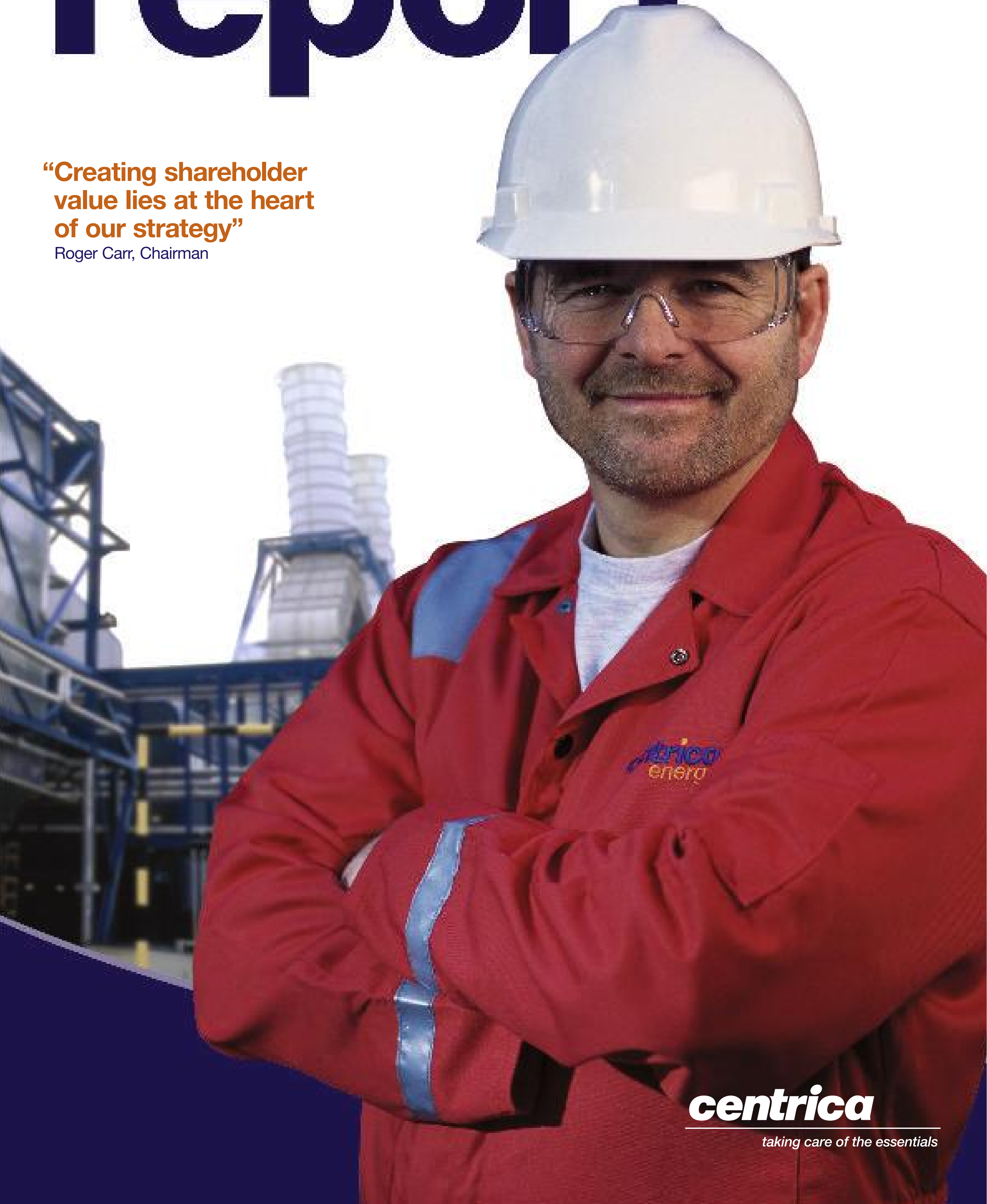
Annual report and accounts 2004

Centrica report

“Creating shareholder value lies at the heart of our strategy”
Roger Carr, Chairman



centrica
taking care of the essentials

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

Contents

Highlights of the year

12 months ended 31 December	**2004**	2003
Financial highlights		
Group turnover*	**£11.8bn**	£10.8bn
Operating profit**	**£1,227m**	£1,058m
Adjusted basic earnings per share	**20p**	16.8p
Ordinary dividend per share	**8.6p**	5.4p
Statutory results		
Group turnover	**£18.3bn**	£17.9bn
Operating profit	**£1,000m**	£897m
Basic earnings per share	**33p**	11.8p

* from continuing operations, excluding Accord trading revenue
** before goodwill amortisation and exceptional items, including joint ventures and associates

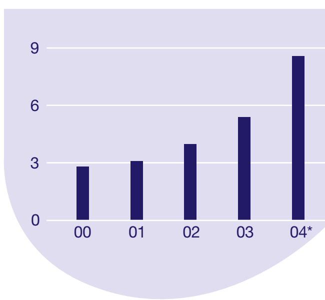
Group turnover* up by
9%

Operating profit** up by
16%

AA successfully sold for a profit of
£740m

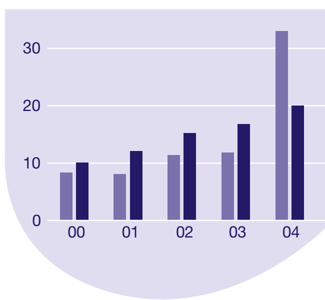
Total returned to shareholders
£1.5bn

Ordinary dividend (pence)



*excludes special dividend of 25p

Earnings per share (pence)



basic earnings per share
adjusted basic earnings per share (before goodwill amortisation and exceptional items, net of tax)

To find out more visit:
www.centrica.com

Throughout this report references to British Gas include Scottish Gas.

Earnings and operating profit numbers are stated, including joint ventures and associates, before goodwill amortisation and exceptional items where applicable. The directors believe this measure assists with better understanding the underlying performance of the group.

The equivalent amounts after goodwill amortisation and exceptional items are reflected in the segmental analysis on page 42 and are reconciled at group level in the group profit and loss account on page 36. All current financial results listed are for the year ended 31 December 2004. All references to 'the prior year', '2003' and 'last year' mean the year ended 31 December 2003.

Focusing on our customers to create shareholder value

I was delighted to take over in May as chairman of Centrica following Sir Michael Perry's retirement and it is a great pleasure to report the group's first full year results since I took on the role

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

These principles have underpinned our 2004 performance and will continue to guide our actions as we face the challenges that 2005 will undoubtedly present.

The overall performance of the company in 2004 has been good, with turnover (from continuing operations, excluding Accord) and operating profit* up by 9% and 16% respectively. These results were delivered in a year that saw significant change in energy markets with increasing awareness of the UK's future gas position and wholesale oil and gas prices reaching unprecedented levels. These issues have clearly impacted the whole industry and all energy consumers.

In July we announced the sale of the AA, which not only crystallised the significant value that we had created in that business, but also gave us the opportunity to both refocus our business on energy and related home services and reward our shareholders. I have no doubt that this clarity of focus is crucial for our future growth and success.

Our guiding principles

Commercial flair, professional competence, financial rigour and commitment to customer satisfaction.

Customer focus underpinned by asset strength to maintain cost-effective supply.

Acquisitions that create value, requiring patience in identifying targets, skills in negotiation and ready availability of funds.

Cost control and operational efficiency to build competitive edge and a unique customer offering of bundled, branded services.

Effective balance sheet management.

Returns to shareholders

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

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

The board of directors

2004 has been a year of considerable change within the board. Sir Michael Perry retired having served the company for seven years as chairman, overseeing the development of Centrica from its difficult early days to its position today as a successful and respected energy company. We are indebted to him for his considerable contribution. Following the sale of the AA, Roger Wood stepped down as managing director of the AA and from the board of Centrica. We are grateful to Roger for his immense support in building the service businesses of the group over the last seven years. Finally, having made a valuable contribution to Centrica, non-executive director Robert Tobin

"The combination of immediate reward and longer-term dividend growth is a clear demonstration of our commitment to shareholder value"

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

stepped down from the board in September to focus on his other interests in North America.

We have welcomed to the board two new non-executive directors who strengthen our team with their considerable ability and experience. Mary Francis, Director General of the Association of British Insurers and a director of the Bank of England, joined in May and Paul Rayner, finance director of BAT, joined in September. Paul is also chairman of the company's audit committee. Reflecting our renewed focus on energy, we also announced the appointment of Jake Ulrich, managing director of Centrica Energy, as an executive member of the board with effect from 1 January 2005.

Looking forward, we will continue to ensure the board's structure is in keeping with appropriate governance standards and reflects the mix of skills and experience necessary to guide a successful international energy group.

Our employees

The commitment and dedication of our employees has, as always, been a crucial part of our success in the year. I recognise that they faced a number of uncertainties, not least as a result of the sale of the AA, and I am grateful to them for their continuing hard work.

Outlook

The market outlook for 2005 is heavily influenced by the continued uncertainty over UK wholesale energy prices and the implications for retail prices for all energy suppliers. In this challenging environment, however, the Centrica management team are committed to building competitive edge and reversing recent trends in customer churn. This will be achieved by greater innovation in developing our customer offering, a vigorous commitment to selling and marketing our wide range

"The commitment and dedication of our employees has, as always, been a crucial part of our success in the year"

of products and services and decisive action to reduce the level of our cost base.

Building on the excellent performance in 2004 we will continue to grow our Home Services and One.Tel businesses through appropriate investment, keen awareness of market opportunities and strong cost management.

The growth prospects in North America are encouraging and we will continue to focus on acquiring and retaining customers, increasing operational efficiencies and expanding the service businesses we have recently acquired.

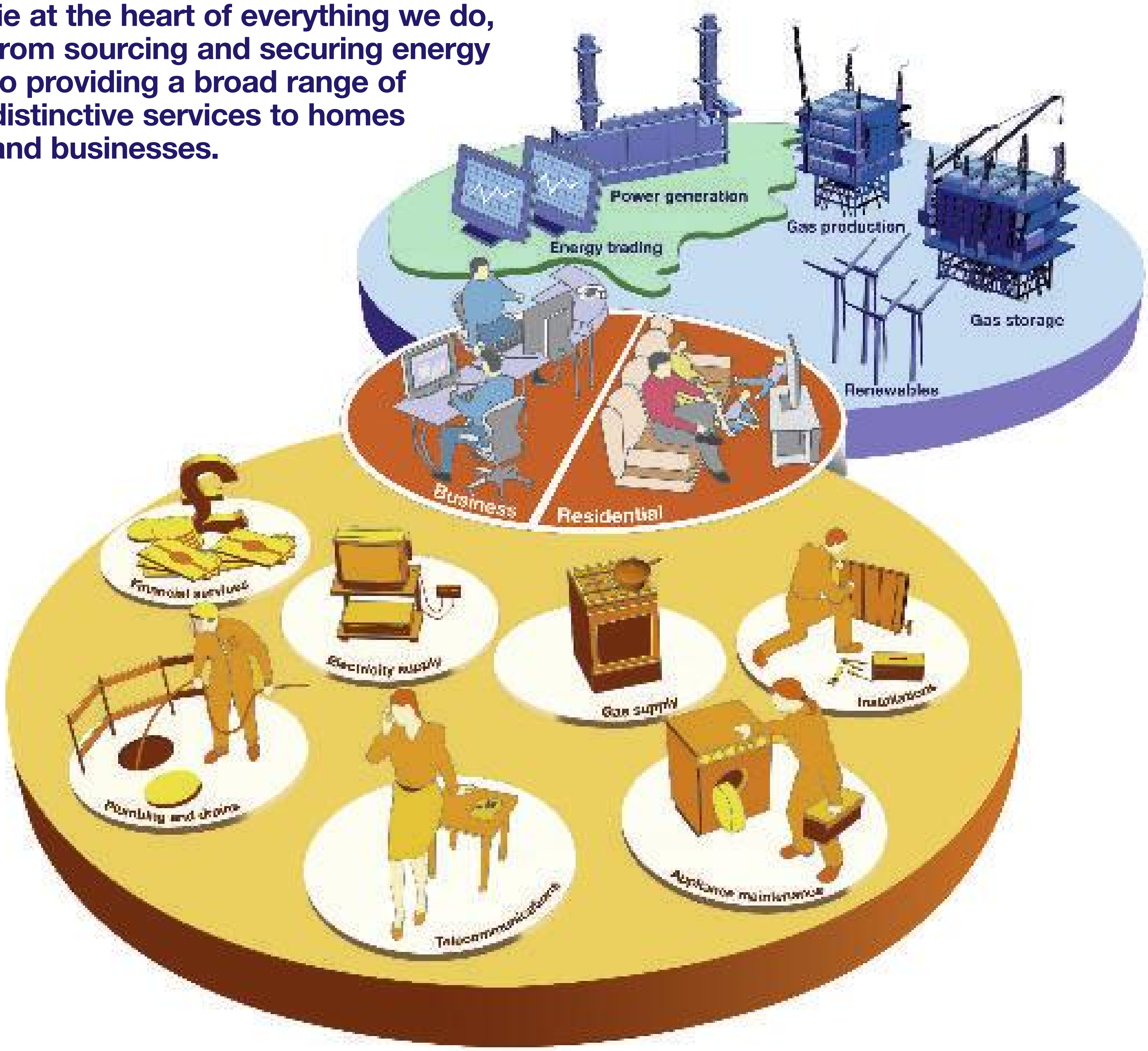
We will seek opportunities to acquire further upstream assets in line with our investment plans, whilst continuing to apply the financial rigour and patience that has been our trademark to date. We will continue to manage our existing assets efficiently and to balance our equity and contractual positions to optimise our energy procurement.

We have made a good start to 2005 and have a clear focus on the challenges ahead. Creation of shareholder value is, as always, at the top of our agenda and we will continue to manage our balance sheet to ensure the cash generated by our business is used wisely to maximise value creation.

Roger Carr
Chairman

Our business

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



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

Centrica Energy

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

Turnover**
£914m
Operating profit*
£512m

www.centrica.com

British Gas Residential

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

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

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

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

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

In addition, there are a growing number of Dyno-Locks and Dyno-Plumbing franchises.

Turnover
£6,906m
Operating profit*
£337m

www.house.co.uk

Centrica Business Services

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

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

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

Turnover
£1,200m
Operating profit*
£64m

www.britishgasbusiness.co.uk

Centrica Storage

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

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

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

Turnover
£133m
Operating profit*
£69m

www.centrica-sl.co.uk

One.Tel

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

Turnover
£218m
Operating profit*
£16m

www.onetel.co.uk

Centrica North America

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

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

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

Turnover
£2,375m
Operating profit*
£134m

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

Europe

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

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

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

Turnover***
£287m
Operating profit*
£4m

www.luminus.be
www.luseoenergia.com

* operating profit is shown before goodwill amortisation and exceptional items, including joint ventures and associates
** excluding Accord trading revenue
*** includes group share of Luminus joint venture turnover

Maximising our energy expertise

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

Overview of 2004

We sold the AA in the second half of the year, realising a post-tax profit of £740 million. We also raised our ordinary dividend payout ratio to 40% of earnings* (2003: 32%) and returned a further £1.3 billion to our shareholders through a special dividend and a share buyback programme. Group earnings* were up by 18% in the year.

Wholesale gas prices once again dominated the energy landscape with the market price for gas in 2004 29% above that for 2003. This brought an unavoidable round of retail tariff increases across the industry. Energy consumers reacted to these price increases and the total level of churn rose markedly, with British Gas, as the market leader, suffering disproportionately. We put measures in place to address this. Since our price rise was announced we have launched a range of new products in British Gas and have increased our focus on selling with the delivery of the cross-selling capability in our transformation programme. We are already seeing a positive impact with net losses beginning to fall.

We completed several key acquisitions during 2004. Upstream in the UK we increased support for our retail electricity business with the acquisition of a CCGT power station and a new-build CCGT site along with an onshore windfarm development in Scotland. We also added further gas reserves with the acquisition of shares in the Statfjord and Horne and Wren fields. We grew our telecoms business in Britain through the acquisition of Telco Global and added the Dyno-Rod brand to our capability in British Gas.

In North America we bought Residential Services Group, two small automation and control companies and acquired an incumbent retail position in Alberta with the one million customers of ATCO. To support our downstream businesses we acquired two power stations in Texas and added gas reserves in Alberta.

We made continued progress in North America, raising operating profit while growing the business, increasing our retail footprint and expanding our operations and servicing offers to commercial customers. Centrica Storage also produced an excellent operating result, more reflective of the underlying performance of the business, as the last of the low-priced legacy forward-sales contracts finished in April 2004.

> "We are taking decisive action to make our business leaner and more competitive"

We carried out an internal restructuring of our telecoms business, building on the brand, infrastructure and expertise of One.Tel and the increased scale that came from the Telco Global acquisition. British Gas and Centrica Business Services will now sell products under the One.Tel brand on a commission basis. This consolidation will greatly improve the operating cost base of this business and create a platform for further growth.

Operating overview

- Refocus on energy and related services following disposal of the AA.
- Year-on-year improvement in operating profit in all downstream businesses.
- Improved operating margin in British Gas despite wholesale price rises and customer losses. Decisive actions have been taken to begin to regrow the energy customer base.
- Significant Centrica Storage operating profit growth, reflecting increasing strategic value of storage.
- Continuing to build strong strategic growth platform in North America.
- High wholesale prices pushed industrial and wholesale business into first operating loss.
- One.Tel now firmly profitable.

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

The achievements of our people have been outstanding during 2004, continuing to meet our customers' very diverse needs against the backdrop of a highly competitive marketplace. I would like to join the chairman in thanking all our people for their ongoing and valued commitment.

2005 operating plan

We expect 2005 to be no less demanding than 2004. Wholesale prices will continue to challenge energy retailers. At the end of 2004 the demand-weighted market gas price for 2005 was 22% higher than 2004, with gas for the fourth quarter of 2005 trading at 40p per therm, 16% higher than the fourth quarter of 2004. We still believe that this forward price level may not be supported by the market fundamentals. For example, in 2005 the UK will see an increase in gas import capacity with the opening of the first four billion cubic metre (BCM) stage of the Isle of Grain liquefied natural gas (LNG) terminal and the first of two increases in the reverse flow capacity of the current European interconnector which will add a further eight BCM.

British Gas Residential

British Gas is intensifying its efforts to retain existing and win new customers so it can begin to grow its energy base again, with the emphasis on maximising value. We have new product propositions, including an innovative three-winter capped price dual fuel offer, which are already being received very positively. We are actively increasing the size of the directly employed field sales force and enlarging our outbound telephone sales function. These actions will be facilitated by the system developments which underpin the wider transformation of British Gas. We will roll-out nationwide our new on-call assistance service which gives all British Gas customers access to our unique asset, the national engineering workforce, for emergency call-outs. This will bring our customers the peace of mind that comes from inviting only a highly qualified and trusted professional into their home. This year will also see the start of the roll-out of the new billing system which will simplify our communications with our customers and improve our ability to compete effectively while maintaining levels of service. In order to ensure customer service remains unaffected, we have extended both the testing and planned roll-out phases and now expect to complete in the second half of 2006.

The refocus on energy and related services which we undertook in 2004 will be extended in 2005. We will centre our UK business even more clearly on the British Gas brand. This will enable us to drive forward two key objectives in the year. We will seek to optimise our gross margin by reinforcing the link between the customer proposition and our upstream supply operation. We will also concentrate on identifying all opportunities to reduce further our cost base by restructuring our UK support operations around this single focus, which will remove any duplicated activities and drive out inefficiencies.

> "British Gas is intensifying its efforts to retain existing and win new customers"

Operating profit by business* (£m)

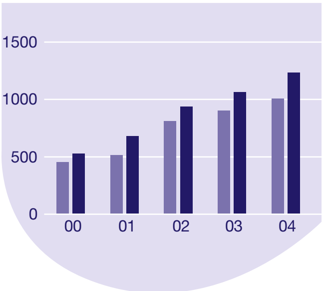
	2004	2003
British Gas Residential	337	206
Centrica Business Services	64	51
Centrica Storage	69	40
Centrica Energy	512	561
One.Tel	16	4
Centrica North America	134	130
Other operations	5	–
Discontinued operations	90	66
Group	1,227	1,058

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

Centrica Business Services

Centrica Business Services will be renamed British Gas Business. Here we will complete the integration of Electricity Direct as part of a wider drive towards the most efficient cost base and operating structure. Having successfully completed high-level systems design on our billing and customer service initiative, we will now proceed to the systems build stage. This will help us maintain our position as the leading supplier of energy products to the commercial sector in Britain. We will also be trialling several new service propositions which are based on successful Home Services products in British Gas. Based on customer reaction we will progress to a nationwide roll-out with the products where there is potential to grow scale and value.

Group operating profit (£m)



- after goodwill amortisation and exceptional items, including joint ventures and associates
- before goodwill amortisation and exceptional items, including joint ventures and associates

Centrica Energy

Centrica Energy will play an increasingly important role in the group. We will continue in 2005 to seek opportunities to acquire value-adding assets and agree further long-term contracts, both in power and in gas as the pricing environment improves. We have a strong balance sheet and the expertise to identify these opportunities and we will also remain patient and disciplined buyers. Our healthy supply position resulting from the long-term gas supply contracts that we struck over the last few years and our existing assets underpin this disciplined approach. In line with previous guidance, we expect the 2005 production from Morecambe to be between 15% and 20% lower than 2004, with 2006 around 25% to 30% lower again. We will be delivering renewables capacity through the year with construction of the windfarms onshore in Aberdeenshire and offshore at Barrow, and the award of the contract for offshore construction at Lynn and Inner Dowsing in the Wash. We will also make a decision on the next step with our consented CCGT site at Langage in Devon.

> "We will continue to seek opportunities to acquire value-adding assets"

Centrica Storage

Given the low levels of storage capacity in the UK and increasing dependency on imported gas, Centrica Storage is well positioned to take advantage of the growth in demand for storage services, demonstrated by the fact that we have now sold 100% of the storage capacity at the Rough field for the 2005/2006 year at prices well above those of the current year. We will continue to invest in the infrastructure of the field and concentrate our efforts on maintaining and improving the reliability of injection and withdrawal.

North America

In North America we will build on the foundations we have created. We will seek to grow our retail footprint in the areas where we currently have a strong presence, while continuing to build our power generation portfolio specifically in support of our downstream operations. Business Markets will be a key focus for us as we grow our demand by offering an end-to-end solution to commercial customers in existing and new territories, assisted by the control and automation expertise which we acquired in 2004. We will drive further efficiencies in the Home Services business, using learnings from the UK, as we fully integrate the Residential Services Group we acquired in 2004.

Telecoms

In telecoms we will complete the internal restructure which will leave us with a reduced cost base and a business better able to address future growth opportunities.

As part of this change, we will fully integrate the Telco Global business and carefully manage the further outsourcing of call centre activity to One.Tel's now well-established operations in India.

We will continue to contribute to Ofcom's Strategic Review of the Telecoms market, with a particular focus on achieving equivalence between BT and its competitors in key areas such as wholesale line rental (WLR) and broadband.

Europe

In general, Europe is deregulating slowly. There are, however, opportunities for us to create value as we build out from our current positions in Belgium and Spain. We will remain patient but will not hesitate to move rapidly when we identify an opening.

Summary

In summary, the outlook for commodity prices will continue to dominate the landscape and we will do our utmost to minimise the impact on our customers and shareholders. We are taking decisive action to make our business leaner and more competitive. I believe we are well placed to meet the challenges and take advantage of the opportunities that we see in the coming year.

Sir Roy Gardner
Chief Executive

Driving profitability across the business

The principles the board believes are critical to the way in which Centrica carries out its business have underpinned our strong performance

British Gas Residential

New range of products and services launched

British Gas faced a very challenging environment with volatile and rising commodity costs throughout the year. Total turnover was up by 12% to £6.9 billion (2003: £6.2 billion). Operating profit* was up by 64% to £337 million (2003: £206 million) with overall operating margin up to 4.9% (2003: 3.3%), driven mainly by the required customer tariff increases along with continued growth in the Home Services business. The year-on-year increase is heightened by the fact that the 2003 result was severely impacted by unforecast commodity cost increases which dampened gross margin in that year.

The British Gas transformation programme is progressing well. In December we announced that the anticipated overall cost of the programme had increased to £430 million. A large portion of the increase was as a result of the extra backfilling which will be required as we train staff on the new billing platform. The total spend to date is £361 million with £57 million of this expensed. The roll-out of the cross-selling functionality is complete with all relevant customer service staff now using the new systems. Average products per customer increased accordingly by 2.5% to 1.66. The billing engine has been built and is in the test phase with the first new format bills expected in the middle of 2005. In order to ensure customer service remains unaffected, we have extended both the testing and planned roll-out phases and now expect to complete in the second half of 2006. In parallel, we have made excellent progress with restructuring our operations and removed around 1,250 roles from the business in 2004. This makes us increasingly confident that we will deliver the transformation benefits which we previously outlined.

Energy

Operating profit* in the energy business rose by 83% to £249 million (2003: £136 million), reversing the significant fall from 2002 (£218 million). Average consumption was up year-on-year due to the weather pattern during the transitional spring and autumn months, adding £21 million to gross margin. The cost of meeting the government's Energy Efficiency Commitment (EEC) also rose by £27 million to £88 million as we ramped up our programme to make the transition from EEC1 to EEC2 in April 2005. The tariff increases in 2004 sought to recover higher wholesale prices which had depressed profitability in 2003, as well as the anticipated increases in 2004 and 2005.

The demand-weighted market price of gas for the year was 29% higher than 2003. The annual weighted average cost of gas (WACOG) for British Gas increased by 12%, 17 percentage points less than the market price due to the existence of some historic fixed-price supply contracts and a lower-than-market rise in the equity gas supply due to the transfer pricing mechanism.

The retail tariff increases across the industry made 2004 a tough year for consumers and suppliers. Understandably the overall level of customer churn increased particularly around the start of the fourth quarter of the year, with British Gas experiencing just over one million net gas and electricity account losses in the year. This customer churn began to fall towards the end of

Residential Energy key performance indicators

	2004	2003	Δ%
Customer numbers (year end) (000)			
Residential gas	**11,771**	12,590	(7)
Residential electricity	**5,950**	6,189	(3.9)
Estimated market share (%)			
Residential gas	**57**	62	(5 ppts)
Residential electricity	**23**	24	(1 ppt)
Average consumption			
Residential gas (therms)	**637**	614	3.7
Residential electricity (kWh)	**4,186**	4,178	0.2
Weighted average sales price			
Residential gas (p/therm)	**53.16**	47.57	12
Residential electricity (p/kWh)	**6.76**	6.19	9
Weighted average unit costs			
Residential gas (WACOG, p/therm)	**25.31**	22.65	12
Residential electricity (WACOE, p/kWh)	**2.91**	2.46	18
Transportation and distribution (£m)			
Residential gas	**1,256**	1,305	(3.8)
Residential electricity	**489**	479	2.1
Total	**1,745**	1,784	(2.2)
Turnover (£m)			
Residential gas	**4,170**	3,742	11
Residential electricity	**1,731**	1,547	12
Total	**5,901**	5,289	12
Operating profit (£m)*			
Residential energy	**249**	136	83
Operating margin (%)			
Residential energy	**4.2**	2.6	1.6 ppts
British Gas product holding**			
Average British Gas products per customer (year end)	**1.66**	1.62	2.5

Δ% has been used to express 'percentage change'
*including joint ventures and associates, before goodwill amortisation and exceptional items
**British Gas brand

the year after competitors increased prices and as our retention campaign started to take effect. Sales of our three-winter capped price dual fuel product, launched in October 2004, reached 345,000 by the end of the year and 600,000 by early February 2005.

Home Services

Home Services continued to grow both its top and bottom line during 2004. Turnover grew by 11% to £943 million (2003: £847 million) due in the main to a 7% increase in product relationships. Operating profit* rose by 13% to £95 million even after expensed investment of £5 million on replacement of engineer laptops and the new engineer deployment programme. The core central heating care product continues to grow although the strongest improvement was seen across the newer, higher-margin products of kitchen appliance care, home electrical care and plumbing and drains care.

