amounts falling due after more than one year)(i)	**(216)**	(196)
Provisions for liabilities and charges	**(46)**	(42)
Net liabilities	**(63)**	(52)

c) Cash flow statement

Period ending 31 December	**2003 £m**	2002 £m
Cash inflow from operating activities	**45**	3
Returns on investments and servicing of finance	**(6)**	–
Capital expenditure and financial investment	**(21)**	–
Acquisitions	**–**	(294)
Financing	**–**	303
Distributions to unit holders	**(23)**	(1)
(Decrease)/increase in net cash	**(5)**	11

The Fund commenced operating on 17 December 2002. At 31 December 2003 Centrica held a 19.9% interest in the Fund (2002: 41.9%), through its wholly owned subsidiary, Enbridge Services Inc, which holds 100% of the Class B exchangeable units in Waterheater Holding Limited Partnership, a subsidiary of the Fund. Class B Exchangeable Units attract comparable voting rights to Units of the Fund and are exchangeable into Class A Units of the Fund.

Class A units of the Fund are traded on the Toronto Stock Exchange and represent the minority interest included in the group financial statements. The Fund's full financial statements are prepared in accordance with generally accepted accounting practices in Canada, and accordingly there are differences between the Fund's financial statements and the amounts included within the financial statements of the Centrica group.

(i) Creditors (amounts falling due after more than one year) comprise C$500 million of bonds issued by the Consumers' Waterheater Income Trust, a wholly owned subsidiary of the Fund. These bonds carry interest at a fixed rate and an expected final repayment date of between 11 and 13 years. The issuer, guarantor and holders of this debt have acknowledged in writing that the notes do not represent obligations (as to principal or interest) of any person other than the issuer and each of the guarantors. Accordingly there is no recourse to the group.

Company balance sheet

Company balance sheet

31 December	Notes	2003 £m	2002 £m
Fixed assets			
Tangible assets	32	77	61
Investments:			
Subsidiary undertakings		222	1,023
Other investments		17	22
	33	239	1,045
		316	1,106
Current assets			
Debtors (amounts falling due within one year)	34	5,116	3,431
Debtors (amounts falling due after more than one year)	34	6	309
		5,122	3,740
Current asset investments	35	655	147
Cash at bank and in hand		24	316
		5,801	4,203
Creditors (amounts falling due within one year)			
Borrowings	36	(205)	(237)
Creditors	37	(3,663)	(2,484)
		(3,868)	(2,721)
Net current assets		1,933	1,482
Total assets less current liabilities		2,249	2,588
Creditors (amounts falling due after more than one year)			
Borrowings	36	(535)	(518)
Creditors	37	(73)	(205)
		(608)	(723)
Provisions for liabilities and charges	38	(31)	(33)
Net assets		1,610	1,832
Capital and reserves – equity interests			
Called up share capital	19	237	236
Share premium account	39	549	537
Profit and loss account	39	824	1,059
Shareholders' funds	40	1,610	1,832

The financial statements were approved by the board of directors on 12 February 2004 and were signed on its behalf by:

Sir Michael Perry GBE
Chairman

Phil Bentley
Group finance director

The notes on pages 75 to 77 form part of these financial statements, along with the accounting policies (note 1) and note 19.

Notes to the company balance sheet

32 Tangible fixed assets	Plant, equipment and vehicles £m
Cost	
1 January 2003	102
Additions	29
Disposals	(27)
31 December 2003	**104**
Depreciation and amortisation	
1 January 2003	41
Charge for the year	13
Disposals	(27)
31 December 2003	**27**
Net book value	
31 December 2003	**77**
31 December 2002	61

No assets were held under finance leases (2002: £nil).
Amounts capitalised in respect of customer relationship management infrastructure included within tangible fixed assets at 31 December 2003 were £29 million (2002: £26 million).

33 Fixed asset investments	Investments in subsidiaries(i) Shares £m	Investments in subsidiaries(i) Loans £m	Own shares(ii)(iii) £m	Total £m
Cost				
1 January 2003	222	801	51	1,074
Additions	548	232	–	780
Disposals	(548)	(862)	(6)	(1,416)
Transfers	–	(224)	–	(224)
Exchange adjustments	–	53	–	53
31 December 2003	**222**	**–**	**45**	**267**
Amounts written off				
1 January 2003	–	–	(29)	(29)
Amortisation under long term incentive schemes	–	–	(5)	(5)
Disposals	–	–	6	6
31 December 2003	**–**	**–**	**(28)**	**(28)**
Net book value				
31 December 2003	**222**	**–**	**17**	**239**
31 December 2002	222	801	22	1,045

(i) Investments comprise £222 million (2002: £1,023 million) of investments in subsidiary undertakings, being shares in subsidiaries of £222 million (2002: £222 million) and loans of £nil (2002: £801 million), and own shares at cost of £45 million (2002: £51million) to the Centrica employees share trust. During the year the group restructured several of its holding companies. As a result a number of outstanding loans were repaid, share capital was issued by certain subsidiaries and the company's investment in these subsidiaries was subsequently transferred to other group companies at nil loss or gain.

