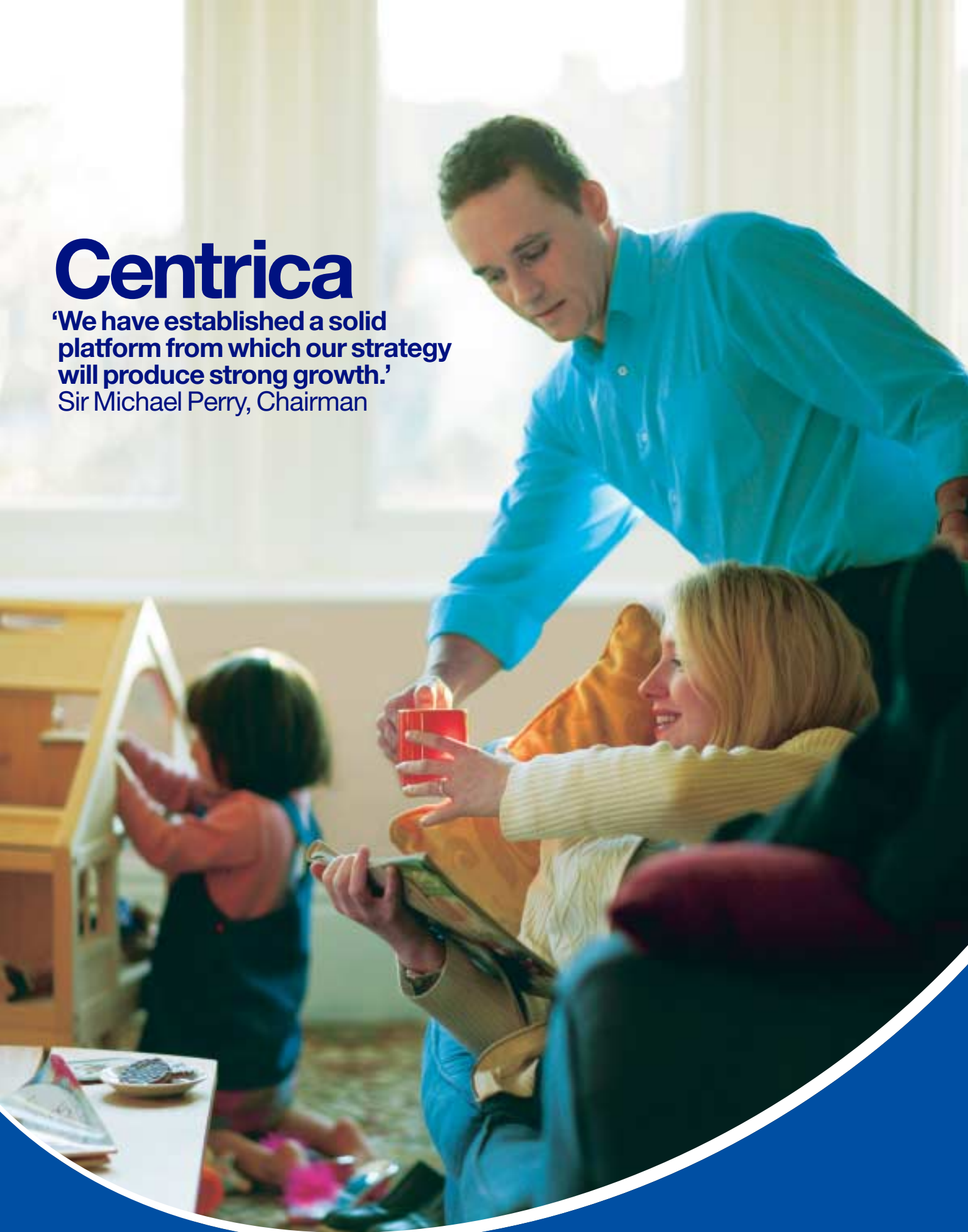


Centrica

'We have established a solid platform from which our strategy will produce strong growth.'

Sir Michael Perry, Chairman



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.

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.

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.

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

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

Earnings per share (pence)

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

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

Dividend (pence)

03	5.4
02	4.0
01	3.1
00	2.8
99	2.5

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

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