The acquisition of the Dyno group of companies in September brought us a new fulfilment model, i.e. franchising, gave us access to the on-demand sector, and now allows us to grow our share of the plumbing and drains market more quickly and to enter or expand our presence in other markets.

Late in the year we launched our on-call assistance proposition which gives priority access to the engineer base to current British Gas energy customers for emergency call-out. We expect this to act as a valuable tool for both retaining current energy customers and cross-selling new Home Services contracts.

We plan to have around 10,000 engineers qualified or in training by the end of 2006. The new engineer deployment system, which will enable us to deploy this workforce most effectively, is currently being tested with excellent initial results. We expect the nationwide roll-out of the new system to be complete by the end of 2005.

Home Services key performance indicators

	2004	2003	∆%
Customer product holdings (year end) (000)			
Central heating service contracts	**3,363**	3,250	3.5
Other central heating service contracts	**843**	837	0.7
Kitchen appliances care (no. of contracts)	**421**	382	10
Plumbing and drains care	**1,199**	1,084	11
Electrical care	**740**	598	24
Home security	**26**	28	(7)
Total holdings	**6,592**	6,179	7
Central heating installations	**92**	86	7
Turnover (£m)			
Central heating service contracts	**436**	391	12
Central heating installations	**244**	228	7
Other	**263**	228	15
Total	**943**	847	11
Engineering staff employed	**8,033**	7,160	12
Operating profit (£m)*			
Home Services	**95**	84	13
Operating margin (%)	**10**	10	–

∆% has been used to express 'percentage change'
*including joint ventures and associates, before goodwill amortisation and exceptional items

British Gas Communications key performance indicators

	2004	2003	∆%
Customer numbers (fixed line) (year end) (000)	**384**	376	2.1
Average minutes used per month (fixed line)	**417**	374	11
ARPU (monthly fixed line) (£)	**12.97**	11.86	9
Turnover (£m)	**62**	56	11
Operating loss (£m)*	**(7)**	(14)	50

∆% has been used to express 'percentage change'
*including joint ventures and associates, before goodwill amortisation and exceptional items

British Gas Communications

Turnover in the year grew by 11% to £62 million due to an increase in both customer numbers and the average revenue per user (ARPU) with an increased penetration of carrier pre-selection (CPS) customers and fixed-price calling plans. The business reduced its operating losses* by 50% to £7 million.

Centrica Business Services

Maintaining our number one position in the commercial sector

Centrica Business Services maintained its position as the number one supplier of energy (measured by number of supply points) to the commercial sector in Britain with careful management of price rises in a turbulent wholesale energy market. Although customer numbers are down slightly on 2003, the unavoidable increases in pricing pushed turnover up by 7% to £1.2 billion (2003: £1.1 billion).

Overall operating profit* rose by 25% to £64 million (2003: £51 million), with operating profit* for the second half up by £9 million to £17 million (2003: £8 million), including an operating loss* in telecoms of £5 million, primarily due to expensed acquisition costs. The year-on-year improvement was heightened by the fact that 2003 was hit by unforecast commodity movements particularly in the fourth quarter of the year. The level of contract sales in electricity fell during 2004 with signs of the market maturing. This was partially offset by an increase in retention levels, resulting in only a slight overall decline in the customer numbers.

Underlying operating costs are in line with the previous year although there was additional investment in 2004 to restructure the processes in both sales and operations. In addition, we made a £3 million provision for restructuring costs associated with the closure of the St Albans site which will complete the integration of Electricity Direct. The site is due to close in the first half of 2005.

British Gas Business

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

Sue, British Gas service engineer

Centrica Business Services key performance indicators

	2004	2003	Δ%
Customer supply points (year end) (000)			
Gas	**368**	370	(0.5)
Electricity	**515**	535	(3.7)
Total	**883**	905	(2.4)
Average consumption			
Gas (therms)	**3,420**	3,124	9
Electricity (kWh)	**24,752**	25,700	(3.7)
Weighted average sales price			
Gas (p/therm)	**41.21**	37.75	9
Electricity (p/kWh)	**5.08**	4.84	5
Weighted average unit costs			
Gas (WACOG, p/therm)	**24.51**	21.56	14
Electricity (WACOE, p/kWh)	**2.45**	2.29	7
Transportation and distribution (£m)			
Gas	**122**	130	(6)
Electricity	**210**	221	(5)
Total	**332**	351	(5)
Turnover (£m)			
Gas	**523**	455	15
Electricity	**675**	670	0.7
Other	**2**	–	–
Total	**1,200**	1,125	7
Operating profit (£m)*	**64**	51	25
Operating margin (%)	**5**	4.5	0.5 ppt

Δ % has been used to express 'percentage change'
*including joint ventures and associates, before goodwill amortisation and exceptional items

The business has successfully completed high-level systems design on a major customer service initiative which will rationalise the disparate invoicing and collection systems and reduce the cost to serve. An investment of around £40 million is being made over the next two years, with roll-out due to start in 2006.

In August we launched a central heating care product, leveraging the manpower and expertise of British Gas Home Services to deliver the service. Initial take-up rates are very encouraging with over 2,500 customers signed up by the middle of February 2005.

Centrica Energy

Increasing investment to further build our asset portfolio in support of our downstream business

Centrica Energy once again played a key role in a difficult year of rising and fluctuating wholesale prices in both electricity and gas. We added to our gas and power equity portfolio and struck two further innovative gas supply agreements with Shell for 4.5 billion cubic metres (BCM) over five years and with Petronas for 45BCM of liquefied natural gas (LNG) over 15 years. Overall operating profit* was down 9% at £512 million (2003: £561 million) due to the losses suffered in the industrial and wholesaling business caused by contracted sales prices lagging rising input prices.

Gas production

Operating profit* rose by 19% to £573 million (2003: £480 million) due mainly to an increase in the market-related transfer price to the downstream business. This was partially offset by a 63% increase in the petroleum revenue tax (PRT) charge as the unit of production rate increased to reflect higher future profitability in line with rising gas prices.

During the year we acquired a 33% interest in the UK side of the Statfjord oil and gas field and a 50% ownership of the Horne and Wren development. Remedial work on the Rose gas field, which suffered water ingress early in the year, brought it back into production in September. The maximum level of recoverable reserves has now been estimated at 24 billion cubic feet (bcf).

In 2004 we also began an infrastructure simplification project at Morecambe which will reduce the fixed and variable operating costs for the remainder of the life of the South Morecambe field, resulting in a slight increase to profitability in future years.

Industrial sales and wholesaling

Industrial sales and wholesaling suffered its first underlying annual loss, at £38 million, as selling prices in our 18 industrial supply contracts actually fell during 2004 to 21.3p (2003: 21.5p) in an environment where, year-on-year, the flat input price of gas rose by 29%. The majority of these contracts have selling price escalators which do not reflect the underlying input costs and are difficult to hedge and therefore, we currently expect losses overall for the segment to double in 2005. The reported operating loss* of this segment includes the £37 million of overhead costs of running the upstream energy operations and business development activities (2003: £27 million). A large portion of this year-on-year increase reflects the strengthening of the team to support the enhanced upstream investment plans.

Electricity generation

In June 2004, Centrica agreed the acquisition of the 652MW Killingholme CCGT power station in North Lincolnshire taking total equity generation capacity to 2,910MW. In addition, in August, we completed the acquisition of the total share capital in a subsidiary of Carlton Power Limited, which owns land and consents for developing a gas-fired station of up to 1,000MW at Langage in Devon. Langage benefits from its location in the South West, which has little existing generation capacity. In October the tolling agreement with the 860MW Spalding power plant in Lincolnshire began on schedule. The total electricity generated from our owned plants in the year rose 33% to 11.6TWh (2003: 8.7TWh), satisfying 27% of downstream residential demand.

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

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

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

Centrica Energy key performance indicators

	2004	2003	Δ%
Gas production			
Production volumes (m therms)			
Morecambe	**3,444**	3,429	0.4
Other	**494**	457	8
Total	**3,938**	3,886	1.3
Average sales price (p/therm)	**26.8**	22.4	20
Turnover (£m)	**1,150**	919	25
External turnover (£m)	**109**	54	102
Operating costs (£m)			
Petroleum revenue tax	**208**	128	63
Volume related production costs	**240**	213	13
Other production costs	**129**	98	32
Total	**577**	439	31
Operating profit (£m)*	**573**	480	19
Power stations			
Power generated (GWh)	**11,554**	8,668	33
Industrial and wholesale			
External sales volumes (m therms)	**3,601**	3,679	(2.1)
Average sales price (p/therm)	**22.0**	21.9	0.5
Turnover (£m)	**805**	809	(0.5)
Operating profit/(loss) (£m)*^	**(75)**	64	n/m
Accord			
Turnover (£m)	**5,909**	6,218	(5)
Operating profit (£m)	**14**	17	(18)
Centrica Energy			
Operating profit (£m)*	**512**	561	(9)

Δ% has been used to express 'percentage change' and n/m to express 'not meaningful'
^ includes Centrica Energy overhead costs: 2004 £37m; 2003 £27m
*including joint ventures and associates, before goodwill amortisation and exceptional items

The average overall portfolio load factor for the year was 58%, reflecting the peak running pattern of the power stations.

Renewables

In the supply year April 2003 to March 2004, Centrica fulfilled its obligation to source 4.3% (1.7 TWh) of all electricity supplied from renewable sources through the purchase of certificates (ROCs) and is on track to meet the target of 4.9% for the current supply year. In July the construction phase of the 90MW Barrow offshore wind farm commenced with the awarding of the construction contract to KBR and Vestas; we expect first power from this wind farm by the end of 2005. In October we acquired a 26MW onshore wind farm project at Glens of Foudland, Aberdeenshire, which will deliver our first green energy in the second half of 2005. Tenders have been received and are being evaluated for the construction of 180MW of offshore wind capacity at the Lynn and Inner Dowsing projects in the Wash. To support these equity positions, in December we agreed an innovative contract with NM Renewable Energy which brings us approximately 300GWh of green electricity from a diverse range of sources.

Accord

Accord operating profit* was down 18% at £14 million (2003: £17 million). The trading environment was particularly challenging, given the huge swings in commodity prices both in the UK and continental Europe as well as the continued lack of market liquidity. Physical volumes traded during 2004 were equal to 1.7 times the gas and 2.4 times the electricity volumes supplied to our UK downstream customers (2003: 2.4 times and 2.7 times, respectively).

Centrica Storage

Performance continues to exceed our expectations

Profit at Centrica Storage, the owner and operator of the Rough storage facility, continued to exceed significantly the expectations in our original acquisition case. Operating profit* in the year increased by 72% to £69 million (2003: £40 million). The value of storage services has benefited from higher market price differentials between winter and summer and increased levels of gas price volatility. Prices for standard bundled units (SBUs) of storage capacity under new contracts increased by 23% between the 2003/04 and the 2004/05 storage years. Combined with the termination of all low-priced legacy storage contracts at the end of the 2003/04 storage year, this resulted in a 58% increase in average SBU prices for the calendar year of 2004 to 24.6p (2003: 15.6p).

The excellent injection performance over the summer enabled an increase in revenue from the sale of additional space to £8 million (2003: £3 million) but this was more than offset by an increase in fuel gas and other gas costs to £13 million (2003: £6 million) due to a number of factors, the largest of which was high gas market prices.

Operationally, we continued to invest in the Rough facility to maintain and improve safety and reliability, which is reflected in the price customers are willing to pay for SBUs. Investment in the field and facilities totalled £13 million (2003: £9 million). With the exception of one major production outage in January, operational performance began to demonstrate the impact of this investment programme. In particular, and in contrast to 2003, customers enjoyed very good injection reliability throughout the spring, summer and autumn.

The demand for storage services remains strong, with 100% of SBUs for the 2005/06 storage year already sold by the middle of January 2005, at prices significantly higher than for 2004/05.

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

John, Centrica project manager, Langeled terminal, Easington

One.Tel

Acquisition expands customer base and broadens expertise

Although the telecoms marketplace has become increasingly competitive, One.Tel continued to make good progress during 2004. In September we acquired another indirect telecoms provider, Telco Global. This acquisition added to One.Tel's existing 1.1 million customer base a further 238,000 residential fixed-line customers, of which 80% are on carrier pre-selection (CPS); 11,000 business fixed-line customers; and around 10,000 business mobile customers, including a number of large corporate accounts. In addition, it brought additional expertise in the field of voice over internet protocol (VOIP), enabling One.Tel to compete effectively as the use of this technology grows over the next few years.

Turnover was up by 22% at £218 million (2003: £178 million) with most of the increase coming in the second half of the year driven by the Telco Global acquisition. Operating profit* rose by 300% to £16 million (2003: £4 million), of which £10 million arose in the second half of the year with a positive £2.1 million contribution from the Telco Global business and the beneficial impact of the cost reduction measures taken earlier in the year.

Despite aggressive competitor activity during the year, monthly fixed-line average revenue per user (ARPU) rose by 3.5% to £16.74 (2003: £16.18) while average minutes per user grew by 27% to 437 (2003: 345) due to the combination of the acquisition, the growth in the take-up of fixed price calling plans and the increase in CPS customers who now form 61% of the tolling base.

We successfully marketed bundled product offerings during 2004, being the first to bundle a 512k broadband product with unlimited local and national fixed-line calls within the UK. As a result the broadband customer base has increased four-fold and now stands at 50,000 subscribers.

The telecoms business is currently undergoing restructuring which will result in the consolidation of all telecoms activity within Centrica. One.Tel will continue to develop products which will be marketed through all of Centrica's distribution channels while managing all of the infrastructure and customer support functions. British Gas and Centrica Business Services will market One.Tel products. This will bring about a more efficient operating model.

We welcomed the findings of Ofcom's investigation into BT's pricing, following our complaint, which resulted in a rebalancing of the cost of local call conveyancing, backdated to July 2004. In Phase 2 of their Telecoms Strategic Review, published on 1 November, Ofcom highlighted the shortcomings which have held back competition in the telecoms sector. We were particularly pleased to see that their proposals place the onus on BT to provide solutions in all of the areas lacking equivalence between BT and its competitors. There are, however, some fundamental issues with BT's proposals and Ofcom retain the ultimate option of a referral to the Competition Commission under the Enterprise Act to investigate the market if Ofcom is unable to reach a satisfactory regulatory settlement.

One.Tel key performance indicators

	2004	2003	△%
Customer numbers (year end) (000)			
Fixed line	**1,053**	**793**	33
Mobile	**81**	**73**	11
Other services	**212**	**218**	(2.8)
Total (30 day tolling)	**1,346**	**1,084**	24
Average minutes used per month (fixed-line)	**437**	**345**	27
ARPU (monthly fixed-line) (£)	**16.74**	**16.18**	3.5
ARPU (monthly mobile) (£)	**17.90**	**14.44**	24
One.Tel product holding			
Average products per customer (year end)	**1.30**	**1.29**	0.8
Turnover (£m)	**218**	**178**	22
Operating profit (£m)*	**16**	**4**	300
Operating margin (%)	**7**	**2.2**	4.8 ppts

△% has been used to express 'percentage change'
*including joint ventures and associates, before goodwill amortisation and exceptional items

Centrica North America

Building home services capability

Throughout 2004 we continued to expand and develop our presence in North America through a number of targeted acquisitions both upstream and downstream and further concentration on organic growth in our key markets. Turnover was flat at £2,375 million (2003: £2,369 million). The rapid growth in our Business Markets revenue and the part-year consolidation of the acquisition of the customers of ATCO Retail in Alberta were offset by lower revenues in Texas, substantially reduced energy trading activity and the translation impact on turnover of the year-on-year movement in the exchange rate (£143 million).

Overall operating profit* grew by 3% to £134 million (2003: £130 million) despite the £10 million translation impact of exchange rate movements. Increased profits in Home Services and the elimination of losses in the US were partially offset by the start-up costs in Alberta and the reduction in energy trading profits of £6 million.

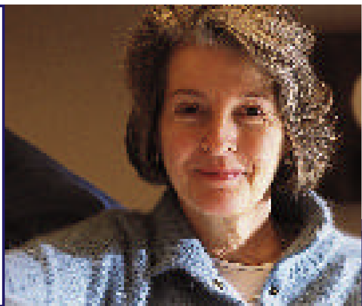
Canada residential and small commercial energy

Turnover in this segment increased by 94% to £819 million (2003: £423 million), mainly reflecting the part-year impact of the newly-acquired business in Alberta. In May we completed the acquisition of

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

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

Alison, British Gas customer



around one million gas and electricity customers from the ATCO Group, which more than offset the effect of lower customer numbers in both gas and electricity in Ontario. The environment for selling gas contracts in Ontario remained difficult in the second half but the renewal rate for existing customers increased to 89% (2003: 50%). The Ontario electricity market for residential and small commercial customers remains effectively closed to new sales under the price cap introduced in November 2002. The short-term impact of this is that customer churn has reduced and operating margins remain strong. The Ontario government recently published draft legislation, which we believe will allow marketing to smaller commercial customers to recommence – the government has now entered a period of consultation with all stakeholders.

Operating profit* fell by 9% to £30 million (2003: £33 million), driven by the year-on-year increase of £4 million in losses in Alberta, with the fall in customer numbers in Ontario offset by the increased margin from higher pricing.

Texas residential and small commercial electricity

Turnover in this segment fell by 20% to £744 million (2003: £933 million). The fall in the year was driven by a one-off market reconciliation of 2003 data at the start of 2004 and lower net customer numbers, particularly in the commercial sector, where organic gains in the first half did not offset the losses in our incumbent businesses in West and South Texas. The reduction slowed throughout the year with second-half turnover down only 11% against the same period in 2003. Processes surrounding the competitive market in Texas have now improved, leading to a smoother interaction between the key parties and more stability in the numbers. Against this backdrop, we grew total customer numbers in Texas in the second half of the year.

Operating profit* in this business segment for the year was flat at £60 million (2003: £60 million) with the negative impact of the first-half reconciliation and foreign exchange movements offset by two successful upward refilings in our price-to-beat (PTB) tariffs in both incumbent regions as well as growth in the organic business.

In 2004 we began to underpin our retail position in Texas with power generation assets to move us towards an appropriate equity hedge position. In June we completed the acquisition of the Bastrop Energy Center followed by the Frontera power station in December, giving us just over 1GW of generation capacity and the ability to meet around 25% of our projected 2005 peak demand.

Other USA energy

In our US gas markets we moved into profit for the first time, although turnover reduced by 22% to £191 million (2003: £245 million), with the regulatory climate, together with a volatile gas price environment, continuing to make it difficult to add value-creating customers. With the emphasis on value, we also completed our withdrawal from Georgia during the first half of the year.

North America key performance indicators

	2004	2003	Δ%
Customer numbers (year end) (000)			
Canada energy	**2,129**	1,161	83
Texas energy	**829**	859	(3.5)
Other USA energy	**305**	414	(26)
Home Services	**1,800**	1,690	7
Volumes			
Gas production (m therms)	**334**	362	(8)
Electricity generation (GWh)	**1,176**	–	n/a
Turnover (£m)			
Canada residential energy	**819**	423	94
Texas residential energy	**744**	933	(20)
Other USA energy	**191**	245	(22)
Home Services	**185**	172	8
Business Markets	**204**	126	62
Energy trading and wholesale	**232**	470	(51)
Total	**2,375**	2,369	0.3
Operating profit/(loss) (£m)*			
Canada residential energy	**30**	33	(9)
Texas residential energy	**60**	60	0
Other USA energy	**1**	(2)	n/m
Home Services	**36**	27	33
Business Markets	**4**	3	33
Energy trading and wholesale	**3**	9	(67)
Total	**134**	130	3.1
Operating margin (%)*			
Total North America	**5.6**	5.5	0.1 ppt

Δ% has been used to express 'percentage change' and n/m to express 'not meaningful'
*including joint ventures and associates, before goodwill amortisation and exceptional items

Home Services

Turnover increased by 8% to £185 million (2003: £172 million). Growth in Ontario from the core cover products and the waterheater rental and maintenance business offset the year-on-year impact of the withdrawal during 2003 from the loss-making Pennsylvania operations and the closure of the nine retail stores in Ontario at the start of 2004. In October we acquired Residential Services Group, a home services business which operates in Texas and nine other states. This has also helped increase operating profit* in this business area to £36 million (2003: £27 million), along with the benefits from the transformation of the Ontario operations with learnings from the UK being used to improve service standards and position the business for further growth.

Business Markets

The response to our Business Services proposition has been very encouraging. Our acquisition of two small automation and control companies has enhanced our ability to offer an end-to-end product where the supply of

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

Brad, power station shift engineer, Bastrop Energy Center the basic commodity is supported by energy management technology and our maintenance and repair business. We grew our energy demand with the signing of some high profile contracts in all of the markets which complement our current retail positions. Turnover grew by 62% to £204 million (2003: £126 million), driven by continued growth in Ontario and the North Eastern US and the start-up of operations in Texas and Alberta. The acquisition costs here are written off immediately, whereas the average contract length is in excess of two years. These acquisition costs meant that operating profit* rose by only £1 million to £4 million.

Energy trading and wholesale

Operating profit* fell by 67% to £3 million (2003: £9 million) owing to the reduced level of our limited proprietary trading activity in Calgary as demonstrated by the 51% reduction in turnover. Our strategy remains to undertake limited trading only where it fits with our procurement operations in Calgary and Houston.

Europe

Seeking opportunities to grow in advance of market opening

We continued to develop our two retail positions in Belgium and Spain while seeking opportunities to build out from this base. Luminus produced its first full-year results since the market opened in the middle of 2003 and made an operating profit* of £7 million (2003: £3 million) although, as anticipated, customer numbers declined in the year with new entrants beginning to compete in the market. In Spain, Luseo now has more than 4,000 sites on supply, of which around 2,000 were added in the second half of the year, and is now running at breakeven.

Discontinued business
The AA

We completed the sale of the AA on 30 September to a company formed by CVC Capital Partners Ltd and Permira Ltd. This resulted in an exceptional profit in the year of £740 million, after tax. We have made good progress in separating the AA from existing shared services and expect this to be complete by the end of the third quarter of 2005.

Corporate responsibility

At the heart of our corporate responsibility strategy is the recognition that meeting and exceeding our responsibilities to society as a whole contributes to long-term, sustainable commercial success

Centrica's operations touch millions of lives and we are an integral part of the communities in which we operate. Understanding our impact on society, the wider economy and the environment – and building relationships with all key stakeholder groups – is, therefore, important to our business success.

A well-managed and innovative approach to corporate responsibility is key to delivering Centrica's strategy, and we aim to create an environment in which our corporate responsibility principles guide the way we operate.

Our corporate responsibility strategy is underpinned by our vision and values and aligns with our business principles and our commitment to operating responsibly. We believe that the successful implementation of this strategy will help to build customer loyalty, encourage investors to put their trust in us, motivate suppliers and business partners to work with us and help us become an employer of choice.

There are four key principles to our approach to corporate responsibility:

- identifying key impact areas and addressing these challenges and issues in an effective and consistent manner throughout the group;
- identifying, consulting with and responding to the views of stakeholders;
- gaining an objective and balanced view of our performance by participating in independent benchmarking; and
- measuring and publishing information about our performance.

The development, management and implementation of our corporate responsibility strategy is led by the corporate responsibility committee (CRC), comprising senior executives from throughout the group.

The CRC, which also has responsibility for ensuring that social, ethical and environmental risks are identified and managed, is chaired by our general counsel and company secretary. It meets quarterly and is a sub-committee of the Centrica executive committee (CEC).

Each of our operating businesses is responsible for integrating corporate responsibility into its business strategy and is accountable to the CRC for its performance.

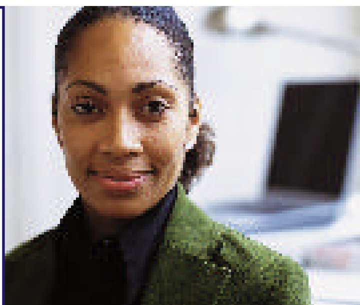
Regular presentations are made to the CEC and at least annually to the Centrica board of directors.

External benchmarking enables us to monitor our corporate responsibility

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

"By choosing Direct Energy as my supplier, I'm getting a great value deal."

Roxanne, Direct Energy Business Services customer



performance in relation to peer organisations. In 2004, Centrica continued to be listed in the FTSE4Good indices, confirming that we continue to meet globally-recognised corporate responsibility standards. Also in 2004, we were included in both the Dow Jones Sustainability World and European Indexes and we were ranked in the second quintile of the Business in the Community corporate responsibility index.

Marketplace

A passion for our customers is one of our core values. All our businesses strive to win and retain the trust and loyalty of our customers.

In practice, this means:

- ensuring that our customers enjoy a superior customer experience and a consistently high-quality service;
- ensuring that our services meet our customers' needs and make their lives easier;
- ensuring that our sales and advertising techniques are trusted and are reliable; and
- working with our customers to promote the safe and responsible use of our products and services.

In addition, a business of Centrica's size inevitably has an impact on the supply chains of which we are a part, and we are increasingly working in partnership with our suppliers to help ensure that the way they operate is consistent with our values and business principles. In 2004, we piloted a survey to engage our suppliers in working with us to manage corporate responsibility in our supply chains. Over the next five years, we will be extending this approach across our supplier base.

At the heart of our service ethic is a commitment to help make life safe, warm and comfortable for all our customers with a particular focus on families, older people and people with disabilities in some of Britain's most deprived communities.

Working in partnership with seven national charities, British Gas' 'here to HELP' programme – a unique collaboration between the public, voluntary and private sectors – is helping to reduce household poverty. To date, 671 communities have signed up, covering 340,000 households, and British Gas has committed a further £290 million over the next three years to assist vulnerable customers and tackle the issue of fuel poverty.

To support our more vulnerable customers, British Gas has set up an independent trust fund to provide grants to customers who are experiencing difficulties paying their bills. The trust was established with initial funding of £10 million over three years and targets households that are particularly susceptible to debt, including those on low incomes or benefits, one-parent families, older people and those with disabilities.

British Gas has also been working in partnership with Help the Aged to launch a capped price tariff and a campaign to reduce avoidable, cold-related deaths among older people.

We continue to promote the safe and responsible use of our products and services, particularly in the home. We are, for example, working with the Health and Safety Executive to assist in policy making, following the development by British Gas of the Downstream Incident Data Report for gathering carbon monoxide (CO) incident information.

We actively support the Gas Industry Safety Group, the Gas Industry Engineers' Committee and other organisations including the Department of Trade and Industry and the Royal Society for the Prevention of Accidents.

During 2004, British Gas launched a safety campaign to highlight potential dangers in the home. The campaign emphasises child safety through a range of awareness materials aimed at parents, many of which are available at www.britishgassafety.co.uk.

British Gas has also been working closely with the National Union of Students to boost awareness, among landlords and students, of the dangers of CO poisoning.

'here to HELP' progress as at 31 December 2004

Activity	Status
Zones signed up	671
Households included	340,000
Zones completed	234
Household assessments completed	115,188
Charity referrals	28,775
Completed benefit checks	15,274
Total unclaimed benefits identified	£5.6 million
Potential average benefit gain per qualifying household	£1,308

Workplace

Because we believe that sustainable business success depends on our continued ability to recruit, retain and develop the right people, we have put in place a rigorous and innovative group-wide people strategy.

This strategy is focused on helping us to become an employer of choice, seeking to recruit and retain the best people in the employment market.

Our people management priorities are:

- to be clear about what we offer our people and what we expect from them;
- to promote diversity within the organisation, both in recognition of the inherent value of diversity and to ensure that we reflect the diversity of our customer base;
- to attract the best possible people as a means of delivering a world-class customer experience and achieving our business goals;
- to build leadership capability and actively manage succession planning;
- to develop our people so that they can realise their potential, maximise their contribution and gain maximum job satisfaction; and
- to promote a safe and healthy working environment.