(ii) The Centrica employees share trust held 21 million (2002: 27 million) ordinary shares in the company. This represented 0.50% of the called up ordinary share capital (2002: 0.64%), which had a market value at 31 December 2003 of £45 million and a nominal value of £1 million (2002: £47 million and £2 million respectively). During the year 6 million shares (2002: 12 million) were transferred from the trust with respect to awards held by employees of the company and its subsidiaries.

(iii) £17 million of the amortisation carried forward for the Centrica employees share trust has not been charged through the profit and loss account, but is included in amounts owed by group undertakings in note 34, as it reflects amounts recoverable from subsidiaries for awards due to their employees. At 31 December 2002, the amount owed by group undertakings relating to amortisation was £18 million, of which £3 million was due after more than one year. The operation of the long term incentive scheme is described more fully in the remuneration report on pages 30 and 31.

Notes to the company balance sheet continued

34 Debtors	2003 Within one year £m	2003 After one year £m	2002 Within one year £m	2002 After one year £m
Amounts owed by group undertakings(i)	**5,088**	**6**	3,360	309
Other debtors	**17**	**–**	55	–
Prepayments and other accrued income	**9**	**–**	16	–
Corporation tax	**2**	**–**	–	–
	5,116	**6**	3,431	309

(i) A total of £17 million (2002: £18 million) was included, relating to the accumulated cost of shares expected to be released to employees of subsidiaries under the long term incentive scheme.

35 Current asset investments	2003 £m	2002 £m
Money market investments	**655**	147

£17 million (2002: £10 million) of money market investments were held by the Law Debenture Trust, on behalf of the company, as security in respect of the Centrica unapproved pension scheme, as described in note 25.

36 Borrowings **Amounts falling due**	2003 Within one year £m	2003 After one year £m	2002 Within one year £m	2002 After one year £m
Sterling bonds(i)	**–**	**535**	–	518
Commercial paper	**205**	**–**	237	–
	205	**535**	237	518

(i) Sterling bonds are repayable as follows: between one and two years £125 million (2002: £nil); between two and five years £nil (2002: £125 million); and after five years £416 million (2002: £400 million). The bonds bear interest at fixed rates between 5.375% and 5.875% (2002: 5.375% and 5.875%). The bonds have a face value of £541 million (2002: £525 million) and are stated net of £6 million (2002: £7 million) of issuance discount.

37 Other creditors **Amounts falling due**	2003 Within one year £m	2003 After one year £m	2002 Within one year £m	2002 After one year £m
Trade creditors	**12**	**–**	28	–
Amounts owed to group undertakings	**3,403**	**73**	2,239	205
Taxation and social security	**3**	**–**	16	–
Accruals and deferred income	**88**	**–**	91	–
Dividend payable	**157**	**–**	110	–
	3,663	**73**	2,484	205

38 Provisions for liabilities and charges	1 January 2003 £m	Profit and loss charge £m	Utilised in the year £m	**31 December 2003 £m**
Pension costs(i)	9	6	(10)	**5**
Other(ii)	24	14	(12)	**26**
	33	20	(22)	**31**

Potential unrecognised deferred corporation tax assets amounted to £19 million (2002: £29 million).

(i) The pension cost provision includes the difference between charges to the profit and loss account and the contributions paid to the pension schemes in respect of retirement pensions and other related benefits.

(ii) Other provisions principally represents estimated liabilities for restructuring, outstanding litigation and National Insurance in respect of long term incentive scheme liabilities. The National Insurance provision was based on a share price of 211 pence at 31 December 2003 (2002: 171 pence).

