ANNUAL REVIEW & SUMMARY FINANCIAL STATEMENT 1999

DAY IN DAY OUT DAY IN DAY OUT DAY IN DAY OUT
HIGHLIGHTS OF 1999

- AA acquired on 23 September 1999.
- 2.6 million domestic electricity contracts signed by year end.
- Operating profit from continuing operations up 125% to £365 million.
I am pleased to report that the Company made good progress during the past year towards our vision of becoming a leading provider of products and services in and around the home. We built on the firm financial foundations laid since the demerger from British Gas plc in 1997 and we continued to place customer satisfaction at the top of our list of priorities.

Taking care of the essentials
We maintained our standing as the leading supplier of energy, by winning large numbers of electricity customers and sustaining our position as a major player in the competitive gas market.

We acquired the Automobile Association for a consideration of £1.1 billion, providing us with the opportunity to forge relationships with around 10 million customers. This establishes us as the UK’s major provider of products and services to customers on the road as well as in the home.

We now have three major brands – British Gas, the AA and Goldfish – through which we aim to provide a range of products and services that take care of the essentials.

Performance
The business performed well during 1999 despite warmer than average weather conditions, with the retention of gas customers, lower gas costs and the development of our electricity business being key features.

Operating profit from continuing operations was £365 million, up £203 million from 1998, and earnings before exceptional charges and goodwill amortisation were £331 million, a £155 million increase. Profit after tax for the year was £182 million compared to £91 million in 1998.

Cash generation has continued to be strong, with an operational cash inflow of £1,453 million (1998: £870 million).

Dividend
We paid a first interim dividend of 1 penny per share in December. We propose a final dividend of 1.5 pence per share to be paid in June, which would give a total of 2.5 pence. In addition we paid a special dividend of 12 pence per share in June 1999, which was associated with a share consolidation.

Customers
Understanding our customers’ needs and responding to them appropriately is fundamental to our continued success. Customer care standards are rightly the focus of much management activity. Although we still have a great deal to do, we are making good progress.

The Board
During the year we welcomed Sir Sydney Lipworth and Sir Brian Shaw as Non-Executive Directors. Bill Cockburn stood down, having made a valuable contribution throughout an important period in our development.

Looking forward
Centrica has a clear strategy and is investing for growth. We aim to ensure that the business is robust in a very competitive marketplace by further reducing our cost base, increasing our sales and developing a range of services that will secure our relationships with new and existing customers alike.

I am greatly encouraged by the support for our strategy shown by employees throughout the business. On behalf of the Board, I would like to thank everyone in the Group for their commitment to serving our customers ever better.

Sir Michael Perry CBE
Chairman
Overview
Centrica has had a remarkable year. We have transformed the range of products and services we can offer to the consumer by buying the AA. Strong performance by our core energy supply businesses in an ever more competitive environment gives us confidence as we implement our strategy for growth.

Our strategy
Our aim is to be the leading provider of products and services in and around the home. We are committed to developing our consumer brands and associated standards of customer care as part of this strategy.

Our acquisition of the AA
The acquisition of the AA gave us an excellent opportunity to implement a key area of our strategy. The AA fits well with what we do. Like British Gas, it runs a mobile workforce and has contact with millions of customers. Its financial services complement those we already offer, particularly through Goldfish. We are building on the AA’s reputation for reliability and are investing in its future as ‘the fourth emergency service’.

Our brands
We now have three of the UK’s strongest brands, known and trusted by millions of customers. This allows us to develop our range of products and services in three areas:

- in the home, including gas and electricity supply and home services, under the British Gas brand;
- on the road, including vehicle breakdown and other services for the motorist, under the AA brand; and
- financial services, including credit and insurance services and savings and investment products under Goldfish, British Gas and the AA brands.

Together these products and services aim to take care of the essentials for our customers.

Our customers
We listen to what our customers say about our products and the way we do business. If we don’t succeed in getting something right first time, we aim to find out what has gone wrong, keep our promises about sorting it out and resolve any underlying problems. We will continue to invest in developing our systems, processes and people in pursuit of service excellence.

Our future
I am encouraged by the trends in the demand for our services. However, we cannot afford to be complacent as the factors affecting customer satisfaction and loyalty are constantly changing. Markets are becoming more international and the Internet makes it easier for consumers to shop around. We are increasingly well placed to succeed in this environment and I believe that we will do so.
Services in the home
Our services in the home include energy supply and an increasing variety of home services.

Energy Supply
Gas supply – At the end of 1999 British Gas had 14.8 million domestic gas supply customers, compared with 15.9 million at the end of 1998. We also had around a quarter of the industrial and commercial gas supply market in the UK. We sell a growing volume of gas both on the wholesale market and direct to specific users in continental Europe. We also supply liquefied petroleum gas to consumers who do not have access to the mains network.