Our aim is to help our people enjoy a work/life balance that is right for them and to ensure that they are able to give of their best. Our policy, wherever appropriate and consistent with operational requirements, is to encourage new ways of working that improve productivity and morale, increase diversity, develop

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

Mandeep, British Gas customer service adviser

talent and reduce costs.

Our flexible working project, WorkWise, for example, uses new technologies to offer flexible working arrangements to more than 1,000 employees.

The health and safety of everyone who works for Centrica is essential to the vitality of our business.

Accident incidence and absence rates were reduced in 2004 even though our headcount and industrial asset base increased. Our occupational health service provided employee and business benefits through early intervention and modern rehabilitation techniques.

We have more to do and will continue to strive for improvement and to subject our performance to stringent management review.

We are committed to creating a truly diverse and inclusive workplace with equality of opportunity for all. During 2004, we continued to implement our diversity strategy, which focuses on an integrated approach to diversity and inclusion issues among our employees and our customers and the sharing of best practice.

Our commitment to diversity is demonstrated, for example, by the setting up of the diversity and inclusion action group in January 2004, which is chaired by the managing director of Centrica Energy and ensures that the infrastructure is in place to enable the implementation of our diversity strategy throughout the group. In 2004 we developed a range of training materials to raise awareness and understanding of diversity amongst our employees, which we will continue to integrate with existing training programmes in 2005.

We continue to work with the government and a range of organisations, including the Employers' Forum on Disability, the Employers' Forum on Age and Business in the Community, to inform policy making and further develop our approach.

We promote active dialogue with our people and, for example, conduct an annual employee opinion survey. In 2004, approximately 80% of employees responded and overall employee engagement increased by 4% compared with 2003.

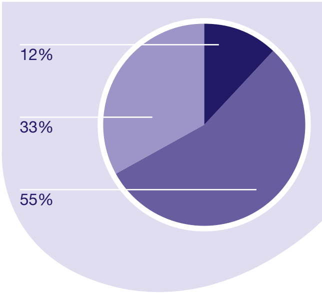
We offer a range of training and development opportunities for all our people, from our front-line engineers to our back-office specialists.

The British Gas Engineering Academy, for example, continues to provide a focus for our engineer recruitment and training activities. In 2004, more than 1,200 new engineers participated in training and development activities at the academy. We also launched an education programme to raise awareness of the range of engineering opportunities British Gas offers.

The quality of leadership in the group is critical to Centrica's success, and we provide development opportunities for managers throughout their careers. These are underpinned by our leadership competence framework, which defines the skills and behaviours that will help us achieve our strategic objectives. The management talent review process, introduced in 2002, enables us to monitor individuals' leadership potential and feeds into the succession planning and senior-level recruitment processes.

One of the more innovative leadership development initiatives in 2004 was 'Prison Partners', a mentoring programme run by Business in the Community, which pairs businesses with prisons. Centrica senior executives have worked with the management team at Wormwood Scrubs prison, providing and gaining insight on decision-making and strategy development in a complex and challenging environment.

Community contribution £7.35m



Community

In line with our overall corporate responsibility strategy, the theme of our community investment programme is 'ensuring access to the essentials'. We are involved only in those community projects that align with our core business activities, skills and experience.

This focus enables us to build a compelling case for community investment, enables our employees to identify with our community initiatives and helps to build the sustained commitment that our community partners value.

In 2004, we contributed £7.35 million (£6.6m in 2003) in cash, time and in-kind support to community causes.

Our approach to community involvement includes:

- the systematic management of our community investment;
- building long-term partnerships with community organisations and charities;
- the continuous evaluation of our community programme.

We aim to contribute to projects and programmes that:

- promote education skills and employability;
- create opportunities for employee involvement and development;
- enhance customer focus by targeting social problems – such as fuel poverty – that relate to our areas of expertise;
- encourage sustainable social enterprise by extending our values into the charity and voluntary sector; and
- deliver in-kind support.

Encouraging and supporting employee involvement in the community is integral to our approach to corporate citizenship. We believe that employee engagement in a broad range of issues of social concern is not only good for the community, but offers significant development opportunities and, as a consequence, benefits us as a business.

In January 2004, we launched an employee volunteering programme throughout British Gas, encouraging employees to take up to two days off each year to spend on volunteering assignments in their local communities. In conjunction

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

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

Jaswinder, British Gas customer

with ongoing activities, employees throughout Centrica invested 13,000 volunteering hours during 2004, which equates to around £375,000 of in-kind support.

Every year our employees nominate a charity partner as the principal focus of their fundraising activities. In 2004, our partnership with Cancer Research UK raised £690,000. Our charity partner for 2005 is NCH (formerly National Children's Home).

In addition to the provision of practical measures and advice on energy efficiency, the British Gas 'here to HELP' programme also offers advice on claiming benefits and a range of services from our charity partners. As at 31 December 2004, the programme had generated nearly 29,000 referrals to charities and identified £5.6 million of unclaimed benefits.

Other major community initiatives in the year included One.Tel's cause-related marketing partnership with the autism charity TreeHouse, and Direct Energy's involvement with Raising the Roof in Canada and Star of Hope in Texas, to combat homelessness.

Environment

We have a responsibility to manage the impact of our activities on the environment and to help our customers use our products and services in a way that reduces their impact on the environment.

Our priorities for managing our environmental impact are:

- lowering our carbon profile by reducing our emissions;
- continuing to implement and develop our renewable energy strategy;
- helping our customers reduce their impact on the environment; and
- involving employees in championing environmental improvements.

In 2004, we made significant improvements in energy management, waste reduction, recycling and involving our employees in helping to manage our environmental impact.

The acquisition of gas-fired power stations in 2004 and the continued operation of a major gas storage facility has significantly shaped our environmental impact. We are introducing an environmental management system (EMS) designed to meet the requirements of ISO 14001 across our established upstream operation and British Gas Home Services.

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

Expenditure on our energy efficiency commitment (EEC) increased to over £88 million in 2004 (£61 million in 2003). During the year, more than eight million energy efficiency products were subsidised from EEC expenditure, benefiting around two million households.

In a new partnership with Currys, we are providing subsidies on energy-efficient retail products. Cavity wall and loft insulation sales reached record levels, with over 250,000 households receiving free or subsidised products. And 340,000 households received a range of energy efficiency products and other services through our 'here to HELP' programme during 2004.

We also introduced online, paperless billing for British Gas residential customers. For every 100 customers who sign up, we contribute to the planting and management of a tree. As a result, more than 6,000 trees were planted in 2004 which will absorb more than 1,000 tonnes of carbon dioxide during their lifespan.

In our business-to-business markets in Britain and North America, we have a number of products to help our customers monitor and run their buildings more efficiently. Additionally, in Britain we are able to provide energy from renewable resources to our business customers at no extra cost. Centrica Energy is investing £750 million, alongside joint venture partners, to develop renewable electricity generation assets in the next five years. This will make us one of the largest investors in wind farms in Britain.

Wind farm developments such as these will create greater diversity of power production and help to improve future security of supply.

We continued our 'Natural Capital' campaign in 2004 to raise employee awareness of and participation in environmental issues.

Engagement initiatives in 2004 included a drive to reduce the numbers of PC monitors left on out of hours, a challenge to reduce paper consumption and improve recycling, group support for National Recycling and Energy Efficiency weeks and a challenge issued to all Centrica people to 'green the way we work'.

Key priorities for 2005

In addition to managing our ongoing corporate responsibilities, our priorities for 2005 include:

- developing innovative and impactful initiatives to tackle fuel poverty and support vulnerable customers;
- enhancing our quantitative reporting of our people management activities in line with the DTI-endorsed recommendations in the Kingsmill 'Accounting for People' report on the management of human capital;
- focusing on corporate responsibility issues in our international upstream activities and in our commercial supply chain;
- continuing to reduce our carbon profile by meeting our five-year environmental targets and publishing an environmental strategy for the next five years; and
- extending our employee volunteering activities to all Centrica employees.

Further information

More detailed information on the development and implementation of our corporate responsibility strategy can be found in our independently assured corporate responsibility report 2004 or on our website:

www.centrica.com/responsibility

Returning more value to shareholders

During the year we returned over £1.5 billion to shareholders. Our share price outperformed the FTSE 100 Index by more than 4% and since demerger in 1997 we have outperformed this index by more than 250%

Centrica's aim is to achieve a total shareholder return (TSR) ranking in the first quartile of UK FTSE 100 Index 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 summarises our TSR performance over recent years against our comparator FTSE 100 Index group.

The group's closing share price on 31 December 2004 was 236.25 pence (31 December 2003: 211 pence), resulting in a market capitalisation of £8.9 billion (2003: £9.0 billion). This is after returning over £1.5 billion to shareholders by way of special and ordinary dividends and the commencement of a share buyback programme. World stock markets continued their recovery in 2004 with the FTSE 100 Index rising by over 7%. The group's share price outperformed the FTSE 100 Index by 4.4% (2003: 9.8%). Since demerger in February 1997, Centrica's share price has outperformed the FTSE 100 Index by 251%.

Earnings

Earnings increased by £882 million to £1,382 million in 2004 (2003: £500 million). This reflected improved operating profit, up £103 million, offset by taxation up from £266 million to £306 million, lower goodwill amortisation and the exceptional items discussed below.

Earnings* were up 18% to £839 million (2003: £714 million). This represents a return on capital employed over the year of nearly 32% and nearly 9.4% on our average market capitalisation.

Operating profit

Operating profit* increased to £1,227 million from £1,058 million in 2003, with improvements in all business areas except Centrica Energy, where the industrial and wholesaling segment recorded losses arising mainly from legacy sales contracts.

Exceptional items and goodwill amortisation

During the year, operating exceptional charges of £104 million (2003: £nil) arose as a result of business restructuring costs (£105 million) and impairment cost as a result of water ingress into a gas well (£50 million), offset in part by the release of a provision (£51 million) in respect of a long-term take-or-pay contract. These are more fully explained in note 5. In addition, a non-operating exceptional profit of £740 million after tax arose from the disposal of the AA (2003: £41 million charge after tax). The group's goodwill amortisation charge for the year reduced to £123 million from £161 million in 2003, mainly as a result of the disposal of the Goldfish credit card and loan business in 2003 and the AA in 2004.

Net interest

Net interest charged to the profit and loss account was £19 million compared with £52 million in 2003 and was covered 64 times by operating profit* compared with 20 times a year earlier. The reduction in interest payable was due to significantly lower average indebtedness mainly as a result of the proceeds from the disposal of the AA, offset by the special dividend and share buyback programme.

Taxation

The tax charge of £349 million in 2004 represents an effective 29% rate on profits adjusted for goodwill amortisation and exceptional items (2003: £282 million, representing an effective rate of 28%). The overall charge reflects rates higher than 30% for offshore gas production and North America, offset by the recognition of deferred tax assets during 2004 which were unrecognised at the last year end.

Earnings per share and dividends

Basic earnings per share grew from 11.8 pence to 33.0 pence and adjusted earnings per share grew from 16.8 pence to 20.0 pence. Over the last three years the adjusted earnings per share have grown by a compound annual average of over 18%, facilitating a progressive dividend policy. In addition to the interim and special dividends previously paid, we are now proposing a final dividend of 6.1 pence giving a total ordinary dividend of 8.6 pence for the year (2003: 5.4 pence). This is in line with our previous commitment to increase our payout ratio to 40% of earnings* in 2004 and 50% in 2005 under UK GAAP. In addition, we have commenced our share buyback programme and by the year end had spent £205 million purchasing our own shares.

Cash flow

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

Group operating cash inflow from discontinued operations was £120 million, compared to an outflow in 2003 of £224 million.

Total capital expenditure and financial investment was £351 million this year, up from £282 million in 2003. This includes £29 million (2003: £72 million) of costs capitalised for information technology investments associated with our new customer relationship management (CRM) and billing infrastructure in British Gas. Proceeds from disposals of £1,588 million (2003: £409 million) arose from the disposal of the AA. Acquisition expenditures of £591 million (2003: £117 million), net of cash and overdrafts acquired, included our purchases of the Killingholme, Bastrop and Frontera power stations, the acquisition of one million customers and a gas producer in Alberta, the Residential Services Group, the Dyno group and Telco Global. The group's net cash inflow before management of liquid resources and financing was, as a result, £482 million (2003: £652 million).

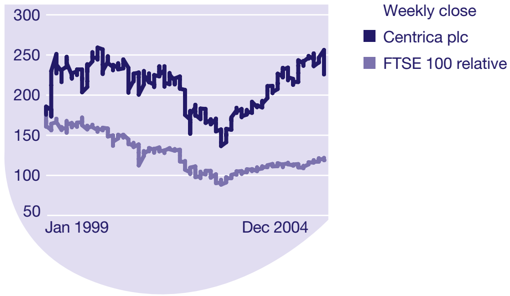
Consolidated balance sheet

The net assets of the group decreased during the year from £2,737 million to £2,571

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

Reference to notes throughout this section refers to the Notes to the financial statements on pages 39 to 72

Centrica share performance
(pence)



million as a result of the payment of the special dividend and the share buyback programme.

Fixed assets
Intangible fixed assets of £1,006 million (2003: £1,614 million) represented goodwill that arose on acquisitions. During the year, further goodwill of £262 million arose. Goodwill is amortised by way of charges against profits over periods ranging from 5 to 20 years.

Tangible fixed assets, mainly gas field assets and power stations, had a net book value of £2,832 million (2003: £2,730 million). During the year gas field assets and power stations were acquired for £421 million. At the year end, the net proven and probable gas reserves represented by our field interests amounted to 2,136 billion cubic feet (bcf) (2003: 2,611 bcf), which included 335 bcf (2003: 351 bcf) in North America. At the year end, hardware and software costs relating to our major investments in CRM and billing systems had a net book value of £268 million (2003: £297 million), the reduction arising from the sale of the AA.

The group's investment in joint ventures was £88 million (2003: £94 million), comprising its share of gross assets of £432 million and share of gross liabilities of £344 million. The group's share of net debt in joint ventures was £215 million. These investments related principally to the group's 60% interest in Humber Power Limited and 50% of Luminus NV. In addition, loans to joint ventures of £24 million were outstanding at the year-end (2003: £nil) in connection with our investment in an offshore wind farm.

Working capital
Stock and debtors totalling £3,494 million (2003: £3,211 million) were offset by short-term creditors, excluding debt, of £3,785 million (2003: £3,698 million). Debtors increases were in line with the continued growth in the energy businesses and the prepayment effect of a one-off contribution of £100 million made to the pension schemes in December. The increases in creditors arose from higher taxation and dividend liabilities at the year end.

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

Provisions and other creditors due after more than one year
Provisions and other creditors due after more than one year, excluding debt, ended the year little changed at £1,167 million (2003: £1,164 million), as explained more fully in notes 18 and 19.

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, 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 volumetric risks, in particular weather. Where appropriate, financial instruments are used to manage financial risks as explained below and in note 29.

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.

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's policy includes maintaining a minimum level of committed facilities and 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 29. As at 31 December 2004, the group had undrawn committed facilities of £915 million, which were used to support the US commercial paper programme.

Currency risk
Through wholly-owned US and Canadian subsidiaries, the group has operational exposure in Canadian and US dollars. The group's policy is to maintain the sterling value of its foreign currency investment through balance sheet hedging instruments. Canadian dollar balance sheet 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 balance sheet 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 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 swapped into either 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. At the year-end debt has been raised on both a fixed and floating rate basis.

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

Net (debt)/cash (£m) excluding Goldfish and non-recourse debt

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 executive.

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 profiles of our customer energy requirements. 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 taking account of forward prices and market liquidity.

The net gains from trading in energy derivatives are set out in note 29.

Acquisitions, including the Killingholme, Bastrop and Frontera power stations, have further contributed to the group's strategy to cover a proportion 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. The weather derivatives market remains relatively immature. We again entered into a number of weather derivative transactions for the winter period October 2004 to March 2005 to hedge part of the group's weather exposure in Britain.

Accounting policies
The principal accounting policies are described in note 1 and remain unchanged over last year, except for the group's policy in respect of own shares held under trust. This policy has changed in line with the requirement of UITF 38 and Revised UITF 17 and is explained in more detail in note 2.

The group complies with the disclosure requirements of FRS 17 Retirement Benefits, which are set out in note 26. If the standard had been fully adopted in 2004, profit would have been increased by £169 million (2003: £71 million decrease) of which £245 million related to the disposal of the AA. Net assets would have been reduced by £558 million (2003: £720 million).

Conversion to International Financial Reporting Standards
UK listed companies are required to comply with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) from 2005 onwards. The adoption of these standards will lead to significant changes in the group's accounting policies, compared to the current UK GAAP basis.

Centrica has had a project team in place for over a year, comprising senior executives from across the group, reporting to the audit committee. Their remit has been to assess the impact of IFRS on the group and to manage this complex conversion process to ensure that the group's systems, processes, procedures and staff were ready to implement the new standards from 1 January 2005.

IFRS brings the potential for earnings volatility resulting from the requirement to mark-to-market certain of the group's energy contracts. In addition we have identified the following main areas of impact:

- the accounting treatment of pensions, where the fair value of scheme assets and liabilities will be brought on to the balance sheet, along with the associated deferred tax asset; this will introduce a net liability on to the balance sheet, similar to that under FRS 17;
- share schemes where costs will be recognised for share options and awards based on the fair value (rather than the intrinsic value under UK GAAP) of the awards calculated at the grant date using an appropriate option pricing model;
- petroleum revenue tax, which is expected to be accounted for as a tax rather than a cost of sale and the basis of calculation to change from a unit of production basis, over the life of the field, to a deferred tax approach. This would improve margins but increase the effective tax rate, although the timing of our cash payments will remain entirely unaffected;
- goodwill, which under UK GAAP is amortised on a straight-line basis over periods up to 20 years, will, under IFRS, not be amortised and so the charge will be removed from the profit and loss account. Instead, goodwill will be subjected to annual impairment reviews, and, if impairment shortfalls are identified, will be recorded in the profit and loss account;
- certain power purchase arrangements, treated under UK GAAP as executory contracts, will be reported under IFRS as finance leases and as a result will bring fixed assets and related debt liabilities on balance sheet, affecting net debt levels and gearing ratios.

Centrica believes it is well placed to finalise this transition and for internal purposes has reported under IFRS from the start of 2005. Externally, we will report our 2005 interim statements under IFRS and our annual report and accounts for 2005 will be presented under IFRS conventions.

In keeping with the Committee of European Security Regulators' guidelines, we will be making available our 2004 results, restated under IFRS, in advance of announcing our 2005 interim statements. These will not include the impact of IAS 39 on our energy contracts as the group will take the exemption from applying this standard retrospectively.

Phil Bentley
Group Finance Director

Board of directors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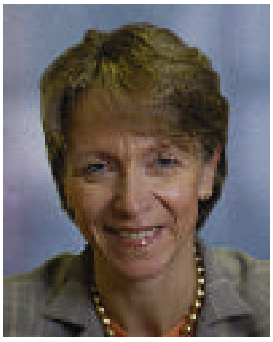
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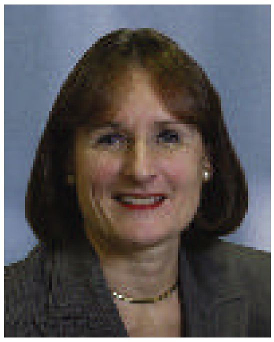
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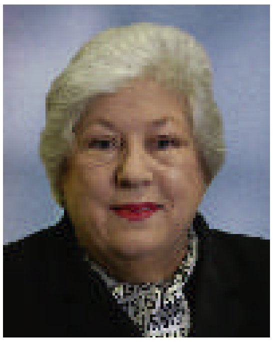
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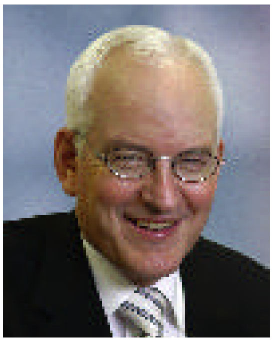
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1. Roger Carr
Chairman (58) N.
Roger Carr joined the board as a non-executive director in 2001 and was appointed chairman in May 2004. He is chairman of Mitchells & Butlers plc, deputy chairman of Cadbury Schweppes plc and a senior adviser to Kohlberg Kravis Roberts & Co Ltd. He was previously chief executive of Williams plc and chairman of Thames Water plc and Chubb plc.

2. Helen Alexander CBE
Non-executive director (48) A.N.R.
Helen Alexander joined the board in January 2003. She is chief executive of The Economist Group, a trustee of the Tate Gallery and an honorary fellow of Hertford College, Oxford. Formerly, she was a non-executive director of BT Group plc and Northern Foods plc.

3. Phil Bentley
Group finance director (46) E.
Phil Bentley joined Centrica plc as group finance director in 2000. Prior to that, he was finance director of UDV Guinness from 1999 and group treasurer and director of risk management of Diageo plc from 1997. Previously, he spent 15 years with BP in several international finance roles. He is also a non-executive director of Kingfisher plc.

4. Mark Clare
Deputy chief executive and managing director, British Gas (47) E.
Mark Clare joined British Gas plc in 1994 as group financial controller, and was appointed finance director of Centrica in 1997. In 2000, he was appointed deputy chief executive, and from January 2002, managing director of British Gas. He is a non-executive director of BAA plc, The Energy Saving Trust Ltd and The Energy Retail Association Ltd.

5. Mary Francis
Non-executive director (56) A.R.
Mary Francis joined the board in June 2004. She is Director General of the Association of British Insurers until 31 March 2005 and was formerly a senior civil servant in the Treasury and the Prime Minister's office. She is a director of the Bank of England, a member of the Press Complaints Commission and a trustee of the Almeida Theatre.

6. Sir Roy Gardner
Chief executive (59) E.N.
Sir Roy Gardner was appointed finance director of British Gas plc in 1994. From 1995 he had responsibility for the business units which subsequently formed Centrica plc. Prior to joining British Gas he was managing director of GEC-Marconi Ltd and a director of GEC plc. He is chairman of Manchester United plc, president of Carers UK, president of the Employers' Forum on Disability and chairman of the National Apprenticeship Task Force.

7. Patricia Mann OBE
Senior non-executive director (67) A.N.R.
Patricia Mann was a non-executive director of British Gas plc from December 1995 until Centrica was demerged in February 1997. She was a vice president international of J Walter Thompson Co Ltd and remains a director of JWT Trustees Ltd. She is on the board of the UK Centre for Economic and Environmental Development and National Trust Enterprises, is a trustee of the AA Motoring Trust and was formerly a director of the Woolwich Building Society and Yale and Valor plc.

8. Paul Rayner
Non-executive director (50) A.R. Australian citizen
Paul Rayner joined the board in September 2004. He has been finance director of British American Tobacco plc since January 2002. In 1991 he joined Rothmans Holdings Ltd in Australia, holding senior executive appointments, and became chief operating officer of British American Tobacco Australasia Ltd in September 1999.

9. Jake Ulrich
Managing director, Centrica Energy (52) E. US citizen
Jake Ulrich was appointed to the board on 1 January 2005. He was appointed managing director of Centrica Energy in 1997. Between 1994 and 1997 he was managing director of Accord Energy Ltd, a joint venture between Natural Gas Clearinghouse (NGC) and British Gas. He previously worked for NGC, Union Carbide Corporation and the OXY/Mid Con/Peoples Energy Group.

10. Paul Walsh
Non-executive director (49) A.N.R.
Paul Walsh joined the board in March 2003. He is chief executive of Diageo plc, having previously been its chief operating officer and served in a variety of finance roles. He is a non-executive director of Federal Express Corporation and a governor of the Henley Management Centre.

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

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

The directors present their report and the audited financial statements of Centrica plc for the year ended 31 December 2004.

Directors

The board of directors section on page 22 gives details of the current directors. All served throughout the year except for Mary Francis and Paul Rayner who were appointed as non-executive directors on 22 June and 23 September 2004 respectively. Sir Michael Perry retired as director and chairman on 10 May 2004, Robert Tobin resigned from the board on 23 September 2004 and Roger Wood stood down from the board on 30 September 2004. Jake Ulrich was appointed an executive director with effect from 1 January 2005.

Roger Carr was appointed chairman at the conclusion of the annual general meeting (AGM) held on 10 May 2004.

In accordance with the articles of association, Patricia Mann, Mary Francis, Paul Rayner and Jake Ulrich will retire from office at the 2005 AGM. Upon the recommendation of the nominations committee, Patricia Mann will be proposed for re-election to serve for a further period of up to one year and Mary Francis, Paul Rayner and Jake Ulrich will be proposed for election to serve a three-year term.

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 27 to 33).

Principal activities

The principal activities during the year were:

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

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

Business review

The chairman's statement on pages 2 to 3 and the operating and financial review on pages 9 to 18 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 19 to 21 of this report.

Major acquisitions and disposals

Major acquisitions made during the year were as follows:
(see note 24 on pages 56 to 61 for further details)

- 31 March 2004 – 33.3% interest in the UK side of the Statfjord oil and gas field, for £43 million.
- 4 May 2004 – One million customers in Alberta, for £55 million.
- 1 June 2004 – Bastrop Energy Partners LP, which owns a 540MW gas-fired power station in Texas, for £79 million.
- 8 June 2004 – Killingholme 652MW CCGT power station for £140 million.
- 23 September 2004 – Telco Holdings Ltd, which has over 250,000 customers, for £45 million and the assumption of £4 million of debt.
- 30 September 2004 – Dyno group of companies, which provides specialist on-demand drain maintenance, for £71 million.
- 13 October 2004 – RSG Holding Corp which provides plumbing, heating and air conditioning installation and maintenance in USA, mainly Texas and Ohio, for £84 million.
- 22 December 2004 – Frontera Generation LP which owns a 477MW gas-fired power station in Texas, for £68 million.

Major disposal during the year

On 30 September 2004 the company completed the sale of the AA, for a profit after tax of £740 million.

Post balance sheet events

Post balance sheet events are disclosed in note 30 on page 72.

Dividends

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

Related party transactions

Related party transactions are set out in note 28 on page 69.

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 2004 was 32 (2003: 33) for the group (excluding Accord Energy Ltd) and 34 days (2003: 20 days) for the company.

Employment policies

During 2004, the group employed an average of 43,414 people; 39,522 were employed in the UK, 705 in the rest of Europe and 3,187 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 people from different minority groups in the community including people with disabilities, carers and lone parents. Centrica is actively working with a number of organisations in the diversity arena including the Employers' Forum on Disability, the Employers' Forum on Age, Race for Opportunity, Opportunity Now, Carers UK, Working Families and Jobcentre Plus.

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 16 and 17.

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, a Sharesave scheme enables eligible UK employees to acquire shares in the company at the end of a three- or five-year saving period. A total of 13,456 employees participate in the scheme.

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 5,435 employees participate in the plan.

In North America, the group operates an employee share purchase plan, which allows eligible Canadian and US employees to buy Centrica shares, subject to monthly limits, out of after-tax pay. In addition, after two years, the company awards one free matching share for every two purchased shares held. A total of 796 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 15 to 18. A separate corporate responsibility report will be published in April and will also be available on the company's website www.centrica.com.

Charitable and political donations

An outline of the group's involvement in the community appears on pages 17 to 18. Charitable donations in the UK during the year amounted to £5.8 million (2003: £5.3 million). In line with group policy, no donations were made for political purposes. In the normal course of business, Centrica has paid for its management to attend events at which politicians and other opinion-formers have been present but does not consider these payments to be political donations.

Share capital

The company's authorised and issued share capital as at 31 December 2004, together with details of the share consolidation conducted in October 2004 and shares issued and repurchased during the year, is set out in note 20 on page 54.

Authority to purchase shares

The directors were authorised at the 2004 AGM to purchase the company's own shares, within certain limits and as permitted by the articles of association. A share repurchase programme of up to £500 million was announced on 1 July 2004 and commenced on 9 August. The authority to purchase the company's own shares was renewed at the extraordinary general meeting (EGM) held on 21 October 2004. The directors will seek to renew their authority at the 2005 AGM.