39 Reserves

	Share premium account £m	Profit and loss account[i] £m	Total £m
1 January 2003	537	1,059	1,596
Retained loss for the year[i]	–	(238)	(238)
Shares to be issued under long term incentive scheme[ii]	–	3	3
Issue of ordinary share capital (note 19)	12	–	12
31 December 2003	**549**	**824**	**1,373**

(i) As permitted by section 230(3) of the Companies Act 1985, no profit and loss account is presented. The company's loss for the financial year was £9 million (2002: £28 million).

(ii) The company intends to fund certain of its long term incentive schemes through the issue of new shares when these schemes vest. The amount shown represents the expected value of the shares to be issued using the market price at the date allocations were granted.

(iii) Exchange losses of £53 million (2002: £84 million gain) on foreign currency borrowings have been offset in reserves against exchange gains of £53 million (2002: £90 million loss), on the cost of investments in overseas undertakings.

40 Movements in shareholders' funds

	2003 £m	2002 £m
1 January	**1,832**	1,548
Loss attributable to the company	**(9)**	(28)
Dividends	**(229)**	(172)
Exchange translation differences	**–**	(6)
Issue of shares net of issue costs	**13**	488
Shares to be issued under long term incentive scheme	**3**	2
Net movement in shareholders' funds for the financial year	**(222)**	284
31 December	**1,610**	1,832

41 Commitments and contingencies

a) Capital expenditure

At 31 December 2003, the company had placed contracts for capital expenditure amounting to £10 million (2002: £5 million).

b) Lease commitments

At 31 December 2003, there were £1 million of land and building and £6 million of computer lease commitments in relation to non-cancellable operating leases for the company (2002: £1 million and £7 million respectively). The company has guaranteed operating commitments of a subsidiary undertaking at 31 December 2003 of £10 million (2002: £8 million) in respect of land and buildings.

c) Guarantees and indemnities

Refer to note 26(f).

Gas and liquids reserves (unaudited)

The group has estimated proven and probable gas and liquid reserves in the UK and North America. Estimates are made by management.

The principal fields in the UK are South Morecambe, North Morecambe, Galleon and the Rough field associated with Centrica Storage. The principal fields in North America are Medicine Hat and Entice.

Estimated net proven and probable reserves of gas (billion cubic feet)	UK	North America	Total
1 January 2003	2,442	404	2,846
Revisions of previous estimates[(i)]	193	(17)	176
Purchases of reserves in place	12	–	12
Production	(382)	(36)	(418)
Sales of reserves in place	(5)	–	(5)
31 December 2003	**2,260**	**351**	**2,611**

(i) Includes 188 billion cubic feet in relation to the Rough field associated with Centrica Storage.

Estimated net proven and probable reserves of liquids (million barrels)	UK	North America	Total
1 January 2003	3	4	7
Revisions of previous estimates	3	(1)	2
Purchases of reserves in place	3	–	3
Production	(1)	–	(1)
31 December 2003	**8**	**3**	**11**

Liquid reserves includes condensate, propane, butane and oil.

Five year summary

Results

Year ended 31 December	1999 £m	2000 £m	2001 £m	2002 £m	**2003 £m**
Turnover	7,217	9,933	12,611	14,345	**17,931**
Operating profit before goodwill amortisation and exceptional charges, including share of joint ventures and associates:					
British Gas residential		164	(46)	244	**206**
Centrica Business Services		36	44	65	**51**
Centrica Energy Management Group		308	573	519	**561**
Centrica Storage				1	**40**
	476	508	571	829	**858**
The AA	3	19	72	73	**93**
Goldfish Bank(i)	(14)	(15)	(32)	(40)	**(27)**
One.Tel			4	2	**4**
Centrica North America		8	68	63	**130**
Other operations	(41)	6	(4)	5	**–**
	424	526	679	932	**1,058**
Exceptional items	(136)	(14)	(80)	(35)	**(53)**
Goodwill amortisation	(13)	(60)	(88)	(123)	**(161)**
Profit attributable to the group	182	335	323	478	**500**

	Pence	Pence	Pence	Pence	**Pence**
Earnings per ordinary share	4.3	8.4	8.1	11.4	**11.8**
Adjusted earnings per ordinary share(ii)	7.9	10.2	12.1	15.2	**16.8**

Cash flows

Year ended 31 December	1999 £m	2000 £m	2001 £m	2002 £m	**2003 £m**
Cash inflow from operating activities before exceptional payments	1,453	1,139	869	733	**992**
Exceptional payments	(135)	(76)	(44)	(16)	**–**
Disposals and acquisitions	(1,162)	(590)	(607)	(935)	**292**
Cash (outflow)/inflow before use of liquid resources and financing	(690)	55	(342)	(918)	**652**