British Gas has continued to develop its range of tariff and payment options and other new offers designed to suit consumer needs and to improve levels of service. As a result of a recent Ofgem (Office of Gas and Electricity Markets) price review, controls on direct debit prices will end in April 2000. In respect of our other prices and tariffs, controls will continue. However, Ofgem has indicated a firm intention to remove these by April 2001 subject to the development of a competitive market.

Electricity supply – At the end of 1999 we had 2.6 million domestic customer contracts for our electricity supply business, compared with 850,000 at the end of 1998. This makes British Gas one of the largest electricity suppliers in the country, only 16 months after we launched our service.

We would like to give this growing number of customers the best value possible.

British Gas is working with the energy industry to ensure the timely introduction of new arrangements for buying and selling electricity, which we believe will ensure that wholesale prices are a fair reflection of cost, supply and demand. This will ultimately benefit the consumer.

Dual fuel – Many customers now take both gas and electricity from British Gas and we are developing products appropriate for these customers. We hope soon to be able to read both gas and electricity meters at the same time so that we can offer a single bill for both products.

Sourcing and trading energy
All those customers who buy gas and electricity from British Gas rely on us to provide it at the right price and the right time. To do this we manage a large and complex energy portfolio.

Currently about 20% of our gas requirement comes from our own production, mainly the Morecambe fields, and we have long term contracts and trading arrangements which cover the remainder. In electricity, our requirements are sourced from what is known as the Electricity Pool.

Home Services
In addition to supplying energy under the British Gas brand, we offer a growing range of home services. We are now a leading supplier of monitored home security systems and our customers can now protect themselves against failure in their plumbing systems and in the kitchen appliances they use every day.
D A Y  I N

• British Gas supplies gas to 14.8 million households and has 2.6 million signed contracts for its new electricity service; we also provide liquefied petroleum gas to those without access to mains supplies.

• We install and look after more central heating systems and supply more monitored home security systems than anyone else in the UK.

• We offer the reassurance of plumbing and kitchen appliance cover, sell cookers and fires through the Internet, to help take care of the essentials in the home.

All activities refer to the year ended 31 December 1999
Sales figures for Home Services suggest consumers find these new products reassuring. We remain a market leader in our core area of installing and maintaining tailored domestic central heating systems.

Shopping habits are changing and, in the light of this, we decided to close the British Gas Energy Centres. We have replaced these high street shops with home shopping services for selling cookers and fires, using catalogues and the Internet.

Care for our British Gas customers
Feedback from our British Gas customers guides our investment in customer care.

Market research shows that customer satisfaction levels have been steady during the year, and that 80% of customers are satisfied, or very satisfied, with the service we provide.

The number of formal complaints to the Gas Consumers Council or local Ofgem offices remains a cause for concern and a key priority, but the largest category of complaints about British Gas relate specifically to procedures for changing supplier rather than general customer service matters.

Investment in 1999 focused on IT, with further funds for call centre automation, call recording and laptops for our home service engineers. The benefits to British Gas customers include the ability to send out the engineer best qualified for the job.

We have also set up a special development facility, including a call centre, which helps us explore ways of improving customer service. Currently we are assessing the benefits of individual customer advisors giving a more personalised service on a broader range of our products.

Services on the road
The AA’s roadside assistance service is still in great demand with consumers: in 1999, AA membership reached an all time year-end high at 9.7 million members, including schemes for manufacturers and fleet vehicles. We are particularly pleased that so many people whose membership renewal became due in the period after we bought the AA have chosen to stay with us.

Over 4.2 million breakdown jobs were attended during the year. Some 90% of breakdown telephone calls were answered within 15 seconds. AA Relay dealt with 940,000 recoveries.

A number of other services – notably the driving school run by the AA, the books and maps it publishes, and the information services it provides – are highly valued by AA members. We are looking at ways of further developing these areas of the business.

Care for our AA members
AA members tell us they want a fast, reliable and good quality service, which provides them with peace of mind and value for money. To help achieve this the AA road service is provided by our own patrols in nearly all cases.
Regular market research shows that over 95% of AA members using the road service were satisfied in 1999, an improvement on the previous year. The level of complaints per 1,000 breakdown jobs also improved slightly in 1999. Individual membership renewals increased further to 87%, major manufacturer accounts such as Vauxhall and Peugeot were renewed, and there was excellent growth in the number of company fleet vehicles covered.

Financial Services
The acquisition of the AA has made it easier to build on the success of our Goldfish credit card. We passed the 1 million cardholders mark and the card is one of the market leaders in both usage and annual spend. Our independent research showed it to be the second most recognised credit card in the UK.

With the AA we have become the UK’s number one independent insurance intermediary, with 1.6 million home and motor insurance policies. We offer consumers credit and insurance products and we hope to extend the range of our Financial Services activity.