A total of 84,875,000 shares were repurchased and cancelled during the year for an aggregate consideration of £205 million. This comprised 1.32% of the issued share capital from 9 August 2004 until the share consolidation on 25 October 2004 (56.5 million shares of $5^5/_9$ pence each for a consideration of £138.2 million) and 0.75% of the issued share capital from that date until the end of the year (28.3 million shares of $6^{14}/_{81}$ pence each for a consideration of £66.5 million). Between 1 January 2005 and 21 February 2005, a further 19,670,500 shares of $6^{14}/_{81}$ pence each were repurchased and cancelled for an aggregate consideration of £45 million. It is intended that further shares will be repurchased under the programme during the current financial period (see note 30 on page 72).

Material shareholdings

At 21 February 2005, the following material shareholdings were recorded in the register maintained in accordance with the Companies Act 1985:

Legal & General Group	155,248,806	4.13%
Lloyds TSB Group	139,775,319	3.72%
Barclays	138,351,767	3.68%

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.

Corporate governance

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

The board

An effective board of directors leads and controls the group. The board, which met 11 times during the year, has a schedule of matters reserved for its approval. This schedule and the terms of reference for the board committees have been made available on request throughout the year and, since December 2004, on our website www.centrica.com.

The board is responsible for:
- the development of strategy and major policies;
- the review of management performance;
- the approval of the annual operating plan, the financial statements and major acquisitions and disposals;
- the system of internal control; and
- corporate governance.

One of its meetings each year is substantially devoted to the development of strategy. Comprehensive briefing papers, including financial information, are circulated to each director one week prior to board meetings. 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 general counsel and company secretary.

Overall attendance at meetings during 2004 was: 97% for the board (Helen Alexander, Paul Rayner and Paul Walsh each having given their apologies in respect of one meeting); 100% for the audit committee; 90% for the remuneration committee (Helen Alexander and Paul Rayner each having given their apologies in respect of one meeting); and 100% for the nominations committee.

Board membership

The names of the directors and their details, including the board committees on which they serve, appear on page 22. There is a clear division of responsibilities between the chairman and chief executive, which has been formalised in writing and agreed by the board; and there is a balance of executive and independent non-executive directors.

Throughout the year, the chairman (both former and current) and the other non-executive directors were independent of management. In December 2004, as part of its annual review of corporate governance, the board considered the independence of the non-executive directors (other than the chairman) against the criteria in the Code and determined that each was independent.

Roger Carr was determined as being independent by the board prior to his appointment as chairman in May 2004.

Throughout the year, the senior independent director was Patricia Mann. Her responsibilities include being available to shareholders if they have concerns that contact through the normal channels has failed to resolve or for which such contact is inappropriate. All of the independent non-executive directors are members of the audit and remuneration committees, as the board believes that each of them adds value to the business of those committees. 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. Immediately prior to his appointment as chairman, Roger Carr resigned from membership of those committees although he attended their meetings by invitation. The former chairman of the company was a member of both the audit and remuneration committees until his retirement in May 2004. Accordingly, during the period January to May 2004, the composition of those committees was not fully compliant with the Code requirement that all the members should be independent non-executive directors.

Throughout the year, the non-executive directors, including the chairman, met independently of management on a regular basis. To ensure compliance with the Code, arrangements have been made, from 2005, for the senior independent director to chair a meeting of the independent non-executive directors in the absence of the chairman to appraise the chairman's performance. In 2004, the chairman's performance was appraised as part of the board evaluation process (see below).

Board appointments, evaluation and training
There is a formal, rigorous and transparent procedure for the appointment of new directors to the board. This is described in the section on the nominations committee below. 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 names of the directors subject to re-election appear on page 23.

During the year, the board conducted, with the assistance of an independent external facilitator, Spencer Stuart, a formal and rigorous evaluation of its own performance and that of its committees and individual directors, including the chairman. The process involved the facilitator meeting separately with each of the directors and the general counsel and company secretary. The output from those interviews was compiled into a report prepared by the facilitator and presented to the board at its meeting in July. At that meeting, a number of recommendations to address the issues raised by the board evaluation process was presented by the chairman and discussed and endorsed by the board. Subsequently, the chairman acted upon all of the recommendations endorsed by the board. The board intends to conduct a further evaluation of its performance during 2005.

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.

Board committees
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 (available on www.centrica.com) 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. During the year, the activities of the customer service committee were assumed by the executive committee.

Executive committee
The executive committee comprises the executive directors, the general counsel and company secretary, the managing director of Centrica North America and the group human resources director. It is chaired by Sir Roy Gardner. It meets weekly to oversee 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 among the executive directors and senior management.

Audit committee
From January to May 2004, the committee comprised the former chairman of the company and the independent non-executive directors. During that period the committee was chaired by Roger Carr. Immediately prior to his appointment as chairman of the company in May 2004, Roger Carr stood down as a member of the audit committee. The July 2004 audit committee was chaired by Paul Walsh. Mary Francis and Paul Rayner became members of the committee upon their respective appointments to the board. The board was of the view throughout the year that, collectively, the members of the audit committee had appropriate financial experience. However, the Code provision requiring at least one member of the committee to have recent and relevant financial experience was only strictly satisfied upon the appointment in September of Paul Rayner, a finance director of a FTSE 100 company. Paul Rayner was appointed chairman of the committee in November 2004.

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.

In 2004, the audit committee met four times and discharged its responsibilities, as set out in its terms of reference, by receiving comprehensive reports from the director of business assurance, other senior management and the external auditors. The committee commissioned further reports in response to developing issues, as appropriate. At two of its meetings, the committee met with the external auditors in the absence of the director of business assurance and other management. The issues discussed by the committee and the conclusions reached are reported by the committee chairman to the next board meeting.

Note 4(v) to the financial statements on page 45 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 auditor independence and have confirmed their independence in writing.

Remuneration committee
From January to April 2004, the remuneration committee comprised the former chairman of the company and the independent non-executive directors. Immediately prior to his appointment as chairman of the company in May 2004, Roger Carr stood down as a member of the committee. The committee met four times during 2004 and was chaired throughout the year 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 27 to 33.

Nominations committee
The nominations committee comprises Helen Alexander, Sir Roy Gardner, Patricia Mann, Paul Walsh and Roger Carr, who has chaired it since his appointment as chairman of the company in May 2004. Prior to that, the committee was chaired by Sir Michael Perry. The composition of the committee was not fully compliant with the Code requirement for a majority of its members to be independent non-executive directors until the appointment of Paul Walsh in December 2004.

The committee makes recommendations to the board for the appointment of replacement or additional directors. The nominations committee is also responsible for succession planning and board evaluation.

In 2003, the committee considered the succession to Sir Michael Perry as chairman of the company as described in the 2003 corporate governance report. It 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. In 2004, the committee met five times and considered the reappointment of directors retiring by rotation at the AGM, the board evaluation process (described above), succession planning and the appointment of additional executive and non-executive directors.

The committee regularly reviews the balance of skills, knowledge and experience on the board against current and future requirements of the company and, as appropriate, draws up a list of required attributes. Following the publication of the Code in 2003, the committee was mindful of the requirement that at least one member of the audit committee should have recent and relevant financial experience. The search for an appropriate individual was undertaken as a priority, leading to the appointment of Paul Rayner in September 2004.

External search consultants were engaged in connection with the appointment of the new chairman and non-executive directors.

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 who hold their shares within Crest can cast their votes by proxy using the Crest electronic proxy appointment service. Shareholders can register to receive all their communications online, benefiting both themselves and the company.

The company also holds regular meetings with its major shareholders. The chairman attends the meetings at which the preliminary and interim results are presented to major investors and analysts. In the six-month period following his appointment as chairman of the company, Roger Carr met with a number of major institutional shareholders to gain a first-hand understanding of any issues or concerns they may have had. The chairman reported his findings to the board on an ongoing basis. This was in addition to the formal reports of investor feedback that are presented to the board at least twice a year. The board has commissioned an independent survey of shareholder opinion for 2005.

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 promoted and 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, social, environmental and ethical, health and safety, trading and customer service. At each of its four meetings in 2004, the audit committee received a comprehensive internal control report, which allowed it to track a number of issues and monitor performance against objectives. The chairman of the audit committee reported the issues discussed and conclusions reached at the following board meeting.

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, which is subject to undertakings given to the Secretary of State for Trade and Industry, operates separately but to the same standards of internal control and risk management as 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 (described above) throughout the period from 1 January 2004 to the date of this report and is satisfied that the group complies with the Turnbull Guidance on Internal Control.

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 36 to 78.

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

Grant Dawson
General Counsel and Company Secretary
24 February 2005

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

The committee makes recommendations to the board, within formal terms of reference, on the policy and framework of executive remuneration and its cost to the company. The committee is also responsible for the implementation of remuneration policy and determining specific remuneration packages for each of the executive directors. It has access to advice provided by the group head of reward (Mike New), the group human resources director (Anne Minto), the general counsel and company secretary (Grant Dawson), the chief executive (Sir Roy Gardner) and external consultants. During 2004, the committee consulted, but did not formally appoint, Towers Perrin and Mercers, who provided written reports 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, which will be submitted to the forthcoming AGM for approval, explains how the company has applied the principles in the new Combined Code on Corporate Governance that relate to directors' remuneration during the period. No director is involved in the determination of, or 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 reward for its executive directors and other senior executives, taking into account the company's performance, the markets in which the group operates and pay and conditions elsewhere in the group.

In constructing the remuneration packages, the committee aims to achieve a balance between fixed and variable compensation for each director. Accordingly, a significant proportion of the remuneration package depends on the attainment of demanding performance objectives, both short and long-term. In agreeing the level of base salaries and the annual performance bonus scheme, the committee takes into consideration the potential maximum 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 only paid on 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.

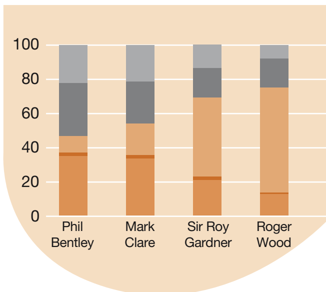
As a matter of policy, all executive directors and those senior executives immediately below board level are expected to retain a minimum shareholding in the company at least equal in value to the executive's base salary.

Executive directors also participate in a contributory, final salary pension scheme (details of which are given on page 33).

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 other senior executives in a marketplace that is challenging and competitive in both commercial and human resource terms. It is intended that the current remuneration policy, of which the ESOS and LTIS elements have been approved by shareholders, will continue for 2005 and succeeding years.

In 2004, the total compensation of the executive directors, detailed on page 30, consisted of components in the following proportions:

Relative proportions of the components of executive directorsí remuneration: 2004



Fixed components
■ Salary ■ Benefits ■ Pension

Variable components
■ Performance Bonus ■ ESOS + LTIS

Note: Salary and benefits are the actual amounts received during 2004; pension is the increase in actual transfer value for 2004 over the notional transfer value for 2003 (i.e. adjusted as explained in note (iii) on page 33) less, in respect of Phil Bentley, a transfer in from a previous employer explained in note (vi), less the director's contributions during 2004; performance bonus is that payable in respect of 2004; and ESOS and LTIS are the estimated value of the awards made in 2004 based on a Black Scholes model, provided that all performance conditions are met in full at the end of the relevant performance periods.

The total emoluments of the executive directors are disclosed on page 30. The total emoluments of the six senior executives immediately below board level for 2004, calculated on the same basis as those of the executive directors, fell into the following bands:

Bands £000	No. of senior executives
800-900	1
700-800	–
600-700	1
500-600	3
400-500	1

Note: Two of the senior executives served for only eleven months of the year.

Components of remuneration

Base salary

The committee seeks to establish a base salary for each executive director and other senior executives 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 marketplace, continues to incentivise the executive directors and other senior executives and aligns their interests with those of shareholders. For 2004, the maximum bonus payable to executive directors, should every single element of every objective be achieved in full, was 100% of base salary. In 2004, 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 specific business responsibilities, the scheme is structured to reflect the performance of their business as well as that of the group. For 2004, no bonus at all is payable to an individual whose agreed minimum personal targets were not met. The maximum bonus payable to other senior executives, assuming all objectives are achieved in full, reduces on a sliding scale normally from 80% to zero, with the three categories of target in the same proportions as for the executive directors.

For 2005, the committee has changed the bonus structure so that 65% of the maximum achievable bonus relates to financial performance targets, 25% to customer and employee satisfaction and 10% to personal performance. To reflect this increased emphasis on financial performance, a bonus will now be forfeited only if overall performance is deemed to be unsatisfactory.

Executive share option scheme (ESOS)

If and to the extent that performance conditions are satisfied, options granted under the ESOS become exercisable three years after the date of grant and 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 items and goodwill amortisation. The committee believes that this method of calculating EPS provides an objective, 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.

Options granted from 2001 to March 2004 under the ESOS permitted the company's EPS to be measured annually for a further two years from the date of grant of the options, with the performance conditions increasing proportionately. Having reviewed market practice regarding the retesting of performance measures, the committee removed this element in respect of all option grants from September 2004. The committee continues to believe that, in relation to the ESOS, EPS growth in excess of RPI growth is the most appropriate measure for determining the increase in value delivered to shareholders by the company's executive directors and other senior executives. The committee reviews the appropriateness of the performance measure and the specific targets set when considering each new grant of options. During 2005, it will consider the impact on EPS of the change in reporting under International Financial Reporting Standards, some uncertainties of which are currently unresolved, in order to determine whether EPS will remain the most appropriate and consistent performance measure for this scheme.

In March 2004, 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 32. 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.

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. This ensures that the executives are not rewarded unless the company has outperformed its peers in creating shareholder value. The committee has determined that, for the purpose of the LTIS, the most appropriate comparator group for the company is the companies comprising the FTSE 100 at the start of the relevant performance period (the LTIS comparator group). The committee reviews the appropriateness of the performance measure and the specific target set when considering each new allocation of shares under the LTIS.

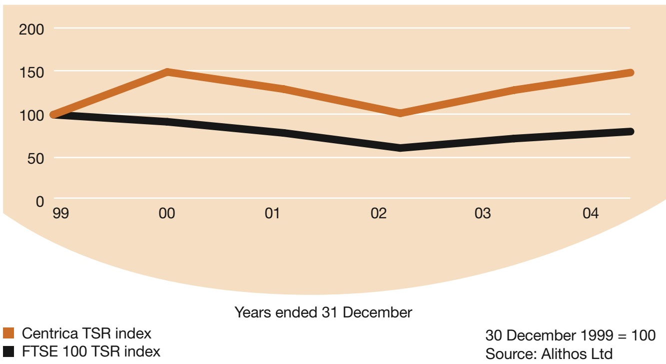
Allocations made prior to May 2001 were subject to a performance period of either three or four years (at the participant's choice), followed by a retention period of two years. Changes to these arrangements were approved at the 2001 AGM. Allocations made from May 2001 are released to the participant under normal circumstances after the three-year performance period, provided, and to the extent that, the performance conditions have been met. However, prior to the release of share allocations, the committee reviews whether the extent to which the performance condition has been achieved is a genuine reflection of the company's financial performance. In assessing the extent of satisfaction of the performance condition, the committee uses data provided by Alithos Ltd.

The actual number of shares released to the participant depends on the company's TSR over the 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 scale from 100% to 40%.

In April 2004, 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 be transferred to each executive director upon satisfaction of the performance conditions appears on page 31.

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 going forward will be satisfied by the issue of new shares.

TSR – Centrica and FTSE 100: 2000-2004



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

As required by Schedule 7A of the Companies Act 1985, a rolling definition of the FTSE 100 has been used, 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 graphs for the LTIS awards that vested in October 2004 are shown on page 31.

Pension

Executive directors also participate in a contributory, final salary pension scheme (details of which are given on page 33).

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 to participate in the company's Inland Revenue-approved sharesave and share incentive plans, which are open to all eligible employees on the same basis, providing 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 30.

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 received in respect of external appointments are retained by the individual director.

In 2004, Phil Bentley received £51,667 as a non-executive director of Kingfisher plc, Mark Clare received £49,000 as a non-executive director of BAA plc and Sir Roy Gardner received £100,000 as chairman of Manchester United plc.

Non-executive directors

Non-executive directors including the chairman do not hold service contracts. Their appointment is subject to the articles of association and the dates they joined the board are shown in the table on page 30. Their fees are approved by the board, upon the recommendation of the executive committee, whose members are the executive directors: Sir Roy Gardner, Mark Clare, Phil Bentley and, from 1 January 2005, Jake Ulrich; and three other senior executives: Grant Dawson, general counsel and company secretary, Deryk King, managing director of Centrica North America, and Anne Minto, group human resources director. Upon the recommendation of the executive committee, which was endorsed by the nominations committee, the fees payable to Roger Carr as chairman were agreed by the board as £250,000 per annum.

Following the examination of the role of non-executive directors in the Higgs Report and the subsequent changes to the Combined Code, in 2004 the executive committee conducted a review of non-executive directors' fees (excluding fees paid to the chairman). This took into account not only the need to attract individuals of the right calibre and experience, but also their increased responsibilities and time commitment, as envisaged in the new Code, and the fees paid by other companies. The executive committee received survey and other information from remuneration consultants, Towers Perrin. As a result of this review, their annual fees were increased from £35,000 to £50,000, with an additional £15,000 and £10,000 being paid to the respective chairmen of the audit and remuneration committees. The non-executive directors, including the chairman, do not participate in any of the company's share schemes, incentive plans or pension schemes.

The remuneration report from page 27 to page 29 up to this statement has not been audited. From this point until the end of the report on page 33, the disclosures, with the exception of the line graphs on page 31, have been audited by the company's auditors, PricewaterhouseCoopers.

Directors' emoluments

		Base salary/fees £000	Annual performance bonus £000	Benefits(i) £000	**Total emoluments(ii) 2004 £000**	Total emoluments(ii) 2003 £000
Executive directors	Date of service contract					
Phil Bentley	13 September 2000	477	424	30	**931**	843
Mark Clare	21 March 2001	481	357	32	**870**	787
Sir Roy Gardner	21 March 2001	846	701	76	**1,623**	1,480
Roger Wood (iii)	21 March 2001	309	415	26	**750**	757
		2,113	1,897	164	**4,174**	3,867
Non-executive directors	Date of appointment					
Helen Alexander	1 January 2003	39	–	–	**39**	35
Roger Carr	1 January 2001	173	–	–	**173**	35
Mary Francis	22 June 2004	22	–	–	**22**	–
Patricia Mann	4 December 1996	41	–	–	**41**	35
Sir Michael Perry (iii)	4 December 1996	72	–	–	**72**	200
Paul Rayner (iv)	23 September 2004	17	–	–	**17**	–
Robert Tobin (iii)	1 January 2003	26	–	–	**26**	35
Paul Walsh	1 March 2003	39	–	–	**39**	29
		429	–	–	**429**	369
Directors who stood down in 2003						
Mike Alexander		–	–	–	**–**	71
Sir Brian Shaw		–	–	–	**–**	20
Total emoluments		2,542	1,897	164	**4,603**	4,327

(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 page 33;
(b) share options – see page 32. The aggregate of the amount of gains made by executive directors on the exercise of share options was £258,854 (2003: £1,029,874); and
(c) long term incentive scheme – see below and page 31. The aggregate value of shares vested to executive directors under the LTIS was £1,862,490 (2003: £1,648,680).
(iii) Sir Michael Perry and Robert Tobin served as directors until 10 May and 23 September respectively. Roger Wood stepped down as a director and left the company on completion of the sale of the AA on 30 September 2004. His bonus was 100% of his annual base salary.
(iv) Fees in respect of Paul Rayner's non-executive directorship are paid to his employer, British American Tobacco plc.

Directors' interests in shares

The following table and the tables on pages 31 and 32 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 2004	**Shareholdings as at 31 December 2004**	Shareholdings as at 1 January 2004 or on appointment(i)	**LTIS total allocations as at 31 December 2004**	LTIS total allocations as at 1 January 2004
Executive directors				
Phil Bentley(ii)	**188,454**	111,188	**663,501**	637,330
Mark Clare(ii)	**641,118**	472,762	**702,190**	835,542
Sir Roy Gardner(ii)	**2,175,014**	2,360,222	**1,157,644**	1,365,749
Non-executive directors				
Helen Alexander	**2,520**	2,800	**–**	–
Roger Carr	**19,230**	4,700	**–**	–
Mary Francis	**981**	1,090	**–**	–
Patricia Mann	**1,927**	2,142	**–**	–
Paul Rayner	**–**	–	**–**	–
Paul Walsh	**4,500**	5,000	**–**	–

(i) Shareholdings are shown as at 1 January 2004 or, in the case of Mary Francis and Paul Rayner, 22 June 2004 and 23 September 2004, being their respective dates of appointment. On 25 October 2004, Centrica shares were consolidated on a nine-for-ten basis. Further details are given in note 20 on page 54. Shareholdings in this column are disclosed on a pre-consolidated basis.
(ii) As at 21 February 2005, the beneficial shareholdings of Phil Bentley, Mark Clare and Sir Roy Gardner had each increased by 144 shares.
(iii) As at 31 December 2004, 6,370,264 shares and 2,548 shares (1 January 2004: 21,200,505 and 1,557) were held by the respective trustees of employee share trusts for the purposes of the LTIS and the share incentive plan. 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 21 February 2005.

(iv) From 1 January 2004 to 21 February 2005, 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:

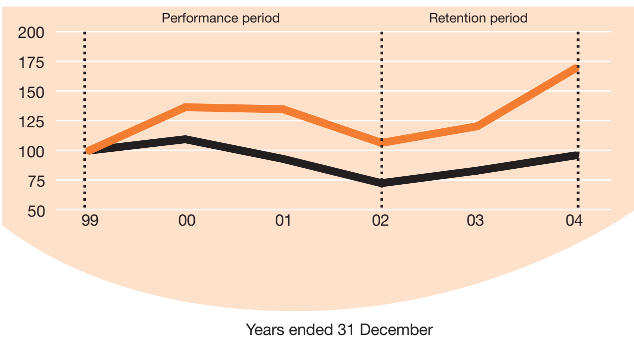
	Vested during 2004		In retention period	In performance period		
Date of allocation	7 October 1999 (i) (iii)	1 October 2001 (ii) (iii)	2 October 2000 (iv)	2 April 2002 (v)	1 April 2003 (v)	1 April 2004 (v)
Phil Bentley	–	101,548	136,253	136,788	228,891	161,569
Mark Clare	151,703	108,410	166,066	141,792	231,434	162,898
Sir Roy Gardner	272,446	167,418	234,707	233,540	401,831	287,566
Roger Wood (vi)	154,799	101,548	141,710	109,759	103,095	137,965
Market price at allocation date	161.50p	214.50p	220.50p	227.00p	148.00p	232.00p
End of performance period (v)	30/9/2002	30/9/2004	1/10/2003	1/4/2005	31/3/2006	31/3/2007
Market price at vesting date (vii)	252.00p	242.00p				

(i) 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 were released following the expiry of the two-year retention period.
(ii) At the end of the performance period to 30 September 2004, the company ranked fortieth in the relevant comparator group. Accordingly, 75% of the allocations were released to participants.
(iii) The released 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, to the extent retained, is reflected in the shareholdings as at 31 December 2004 in the second table on page 30.
(iv) 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.
(v) At the end of the performance period the company's TSR performance will be assessed against that of the relevant LTIS comparator group. If, and to the extent that, the performance conditions are met, the relevant number of shares will be released to the directors at the trustee's discretion as soon as practicable thereafter.
(vi) Roger Wood stepped down as a director and left the company on 30 September 2004. Upon leaving the company, he waived all rights to the LTIS allocation made to him on 1 April 2004 (137,965 shares) and accordingly this allocation lapsed. Since the 2000 allocation was in retention on the date he left the company, 141,710 shares were released to him on 1 October 2004. The 2002 and 2003 allocations have been reduced to the figures shown, so that they represent the proportion of the performance period for which he was employed by the company, i.e. 83% and 50% respectively. The total number of shares released will be determined in accordance with note (v) at the end of the performance period.
(vii) The vesting date was the next business day after the end of the retention period in relation to the 1999 allocation and the next business day after the end of the performance period in relation to the 2001 allocation.

The following tables, which have not been audited, show the TSR performance of the company and that of the relevant TSR comparator group. They relate to the LTIS allocations that vested in 2004 over the performance and retention period in relation to the 1999 allocation and the performance period in relation to the 2001 allocation:

TSR indices – Centrica and FTSE 100:

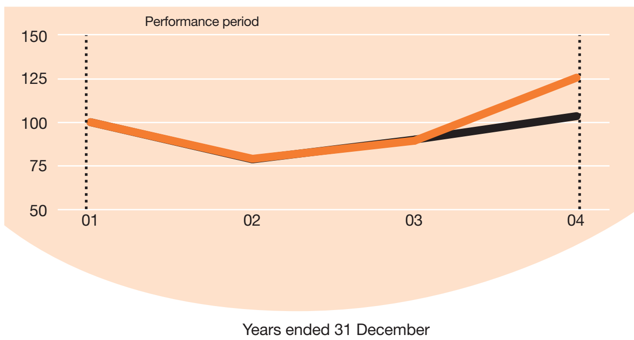
October 1999 LTIS allocation



■ Centrica TSR index
■ FTSE 100 companies as at 1999

30 September 1999 = 100
Source: Alithos Ltd

October 2001 LTIS allocation



■ Centrica TSR index
■ FTSE 100 companies as at October 2001

30 September 2001 = 100
Source: Alithos Ltd

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 2004	Options granted during year	Options exercised during year[iv]	Entitlement to options waived during year	**Options held as at 31 December 2004[v]**	Exercise price (pence)	Date from which exercisable	Expiry date
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
ESOS[i]	–	401,875	–	–	**401,875**	223.950	Mar 2007	Mar 2014
Sharesave[ii]	5,071	–	5,071[a]	–	**–**	191.000	Jun 2004	Nov 2004
Sharesave[ii]	–	5,161	–	–	**5,161**	182.600	Jun 2007	Nov 2007
	1,237,453	407,036	5,071	–	**1,639,418**			
Mark Clare								
RESOS[iii]	177,645	–	177,645[b]	–	**–**	81.060	Oct 1997	Oct 2004
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
ESOS[i]	–	406,340	–	–	**406,340**	223.950	Mar 2007	Mar 2014
Sharesave[ii]	9,318	–	–	–	**9,318**	177.600	Jun 2007	Nov 2007
	1,473,983	406,340	177,645	–	**1,702,678**			
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
ESOS[i]	–	705,514	–	–	**705,514**	223.950	Mar 2007	Mar 2014
Sharesave[ii]	9,318	–	–	–	**9,318**	177.600	Jun 2007	Nov 2007
	2,095,299	705,514	–	–	**2,800,813**			
Roger Wood[v]								
ESOS[i]	308,269	–	–	–	**308,269**	240.050	Jun 2004	Mar 2005
ESOS[i]	351,423	–	–	–	**351,423**	224.800	Oct 2004	Mar 2005
ESOS[i]	538,881	–	–	–	**538,881**	146.600	Oct 2004	Mar 2005
ESOS[i]	–	361,687	–	361,687	**–**	223.950	Lapsed	Sep 2004
Sharesave[ii]	9,318	–	–	–	**9,318**	177.600	Oct 2004	Mar 2005
	1,207,891	361,687	–	361,687	**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, 24 March 2003 and 18 March 2004. Details of the operation of the scheme are provided on page 28.

(ii) **Sharesave scheme**
The company operates an Inland Revenue-approved all-employee savings-related share option scheme in the UK. The scheme is designed to provide a long-term savings and investment opportunity for employees and is described on pages 23 and 24.

(iii) **Restructured executive share option scheme (RESOS)**
Options granted under the British Gas plc executive share option scheme were cancelled and replaced at demerger by unapproved options over Centrica shares, granted on the same terms as British Gas executive share options, with the number of shares placed under option adjusted for the demerger. The scheme is now closed and all outstanding options have been exercised.