Assets and liabilities

as at 31 December	1999 £m	2000 £m	2001 £m	2002 £m	**2003 £m**
Intangible fixed assets	992	1,309	1,524	1,813	**1,614**
Tangible fixed assets and fixed asset investments	1,913	1,993	2,225	2,865	**2,844**
Net current (liabilities)/assets	(346)	(469)	(397)	(108)	**241**
Long term creditors and provisions	(1,592)	(1,535)	(1,816)	(2,168)	**(1,945)**
Net assets	967	1,298	1,536	2,402	**2,754**
Debt, net of cash and money market investments:					
Net (debt)/cash (excluding Goldfish Bank and non-recourse debt)	(127)	(117)	(433)	(529)	**163**
Goldfish Bank working capital facility			(610)	(430)	**–**
Consumers' Waterheater Income Fund (non-recourse) debt				(196)	**(216)**
	(127)	(117)	(1,043)	(1,155)	**(53)**

The analysis between British Gas residential, Centrica Business Services and Centrica Energy Management Group is not available for 1999.

Prior years have been restated for changes in accounting policies. 1999 was restated on implementation of FRS 12 Provisions, contingent liabilities and contingent assets in 1999. On implementation in 2001 of FRS 19 Deferred Tax and mark to market accounting for energy trading derivative financial instruments, values for 2000 were restated but not those for 1999.

(i) Discontinued in 2003.
(ii) Adjusted earnings per share exclude goodwill amortisation and exceptional charges.

Information for shareholders

Financial calendar

Ex-dividend date for 2003 final dividend	28 April 2004
Record date for 2003 final dividend	30 April 2004
Annual general meeting, Queen Elizabeth II Conference Centre London SW1	10 May 2004
Final dividend payment date	16 June 2004
2004 interim results announced	29 July 2004
Interim dividend payment date	10 November 2004

Centrica shareholder helpline

Centrica's shareholder register is maintained by Lloyds TSB Registrars who are responsible for making dividend payments and updating the register, including details of changes to shareholders' addresses and purchases or sales of Centrica shares. If you have a question about your shareholding in Centrica, you should contact:

Centrica shareholder helpline: 0870 600 3985
Text phone: 0870 600 3950
Write to: Lloyds TSB Registrars
The Causeway, Worthing,
West Sussex BN99 6DA

Frequent shareholder enquiries

If you change your address
Please notify Lloyds TSB Registrars in writing. If shares are held in joint names, the notification must be signed by the first-named shareholder. A form is also available on our website.

If you change your name
Please notify Lloyds TSB Registrars in writing and enclose a copy of any marriage certificate or change of name deed as evidence.

Lost Centrica share certificate
If your share certificate is lost or stolen, you should call the Centrica shareholder helpline immediately. A letter of indemnity will be sent to you to sign. Lloyds TSB Registrars will charge for this service.

Duplicate shareholder accounts

Shareholders who receive more than one copy of Centrica communications may have shares registered inadvertently in at least two accounts. This happens when the registration details of separate transactions differ slightly. If you wish to consolidate these accounts, call the Centrica shareholder helpline to request an account combination form. The form is also available on our website.

Buying and selling shares in the UK

If you wish to trade in Centrica shares, you will need to use a stockbroker or high street bank which trades on the London Stock Exchange. There are many telephone and online services available. If you are selling, you will need to present your share certificate at the time of sale.

Transferring Centrica shares

Transferring shares to someone else requires the completion of a stock transfer form. This form, and details of the procedure you need to follow, are available from the Centrica shareholder helpline. Stamp duty is not normally payable if the transfer is to a relative or if there is no money being paid in exchange for the shares.

Direct dividend payments

Dividends can be paid automatically into your bank or building society account. This service has a number of benefits:

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

Having your dividends paid in this way also helps Centrica improve its efficiency by reducing postage and cheque clearance costs. If you wish to register for this service, please call the Centrica shareholder helpline to request a direct dividend payment form. The form is also on our website.

The Centrica website

The Centrica website at www.centrica.com provides news and details of the company's activities, plus information on the share price and links to our brand sites.