Social responsibility
Our customers
We are committed to ensuring all customers with disabilities have access to our products and services. We strive to solve some of the practical problems faced by disadvantaged customers, in the home and on the road.

We support Ofgem’s Social Action Plan, which focuses on people who live in the four million homes in the UK which are inadequately heated, and we are working with Ofgem on proposals that would help reduce gas bills for disadvantaged customers. We provide free advice and special services for a million customers on our GasCare Register and also to customers on our Electricity Special Needs Register. Our Home Energy Advisers visit vulnerable customers and help them use energy efficiently.

The AA Motoring Policy Unit works with other leading organisations to promote the needs of disabled motorists. Our AA Disability Helpline allows road assistance to be adapted to the circumstances of individual members and offers information and advice on access and mobility. In 1999, the AA co-sponsored the Mobility Roadshow, an exhibition of products and services attended by over 50,000 people.

Care for our Financial Services customers
We continue to develop our own performance standards, monitoring customer satisfaction in relation to the brands our customers use.

Customer care on the Goldfish credit card is highly valued in the market and a recent Which? report ranked the card in the top three for customer service.
OPERATING REVIEW continued

The AA helps take care of the essentials on the road by providing the security of roadside assistance to 9.7 million members, attending 4.2 million vehicle breakdowns a year.

Our driving schools coach over 85,000 people, encouraging commitment to high standards of road safety.

And we provide a range of information products and services for motorists, including AA Roadwatch as well as books, guides and maps.

All activities refer to the year ended 31 December 1999
We have been recognised as an Investor in People in many parts of the organisation, and are accredited for ensuring that people with disabilities can contribute fully in the workplace. We help employees who have caring responsibilities for seriously ill, elderly or disabled relatives, working closely with the Carers National Association. Our New Deal programme has given jobs to 50 people with disabilities and long term carers and we are now extending the programme.

**Our communities**

We consider ourselves part of the local communities we serve. During 1999, based on the London Benchmarking Group guidelines, we provided £3.3 million in support. This included the use of our employees’ business skills and expertise to address a range of social issues. Financial contributions during the year amounted to £2.9 million.

Our partnership with Help the Aged aims to provide support of £5 million over two years. This major national collaboration has made a real difference to 10,000 people this year. Much of the practical support is provided by our own staff, whose skills and expertise in areas such as home insulation can help make the lives of older people warmer and more comfortable.

Our SchoolEnergy programme, in partnership with The Energy Saving Trust, promotes the benefits of efficient use of energy: it is estimated that schools could save up to 15% on their annual energy bills which can then be used for other resources.

‘Voice of the motorist’

A committee of the Centrica Board oversees the work of the AA Motoring Policy Unit, ensuring that it matches the concerns of AA members and has professional and technical integrity. Where necessary the committee is guided by independent experts.

There were important events during 1999. The European New Car Assessment Programme, which was founded by the AA and a small number of other organisations, published two test series – super-minis and people movers. This programme is leading to a rapid improvement in crash test performance.

Surveys showed that over 90% of members wanted the AA to campaign on fuel tax and the need for greater investment in Britain’s road and local transport system. The AA campaign helped persuade the Government to end the fuel tax ‘escalator’ and to use the proceeds of any future increase in fuel tax for transport-related investment.

In December the AA published the Great British Motorist 2000, which benchmarked Britain’s transport performance against other European countries.

The AA Foundation, an independent charity which is supported by the AA and a number of other organisations, made further key contributions helping to keep Britain’s road safety record among the best in Europe. The AA report What goes wrong in Highway Design, based on the Foundation’s research and the work of safety auditors, received a Prince Michael Road Safety Award.
At the Government’s request, the AA Foundation published What Limits Speed? which played a major part in forming national road safety strategy. The report explains motorists’ attitudes to speed and speed limits. The AA Foundation also unearthed Britain’s problem with unlicensed drivers – with an estimated 800,000 on the road.

The new millennium

Our computer systems preparations for Year 2000 were completed on schedule and we are pleased to report that, as a result, we have not experienced any disruptions to operations or customer service.

The New Year was marked by the lighting of a chain of 1,500 beacons in villages, towns and cities throughout Britain. British Gas was the main sponsor of Beacon Millennium and provided 130 beacons. These acted as focal points for community celebrations and charitable fundraising.

Health, safety and the environment

We aim to keep Centrica a safe and healthy place to work through effective procedures, training and awareness programmes.

We made good progress on the roll-out of environmental management systems throughout the organisation.

We will review our health, safety and environment management systems later this year and will also publish our first environmental report on our website.
DAY IN DAY OUT

• The Goldfish credit card has already attracted over 1 million cardholders.