(iv) **Exercise of share options**
The market prices of shares on the dates options were exercised were:
(a) 1 June 2004 at 210.75 pence
(b) 22 March 2004 at 226.25 pence

(v) **Roger Wood**
Roger Wood stepped down as a director and left the company on 30 September 2004. Accordingly, the closing balances of options he held are shown at this date. Upon leaving the company, he waived all rights to the grant of ESOS options made to him on 18 March 2004 (361,687 shares) and these options lapsed. In accordance with the ESOS rules, he may exercise the other three ESOS grants of options within six months of his leaving date. A six-month exercise period also applies to the Sharesave options. Any options unexercised at the end of this period will then lapse.

The closing price of a Centrica ordinary share on the last trading day of 2004 (31 December) was 236.25 pence. The range during the year was 256.25 pence (high) and 196.943 pence (low).

Directors' pensions

The pension arrangements for the executive directors, all of whom are now members of the Centrica Management Pension Scheme, are shown below. As reported last year, all executive directors were offered and all accepted the opportunity to join the Centrica Management Pension Scheme at 6 April 2004, and transferred in their 'crystallised' benefits previously accrued in the Centrica Pension Scheme. This change brings the executive directors into line with the rest of the company's senior management population. As reported last year, individual accrual rates in respect of past and future service were increased to take account of the change in normal retirement age from age 65 in the previous scheme to age 62. The Centrica Management Pension Scheme is a funded, Inland Revenue-approved, final-salary, occupational pension scheme. It has the following main features:

- normal retirement at age 62;
- right to an immediate, unreduced pension on leaving service after age 60 at own request with employer consent, or on leaving service at company's request after age 55;
- life assurance cover of four times pensionable salary on death in service, and spouse's and children's pensions on death;
- members' contributions payable at the rate of 6% p.a. of pensionable earnings (an increase of 2% on the Centrica Pension Scheme);
- pension payable in the event of retirement due to ill health;
- pensions in payment and in deferment to increase in line with RPI (a maximum of 6% applies to pension accrued after 6 April 2004); and
- no discretionary practices taken into account in calculating transfer values.

All benefits are subject to Inland Revenue limits and the Centrica Unapproved Pension Scheme provides benefits on the salary in excess of the earnings cap to the level that would otherwise have been paid by the approved scheme. The benefits that arise under this are treated as being subject to the same rules as apply in respect of the approved portion of members' benefits. No individual will receive benefits from the company, which, when added to their retained benefits elsewhere, exceed two thirds of their final pensionable salary. This scheme is unfunded but the benefits are secured by a charge over certain company assets. An appropriate provision in respect of their accrued value has been made in the company's balance sheet. During 2005, the company will be reviewing its pension policy as a result of the 2004 Pensions Act, the 2004 Finance Act and the results of the triennial valuation of its schemes during 2004.

Pension benefits earned by directors (£)

	Accrued pension as at 31 December 2004(i)	Accrued pension as at 31 December 2003	Increase in accrued pension(ii)	**Transfer value as at 31 December 2004**	Transfer value as at 31 December 2003(iii)	**Contributions paid in 2004**(iv)	Difference in transfer value less contributions(iii)	Transfer value of the increase in accrued pension excluding inflation(v)
Phil Bentley(vi)(viii)	**70,000**	31,700	37,300	**607,700**	335,500	**15,188**	257,012	243,662
Mark Clare(viii)	**123,100**	89,900	30,400	**1,020,600**	1,008,300	**15,188**	(2,888)	205,251
Sir Roy Gardner(viii)	**335,800**	233,400	95,200	**6,138,200**	3,885,000	**15,188**	2,238,012	1,521,394
Roger Wood(vii)(viii)	**153,700**	103,400	47,100	**3,067,900**	2,004,700	**11,363**	1,051,837	900,187

(i) Accrued pension is that which would be paid annually on retirement at age 62, based on eligible service to 31 December 2004.
(ii) The increase in accrued pension has been adjusted to exclude inflation by revaluing the figure in the second column by the rate of inflation (3.1% – see note v) and deducting this from the figure in the first column.
(iii) To allow a meaningful comparison in the increase in the transfer values from 2003 to 2004, notional transfer values have been calculated. The notional transfer values have been calculated using the actual accrued pensions as at 31 December 2003, but based on the Centrica Management Pension Scheme transfer calculation basis, with reference to market conditions as at 31 December 2003. The notional transfer values at 31 December 2003 were £248,500, £740,600, £4,229,200, and £2,032,800 for Phil Bentley, Mark Clare, Sir Roy Gardner, and Roger Wood respectively. The differences in the notional transfer value for 2003 and the actual value for 2004 less member contributions were £344,012, £264,812, £1,893,812 and £1,023,737 for Phil Bentley, Mark Clare, Sir Roy Gardner, and Roger Wood respectively.
(iv) Member contributions paid in the year were restricted to the maximum rate of 15% of the earnings 'cap'.
(v) The rate of inflation used was 3.1%, the annual rate to 30 September 2004, the date used for pension increases under the scheme. The actual transfer value of the increase in accrued pension at 31 December 2004 excludes inflation.
(vi) Phil Bentley transferred in an amount of £208,695 in May 2004 from a previous employer's pension arrangement to purchase additional scheme service, which is reflected in his accrued pension (and transfer value). The transfer value allows for the value-for-money check that would be carried out in respect of the transferred-in benefits had he left service at 31 December 2004.
(vii) Roger Wood stepped down from the company on 30 September 2004 aged 62 years and 2 months. Under the rules of the Centrica Management Pension Scheme and Centrica Unapproved Pension Scheme he receives an unreduced pension.
(viii) The pension accrual rates applicable in the new arrangement for Phil Bentley, Mark Clare, Sir Roy Gardner and Roger Wood were, respectively, 2.65%, 2.46%, 4.11% and 4.54% of pensionable salary for each year of pensionable service.

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

Grant Dawson
General Counsel and Company Secretary
24 February 2005

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 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 review, the operating and financial review, the group financial review and the gas and liquids reserves.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code 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 2004 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
24 February 2005

Group profit and loss account

Year ended 31 December	Notes	2004 Results for the year before goodwill amortisation and exceptional items £m	2004 Goodwill amortisation and exceptional items £m	2004 Results for the year £m	2003 Results for the year before goodwill amortisation and exceptional items £m	2003 Goodwill amortisation and exceptional items £m	2003 Results for the year £m
Turnover:							
Continuing operations before acquisitions		**17,572**	**–**	**17,572**	17,380	–	17,380
Acquisitions		**550**	**–**	**550**			
Group and share of joint ventures' turnover – continuing operations		**18,122**	**–**	**18,122**	17,380	–	17,380
Less share of joint ventures' turnover		**(456)**	**–**	**(456)**	(347)	–	(347)
Group turnover – continuing operations		**17,666**	**–**	**17,666**	17,033	–	17,033
Discontinued operations		**637**	**–**	**637**	898	–	898
Group turnover	3	**18,303**	**–**	**18,303**	17,931	–	17,931
Cost of sales	4	**(14,712)**	**–**	**(14,712)**	(14,572)	–	(14,572)
Gross profit		**3,591**	**–**	**3,591**	3,359	–	3,359
Operating costs	4	**(2,432)**	**(221)**	**(2,653)**	(2,367)	(155)	(2,522)
Group operating profit:							
Continuing operations		**1,083**	**(183)**	**900**	947	(95)	852
Discontinued operations		**76**	**(38)**	**38**	45	(60)	(15)
		1,159	**(221)**	**938**	992	(155)	837
Share of operating profit/(loss) in joint ventures and associates:							
Continuing operations		**54**	**(6)**	**48**	45	(6)	39
Discontinued operations		**14**	**–**	**14**	21	–	21
		68	**(6)**	**62**	66	(6)	60
Operating profit including joint ventures and associates:							
Continuing operations before acquisitions		**1,127**	**(184)**	**943**	992	(101)	891
Acquisitions		**10**	**(5)**	**5**			
Continuing operations	3	**1,137**	**(189)**	**948**	992	(101)	891
Discontinued operations	3	**90**	**(38)**	**52**	66	(60)	6
	3	**1,227**	**(227)**	**1,000**	1,058	(161)	897
Continuing operations:							
Loss on closure of business	5	**–**	**–**	**–**	–	(16)	(16)
Discontinued operations:							
Profit/(loss) on disposal of business	5	**–**	**727**	**727**	–	(51)	(51)
	5	**–**	**727**	**727**	–	(67)	(67)
Net interest payable:							
Group		**(6)**	**–**	**(6)**	(36)	–	(36)
Share of joint ventures and associates		**(13)**	**–**	**(13)**	(16)	–	(16)
	7	**(19)**	**–**	**(19)**	(52)	–	(52)
Profit on ordinary activities before taxation		**1,208**	**500**	**1,708**	1,006	(228)	778
Taxation on profit on ordinary activities	8	**(349)**	**43**	**(306)**	(282)	16	(266)
Profit on ordinary activities after taxation for the year		**859**	**543**	**1,402**	724	(212)	512
Minority interests (equity and non-equity)	23	**(20)**	**–**	**(20)**	(10)	(2)	(12)
Profit attributable to the group		**839**	**543**	**1,382**	714	(214)	500
Dividends	9			**(1,387)**			(229)
Transfer (from)/to reserves	21			**(5)**			271

	Notes	Pence		Pence	Pence		Pence
Earnings per ordinary share							
Basic	10			**33.0**			11.8
Diluted	10			**32.5**			11.6
Adjusted basic	10	**20.0**			16.8		

The notes on pages 39 to 74 form part of these financial statements.

Group balance sheet

31 December	Notes	2004 £m	2003 As restated* £m
Fixed assets			
Intangible assets	11	**1,006**	1,614
Tangible assets	12	**2,832**	2,730
Investments:			
Share of gross assets of joint ventures	13	**432**	1,014
Share of gross liabilities of joint ventures	13	**(344)**	(920)
	13	**88**	94
Other investments	13	**24**	3
		3,950	4,441
Current assets			
Stocks	14	**158**	173
Debtors:			
Debtors (amounts falling due within one year)	15	**3,149**	2,921
Debtors (amounts falling due after more than one year)	15	**187**	117
		3,336	3,038
Current asset investments	16	**1,166**	992
Cash at bank and in hand		**41**	34
		4,701	4,237
Creditors (amounts falling due within one year)			
Borrowings	17	**(468)**	(298)
Other creditors	18	**(3,785)**	(3,698)
		(4,253)	(3,996)
Net current assets		**448**	241
Total assets less current liabilities		**4,398**	4,682
Creditors (amounts falling due after more than one year)			
Borrowings	17	**(660)**	(781)
Other creditors	18	**(93)**	(104)
		(753)	(885)
Provisions for liabilities and charges	19	**(1,074)**	(1,060)
Net assets		**2,571**	2,737
Capital and reserves – equity interests			
Called up share capital	20	**233**	237
Share premium account	21	**575**	549
Merger reserve	21	**467**	467
Capital redemption reserve	21	**5**	–
Profit and loss account	21	**1,072**	1,267
Shareholders' funds	22	**2,352**	2,520
Minority interests (equity and non-equity)	23	**219**	217
Capital employed		**2,571**	2,737

* The comparatives have been restated following adoption of UITF 38 (see note 2).

The financial statements were approved by the board of directors on 24 February 2005 and were signed below on its behalf by:

Sir Roy Gardner
Chief Executive

Phil Bentley
Group Finance Director

The notes on pages 39 to 74 form part of these financial statements.

Statement of total recognised gains and losses

Year ended 31 December	2004 £m	2003 £m
Profit for the year	**1,382**	500
Exchange translation differences	**–**	(4)
Total recognised gains and losses for the year	**1,382**	496

Profit for the year includes joint ventures' and associates' profit after tax of £36 million (2003: £32 million).

Group cash flow statement

Year ended 31 December	Notes	2004 £m	2003 £m
Cash inflow from continuing operating activities		**1,234**	1,216
Cash inflow/(outflow) from discontinued operating activities [(i)]		**120**	(224)
Cash inflow from operating activities	25a	**1,354**	992
Dividends received from joint ventures and associates [(ii)]		**28**	28
Returns on investments and servicing of finance	25b	**6**	(15)
Taxation paid	25c	**(239)**	(181)
Capital expenditure and financial investment	25d	**(351)**	(282)
Acquisitions and disposals	25e	**998**	292
Equity dividends paid [(iii)]		**(1,314)**	(182)
Cash inflow before use of liquid resources and financing		**482**	652
Management of liquid resources	25f	**(377)**	(669)
Financing	25g	**(130)**	(13)
Decrease in net cash		**(25)**	(30)

(i) Cash inflow from discontinued operating activities in 2004 relates to the AA (2003: £77 million inflow). The remaining 2003 cash outflow of £301 million from discontinued operating activities relates to Goldfish Bank and includes the repayment of the Goldfish Bank savings deposits of £286 million.
(ii) Dividends received from joint ventures and associates includes £3 million from discontinued operations in respect of the AA (2003: £15 million).
(iii) Included in equity dividends paid is £1,051 million relating to the special dividend paid on 17 November 2004 (see note 9).

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

Year ended 31 December	Notes	2004 £m	2003 £m
Decrease in net cash		**(25)**	(30)
Repayment of Goldfish Bank working capital facility		**–**	430
Cash (inflow)/outflow from (increase)/decrease in other debt and lease financing		**(18)**	53
Cash outflow from increase in liquid resources		**377**	669
Change in debt, net of cash and current asset investments resulting from cash flows		**334**	1,122
Net debt and liquid resources disposed	25h	**(205)**	–
Exchange adjustments and other non-cash movements	25h	**3**	(20)
Movement in cash and current asset investments, net of debt		**132**	1,102
Debt, net of cash and current asset investments, at 1 January		**(53)**	(1,155)
Cash and current asset investments, net of debt at 31 December	25h	**79**	(53)
Of which:			
Net cash (excluding non-recourse debt)		**296**	163
Consumers' Waterheater Income Fund (non-recourse) debt		**(217)**	(216)
		79	(53)

The notes on pages 39 to 74 form part of these 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 29(f) to the financial statements.

The group has adopted UITF 17 (revised 2003), 'Employee share schemes' (Revised UITF 17) and UITF 38, 'Accounting for ESOP trusts' (UITF 38), in these financial statements. The adoption of each of these standards represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of the prior year adjustments are given in note 2.

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 is recognised on the basis of energy supplied during the period. 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 23 to 24 and on page 28. As permitted by Revised UITF 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. Cost also includes provision for employer's National Insurance charges expected to arise at exercise dates.

In accordance with UITF 38 the cost of Centrica shares held by the Centrica Employee Share Trust is shown as a deduction from shareholders' funds. This represents a change in accounting policy, as detailed in note 2.

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 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.

1 Principal accounting policies continued

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	up to 30 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 any provisions for impairment as necessary.

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 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/asset 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 expected losses on onerous long-term sales contracts. 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.

1 Principal accounting policies continued

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 20 to 21.

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 29(f) where the financial impact of the departure is disclosed. 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 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, forecast foreign currency 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.

When 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.

2 Changes in accounting policy

The group has implemented UITF 38 from 1 January 2004. UITF 38 requires own shares held under trust to be deducted in arriving at shareholders' funds. This represents a change in accounting policy. Previously, own shares held under trust were presented as fixed asset investments. Accordingly, own shares held under trust at a net book value of £17 million (cost £45 million) have been reclassified from fixed asset investments to shareholders' funds resulting in a reduction, of £17 million, to the group's previously reported net assets at 31 December 2003. The implementation of UITF 38 had no material impact on the group's previously reported profits and losses. The representation of own shares as a deduction from shareholders' funds in accordance with UITF 38 is not a recognised gain or loss. Comparative figures have been restated in the balance sheet and notes 13, 21, 22, 34, 35, 40 and 41.

The group has also implemented Revised UITF 17 from 1 January 2004. Revised UITF 17 requires the minimum profit and loss charge to be determined as the intrinsic value of the share options granted. Previously the charge was based on either intrinsic value or, where purchases of shares were made by an ESOP trust at fair value, by reference to the cost of shares available for the award less any contributions payable by the employees. The implementation of Revised UITF 17 had no material impact on the group's previously reported profits and losses.

3 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 2004 £m	Turnover year ended 31 December 2003 £m	Operating profit/(loss) before goodwill amortisation and exceptional items, including share of results of joint ventures and associates year ended 31 December 2004 £m	Operating profit/(loss) before goodwill amortisation and exceptional items, including share of results of joint ventures and associates year ended 31 December 2003 £m	Operating profit/(loss) after goodwill amortisation and exceptional items, including share of results of joint ventures and associates year ended 31 December 2004 £m	Operating profit/(loss) after goodwill amortisation and exceptional items, including share of results of joint ventures and associates year ended 31 December 2003 £m	Net assets/(liabilities) 31 December As restated* 2004 £m	Net assets/(liabilities) 31 December As restated* 2003 £m
Continuing operations:								
Residential Energy	**5,901**	5,289	**249**	136	**243**	136		
Home Services	**943**	847	**95**	84	**93**	83		
British Gas Communications	**62**	56	**(7)**	(14)	**(10)**	(14)		
British Gas Residential	**6,906**	6,192	**337**	206	**326**	205	**649**	486
Centrica Business Services	**1,200**	1,125	**64**	51	**54**	40	**299**	347
Industrial Sales and Wholesaling	**805**	809	**(75)**	64	**(75)**	64		
Gas Production	**109**	54	**573**	480	**522**	480		
Accord Energy Trading	**5,909**	6,218	**14**	17	**14**	17		
Centrica Energy (i)	**6,823**	7,081	**512**	561	**461**	561	**718**	556
Centrica Storage	**133**	82	**69**	40	**69**	40	**357**	367
One.Tel	**218**	178	**16**	4	**10**	1	**95**	47
Centrica North America	**2,375**	2,369	**134**	130	**71**	50	**1,265**	1,159
Other operations	**11**	6	**5**	–	**(43)**	(6)	**52**	60
	17,666	17,033	**1,137**	992	**948**	891	**3,435**	3,022
Discontinued operations (iii):								
The AA	**637**	797	**90**	93	**52**	44	**–**	645
Goldfish Bank	**–**	101	**–**	(27)	**–**	(38)	**–**	(4)
	637	898	**90**	66	**52**	6	**–**	641
Unallocated net liabilities (iv)							**(864)**	(926)
	18,303	17,931	**1,227**	1,058	**1,000**	897	**2,571**	2,737

Included within the above are the following results and net assets from acquisitions (ii):

	2004 £m	2004 £m	2004 £m	2004 £m
Home Services	**3**	**1**	**–**	**1**
Industrial Sales and Wholesaling	**–**	**–**	**–**	**166**
Gas Production	**52**	**16**	**16**	**56**
One.Tel	**23**	**2**	**1**	**48**
Centrica North America	**472**	**(9)**	**(12)**	**310**
	550	**10**	**5**	**581**

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

* The comparatives have been restated following adoption of UITF 38 (see note 2).

The operating profit for certain business segments includes an allocation of the group's total commodity costs. The basis of allocation was changed in 2004 in order to ensure alignment with the group's evolving commodity portfolio and the supply requirements of the business segments.

3 Segmental analysis continued

b) By geographical area of operation	Turnover year ended 31 December 2004 £m	2003 £m	Operating profit/(loss) before goodwill amortisation and exceptional items, including share of results of joint ventures and associates year ended 31 December 2004 £m	2003 £m	Operating profit/(loss) after goodwill amortisation and exceptional items, including share of results of joint ventures and associates year ended 31 December 2004 £m	2003 £m	Net assets/(liabilities) 31 December As restated* 2004 £m	2003 £m
UK:								
Continuing operations before acquisitions	**15,204**	14,663	**980**	865	**856**	850	**1,915**	1,878
Acquisitions (ii)	**78**		**19**		**17**		**271**	
Continuing operations	**15,282**	14,663	**999**	865	**873**	850	**2,186**	1,878
Discontinued operations	**622**	880	**87**	63	**49**	3	**–**	654
	15,904	15,543	**1,086**	928	**922**	853	**2,186**	2,532
Rest of Europe:								
Continuing operations	**9**	1	**4**	(3)	**4**	(9)	**(16)**	(15)
Discontinued operations	**15**	18	**3**	3	**3**	3	**–**	(13)
	24	19	**7**	–	**7**	(6)	**(16)**	(28)
North America:								
Continuing operations before acquisitions	**1,903**	2,369	**143**	130	**83**	50	**955**	1,159
Acquisitions (ii)	**472**		**(9)**		**(12)**		**310**	
Continuing operations	**2,375**	2,369	**134**	130	**71**	50	**1,265**	1,159
Unallocated net liabilities (iv)							**(864)**	(926)
	18,303	17,931	**1,227**	1,058	**1,000**	897	**2,571**	2,737

c) Turnover by geographical destination	2004 £m	2003 £m
UK:		
Continuing operations before acquisitions	**14,407**	14,018
Acquisitions (ii)	**78**	
Continuing operations	**14,485**	14,018
Discontinued operations	**622**	880
	15,107	14,898
Rest of Europe:		
Continuing operations	**806**	646
Discontinued operations	**15**	18
	821	664
North America:		
Continuing operations before acquisitions	**1,903**	2,369
Acquisitions (ii)	**472**	
Continuing operations	**2,375**	2,369
	18,303	17,931

(i) Inter-segment transfers from Centrica Energy to British Gas Residential and Centrica Business Services totalled £4,438 million (2003: £4,323 million).
(ii) Acquisitions and disposals are explained in note 24.
(iii) During the year the group disposed of its interest in the AA including the AA related joint ventures and associates.
(iv) Unallocated net liabilities (including in 2003 Goldfish Bank related balances, principally money market investments of £143 million) comprised:

	2004 £m	2003 £m
Fixed asset investments	**–**	3
Accrued interest payable	**(17)**	(19)
Dividends payable	**(230)**	(157)
Taxation	**(696)**	(700)
Cash and money market investments, net of debt	**79**	(53)
	(864)	(926)

3 Segmental analysis continued

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 before goodwill amortisation		Operating profit/(loss) after goodwill amortisation	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Continuing operations:						
British Gas Residential	24	17	3	5	3	5
Centrica Energy	83	73	44	37	44	37
Other operations (including Luminus NV)	278	181	7	3	1	(3)
	385	271	54	45	48	39
Discontinued operations:						
The AA	71	76	14	21	14	21
	456	347	68	66	62	60

The group's share of operating profits of associates before and after goodwill amortisation for the year ended 31 December 2004 was £nil (2003: £nil). Results of associates are all discontinued operations.

4 Costs

	2004			2003		
	Before goodwill amortisation and exceptional items £m	Goodwill amortisation and exceptional items £m	Total £m	Before goodwill amortisation and exceptional items £m	Goodwill amortisation and exceptional items £m	Total £m
Cost of sales (i):						
Continuing operations before acquisitions	13,931	–	13,931	14,165	–	14,165
Acquisitions	492	–	492			
Continuing operations	14,423	–	14,423	14,165	–	14,165
Discontinued operations	289	–	289	407	–	407
	14,712	–	14,712	14,572	–	14,572
Operating costs (i):						
Continuing operations before acquisitions	2,112	178	2,290	1,921	95	2,016
Acquisitions	48	5	53			
Continuing operations	2,160	183	2,343	1,921	95	2,016
Discontinued operations	272	38	310	446	60	506
	2,432	221	2,653	2,367	155	2,522
Total costs recognised in arriving at group operating profit	17,144	221	17,365	16,939	155	17,094

4 Costs continued

	2004 £m	2003 £m
Group operating profit is stated after charging:		
Amortisation of goodwill (see note 11)	**117**	155
Amortisation of goodwill within joint ventures and associates (see note 13)	**6**	6
Exceptional items (see note 5)	**104**	–
	227	161
Depreciation and impairment:		
Owned assets (ii)	**498**	382
Leased assets	**21**	23
	519	405
(Loss)/profit on disposal of fixed assets (iii)	**(1)**	11
Operating lease rentals:		
Plant and machinery	**22**	31
Other	**65**	70
	87	101
Auditors' remuneration: (iv) (v)		
Audit services		
Statutory audit		
Company	**0.2**	0.2
Subsidiary undertakings	**2.3**	2.1
Audit related regulatory reporting (vi)	**1.5**	0.3
Further assurance services	**0.9**	0.5
Tax services		
Tax compliance services	**0.1**	0.2
Tax advisory services	**0.2**	0.4
Other services	**0.1**	0.2
	5.3	3.9

(i) Gas transportation costs of £1,406 million (2003: £1,522 million) and electricity transportation and distribution charges of £749 million (2003: £726 million) were included within cost of sales. Operating costs consist entirely of administrative expenses.
(ii) Depreciation on owned assets includes a £50 million exceptional charge in relation to impairment of the Rose field (see notes 5 and 12).
(iii) The loss on disposal of tangible fixed assets was £1 million (2003: £3 million profit) and profit on sale of fixed asset investments was £nil (2003: £8 million).
(iv) Included in auditors' remuneration, excluding the statutory audit, were non-audit fees payable arising in the UK of £2.6 million (2003: £1.1 million). In addition, the group's auditors acted as auditors 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.
(vi) Substantially in respect of the implementation of International Financial Reporting Standards.

5 Exceptional items

a) Recognised in arriving at operating profit	2004 £m	2003 £m
Continuing operations:		
Business restructuring costs (i)	**105**	–
Gas field impairment (ii)	**50**	–
Renegotiation provision (iii)	**(51)**	–
Total recognised before operating profit	**104**	–

5 Exceptional items continued

b) Recognised after operating profit	2004 £m	2003 £m
Continuing operations:		
Loss on closure of business (iv)	–	16
Discontinued operations:		
(Profit)/loss on disposal of business (v)	(727)	51
Total recognised after operating profit	**(727)**	67

(i) Business restructuring costs comprise £105 million resulting from staff reductions at the corporate centre (£23 million), One.Tel (£2 million) and Centrica Energy (£1 million), changes to the property portfolio (£19 million) as well as the acceleration of elements of the British Gas transformation programme (£60 million). A tax credit of £26 million has been recognised in connection with these costs and those discussed in (ii) and (iii) below.

(ii) Unforeseen water break-through into the Rose well resulted in the well being shut in. A work-over of the well to isolate the water producing zone has been successful. However, due to water ingress it is now anticipated that the maximum recoverable volume is 25 bcf. This has resulted in an impairment charge of £50 million. A discount rate of 8% was applied in calculating the recoverable amount which was not a risk-free rate.

(iii) In 1997 Centrica 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. A provision was made covering the net present cost of estimated further payments resulting from those renegotiations including one due for future settlement in 2008 based on the reserves in a group of third-party fields. Published estimates of these reserves during the year have indicated a reduction from the 1997 forecast level of reserves. The provision has been reduced by £51 million based on a conservative view of the revised reserve levels.

(iv) In 2003 the loss on closure of business related to the closure of the Direct Energy home services retail stores in Ontario on which a tax credit of £6 million was recognised.

(v) Discontinued operations in 2004 relate to the disposal of 100% of the share capital of the AA for which cash consideration of £1,602 million was received, resulting in a pre-tax non-operating profit of £727 million (see note 24 (ii)). The disposal of shares qualifies for substantial shareholding exemption and, consequently, no tax charge has been recognised in relation to the profit. A tax credit of £13 million has been recognised on certain costs that qualify for tax relief, giving a post-tax non-operating profit on disposal of £740 million. In the previous year the Goldfish credit card and loan business was disposed of 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 were recognised.