The investor information section of the website contains up-to-date information for shareholders including the company's latest results and key dates such as dividend payment dates. It also holds historical details such as past dividend payment dates and amounts, and a comprehensive share price information section.
Visit www.centrica.com/shareholders

Electronic communications

Shareholders who prefer to receive communications from Centrica electronically are encouraged to register their email address via the investor section of our website. The company's annual report is available on the Centrica website and, by registering, shareholders will receive an electronic notification when the company's annual reports and notices of general meeting become available. Shareholders are also able to complete and return voting papers for the company's annual general meeting electronically. Registration is free and easy to complete. All that is required for registration is the shareholder reference number which is shown on your tax vouchers and share certificates. Once you are registered, you may also look up a range of information including the number of Centrica shares you hold, the registered name and address details and information held for dividend payment instructions.

Share price information

The Centrica share price and historical details may be viewed on our website. Shareholders can find share prices listed in most national newspapers. Ceefax and Teletext pages also display share prices that are updated regularly throughout the trading day. For an accurate buying or selling price, you should contact a stockbroker or high street bank.

The Centrica FlexiShare service
Centrica has teamed up with Lloyds TSB Registrars to offer a new range of services aimed at making life easier for shareholders. FlexiShare participants will have access to a dividend reinvestment plan and a low cost, reduced time share dealing facility. There is no cost to shareholders for transferring into the FlexiShare service and participants will benefit from the same rights as all other shareholders. For further details about FlexiShare, please call the Centrica shareholder helpline or visit www.centrica.com/flexishare.

ShareGift
ShareGift, the charity share donation scheme, is a free service for shareholders wishing to give shares to charitable causes. It may be especially useful for those who wish to dispose of a small parcel of shares which would cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information can be obtained at www.sharegift.org or from the Centrica shareholder helpline.

The Unclaimed Assets Register
The Unclaimed Assets Register is a unique search service that helps individuals to find their lost assets and re-establish contact with financial institutions. It has a database of unclaimed life policies, pensions, unit trust holdings, and share dividends drawn from many companies and can search for lost assets and entitlements. The Unclaimed Assets Register charges a small fixed fee for each search, 10% of which goes to charity. For further information, visit www.uar.co.uk or call the Centrica shareholder helpline.

Overseas dividend payments
A service has been established to provide shareholders in over 30 countries worldwide with the opportunity to receive Centrica dividends in their local currency. For a small fixed fee, shareholders can have their dividends automatically converted from sterling and paid into their bank account, normally within five working days of the dividend payment date. For further details, please contact the Centrica shareholder helpline on +44 121 415 7061.

Useful historical information
Demerger
Centrica plc traded on the London Stock Exchange for the first time on 17 February 1997, the date of demerger from British Gas plc. Shares were acquired in Centrica plc on the basis of one Centrica share for every British Gas plc share held at demerger. Shares in Centrica plc, acquired on demerger, are treated as having a base cost for capital gains tax purposes (calculated in accordance with taxation legislation) of 64.25 pence each.

Share capital consolidation
On 10 May 1999, the ordinary share capital of Centrica plc was consolidated on the basis of nine new ordinary shares of $5\frac{5}{9}$ pence for every ten ordinary shares of 5 pence held on 7 May 1999. The consolidation was linked to the payment of a special dividend of 12 pence per share on 23 June 1999.

Shareholder benefits
We are pleased to offer a series of shareholder benefits on selected products and services. If you would like to receive information about these items, and have not previously registered, please call the Centrica shareholder helpline or visit the shareholder benefits page of our website.

American Depositary Receipts
Centrica has an American Depositary Receipt (ADR) programme. The ADRs, each of which is equivalent to ten ordinary Centrica shares, trade under the symbol CNTCY.

For enquiries, please contact:

ADR Depositary
The Bank of New York
Investor Relations
PO Box 11258, Church Street Station
New York NY 10286-1258

email: shareowner-svcs@bankofny.com
or via www.stockbny.com

Telephone: 1 888 BNY ADRs in the US
or 00 1 610 382 7836 from outside the US.
www.adrbny.com

Analysis of shareholders as at 31 December 2003

Distribution of shares by the type of shareholder	Holdings	Shares
Nominees and institutional investors	12,317	3,724,341,021
Individuals	1,147,334	541,560,185
Total	1,159,651	4,265,901,206

Size of shareholding	Number of holdings	Shares
1 – 500	864,482	219,544,635
501 – 1,000	193,624	133,203,069
1,001 – 5,000	93,052	158,677,844
5,001 – 10,000	4,971	34,319,964
10,001 – 50,000	1,909	37,440,589
50,001 – 100,000	346	24,821,353
100,001 – 1,000,000	846	290,271,996
1,000,001 and above	421	3,367,621,756
Total	1,159,651	4,265,901,206

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