6 Directors and employees

a) Employee costs	2004 £m	2003 £m
Wages and salaries	**1,093**	1,089
Social security costs	**107**	99
Other pension and retirement benefits costs (see note 26)	**97**	79
Long term incentive scheme	**13**	14
Share incentive plan	**2**	2
	1,312	1,283

Details of directors' remuneration, share options, long term incentive scheme interests and pension entitlements in the remuneration report on pages 27 to 33 form part of these financial statements. Details of employee share schemes are given on page 23 to 24 and in note 20.

b) Average number of employees during the year	2004 Number	2003 Number
British Gas Residential	**24,098**	23,064
Centrica Business Services	**1,369**	1,417
Centrica Energy	**816**	740
Centrica Storage	**163**	138
One.Tel	**897**	930
Centrica North America	**3,187**	2,501
Other operations	**2,201**	2,104
The AA (to disposal on 30 September 2004)	**10,683**	11,409
Goldfish Bank (to disposal on 30 September 2003)	**–**	270
	43,414	42,573
UK	**39,522**	39,571
Rest of Europe	**705**	501
North America	**3,187**	2,501
	43,414	42,573

7 Net interest

	2004 Interest payable £m	2004 Interest receivable £m	2004 Total £m	2003 Interest payable £m	2003 Interest receivable £m	2003 Total £m
Cost of servicing net debt						
Interest receivable	**–**	**64**	**64**	–	36	36
Interest payable on bank loans and overdrafts	**(58)**	**–**	**(58)**	(57)	–	(57)
Finance lease charges	**(5)**	**–**	**(5)**	(8)	–	(8)
	(63)	**64**	**1**	(65)	36	(29)
Other interest						
Share of joint ventures' interest payable	**(13)**	**–**	**(13)**	(16)	–	(16)
Notional interest arising on discounted items	**(20)**	**–**	**(20)**	(19)	–	(19)
Interest on supplier early payment arrangements (i)	**–**	**15**	**15**	–	13	13
Interest on customer finance arrangements (ii)	**(4)**	**–**	**(4)**	(5)	–	(5)
Other	**(1)**	**3**	**2**	–	4	4
	(38)	**18**	**(20)**	(40)	17	(23)
Interest (payable)/receivable	**(101)**	**82**	**(19)**	(105)	53	(52)

Product income generated by AA personal finance, for the nine months ended 30 September 2004, was £24 million (2003: £33 million). Financial services' income has been included within group operating profit including joint ventures and associates.

(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.

8 Tax

	2004 £m	2003 £m
a) Analysis of tax charge for the year		
The tax charge comprises:		
Current tax		
UK corporation tax	**302**	257
Tax on exceptional items (i), (ii), (iii)	**(30)**	(10)
Adjustments in respect of prior years	**(44)**	–
	228	247
Foreign tax (iv)	**22**	32
Adjustments in respect of prior years	**–**	6
	22	38
Total current tax	**250**	285
Deferred tax		
Origination and reversal of timing differences	**2**	(20)
Deferred petroleum revenue tax relief	**41**	39
Tax on exceptional items (i), (ii), (iii)	**(9)**	(6)
Adjustments in respect of prior years	**27**	(31)
	61	(18)
Foreign deferred tax	**(18)**	(13)
Total deferred tax	**43**	(31)
Share of joint ventures' tax	**13**	12
Total tax on profit on ordinary activities	**306**	266

(i) The tax credit arising in 2003 on the exceptional loss on disposal of business was £10 million and on the exceptional loss on closure of business was £6 million (see note 5).
(ii) The tax credit arising on the exceptional costs associated with the profit on disposal of the AA was £13 million (see note 5).
(iii) The tax credit arising on the exceptional items recognised in arriving at operating profit was £26 million (see note 5).
(iv) Foreign tax includes a tax credit of £4 million arising on allowable goodwill amortisation.

8 Tax continued

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:

	2004 £m	2003 £m
Profit on ordinary activities before tax	**1,708**	778
Less: share of joint ventures' and associates' profit before tax	**(49)**	(44)
Group profit on ordinary activities before tax	**1,659**	734
Tax on group profit on ordinary activities at standard UK corporation tax rate of 30% (2003: 30%)	**498**	220
Effects of:		
Expenses not deductible for tax purposes, including goodwill amortisation	**30**	48
Depreciation in excess of capital allowances	**31**	23
Utilisation of tax losses and other short-term timing differences	**(57)**	(25)
Deferred petroleum revenue tax relief	**(41)**	(39)
Higher tax rates on overseas earnings	**4**	5
Adjustments to tax charge in respect of prior years	**(44)**	6
Supplementary charge applicable to upstream profits	**60**	47
Exceptional profit on disposal of the AA	**(231)**	–
Group current tax charge for the year	**250**	285

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 £206 million (2003: £180 million) of which £128 million (2003: £121 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.

9 Dividends

	2004 £m	2003 £m
Interim dividend of 2.5p (2003: 1.7p) per ordinary share	**105**	72
Special dividend of 25p per ordinary share	**1,051**	–
Proposed final dividend of 6.1p (2003: 3.7p) per ordinary share	**230**	157
Final dividend in respect of share issues after the balance sheet date	**1**	–
	1,387	229

The interim and special dividends were paid on 17 November 2004 and the proposed final dividend is payable on 15 June 2005 to shareholders on the register at the close of business on 29 April 2005.

The payment of the special dividend amounting to £1,051 million was approved by the shareholders on 21 October 2004 at the extraordinary general meeting. The shareholders also approved the consolidation of the share capital of the company by the issue of 9 new ordinary shares of $6\frac{14}{81}$ pence each for every 10 existing shares of $5\frac{5}{9}$ pence each.

10 Earnings per ordinary share

Basic earnings per ordinary share have been calculated by dividing the earnings for the year of £1,382 million (2003: £500 million) by the weighted average number of ordinary shares in issue during the year of 4,184 million (2003: 4,235 million). The number of shares excluded 18 million ordinary shares (2003: 26 million), being the weighted average number of the company's own shares held in the employee share trust which are treated as cancelled.

As described in note 9, during the year the company paid a special dividend of £1,051 million and at the same time carried out a consolidation of its share capital. These transactions were conditional on each other and designed in a way to achieve the same overall effect on the company's capital structure as a share repurchase, in which all shareholders could participate. Accordingly, earnings per share are presented on the basis that in substance a share repurchase has occurred and therefore 2003 figures have not been restated in accordance with FRS 14 'Earnings per share'.

In addition to the payment of a special dividend and share consolidation, there was also a share repurchase programme in operation during the year as described in note 20.

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:

	2004		2003	
	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	**1,382**	**33.0**	500	11.8
Exceptional items after tax and minority interests	**(662)**	**(15.8)**	53	1.2
Goodwill amortisation net of tax credit	**119**	**2.8**	161	3.8
Earnings – adjusted basic	**839**	**20.0**	714	16.8
Earnings – diluted (i)	**1,382**	**32.5**	500	11.6

(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 2004 or 2003, 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. The share options granted to employees under the share schemes were as follows:

	2004 million shares	2003 million shares
Weighted average number of shares in issue	**4,184**	4,235
Estimated vesting of long term incentive scheme shares	**26**	39
Dilutive effect of shares to be issued at a discount to market value under the sharesave schemes	**37**	20
Potentially dilutive shares issuable under the executive share option scheme	**4**	2
Weighted average number of shares used in the calculation of diluted earnings per ordinary share	**4,251**	4,296

11 Intangible fixed assets – goodwill

	£m
Cost	
1 January 2004	2,002
Acquisitions (i)	262
Disposals (see note 24)	(991)
Exchange adjustments	(12)
31 December 2004	**1,261**
Amortisation	
1 January 2004	388
Charge for the year	117
Disposals (see note 24)	(248)
Exchange adjustments	(2)
31 December 2004	**255**
Net book value	
31 December 2004 (ii)	**1,006**
31 December 2003	1,614

(i) Acquisitions include an adjustment to increase goodwill by £36 million following revised determination of the provisional contingent consideration estimated for WTU/CPL. The balance of goodwill arising, of £226 million, relates to acquisitions as detailed in note 24.

11 Intangible fixed assets – goodwill continued

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

	Year of acquisition	2004 £m	2003 £m	Amortisation period years
The AA	1999	**–**	780	15-20
Direct Energy	2000	**260**	284	15
Energy America	2001	**10**	20	5
Enron Direct	2001	**45**	49	15
One.Tel	2001	**42**	45	15
Direct Energy Services Inc	2002	**163**	176	15
Electricity Direct	2002	**78**	84	15
WTU/CPL	2002	**174**	158	15
NewPower	2002	**4**	5	5
ATCO	2004	**37**	–	15
Telco Global	2004	**48**	–	10
Dyno-Rod	2004	**57**	–	20
Residential Services Group	2004	**73**	–	15
Other	Various	**15**	13	5-20
		1,006	1,614	

12 Tangible fixed assets

	Land and buildings(i) £m	Plant, equipment and vehicles(ii) (iii) (iv) £m	Power generation £m	Storage, exploration and production(ii)(v) £m	Total £m
Cost					
1 January 2004 (vii)	119	1,024	305	3,844	5,292
Additions	–	226	28	72	326
Acquisitions (see note 24)	3	6	307	114	430
Disposals	(11)	(50)	(10)	(3)	(74)
Disposal of subsidiary (see note 24)	(52)	(134)	–	–	(186)
Exchange adjustments	–	2	(3)	3	2
31 December 2004	**59**	**1,074**	**627**	**4,030**	**5,790**
Depreciation and amortisation					
1 January 2004 (vii)	51	157	30	2,324	2,562
Charge for the year (vi)	3	161	32	323	519
Disposals	(4)	(34)	(6)	(2)	(46)
Disposal of subsidiary (see note 24)	(20)	(59)	–	–	(79)
Exchange adjustments	–	1	–	1	2
31 December 2004	**30**	**226**	**56**	**2,646**	**2,958**
Net book value					
31 December 2004	**29**	**848**	**571**	**1,384**	**2,832**
31 December 2003	68	867	275	1,520	2,730

(i) The net book value of land and buildings at 31 December 2004 comprised freehold of £10 million (2003: £34 million), long leasehold of £11 million (2003: £19 million) and short leasehold of £8 million (2003: £15 million).

(ii) The net book value of tangible fixed assets held under finance leases at 31 December 2004 within plant, equipment and vehicles was £2 million (2003: £4 million) and within storage, exploration and production was £77 million (2003: £96 million). The depreciation and amortisation charge for the year in respect of finance leased assets included £2 million (2003: £6 million) on plant, equipment and vehicles and £19 million (2003: £17 million) on storage, exploration and production assets.

(iii) The amounts capitalised in the year in respect of customer relationship management infrastructure and billing systems (included within plant, equipment and vehicles) amounted to £29 million (2003: £72 million). At 31 December 2004 the net book value of these assets was £268 million (2003: £297 million).

(iv) The net book value of the fixed assets of the Consumers' Waterheater Income Fund (the Fund) within plant, equipment and vehicles was £184 million (2003: £190 million). Debt issued by a subsidiary of the Fund, without recourse to the group, is secured on the assets as set out in note 32.

(v) Included within exploration and production assets at 31 December 2004 were costs of £11 million pending determination (2003: £19 million). The net book value of decommissioning costs at 31 December 2004 was £48 million (2003: £40 million).

(vi) Included within the depreciation charge of exploration and production assets are impairment charges of £65 million relating to gas fields, of which £50 million is an exceptional charge relating to the Rose field impairment (see note 5).

(vii) Opening cost and depreciation balances for land and buildings have been restated by £33 million to reflect fully written down items which were previously treated as disposed. These adjustments have had no impact on net assets.

13 Fixed asset investments

	Joint ventures and associates			
	Shares(i) £m	Loans(i) £m	Other investments(ii) £m	Total £m
Share of net assets/cost				
1 January 2004 (as restated) (iv)	43	–	5	48
Additions	1	24	–	25
Disposal of subsidiary (iii)	(15)	–	(2)	(17)
Dividends receivable	(28)	–	–	(28)
Share of profits less losses for the year	41	–	–	41
31 December 2004	**42**	**24**	**3**	**69**
Goodwill				
1 January 2004	52	–	–	52
Goodwill amortisation	(6)	–	–	(6)
31 December 2004	**46**	**–**	**–**	**46**
Amounts written off				
1 January 2004 (as restated) (iv)	–	–	(3)	(3)
31 December 2004	**–**	**–**	**(3)**	**(3)**
Net book value				
31 December 2004	**88**	**24**	**–**	**112**
31 December 2003 (as restated) (iv)	95	–	2	97

(i) The group's share of net assets of associates was £nil (2003: £1 million). The group's share of joint ventures' gross assets and gross liabilities principally comprised its interests in Humber Power Limited (power generation) and Luminus NV (energy supply). The group's share of joint ventures' gross liabilities excluded loans payable to the group amounting to £24 million (2003: £nil). Including these loans the group's share of joint ventures' gross liabilities was £368 million (2003: £920 million).The share of Humber Power Limited's gross liabilities included £266 million (2003: £268 million) of lease finance, of which £232 million (2003: £249 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.

				2004	2003
Investments in joint ventures	Humber Power Limited £m	Luminus NV £m	Other £m	**Total £m**	Total £m
Share of gross assets	317	106	9	**432**	1,014
Share of gross liabilities	(294)	(45)	(5)	**(344)**	(920)
	23	61	4	**88**	94
Share of net assets of associates				**–**	1
				88	95
Net debt included in share of gross liabilities	(213)	(1)	(1)	**(215)**	(788)

(ii) All other investments were unlisted.
(iii) During the year the group disposed of its interest in the AA including its associates and joint ventures, Centrica Personal Finance Limited and AA Financial Services (see note 24 (ii)).
(iv) Opening balances have been restated for the adoption of UITF 38 and Revised UITF 17 as described in note 2.

The principal undertakings of the group are listed in note 31.

14 Stocks

	2004 £m	2003 £m
Gas in storage and transportation	**97**	114
Other raw materials and consumables	**52**	45
Finished goods and goods for resale	**9**	14
	158	173

15 Debtors

Amounts falling due	2004 Within one year £m	2004 After one year £m	2003 Within one year £m	2003 After one year £m
Trade debtors	**703**	**44**	718	53
Accrued energy income	**1,712**	**–**	1,670	–
Deferred corporation tax (see note 19)	**16**	**36**	31	25
Other debtors	**387**	**–**	360	–
Prepayments and other accrued income (i)	**331**	**107**	142	39
	3,149	**187**	2,921	117

(i) Included in prepayments and other accrued income falling due after one year is £83 million (2003: £30 million provision) relating to pension assets transferred from provisions (see notes 19 and 26).

16 Current asset investments

	2004 £m	2003 £m
Money market investments	**1,166**	992

Current asset investments included £30 million (2003: £183 million) held by the group's insurance subsidiary undertakings, £10 million (2003: £7 million) held by the Consumers' Waterheater Income Fund and £25 million (2003: £17 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 26. These amounts were not readily available to be used for other purposes within the group.

17 Borrowings

Amounts falling due	2004 Within one year £m	2004 After one year £m	2003 Within one year £m	2003 After one year £m
a) Businesses' recourse borrowings (see note 29d)				
Bank loans and overdrafts	**85**	**–**	52	–
Sterling bonds (i)	**125**	**410**	–	535
Commercial paper	**220**	**–**	205	–
Loan notes	**2**	**–**	2	–
Obligations under finance leases (ii)	**29**	**1**	39	30
Canadian dollar loans (iii)	**7**	**32**	–	–
b) Businesses' non-recourse borrowings				
Canadian dollar bonds (iv)	**–**	**217**	–	216
	468	**660**	298	781

(i) Sterling bonds were repayable as follows: between one and two years £nil (2003: £125 million) and after five years £415 million (2003: £416 million). The bonds bear interest at fixed rates between 5.375% and 5.875% (2003: 5.375% and 5.875%). The bonds have a face value of £540 million (2003: £541 million) and are stated net of £5 million (2003: £6 million) of issuance discount.
(ii) Group obligations under finance leases after more than one year at 31 December 2004 were repayable as follows: between one and two years £1 million (2003: £30 million).
(iii) Canadian dollar loans are repayable as follows: between one and two years £8 million (2003: £nil) and between two and five years £24 million (2003: £nil). The loans bear interest at a fixed rate of 4.027%.
(iv) This debt is 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 32. These bonds were issued in two series and are repayable between 10 and 12 years bearing interest between 4.700% and 5.245% respectively.

18 Creditors

Amounts falling due	2004 Within one year £m	2004 After one year £m	2003 Within one year £m	2003 After one year £m
Trade creditors	**1,435**	**–**	1,441	–
Taxation and social security	**311**	**–**	260	–
Other creditors	**873**	**69**	827	80
Accruals and deferred income:				
Transportation (i)	**18**	**–**	30	–
Other accruals and deferred income	**918**	**24**	983	24
	936	**24**	1,013	24
Dividend payable (see note 9)	**230**	**–**	157	–
	3,785	**93**	3,698	104

(i) 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.

19 Provisions for liabilities and charges

	1 January 2004 £m	Acquisitions and disposals £m	Profit and loss charge/(credit) £m	Utilised £m	Transfers (v) £m	31 December 2004 £m
Deferred corporation tax (i) (ii)	244	–	45	–	–	**289**
Decommissioning costs (iii)	215	38	9	–	–	**262**
Deferred petroleum revenue tax (iv)	297	–	208	(308)	–	**197**
Pension and other retirement benefits (v)	30	25	97	(235)	83	**–**
Restructuring costs (vi)	22	(3)	106	(31)	–	**94**
Sales contract loss and renegotiation provisions (vii)	217	–	(72)	–	–	**145**
Other (viii)	35	1	69	(18)	–	**87**
	1,060	61	462	(592)	83	**1,074**

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

	Amounts provided 2004 £m	Amounts provided 2003 £m	Potential assets unrecognised 2004 £m	Potential assets unrecognised 2003 £m
Accelerated capital allowances	**346**	351	**(21)**	(22)
Deferred petroleum revenue tax	**(78)**	(119)	**–**	–
Other timing differences including losses carried forward	**(31)**	(44)	**(94)**	(117)
	237	188	**(115)**	(139)
Deferred corporation tax liability	**289**	244		
Deferred corporation tax asset included in debtors (see note 15)	**(52)**	(56)		
	237	188		

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

(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 £9 million of notional interest (2003: £6 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 (see note 26). In addition, cash contributions of £3 million have been paid to the pension schemes which had been provided for within the restructuring provision (see footnote (vi) below). The pension asset of £83 million at 31 December 2004 has been transferred to prepayments (see note 15).

(vi) The provision represents 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 expected cost to surrender those leases. The profit and loss charge for the year included £105 million for exceptional redundancy and other reorganisation costs (see note 5). The majority of these sums are expected to be spent in 2005. Included within the utilisation for 2004 are additional contributions to the pension scheme of £3 million in respect of redundancy costs.

19 Provisions for liabilities and charges continued

(vii) The sales contract loss provision represented the net present cost, using a risk-free discount rate, of expected losses on onerous long-term sales contracts 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 includes £10 million of notional interest (2003: £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 represents the net present cost of estimated payments due to suppliers as consideration for the renegotiations, which are due for settlement in 2008 based on the reserves in a group of third-party fields. As detailed in note 5, published estimates of these reserves during the year have indicated a reduction from the originally forecast level of reserves. The provision has been reduced by £51 million based on a conservative view of the revised reserve levels.
(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 236.25 pence at 31 December 2004 (2003: 211 pence).

20 Called up share capital

	2004 £m	2003 £m
Authorised share capital of the company		
4,455,000,000 ordinary shares of $6^{14}/_{81}$p each		
(2003: 4,950,000,000 ordinary shares of $5^{5}/_{9}$p each)	**275**	275
100,000 cumulative redeemable preference shares of £1 each	**–**	–
Allotted and fully paid share capital of the company		
3,775,817,747 ordinary shares of $6^{14}/_{81}$p each		
(2003: 4,265,901,206 ordinary shares of $5^{5}/_{9}$p each)	**233**	237

On 25 October 2004, the ordinary share capital was consolidated on the basis of 9 new ordinary shares of $6^{14}/_{81}$ pence each for every 10 existing ordinary shares of $5^{5}/_{9}$ pence.

During the period 9 August to 31 December 2004, the company purchased, and subsequently cancelled, 85 million ordinary shares at prices ranging from 226.76 pence per share to 249.99 pence per share, with an average of 240.7 pence per share. The total cost of the purchases including expenses was £205 million which has been charged against distributable reserves, of which £5 million related to the nominal value and has been recognised in the capital redemption reserve.

Ordinary shares were also 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	2004	2003
Number	**16,584,654**	13,044,792
Nominal value (£m)	**1.0**	0.7
Consideration (£m) (net of issue costs 2004: £nil; 2003: £nil)	**27**	13

	Options outstanding over ordinary shares 2004 million	2003 million	Latest exercise date	Exercise prices (pence)
RESOS (i)	**–**	0.5	November 2004	81.060 to 90.266
ESOS (ii)	**29.2**	25.8	September 2013	146.600 to 240.050
UK sharesave (iii)	**83.4**	93.8	November 2008	92.200 to 202.600
Irish sharesave (iii) (iv)	**0.2**	0.3	March 2005	132.800 to 168.700
Total 31 December	**112.8**	120.4		

(i) Details of the RESOS appear on page 32 in note (iii) to the table of directors' interests in share options.
(ii) Details of the ESOS appear on page 28.
(iii) Details of the UK and Irish sharesave schemes appear on page 23 and 24.
(iv) The Irish sharesave scheme was operated for the benefit of employees of the AA in Ireland. Following the sale of the AA, all participants in the scheme were no longer able to make contributions and were offered the opportunity to exercise their options within a six-month period.

The closing price of a Centrica ordinary share on 31 December 2004 was 236.25 pence (2003: 211 pence).

20 Called up share capital continued

Long Term Incentive Scheme

At 31 December 2004, 28 million shares (2003: 37 million) were outstanding in respect of allocations made under the long term incentive scheme, which includes allocations of 24 million shares (2003: 27 million) that are subject to performance conditions and allocations of 4 million shares (2003: 10 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 page 28 and 29.

The Centrica employees share trust was 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.

Movements in the trust are shown below. Dividends due on shares held in trust are waived in accordance with the trust deeds. All administration costs are borne by the group.

	2004			2003		
	Number of shares million	**Cost £m**	**Market value £m**	Number of shares million	Cost £m	Market value £m
1 January	**21.2**	**45**	**45**	27.2	51	47
Shares released under long term incentive scheme	**(13.5)**	**(30)**	**(30)**	(6.0)	(6)	(11)
Share consolidation (see above)	**(1.3)**	**–**	**–**	–	–	–
Change in market value	**–**	**–**	**–**	–	–	9
31 December	**6.4**	**15**	**15**	21.2	45	45
% of ordinary share capital	**0.2%**			0.5%		
Nominal value (£m)	**0.4**			1.2		

21 Reserves

	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account(i) (iii) £m	Total £m
1 January 2004 as previously stated	549	467	–	1,284	2,300
Prior year adjustment (see note 2)	–	–	–	(17)	(17)
1 January 2004 (as restated)	549	467	–	1,267	2,283
Retained loss for the year (ii)	–	–	–	(5)	(5)
Issue of ordinary share capital	26	–	–	–	26
Shares to be distributed under long term incentive scheme	–	–	–	15	15
Repurchase of shares (see note 20)	–	–	5	(205)	(200)
31 December 2004	**575**	**467**	**5**	**1,072**	**2,119**

(i) Cumulative goodwill taken directly to the profit and loss reserve at 31 December 2004 amounted to £85 million (2003: £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 losses of £13 million (2003: £42 million gain) on net investment in overseas undertakings have been offset in full in reserves against exchange gains of £13 million (2003: £46 million loss) on foreign currency borrowings.

(iii) The profit and loss account can be further analysed as follows:

	Own shares (cost) £m	Shares to be distributed under long term incentive scheme £m	Other £m	Profit and loss account £m
1 January 2004 (as restated)	(45)	41	1,271	1,267
Retained loss for the year	–	–	(5)	(5)
Shares to be distributed under long term incentive scheme	–	15	–	15
Shares released under long term incentive scheme	30	(25)	(5)	–
Repurchase of shares (see note 20)	–	–	(205)	(205)
31 December 2004	**(15)**	**31**	**1,056**	**1,072**

22 Movements in shareholders' funds

	2004 £m	2003 As restated £m
1 January (i)	**2,520**	2,226
Profit attributable to the group	**1,382**	500
Dividends	**(1,387)**	(229)
Exchange translation differences	**–**	(4)
Issue of ordinary share capital	**27**	13
Shares to be distributed under long term incentive scheme (see note 21)	**15**	14
Repurchase of shares (see note 20)	**(205)**	–
Net movement in shareholders' funds for the year	**(168)**	294
31 December	**2,352**	2,520

(i) Previously reported as £2,537 million before prior year adjustment of £17 million (see note 2).

23 Minority interests

	Equity £m	Non-equity £m	Total £m
1 January 2004	53	164	217
Profit on ordinary activities after taxation	2	18	20
Distribution	–	(18)	(18)
31 December 2004	**55**	**164**	**219**

Equity minority interests at 31 December 2004 related to a 30% economic interest held by Lloyds TSB Bank plc in the dormant legal entity (formerly Goldfish Holdings Ltd) pending winding up of the company and its subsidiary, GF One Ltd (formerly Goldfish Bank Ltd), which is expected to occur in 2005. Non-equity minority interests at 31 December 2004 related to the 80.1% of units in the Consumers' Waterheater Income Fund (see note 32), listed on the Toronto Stock Exchange.

24 Acquisitions and disposals

(i) Acquisitions

During the year the group acquired a 33.33% interest in the UK side of the Statfjord gas field, the regulated retail gas operations from ATCO Gas and Pipelines Ltd and the regulated retail electric operations from ATCO Electric Ltd (ATCO), controlling interests in Quintana Minerals Canada Investment Corp and Quintana Minerals Resources Corp (collectively known as Quintana Minerals), Bastrop Energy Partners LP, the business and assets of Killingholme power station, Telco Holdings Limited and its subsidiary undertakings (collectively known as Telco Global), the legal entities collectively known as the Dyno group of companies (Dyno-Rod), RSG Holding Corp and its subsidiary undertakings (Residential Services Group) and 100% of the partnership interests in Frontera Generation Limited Partnership (Frontera Generation). The group also made a number of smaller acquisitions which are aggregated in section j.

The acquisition method of accounting has been 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 are provisional because the directors have not yet reached a final determination on all aspects of the fair value exercises.

a) Statfjord	Book value £m	Fair value adjustments(i) £m	Fair value £m
Tangible fixed assets	41	39	80
Stock	2	–	2
Debtors (amounts falling due within one year)	–	3	3
Creditors (amounts falling due within one year)	(1)	(5)	(6)
Provisions for liabilities and charges	–	(36)	(36)
Net assets acquired	42	1	43
Goodwill arising			–
Cash consideration			**43**

The group acquired a 33.33% interest in the UK side of the Statfjord oil and gas field on 31 March 2004 from Chevron UK Limited and Texaco Britain Limited. The loss after tax from 1 January 2004 to 31 March 2004 was £1 million. As the gas field acquired formed part of the above legal entities prior to acquisition the result for the previous financial year is not readily available.

(i) The book values of assets and liabilities have been adjusted to align with the fair value of assets and liabilities acquired. Adjustments have been made in respect of decommissioning, to recognise transferred PRT allowances and to recognise tangible fixed assets at their estimated value in use.

24 Acquisitions and disposals continued

b) ATCO	Book and Fair value £m
Debtors (amounts falling due within one year)	18
Cash at bank and in hand	7
Creditors (amounts falling due within one year)	(7)
Net assets acquired	18
Goodwill arising [i]	37
Consideration	**55**
Cash	37
Deferred consideration [ii]	18
	55

The group acquired the regulated retail gas operations from ATCO Gas & Pipelines Ltd and the regulated retail electric operations from ATCO Electric Ltd on 4 May 2004. Prior to the acquisition the acquired business formed part of the above legal entities and there is therefore no historical information available relating to the profitability of these retail components.

(i) Goodwill is being amortised over 15 years.
(ii) Deferred consideration is to be paid in cash on 4 May 2005.

c) Quintana Minerals	Book value £m	Accounting policy alignments[i] £m	Fair value adjustment[ii] £m	Fair value £m
Tangible fixed assets	25	(4)	1	22
Debtors (amounts falling due within one year)	1	–	–	1
Bank overdrafts	(1)	–	–	(1)
Creditors (amounts falling due within one year)	(1)	–	–	(1)
Borrowings	(2)	–	–	(2)
Provisions for liabilities and charges	(7)	5	–	(2)
Net assets acquired	15	1	1	17
Goodwill arising				–
Cash consideration				**17**

The group acquired the shares of Quintana Minerals Canada Investments Corp and Quintana Minerals Resources Corp on 18 May 2004. The loss after tax from 1 January 2004 to 18 May 2004 was £2 million. The profit after tax for the previous financial year was £2 million.

(i) Accounting policy alignments have been made to recognise a decommissioning asset and decommissioning provision and to recognise deferred tax consistent with the group's accounting policies.
(ii) The book value of tangible fixed assets has been adjusted to their estimated value in use.

d) Bastrop Energy Partners	Book value £m	Accounting policy alignment[i] £m	Fair value adjustment[ii] £m	Fair value £m
Tangible fixed assets	124	–	(45)	79
Creditors (amounts falling due within one year)	(2)	2	–	–
Net assets acquired	122	2	(45)	79
Goodwill arising				–
Cash consideration				**79**

The group acquired 100% of the partnership interest in Bastrop Energy Partners LP on 1 June 2004. The loss after tax from 1 January 2004 to 31 May 2004 was £4 million. The loss for the previous financial year was £9 million.

(i) An accounting policy alignment has been made to reverse an accrual for future maintenance costs in accordance with the group's accounting policies.
(ii) The book value of tangible fixed assets has been adjusted to their estimated value in use.

24 Acquisitions and disposals continued

e) Killingholme	Book value £m	Accounting policy alignment(i) £m	Fair value adjustments(ii) £m	Fair value £m
Tangible fixed assets	124	1	15	140
Stock	5	(1)	(1)	3
Debtors (amounts falling due within one year)	2	–	–	2
Creditors (amounts falling due within one year)	(4)	–	–	(4)
Provisions for liabilities and charges	–	–	(1)	(1)
Net assets acquired	127	–	13	140
Goodwill arising				–
Cash consideration				**140**

The group acquired the business and assets of Killingholme power station from Killingholme Power Limited on 8 June 2004. 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 prior to acquisition.

(i) An accounting policy alignment has been made to reclassify turbine parts from stock to tangible fixed assets.
(ii) The book values of assets and liabilities have been adjusted to align with the fair value of assets and liabilities acquired. Stock has been adjusted to its estimated realisable value, tangible fixed assets have been adjusted to their estimated value in use and accrued obligations relating to an unfunded pension scheme have been recognised at fair value.

f) Telco Global	Book value £m	Fair value adjustments(i) £m	Fair value £m
Intangible fixed assets	(1)	1	–
Tangible fixed assets	10	(4)	6
Debtors (amounts falling due within one year)	16	–	16
Bank overdrafts	(4)	–	(4)
Creditors (amounts falling due within one year)	(20)	(1)	(21)
Provisions for liabilities and charges	–	(1)	(1)
Net liabilities acquired	1	(5)	(4)
Goodwill arising (ii)			49
Consideration			**45**
Cash			42
Deferred consideration (iii)			3
			45

The group acquired Telco Holdings Limited and its subsidiaries on 23 September 2004. The profit after tax from 1 July 2004 to 23 September 2004 was £2 million. The loss for the previous financial year was £6 million.

(i) The book values of assets and liabilities have been adjusted to align with fair values. Adjustments have been made to intangible fixed assets to eliminate the book value of acquired negative goodwill, to tangible fixed assets to reflect telephony equipment acquired at depreciated replacement cost and to creditors and provisions to reflect amounts at their fair value.
(ii) Goodwill is being amortised over 10 years.
(iii) Deferred consideration was paid in cash on 25 January 2005.

24 Acquisitions and disposals continued

g) Dyno-Rod	Book and Fair value £m
Tangible fixed assets	1
Debtors (amounts falling due within one year)	2
Cash at bank and in hand	15
Creditors (amounts falling due within one year)	(4)
Net assets acquired	14
Goodwill arising [i]	57
Consideration	**71**
Cash	58
Contingent consideration [ii]	13
	71

The group acquired Jannco2 Limited and Zockoll Group Limited and their subsidiary undertakings (known as the Dyno group) on 30 September 2004. The profit after tax from 1 January 2004 to 30 September 2004 was £3 million. The profit after tax for the previous financial year was £3 million.

(i) Goodwill is being amortised over 20 years.
(ii) Contingent consideration comprises amounts paid but held in escrow at 31 December 2004. The cash was released to the vendor on 4 February 2005.

h) Residential Services Group	Book value £m	Fair value adjustments[i] £m	Fair value £m
Intangible fixed assets	14	(14)	–
Tangible fixed assets	2	(1)	1
Stock	5	–	5
Debtors (amounts falling due within one year)	26	–	26
Creditors (amounts falling due within one year)	(25)	–	(25)
Net assets acquired	22	(15)	7
Goodwill arising [ii]			77
Consideration			**84**
Cash			83
Deferred consideration [iii]			1
			84

The group acquired RSG Holding Corp and its subsidiary undertakings on 13 October 2004. The profit after tax from 1 January 2004 to 13 October 2004 was £1 million. The profit from commencement of operations on 9 June 2003 to 31 December 2003 was £3 million.

(i) The book values of assets and liabilities have been adjusted to align with their fair values. Adjustments have been made to intangible fixed assets to eliminate the book value of acquired goodwill. Leasehold improvements and fixtures and fittings, included within the book value of tangible fixed assets acquired, have been written down to their net realisable value.
(ii) Goodwill is being amortised over 15 years.
(iii) Deferred consideration was paid on 18 and 19 January 2005.

24 Acquisitions and disposals continued

i) Frontera Generation	Book value £m	Accounting policy alignment[i] £m	Fair value adjustments[ii] £m	Fair value £m
Tangible fixed assets	87	1	(19)	69
Stock	3	(1)	–	2
Debtors (amounts falling due within one year)	3	–	(3)	–
Creditors (amounts falling due within one year)	(3)	–	–	(3)
Net assets acquired	90	–	(22)	68
Goodwill arising				–
Cash consideration				**68**

The group acquired 100% of the partnership interest in Frontera Generation Limited Partnership on 22 December 2004. The loss after tax from 1 January 2004 to 22 December 2004 was £3 million. The loss for the previous financial year was £39 million.

(i) An accounting policy alignment has been made to reclassify turbine parts from stock to tangible fixed assets.
(ii) The book values of assets and liabilities have been adjusted to align with the fair value of assets and liabilities acquired. Tangible fixed assets have been adjusted to their estimated value in use and a long-term pre-paid asset has been adjusted to its estimated net realisable value.

Contingent consideration could be payable up to an estimated maximum of £1 million in cash in March 2006, £2 million in cash in March 2007 and £2 million in cash in March 2008, dependent upon the generated revenues of a future contract exceeding an agreed threshold. As this threshold is not expected to be reached no contingent consideration has been recognised.

j) Other	Book value £m	Fair value adjustments[i] £m	Fair value £m
Intangible fixed assets	1	(1)	–
Tangible fixed assets	7	25	32
Debtors (amounts falling due within one year)	5	3	8
Creditors (amounts falling due within one year)	(8)	4	(4)
Net assets acquired	5	31	36
Goodwill arising [ii]			6
Consideration			**42**
Cash			27
Deferred consideration [iii]			6
Contingent consideration [iv]			9
			42

The group acquired Luced Heating Contractors Ltd on 1 August 2004 (consideration £0.4 million, goodwill arising £nil); Wainstones Power Limited on 20 August 2004 (consideration £15 million, goodwill arising £nil); customers and the related accounts receivable from Energy East Solutions, Inc on 1 October 2004 (consideration £2 million, goodwill arising £1 million); Glens of Foudland Wind Farm Limited on 11 October 2004 (consideration £8 million, goodwill arising £nil); Base Enterprises Ltd on 1 November 2004 (consideration £5 million, goodwill arising £5 million); the assets of Tempcon Technologies Limited and Michael Mechanical Services (Eastern) Limited on 25 October 2004 (consideration £0.3 million, goodwill arising £nil) and Hawkeye Exploration Limited on 26 October 2004 (consideration £11 million, goodwill arising £nil).

(i) The book values of assets and liabilities have been adjusted to align with the fair value of assets and liabilities acquired. Tangible fixed assets have principally been adjusted to reflect the estimated value in use of the assets acquired.
(ii) Goodwill is being amortised over periods ranging from 5 to 10 years.
(iii) Deferred consideration comprises: £1 million in respect of Wainstones Power Limited which is expected to be paid in cash within one year; £4 million in respect of Glens of Foudland Wind Farm Limited of which £2 million is expected to be paid in cash in April 2005 and £2 million in cash in October 2005; £1 million in respect of Base Enterprises Limited paid in cash on 14 January 2005.
(iv) Contingent consideration comprises: £6 million in respect of Wainstones Power Limited payable in cash within one to four years and dependent on commencement of both construction and commercial operations of the power station; £3 million in respect of Hawkeye Exploration Limited which is expected to be paid in cash within one year and dependent on the volume of gas reserves and the final capital expenditure for the project.

24 Acquisitions and disposals continued

(ii) Disposal

The group disposed of its shareholding in AA Corporation Limited, its subsidiary undertakings and related interests in AA associates and joint ventures, collectively known as the AA, on 30 September 2004 for cash consideration of £1,602 million, resulting in a pre-tax non-operating profit on disposal of £727 million. The disposal of shares qualifies for substantial shareholding exemption and, consequently, no tax charge has been recognised in relation to the profit. A tax credit of £13 million has been recognised on certain costs that qualify for tax relief, giving a post-tax non-operating profit on disposal of £740 million. The analysis of assets and liabilities sold and consideration received is given below:

	£m
Tangible fixed assets	107
Investments	17
Pension asset	24
Stock	7
Debtors	217
Current asset investments	202
Cash	2
Creditors	(82)
Provision for liabilities and charges	(3)
Net assets	**491**
Related goodwill	743
Pre-tax non-operating profit on disposal	727
	1,961
Sale proceeds	
Cash consideration received	1,602
Non-cash consideration (i)	435
Deferred consideration (ii)	(6)
Professional fees	(13)
Separation costs (iii)	(27)
Costs relating to pension scheme transfer values	(30)
	1,961

(i) Non-cash consideration represents the net balance due to the AA from the rest of the group at the date of disposal. This amount was novated as part of the disposal transaction.
(ii) Deferred consideration is payable within one year, relating to an estimate for a pension adjustment to consideration and additional cash consideration received in January 2005.
(iii) Costs in connection with separating the AA's activities and processes from various integrated group operations.

The profit after tax made by the AA from 1 January 2004 to the date of disposal was £34 million.

25 Notes to the group cash flow statement

a) Reconciliation of group operating profit to operating cash flow	2004 £m	2003 £m
Continuing operations		
Group operating profit	**900**	852
Amortisation of goodwill	**80**	94
Depreciation and impairment	**507**	376
Employee share scheme costs [i]	**15**	14
Profit on sale of investments	**–**	(8)
Loss/(profit) on sale of fixed assets	**1**	(3)
Provisions	**(211)**	(127)
Change in working capital:		
Stocks – decrease/(increase)	**16**	(10)
Debtors – increase	**(394)**	(268)
Creditors – increase	**345**	296
	(33)	18
Cash inflow from operating activities before exceptional payments:		
Continuing operations	**1,259**	1,216
Payments relating to exceptional charges	**(25)**	–
Cash inflow from operating activities after exceptional payments	**1,234**	1,216
Discontinued operations		
Operating profit/(loss)	**38**	(15)
Amortisation of goodwill	**37**	61
Depreciation and impairment	**12**	29
Employee share scheme costs [i]	**–**	2
Provisions	**(12)**	(35)
Change in working capital:		
Stocks – decrease	**1**	4
Goldfish Bank debtors – increase [ii]	**–**	(256)
Goldfish Bank working capital facility – increase [ii] [iii]	**–**	271
Goldfish Bank customer accounts – decrease [ii]	**–**	(286)
Debtors – decrease/(increase)	**7**	(4)
Creditors – increase	**37**	5
	45	(266)
Cash inflow/(outflow) from discontinued operations	**120**	(224)
Total cash inflow from operating activities after exceptional payments	**1,354**	992

(i) This represents charges made to the profit and loss account for employee share schemes, under Revised UITF 17, with respect to the long term incentive scheme (for further details see page 28 and 29) and the share incentive plan (for further details see page 24).
(ii) Sold as part of the disposal of the Goldfish credit card and loan business.
(iii) 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 the comparatives to note 25e.

b) Returns on investments and servicing of finance	2004 £m	2003 £m
Interest received [i]	**86**	54
Interest paid	**(75)**	(61)
Interest element of finance lease rental payments	**(5)**	(8)
	6	(15)

(i) Interest received includes £7 million from discontinued operations in respect of the AA (2003: £8 million).

Interest income/(charges) on banking receivables and related working capital facilities are included within operating cash flow in note 25a.

25 Notes to the group cash flow statement continued

c) Taxation paid	2004 £m	2003 £m
UK corporation tax paid [i]	**(199)**	(159)
Overseas tax paid	**(40)**	(24)
Consortium tax relief received	**–**	2
	(239)	(181)

(i) UK corporation tax paid includes £21 million from discontinued operations in respect of the AA (2003: £2 million received).

d) Capital expenditure and financial investment	2004 £m	2003 £m
Purchase of tangible fixed assets	**(349)**	(323)
Sale of tangible fixed assets	**22**	39
Loans to joint ventures (made)/repaid	**(24)**	2
	(351)	(282)

e) Acquisitions and disposals	2004 £m	2003 £m
Payments on acquisition of subsidiary undertakings and businesses [i]	**(605)**	(77)
Payments on acquisition of joint ventures and associates	**(1)**	(10)
Payments of deferred consideration	**(2)**	(30)
Total cash payments	**(608)**	(117)
Cash acquired	**22**	–
Overdraft acquired	**(5)**	–
Receipts on disposal of the AA [ii]	**1,588**	–
AA cash disposed of	**(2)**	–
Receipts on disposal of Goldfish credit card and loan business	**–**	1,095
Repayment of Goldfish Bank working capital facility	**–**	(701)
Proceeds from other disposals	**3**	15
	998	292

(i) Cash consideration at acquisition date rates of exchange, as included in note 24, totalled £607 million.
(ii) Net of fees paid of £14 million.

f) Management of liquid resources	2004 £m	2003 £m
Net purchase of current asset investments	**(377)**	(669)

Liquid resources comprised short-term deposits with banks which mature within one year of the date of inception. Current asset investments increased by £41 million from discontinued operations relating to the AA (2003: £19 million). In 2003 current asset investments also increased by £143 million relating to the investment of sale proceeds from the disposal of Goldfish Bank.

25 Notes to the group cash flow statement continued

g) Financing	2004 £m	2003 £m
Commercial paper:		
Issued	**59**	204
Repaid	**(2)**	(236)
Capital element of finance lease rentals	**(39)**	(38)
Bonds issued	**–**	17
Realised net foreign exchange gain/(loss) (i)	**51**	(12)
(Distribution to)/investment by equity and non-equity minority shareholders (ii)	**(18)**	41
Issue of ordinary share capital (iii)	**24**	11
Purchase of own shares (see note 22)	**(205)**	–
	(130)	(13)

The 2004 net financing outflow in relation to discontinued operations was £66 million relating to the AA (2003: £60 million outflow relating to the AA and £46 million inflow relating to Goldfish Bank).

(i) Where currency swap agreements are used to hedge overseas net investments, the realised net gains/(losses) are recognised in financing cash flows.
(ii) Includes capital contributions to Goldfish Bank of £nil (2003: £12 million) and £nil (2003: £46 million) from the disposal of nil% (2003: 22.0%) of the group's holding in the Consumers' Waterheater Income Fund, net of distributions paid to non-equity minority unitholders of £18 million (2003: £17 million).
(iii) Cash inflow from the issue of ordinary share capital is stated net of issue costs of £nil (2003: £nil).

h) Analysis of debt, net of cash and money market investments	1 January 2004 £m	Cash flow £m	Debt acquired and disposed £m	Exchange adjustments and other non-cash movements(i) £m	31 December 2004 £m
Cash at bank and in hand	34	(44)	–	51	**41**
Overdrafts	(52)	19	–	(52)	**(85)**
		(25)			
Bonds	(751)	–	–	(1)	**(752)**
Loan notes due within one year	(2)	–	–	–	**(2)**
Obligations under finance leases	(69)	39	–	–	**(30)**
Commercial paper	(205)	(13)	(3)	1	**(220)**
Canadian dollar loans	–	(44)	–	5	**(39)**
		(18)			
Current asset investments (ii)	992	377	(202)	(1)	**1,166**
	(53)	334	(205)	3	**79**
Of which:					
Net cash (excluding non-recourse debt)	163	334	(205)	4	**296**
Consumers' Waterheater Income Fund (non-recourse) debt	(216)	–	–	(1)	**(217)**
	(53)	334	(205)	3	**79**

(i) This included an exchange loss on cash of £1 million (2003: loss £3 million).
(ii) £41 million of the current asset investment cash flow related to discontinued operations (2003: £162 million).

26 Pensions

Substantially all of the group's UK employees at 31 December 2004 were members of one of the three main schemes: the Centrica Pension Scheme (formerly the Centrica Staff Pension Scheme), the Centrica Engineers' Pension Scheme and the Centrica Management 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 2004 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	753	94
Centrica Engineers' Pension Scheme	466	104
Centrica Management Pension Scheme	459	96

The long-term assumptions applied to calculate group pension costs, as agreed with the independent actuary, are set out below:	**2004 %**	2003 %
Rate of price inflation and pension increases	**2.75**	2.50
Annual rate of return on investments	**7.00**	6.70
Future increases in employee earnings	**4.25**	4.50

The group's pension costs arising and the reconciliation to the balance sheet (provision)/asset was as follows:	**2004 £m**	2003 £m
Regular pension costs	**(99)**	(105)
Amortisation of surplus	**4**	21
	(95)	(84)
Interest	**2**	10
Net pension costs	**(93)**	(74)
Contributions paid [(i) (ii)]	**233**	124
Decrease in provision for pension costs	**140**	50
Disposal of subsidiary [(v)]	**(50)**	–
Acquisition of pension liability	**(1)**	–
Pension provision at 1 January	**(5)**	(55)
Pension asset/(provision) at 31 December	**84**	(5)
AA post-retirement private medical insurance [(iii)]	**–**	(24)
Direct Energy Marketing Limited (DEML) post-retirement benefits at 31 December [(iv)]	**(1)**	(1)
Pension and other retirement benefits asset/(provision) (see notes 15 and 19)	**83**	(30)

Other retirement benefits

(i) In December 2004 the company made a one-off contribution of £100 million.

(ii) Contributions paid, as stated in this table, do not include: one-off contributions due to redundancy that are shown against the restructuring provision (£3 million) and contributions to the DEML post-retirement benefits scheme (£2 million) giving total cash contributions of £238 million.

(iii) The group had a commitment to provide post-retirement private medical insurance cover for certain AA current and past employees. This liability was materially extinguished under the terms of the sale of the AA. The net cost to the group of retirement benefits under this scheme was £2 million (2003: £3 million).

(iv) The group has a commitment to provide certain pension and other post-retirement benefits to employees of DEML. The DEML 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 (2003: £1 million). The net cost to the group of retirement benefits under this scheme was £2 million (2003: £2 million).

(v) Under the terms of the sale of AA Corporation Limited, the assets and liabilities relating to the AA Staff Pension Scheme, the AA Ireland Pension Scheme and substantially all the assets and liabilities relating to the AA post-retirement medical insurance scheme were transferred in full to AA Corporation Limited. At disposal the SSAP 24 asset for these schemes was £24 million (£245 million deficit under FRS 17), which represents AA pension schemes £50 million asset less AA post-retirement medical insurance scheme £26 million provision. The disposal of AA Corporation Limited is expected to reduce ongoing pension costs by approximately £21 million per annum (£34 million under FRS 17). In addition, a number of AA employees are members of the Centrica Management Pension Scheme. Liabilities with respect to these employees will be transferred to the AA Pension Scheme during 2005, provision for which has been made in calculating the profit on disposal of the AA (see note 24 (ii)). The opposite will be applied to Centrica group employees who are members of the AA pension schemes.

The total net cost to the group of other retirement benefits on a SSAP 24 basis was £4 million (2003: £5 million).

26 Pensions continued

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 latest full actuarial valuations were carried out as at the following dates: the approved pension schemes at 31 March 2004, the unapproved pension scheme at 6 April 2002, the DEML pension plan at 7 May 2002 and the post-retirement medical liability at 31 December 2001. These have been updated to 31 December 2004 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 2004 %**	31 December 2003 %	31 December 2002 %
Rate of increase in employee earnings	**4.3**	4.25	4.3
Rate of increase in pensions in payment and deferred pensions	**2.8**	2.75	2.3
Discount rate	**5.4**	5.50	5.75
Inflation assumption	**2.8**	2.75	2.3

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 2004 %**	**Valuation 2004 £m**	Expected rate of return per annum 2003 %	Valuation 2003 £m	Expected rate of return per annum 2002 %	Valuation 2002 £m
Equities	**8.1**	**1,585**	8.4	1,859	8.4	1,503
Bonds	**5.0**	**328**	5.1	399	4.8	267
Property	**6.9**	**62**	7.1	68	6.9	62
Cash and other assets	**3.6**	**66**	3.8	33	4.0	50
Total fair value of assets	**7.4**	**2,041**	7.8	2,359	7.7	1,882
Present value of schemes' liabilities		**(2,720)**		(3,430)		(2,713)
Deficit in the schemes		**(679)**		(1,071)		(831)
Related deferred tax asset		**204**		321		249
Net pension liability		**(475)**		(750)		(582)

Under SSAP 24 the balance sheet includes a prepayment of £83 million at 31 December 2004 (2003: £30 million provision). Had FRS 17 been implemented in full at that date the net assets of the group would have been reduced by £558 million (2003: £720 million), and the net charge for pension costs in the profit and loss account would have decreased by £169 million (2003: £71 million increase) compared with that under SSAP 24, as set out below:

For the year ended 31 December	**FRS 17 2004 £m**	**SSAP 24 2004 £m**	**Increase/ (decrease) 2004 £m**	FRS 17 2003 £m	SSAP 24 2003 £m	Increase 2003 £m
Amount charged to operating profit	**168**	**97**	**71**	138	79	59
Amount charged to interest	**5**	**–**	**5**	12	–	12
Amount credited to profit and loss on disposal of the AA	**(245)**	**–**	**(245)**	–	–	–
Net (credit)/charge to profit and loss account	**(72)**	**97**	**(169)**	150	79	71

Analysis of the amount that would have been charged to operating profit under FRS 17	**2004 £m**	2003 £m
Current service cost	**148**	135
Past service cost	**4**	3
Loss on curtailment	**16**	–
Net charge to operating profit	**168**	138

Analysis of the amount that would have been charged/(credited) to interest under FRS 17	**2004 £m**	2003 £m
Expected return on pension scheme assets	**(173)**	(149)
Interest on pension scheme liabilities	**178**	161
Net charge to interest	**5**	12

Analysis of the actuarial gain/(loss) that would have been recognised in the statement of total recognised gains and losses	**2004 £m**	2003 £m
Actual return less expected return on pension scheme assets	**58**	208
Experience gains and losses arising on the scheme liabilities	**134**	(3)
Changes in assumptions underlying the present value of the scheme liabilities	**(108)**	(419)
Actuarial gain/(loss) to be recognised in the statement of total recognised gains and losses before adjustment for tax	**84**	(214)

26 Pensions continued

History of experience gains and losses	2004	2003	2002
Difference between the expected and actual return on scheme assets:			
Amount (£m)	**58**	208	(588)
Percentage of scheme assets	**2.8%**	8.8%	31.2%
Experience gains and losses on scheme liabilities:			
Amount (£m)	**134**	(3)	(3)
Percentage of the present value of scheme liabilities	**5.0%**	0.1%	0.1%
Total actuarial gain/(loss) recognised in the statement of total recognised gains and losses:			
Amount (£m)	**84**	(214)	(492)
Percentage of the present value of scheme liabilities	**3.1%**	6.2%	18.1%

The movement in deficit during the year under FRS 17 would have been:	2004 £m	2003 £m
1 January	**(1,071)**	(831)
Movements in the year:		
Current service cost	**(148)**	(135)
Past service cost	**(4)**	(3)
Employer contributions	**238**	124
Loss on curtailment	**(16)**	–
Interest	**(5)**	(12)
Gain on disposal of AA pension and post-retirement benefit schemes	**245**	–
Acquisition of liability in year	**(2)**	–
Actuarial gain/(loss)	**84**	(214)
31 December	**(679)**	(1,071)

Agreed future contribution rates (% of pensionable salary) for the three main defined benefit schemes are as follows:	2004 %
Centrica Pension Scheme – Final salary section	**19.7**
Centrica Pension Scheme – CRIS section	**8.0**
Centrica Engineers' Pension Scheme	**19.0**
Centrica Management Pension Scheme	**26.2**

The Centrica Pension Scheme (Final salary section) and the Centrica Management Pension Scheme were closed to new members from 1 April 2003. Under the projected unit method, used to value pension liabilities under FRS 17 for closed plans, the current service cost is expected to increase over time as members approach retirement.

27 Commitments and contingencies

a) Capital expenditure

At 31 December 2004, the group had placed contracts for capital expenditure amounting to £86 million (2003: £74 million) of which £37 million relates to the investment in customer relationship management infrastructure and billing systems (2003: £41 million).

b) Decommissioning costs

The group has provided certain guarantees and indemnities to BG Group plc in respect of the decommissioning costs of the Morecambe gas fields. The company and its wholly-owned subsidiary, Hydrocarbon Resources Limited, have agreed to provide security, in respect of such guarantees and indemnities, 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.

c) Lease commitments

At 31 December non-cancellable operating lease commitments of the group for the following year were:	Land and buildings 2004 £m	Land and buildings 2003 £m	Other 2004 £m	Other 2003 £m
Expiring:				
Within one year	**4**	7	**9**	9
Between one and five years	**23**	13	**27**	36
After five years	**34**	48	**2**	3
	61	68	**38**	48

At 31 December 2004 there were no finance lease commitments for which inception occurs after 31 December 2004 (2003: £1 million).

27 Commitments and contingencies continued

d) 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 FRS 12.

e) Guarantees and indemnities

The company has £915 million of bilateral credit facilities (2003: £915 million). 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.

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 £22 million (2003: £60 million).

The group has given guarantees in connection with the finance lease obligations relating to Humber Power Limited referred to in note 13. A fixed collateral payment amounting to £225 million (2003: £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 (2003: £75 million) is required if the credit rating falls further.

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.

f) Gas purchase contracts

The group is contracted to purchase 94 billion therms of gas (2003: 76 billion therms) in Britain under long-term contracts. In 2002 the group entered into a contract with Gasunie to purchase an additional 27 billion therms over 10 years. This commitment was conditional at 31 December 2003. During 2004 it became unconditional and is therefore included in the 2004 figures below. Other increases on last year are largely due to the signing of gas procurement contracts with Shell, HydroWingas and Statoil. The long-term supply of LNG from Petronas is not included as not all of the conditions precedent have been fulfilled or waived. The gas contract commitments also 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:

	2004 million therms	2003 million therms
Within five years	**59,500**	43,500
After five years	**34,600**	32,400
	94,100	75,900

The directors do not consider it feasible to estimate reliably the actual future cost of committed gas purchases 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 2004 was 24.3 pence per therm (for the year ended 31 December 2003: 20.8 pence per therm).

The commitment profile on this same basis is set out below:	**2004 £m**	2003 £m
Within one year	**2,700**	2,200
Between one and five years	**11,800**	6,800
After five years	**8,400**	6,700
	22,900	15,700

g) Other

The group's use of financial instruments is explained in the group financial review on pages 19 to 21 and in note 29.

In October 2004 the group commenced an energy tolling agreement with the owners of a new gas-fired power station at Spalding, Lincolnshire for an initial 17-year period under which Centrica acquires the total plant capacity rights for a combination of fixed and market related tolling payments.

28 Related party transactions

a) Joint ventures and associates	2004 £m	2003 £m
Sales for the year ended 31 December:		
Humber Power Limited (i)	**4**	4
Motorfile Limited	**1**	2
Centrica Personal Finance Limited	**1**	1
Purchases for the year ended 31 December:		
AccuRead Limited	**38**	34
Humber Power Limited (i)	**49**	75
ACTA SA (an associate)	**2**	2

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

(i) The group had a creditor balance at 31 December 2004 with Humber Power Limited of £13 million (2003: £8 million).
(ii) The group had a loan debtor balance at 31 December 2004 with Barrow Offshore Wind Limited of £24 million (2003: £nil) (see note 13).

b) Pension schemes
In 2004 the group incurred £9 million (2003: £2 million) of administrative costs relating to group pension schemes.

c) Transactions with directors
At 31 December 2004 the amount outstanding in respect of credit cards made available by the company to directors was £nil (2003: £479).

d) Other
On 30 September 2004 the AA was sold and details of the assets and liabilities disposed of are included in note 24. Subsequent to disposal, activity with the AA included costs charged to the AA of £15 million and costs charged from the AA of £1 million. At 31 December 2004 the balance owing to the AA was £6 million and the amount due from the AA was £nil.

During 2004 activity with Lloyds TSB Bank plc included interest receivable of £1 million, interest payable of £nil and charges of £nil (2003: £nil, £9 million and £6 million respectively). Balances with Lloyds TSB Bank plc at 31 December 2004 included £44 million in short-term investments (2003: £40 million).

29 Financial instruments

The group's use of financial instruments is explained under the heading financial risk management in the group financial review on pages 19 to 21. The related accounting policies are explained in note 1. As permitted within FRS 13, the disclosures set out below in 29a and 29c through 29g exclude short-term debtors and creditors.

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:

2004	US dollar	Canadian dollar	Sterling	Total
Floating interest rate (£m) (i)	**3**	**8**	**1,172**	**1,183**
Fixed interest rate (£m)	**–**	**43**	**5**	**48**
No interest receivable (£m) (ii)	**–**	**–**	**20**	**20**
Total financial assets (£m)	**3**	**51**	**1,197**	**1,251**
Weighted average fixed interest rate (%)	**–**	**13.5**	**4.2**	**12.5**
Weighted average period for which rate is fixed (months)	**–**	**59**	**50**	**58**
Weighted average period for which no interest is receivable (months)	**–**	**–**	**–**	**–**

2003	US dollar	Canadian dollar	Sterling	Total
Floating interest rate (£m) (i)	15	12	982	1,009
Fixed interest rate (£m)	–	53	5	58
No interest receivable (£m) (ii)	–	1	12	13
Total financial assets (£m)	15	66	999	1,080
Weighted average fixed interest rate (%)	–	15.2	4.2	14.2
Weighted average period for which rate is fixed (months)	–	43	62	44
Weighted average period for which no interest is receivable (months)	–	48	–	48

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

29 Financial instruments continued

(i) In 2003 sterling floating rate financial assets included £167 million of assets held by the AA.
(ii) Financial assets on which no interest is paid relate to unit trust investments, for which no maturity date is specified.

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:

2004	US dollar	Canadian dollar	Sterling	Total
Floating interest rate (£m)	**(271)**	**(12)**	**(468)**	**(751)**
Fixed interest rate (£m)	**–**	**(256)**	**(269)**	**(525)**
No interest payable (£m) (i)	**–**	**(164)**	**(34)**	**(198)**
Total financial liabilities (£m)	**(271)**	**(432)**	**(771)**	**(1,474)**
Weighted average fixed interest rate (%)	**–**	**4.8**	**5.8**	**5.3**
Weighted average period for which rate is fixed (months)	**–**	**109**	**74**	**91**
Weighted average period for which no interest is payable (months)	**–**	**–**	**47**	**47**

2003	US dollar	Canadian dollar	Sterling	Total
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

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 (2003: £164 million) relating to non-equity minority interests. Non-equity minority interests relate to the 80.1% (2003: 80.1%) 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 2004 and 2003. There were no material monetary assets and liabilities in currencies other than these functional currencies, except for £7 million of monetary assets denominated in euros (2003: £19 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:

	2004			2003		
	Borrowings £m	**Other financial liabilities £m**	**Total financial liabilities £m**	Borrowings £m	Other financial liabilities £m	Total financial liabilities £m
In one year or less, or on demand	**468**	**121**	**589**	298	65	363
In more than one year but not more than two years	**9**	**24**	**33**	155	24	179
In more than two years but not more than five years	**24**	**19**	**43**	–	43	43
In more than five years	**632**	**18**	**650**	632	19	651
Non-equity minority interests (i)	**–**	**164**	**164**	–	164	164
	1,133	**346**	**1,479**	1,085	315	1,400

The maturity profile of borrowings includes £540 million (2003: £541 million) of sterling bonds stated at face value. As disclosed in note 17, these bonds are stated in the group balance sheet net of £5 million (2003: £6 million) of issuance discount.

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

29 Financial instruments continued

d) Borrowing facilities

At 31 December 2004, the group had undrawn committed bank borrowing facilities of £915 million (2003: £915 million). Of these facilities, 50% mature during 2005, 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 2004 were uncommitted and consisted of a US commercial paper programme of US$2 billion (2003: US$2 billion) and a euro medium term note (EMTN) programme of US$2 billion (2003: US$2 billion). At 31 December 2004, US$420 million (£220 million) had been issued under the commercial paper programme (2003: US$369 million (£205 million)) and bonds totalling £540 million (2003: £541 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 in less than one year and 77% mature after five years.

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:

	2004 Book value £m	2004 Fair value £m	2003 Book value £m	2003 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)	**1,207**	**1,207**	1,026	1,026
Long-term trade debtors (i)	**44**	**44**	53	53
Other financial assets	**–**	**–**	1	1
	1,251	**1,251**	1,080	1,080
Bank loans and overdrafts (i)	**(85)**	**(85)**	(52)	(52)
Commercial paper (ii)	**(220)**	**(220)**	(205)	(205)
Bonds (v)	**(752)**	**(783)**	(751)	(778)
Finance lease borrowings (iv)	**(30)**	**(30)**	(69)	(72)
Canadian dollar loans (v)	**(39)**	**(35)**	–	–
Loan notes (i)	**(2)**	**(2)**	(2)	(2)
Other financial liabilities (i)	**(182)**	**(182)**	(151)	(151)
	(1,310)	**(1,337)**	(1,230)	(1,260)
Non-equity minority interests (v)	**(164)**	**(264)**	(164)	(230)
	(1,474)	**(1,601)**	(1,394)	(1,490)
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 (v)	**(22)**	**(27)**	9	(10)
Energy derivatives (iii)	**11**	**40**	12	90
Derivative financial instruments held for trading:				
Energy derivatives (iii)	**15**	**15**	10	10

(i) Due to the nature and/or short maturity of these financial instruments, book values approximated fair values. In 2003 cash at bank and in hand and current asset investments included assets held by the AA with a book and fair value of £167 million.
(ii) Fair values have been determined by reference to closing exchange rates at 31 December.
(iii) 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.
(iv) The fair values of these financial instruments are based upon discounted cash flows, using discount rates based upon the group's cost of borrowing.
(v) Fair values have been determined by reference to closing prices at 31 December.

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 amounting to £12 million (2003: £5 million) and an increase in net assets at 31 December 2004 of £26 million (2003: £14 million).

29 Financial instruments continued

Energy derivatives held for trading include both physical and financial energy contracts entered into for trading purposes. The net gain from trading in energy derivatives included in the profit and loss account for the year ended 31 December 2004 is £14 million (2003: £17 million). The fair value of financial assets and financial liabilities held for trading purposes at 31 December 2004 included within other debtors and other creditors amounted to £119 million and £104 million respectively (2003: £125 million financial assets and £115 million financial liabilities). The average fair value of instruments held during the year ended 31 December 2004 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 2004	144	(85)	59	24	(3)	21
Arising in previous years that were recognised in 2004	(84)	26	(58)	(21)	2	(19)
Arising in previous years that were not recognised in 2004	60	(59)	1	3	(1)	2
Arising in 2004	71	(48)	23	11	1	12
At 31 December 2004	**131**	**(107)**	**24**	**14**	**–**	**14**
Of which:						
Expected to be recognised in 2005	84	(64)	20	6	–	6
Expected to be recognised in 2006 or later	47	(43)	4	8	–	8

30 Post Balance Sheet Events

The share repurchase programme of up to £500 million, announced on 1 July 2004, commenced on 9 August. Details of the programme's activity in 2004 are reported in the directors' report on page 24 and in note 20.

Between 1 January and 21 February 2005, a further 19,670,500 shares of $6^{14}/_{81}$ pence each were repurchased and cancelled for an aggregate consideration of £45 million, representing 0.52% of the company's issued share capital. This makes a total since August 2004 of 104,545,500 shares for an aggregate consideration of £250 million. It is intended that further shares will be repurchased under the programme during the current financial period so that the amount invested will total £500 million.

31 Principal undertakings

31 December 2004 (i)	Country of incorporation	% group holding in ordinary shares and net assets	Principal activity
Subsidiary undertakings			
Accord Energy Limited	England	100	Wholesale energy trading
Bastrop Energy GP Inc	USA	100	Power generation
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 Energía SL	Spain	100	Energy supply
Centrica Energy Operations Limited	England	100	Power generation
Centrica Gamma Holdings Limited	England	100	Holding company
Centrica Generation Limited	England	100	Power generation
Centrica Insurance Company Limited	Isle of Man	100	Insurance services
Centrica KL Limited	England	100	Power generation
Centrica Langage Limited	England	100	Power generation
Centrica Overseas Holdings Limited	England	100	Holding company
Centrica PB Limited	England	100	Power generation
Centrica Renewable Energy Limited	England	100	Renewable energy holding company
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 No. 10 Limited	Canada	100	Gas production
Direct Energy LP	USA	100	Energy supply
Direct Energy Marketing Limited	Canada	100	Energy supply
Direct Energy Services LLC	Canada	100	Home services
Dyno Holdings Limited	England	100	Home services
Energy America LLC	USA	100	Energy supply
Electricity Direct (UK) Limited	England	100	Energy supply
Frontera Generation Limited Partnership	USA	100	Power generation
GB Gas Holdings Limited	England	100	Principal holding company
Hydrocarbon Resources Limited	England	100	Gas production
Regional Power Generators Limited	England	100	Power generation
Telco Holdings Limited	England	100	Telecommunications
WTU Retail Energy LP	USA	100	Energy supply
Joint ventures			
AccuRead Limited	England	49	Meter reading
Barrow Offshore Wind Limited	England	50	Wind farm construction
Humber Power Limited	England	60	Power generation
Luminus NV	Belgium	50	Energy supply

(i) All principal undertakings are indirectly held by the company, except for GB Gas Holdings Limited, which is a direct subsidiary undertaking. The information is only given for those subsidiaries which in the directors' opinion principally affect the figures shown in the financial statements.

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

The 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	2004 £m	2003 £m
Turnover	**62**	60
Profit before tax	**20**	17
Distribution to unit holders	**(23)**	(23)

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

b) Balance sheet

31 December	2004 £m	2003 £m
Tangible fixed assets	**184**	190
Net current assets	**11**	9
Creditors (amounts falling due after more than one year) (i)	**(217)**	(216)
Provisions for liabilities and charges	**(43)**	(46)
Net liabilities	**(65)**	(63)

c) Cash flow statement

Period ending 31 December	2004 £m	2003 £m
Cash inflow from operating activities	**56**	45
Returns on investments and servicing of finance	**(11)**	(6)
Capital expenditure and financial investment	**(20)**	(21)
Distributions to unit holders	**(23)**	(23)
Increase/(decrease) in net cash	**2**	(5)

The Fund commenced operating on 17 December 2002. At 31 December 2004 Centrica held a 19.9% interest in the Fund (2003: 19.9%), through its wholly-owned subsidiary, Direct Energy Marketing Limited, 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 10 and 12 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

31 December	Notes	2004 £m	2003 As restated* £m
Fixed assets			
Tangible assets	33	**72**	77
Investments in subsidiary undertakings	34	**2,030**	222
		2,102	299
Current assets			
Debtors (amounts falling due within one year)	35	**5,265**	5,125
Debtors (amounts falling due after more than one year)	35	**65**	6
		5,330	5,131
Current asset investments	36	**1,075**	655
Cash at bank and in hand		**28**	24
		6,433	5,810
Creditors (amounts falling due within one year)			
Borrowings	37	**(345)**	(205)
Other creditors	38	**(5,079)**	(3,663)
		(5,424)	(3,868)
Net current assets		**1,009**	1,942
Total assets less current liabilities		**3,111**	2,241
Creditors (amounts falling due after more than one year)			
Borrowings	37	**(410)**	(535)
Other creditors	38	**–**	(73)
		(410)	(608)
Provisions for liabilities and charges	39	**(79)**	(31)
Net assets		**2,622**	1,602
Capital and reserves – equity interests			
Called up share capital	20	**233**	237
Share premium account	40	**575**	549
Capital redemption reserve	40	**5**	–
Profit and loss account	40	**1,809**	816
Shareholders' funds	41	**2,622**	1,602

* The comparatives have been restated following adoption of UITF 38 (see note 34).

The financial statements were approved by the board of directors on 24 February 2005 and were signed on its behalf by:

Sir Roy Gardner
Chief Executive

Phil Bentley
Group Finance Director

The notes on pages 76 to 78 form part of these financial statements, along with the accounting policies (note 1) and note 20.

33 Tangible fixed assets

	Plant, equipment and vehicles £m
Cost	
1 January 2004	104
Additions	38
Disposals	(34)
31 December 2004	**108**
Depreciation and amortisation	
1 January 2004	27
Charge for the year	16
Disposals	(7)
31 December 2004	**36**
Net book value	
31 December 2004	**72**
31 December 2003	77

No assets were held under finance leases (2003: £nil). Amounts capitalised in respect of customer relationship management infrastructure included within tangible fixed assets at 31 December 2004 were £nil (2003: £29 million).

34 Fixed asset investments

	Investments in subsidiaries' shares £m
Cost	
1 January 2004 (as restated) (i)	222
Additions (ii)	1,808
31 December 2004	**2,030**

(i) UITF 38 and Revised UITF 17 have been applied in preparing these accounts and comparative figures have been restated. The effect of this change in accounting policy on the group's net assets is disclosed in note 2.
(ii) During the year the company invested £1,808 million in the share capital of: Centrica Beta Holdings Limited, £433 million; GB Gas Holdings Limited, £880 million; and Centrica Trading Limited, £495 million.

35 Debtors

	2004		2003 As restated	
	Within one year £m	**After one year £m**	Within one year £m	After one year £m
Amounts owed by group undertakings (i)	**5,237**	**40**	5,097	6
Other debtors	**20**	**–**	17	–
Prepayments and other accrued income (ii)	**6**	**25**	9	–
Corporation tax	**2**	**–**	2	–
	5,265	**65**	5,125	6

(i) A total of £31 million (2003 as restated: £26 million) is included relating to the accumulated value of shares expected to be released to employees of subsidiaries under long term incentive schemes.
(ii) Prepayments due after one year represent a £25 million SSAP 24 pension prepayment (see note 39).

36 Current asset investments

	2004 £m	2003 £m
Money market investments	**1,075**	655

£25 million (2003: £17 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 (see note 26).

37 Borrowings

Amounts falling due	2004 Within one year £m	2004 After one year £m	2003 Within one year £m	2003 After one year £m
Sterling bonds (i)	**125**	**410**	–	535
Commercial paper	**220**	**–**	205	–
	345	**410**	205	535

(i) Sterling bonds are repayable as follows: between one and two years £nil (2003: £125 million) and after five years £415 million (2003: £416 million). The bonds bear interest at fixed rates between 5.375% and 5.875% (2003: 5.375% and 5.875%). The bonds have a face value of £540 million (2003: £541 million) and are stated net of £5 million (2003: £6 million) of issuance discount.

38 Other creditors

Amounts falling due	2004 Within one year £m	2004 After one year £m	2003 Within one year £m	2003 After one year £m
Trade creditors	**11**	**–**	12	–
Amounts owed to group undertakings	**4,682**	**–**	3,403	73
Taxation and social security	**6**	**–**	3	–
Accruals and deferred income	**150**	**–**	88	–
Dividend payable	**230**	**–**	157	–
	5,079	**–**	3,663	73

39 Provisions for liabilities and charges

	1 January 2004 £m	Profit and loss charge/(credit) £m	Utilised in the year £m	Transfers £m	**31 December 2004 £m**
Pension costs (i)	5	(4)	(13)	12	**–**
Other (ii)	26	78	(25)	–	**79**
	31	74	(38)	12	**79**

Potential unrecognised deferred corporation tax assets amounted to £19 million (2003: £19 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. During the year £13 million of pension cost provision was transferred from the company as a result of the disposal of the AA. The remaining prepayment balance of £25 million has been transferred to debtors (see note 35).

(ii) Other provisions principally represents estimated liabilities for costs associated with the disposal of the AA, 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 236.25 pence at 31 December 2004 (2003: 211 pence).

40 Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account(ii) (iii) £m	Total £m
1 January 2004 as previously stated	549	–	824	1,373
Prior year adjustment (see note 34)	–	–	(8)	(8)
1 January 2004 as restated	549	–	816	1,365
Retained profit for the year (i)	–	–	1,181	1,181
Shares to be issued under long term incentive scheme	–	–	17	17
Issue of ordinary share capital (see note 21)	26	–	–	26
Repurchase of shares (see note 20)	–	5	(205)	(200)
31 December 2004	**575**	**5**	**1,809**	**2,389**

(i) As permitted by section 230(3) of the Companies Act 1985, no profit and loss account is presented. The company's profit for the financial year was £2,568 million (2003: £9 million loss) before dividends payable of £1,387 million. The company's profit includes dividends received from subsidiary undertakings of £2,560 million (2003: £nil).
(ii) Exchange losses of £nil (2003: £53 million) on foreign currency borrowings have been offset in reserves against exchange gains of £nil (2003: £53 million), on the cost of investments in overseas undertakings. All exchange translation differences have been charged to the profit and loss account following the disposal of foreign equity investments.
(iii) The profit and loss account can be further analysed as follows:

	Own shares (cost) £m	Shares to be distributed under long term incentive scheme £m	Other £m	Profit and loss account £m
1 January 2004 (as restated)	(45)	42	819	816
Retained profit for the year	–	–	1,181	1,181
Shares to be distributed under long term incentive scheme	–	17	–	17
Shares released under long term incentive scheme	30	(25)	(5)	–
Repurchase of shares (see note 20)	–	–	(205)	(205)
31 December 2004	**(15)**	**34**	**1,790**	**1,809**

41 Movements in shareholders' funds

	2004 £m	2003 As restated £m
1 January (i)	**1,602**	1,823
Profit/(loss) attributable to the company (ii)	**2,568**	(9)
Dividends paid to shareholders	**(1,387)**	(229)
Issue of shares net of issue costs	**27**	13
Shares to be issued under long term incentive scheme	**17**	4
Repurchase of shares (see note 20)	**(205)**	–
Net movement in shareholders' funds for the financial year	**1,020**	(221)
31 December	**2,622**	1,602

(i) Previously reported as £1,610 million before prior year adjustment of £8 million (see note 34).
(ii) Profit attributable to the company includes dividends received from subsidiary undertakings of £2,560 million (2003: £nil).

42 Commitments and indemnities

a) Capital expenditure
At 31 December 2004, the company had placed contracts for capital expenditure amounting to £25 million (2003: £10 million).

b) Lease commitments
At 31 December 2004, there were £1 million of land and building and £5 million of computer lease commitments in relation to non-cancellable operating leases for the company (2003: £1 million and £6 million respectively). The company has guaranteed operating commitments of a subsidiary undertaking at 31 December 2004 of £9 million (2003: £10 million) in respect of land and buildings.

c) Guarantees and indemnities
Refer to note 27(e).

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 2004	2,260	351	2,611
Revisions of previous estimates (i)	(106)	(18)	(124)
Purchases of reserves in place	35	36	71
Production	(388)	(34)	(422)
31 December 2004	**1,801**	**335**	**2,136**

(i) Includes revised reserve estimate for the Rose field (34 billion cubic feet reduction).

Estimated net proven and probable reserves of liquids (million barrels)	UK	North America	Total
1 January 2004	8	3	11
Revisions of previous estimates	(6)	1	(5)
Purchases of reserves in place	8	–	8
Production	(3)	(1)	(4)
31 December 2004	**7**	**3**	**10**

Liquid reserves includes condensate, propane, butane and oil.

Five-year record

Results

Year ended 31 December	2000 £m	2001 £m	2002 £m	2003 £m	**2004 £m**
Turnover	9,933	12,611	14,345	17,931	**18,303**
Operating profit before goodwill amortisation and exceptional charges, including share of joint ventures and associates:					
British Gas Residential	164	(46)	244	206	**337**
Centrica Business Services	36	44	65	51	**64**
Centrica Energy	308	573	519	561	**512**
Centrica Storage			1	40	**69**
	508	571	829	858	**982**
One.Tel		4	2	4	**16**
Centrica North America	8	68	63	130	**134**
Other operations	6	(4)	5	–	**5**
The AA (i)	19	72	73	93	**90**
Goldfish Bank (ii)	(15)	(32)	(40)	(27)	**–**
	526	679	932	1,058	**1,227**
Exceptional items (net of tax)	(14)	(80)	(35)	(53)	**662**
Goodwill amortisation (net of tax credit)	(60)	(88)	(123)	(161)	**(119)**
Profit attributable to the group	335	323	478	500	**1,382**
	Pence	Pence	Pence	Pence	**Pence**
Earnings per ordinary share	8.4	8.1	11.4	11.8	**33.0**
Adjusted earnings per ordinary share (iii)	10.2	12.1	15.2	16.8	**20.0**

Cash flows

Year ended 31 December	2000 £m	2001 £m	2002 £m	2003 £m	**2004 £m**
Cash inflow from operating activities before exceptional payments	1,139	869	733	992	**1,379**
Exceptional payments	(76)	(44)	(16)	–	**(25)**
Disposals and acquisitions	(590)	(607)	(935)	292	**998**
Cash inflow/(outflow) before use of liquid resources and financing	55	(342)	(918)	652	**482**

Assets and liabilities

At 31 December	2000 £m	2001 £m	2002 £m	2003 As restated* £m	**2004 £m**
Intangible fixed assets	1,309	1,524	1,813	1,614	**1,006**
Tangible fixed assets and fixed asset investments	1,993	2,225	2,865	2,827	**2,944**
Net current assets/(liabilities)	(469)	(397)	(108)	241	**448**
Long-term creditors and provisions	(1,535)	(1,816)	(2,168)	(1,945)	**(1,827)**
Net assets	1,298	1,536	2,402	2,737	**2,571**
Debt, net of cash and money market investments:					
Net cash/(debt) (excluding Goldfish Bank and non-recourse debt)	(117)	(433)	(529)	163	**296**
Goldfish Bank working capital facility		(610)	(430)	–	**–**
Consumers' Waterheater Income Fund (non-recourse) debt			(196)	(216)	**(217)**
	(117)	(1,043)	(1,155)	(53)	**79**

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 for these changes in accounting policy.

(i) Discontinued in 2004.
(ii) Discontinued in 2003.
(iii) Adjusted earnings per share exclude goodwill amortisation and exceptional charges.

* The 2003 comparatives have been restated following adoption of UITF 38 (see note 2).

Financial calendar

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

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:

telephone: **0870 600 3985**
text phone: 0870 600 3950
write to: Lloyds TSB Registrars,
The Causeway, Worthing,
West Sussex BN99 6DA

email: **centrica@lloydstsb-registrars.co.uk**

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 at www.centrica.com/shareholders.

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 on 0870 600 3985 immediately. A letter of indemnity will be sent to you to sign. Lloyds TSB Registrars will charge for this service.

Duplicate shareholder accounts
If you receive more than one copy of Centrica communications you may have your shares registered inadvertently in at least two accounts. This happens when the registration details of separate transactions differ slightly. If you wish to consolidate such multiple accounts, call the Centrica shareholder helpline on 0870 600 3985 to request an account combination form. The form is also available on our website at www.centrica.com/shareholders.

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. The FlexiShare service (see opposite) offers a year-round, low-cost dealing service to its participants.

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, is available from the Centrica shareholder helpline on 0870 600 3985. 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.

The Centrica FlexiShare service

FlexiShare

By transferring your shares into FlexiShare you will benefit from:
- a lump-sum buy or sell facility – FlexiShare participants have the opportunity to use low-cost share dealing facilities provided by a panel of independent brokers;
- dividend reinvestment plan – your cash dividend can be used to buy more Centrica shares (for a small dealing charge) which are then credited to your FlexiShare account;
- quicker settlement periods; and
- no certificates to lose.

FlexiShare is a 'corporate nominee', sponsored by Centrica and administered by Lloyds TSB Registrars. It is a convenient way to manage your Centrica shares without the need for a share certificate. Your share account details will be held on a separate register and you will receive an annual confirmation statement. Participants will have the same rights as all other shareholders. Following a review of the service charges, the £10 exit fee has been abolished. There is no charge for holding your shares in the service, nor for transferring in or out at any time.

For further details about FlexiShare, please call the Centrica shareholder helpline on 0870 600 3985 or visit www.centrica.com/flexishare.

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 on 0870 600 3985 to request a direct dividend payment form. The form is also on our website at www.centrica.com/shareholders.

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 overseas shareholder helpline on +44 121 415 7061.

Share price information

As well as using the Centrica website to view details of the current and historical Centrica share price, 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 a real-time buying or selling price, you should contact a stockbroker.

Useful historical information

Demerger

The shares of Centrica plc were 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. The split between the post-demerger Centrica and BG shares was in the proportion Centrica 27.053% and BG 72.947%.

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

The share capital of Centrica plc has been consolidated on two occasions.

- On 10 May 1999, the ordinary share capital of Centrica plc was consolidated on the basis of nine new ordinary shares of $5^5/_9$ 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.
- On 25 October 2004, the ordinary share capital of Centrica plc was consolidated on the basis of nine new ordinary shares of $6^{14}/_{81}$ pence for every ten ordinary shares of $5^5/_9$ pence held on 22 October 2004. The consolidation was linked to the payment of a special dividend of 25 pence per share on 17 November 2004.

As a result of the share consolidation in October 2004, 650,000 shareholders were sent a fraction cheque for a maximum value of 210 pence. Many of these cheques remain uncashed and shareholders are urged either to cash them or to donate them to charity via ShareGift by completing the endorsement on the reverse of the cheque and returning it to Lloyds TSB Registrars (address in the panel on page 81).

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, FlexiShare statements or 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.

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 on 0870 600 3985.

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 on 0870 600 3985.

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: shareowners@bankofny.com
or via www.stockbny.com
Telephone: 1 888 BNY ADRs in the US
or 00 1 601 382 7836 from outside the US. www.adrbny.com

Analysis of shareholders as at 31 December 2004

Distribution of shares by the type of shareholder	Holdings	Shares
Nominees and institutional investors	11,666	3,375,183,727
Individuals (certificated)	951,911	400,634,020
Total	963,577	3,775,817,747

Size of shareholding	Number of holdings	Shares
1 – 500	761,957	180,496,680
501 – 1,000	127,729	88,810,850
1,001 – 5,000	67,333	115,308,591
5,001 – 10,000	3,659	25,005,086
10,001 – 50,000	1,419	27,780,673
50,001 – 100,000	317	22,665,732
100,001 – 1,000,000	778	269,154,968
1,000,001 and above	385	3,046,595,167
Total	963,577	3,775,817,747

As at 31 December 2004 there were 87,696 participants in the Centrica FlexiShare service, with an aggregate shareholding of 97,076,087 shares, registered in the name of Lloyds TSB Registrars Corporate Nominee Limited.

Index

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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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