• We are expanding the scope of our financial services products, which now include personal loans and a variety of other finance options.

• And our insurance policies offer peace of mind to 1.6 million policy holders, helping them take care of the essentials in the home and on the road.
SUMMARY FINANCIAL REVIEW

Group
The Group made a profit after tax for the year of £182 million compared with £91 million in 1998. The financial performance of each of our major business segments is summarised below. Please note that references to operating profit and losses are before exceptional items and the charge for writing down purchased goodwill.

Profit and loss
Energy Supply
Sales at £6,386 million were 6% lower than in 1998, with electricity sales of £240 million partially offsetting the loss of market share in the domestic gas market; down to 73% at 31 December 1999 compared with 80% at the end of the previous year.

In Energy Supply our operating profit was £461 million compared with £248 million in 1998. The improvement was mainly due to substantially lower gas costs, together with £50 million of benefit from a 25% increase in production from our own gas fields. Gas usage per domestic customer was lower than normal due to warm weather. Had usage been at the average level experienced over the last ten years, then operating profit would have been higher by £24 million (1998 higher by £10 million). In the wholesale, industrial and commercial markets, a profit of £46 million was made compared with a loss of £98 million in the previous year, primarily due to lower gas costs.

In electricity we made a gross profit of £11 million but, after the costs of building up our customer base, we made an operating loss of £156 million. By 31 December 1999 we had signed up 2.6 million customers, an increase of 1.7 million during the year, making us one of the UK’s largest suppliers of electricity to domestic customers.

Home Services
In Home Services sales increased by 13% from £526 million in 1998 to £592 million during 1999. An £11 million improvement in operating profit was achieved despite further significant investment in new business ventures including home security, kitchen appliance maintenance and plumbing cover products.

Road Services
Results from AA activities are included in the accounts for the period since we bought the business, being the last three months of 1999. During that time Road Services’ sales were £112 million and an operating loss of £3 million was made. For the year as a whole Road Services had sales of £438 million compared with £428 million during 1998, and made an operating loss of £9 million (1998 loss of £18 million).

Financial Services
Much of the Group’s financial services activities are conducted through joint ventures. Together with the Group’s share of joint venture results, the combined Financial Services business, including the AA for the last three months of 1999, made an operating loss of £8 million (1998 a loss of £12 million). For the year as a whole, the AA insurance and financial services activity made an operating profit, including share of joint ventures, of £26 million, £9 million higher than in 1998.

Retail
We ceased trading through our Energy Centre shops during 1999 after having made a loss of £25 million in 1999 and a loss of £31 million in 1998.

Other Activities
We incurred net expenditure of £16 million (1998 £7 million) on Other Activities. These include a range of AA and Goldfish branded products with potential for future growth.

Exceptional charges
During 1999 closing our Retail business cost us £60 million. We also incurred £36 million of one-off costs in rationalising business operations, we spent £30 million relating to terminating a gas contract, and £10 million on Year 2000 computer system preparations across the Group. In 1998 exceptional costs comprised £53 million of gas contract renegotiations, £19 million on Year 2000 systems readiness and £3 million on restructuring.
Interest and taxation

In 1998 we received £39 million in interest whereas in 1999 we were charged interest of £7 million. The switch from receipt to payment was mainly due to reductions in our cash balances following the payment of a £530 million special dividend in June 1999 and a net payment of £780 million in connection with buying the AA in September 1999, being the consideration of £1,119 million less net cash and money market investments acquired of £339 million.

Our tax charge of £86 million was £10 million higher than that incurred in 1998. The charges arose primarily on our offshore gas production activities, which are ring-fenced for tax purposes.

Cash flow

Before payments for exceptional items our cash inflows from operating activities amounted to £1,453 million, compared with £870 million during 1998. The increase of £583 million was mainly due to the improvement in operating profit and because of a change in the payment arrangements for gas transportation costs.

A special dividend of £530 million was paid to shareholders in June 1999. In September 1999, £1,119 million was paid to acquire the AA. The AA assets acquired included net cash and money market investments amounting to £339 million.

At the end of 1999 we had net borrowings of £127 million, compared with net cash of £223 million at the end of 1998.

Market capitalisation

Centrica’s closing share price on the last trading day of 1999 (30 December) was 175.5 pence (1998 121 pence), providing a market capitalisation of £7,012 million (1998 £5,371 million). The highest closing price during the year was 191 pence and the lowest was 108 pence. During 1999 Centrica’s share price outperformed the FTSE 100 by 23% (1998 18%).

Mark Clare
Finance Director
### Summary group profit and loss account for the year ended 31 December

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underlying business performance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>7,217 £m</td>
<td>7,481 £m</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(5,540) £m</td>
<td>(6,212) £m</td>
</tr>
<tr>
<td><strong>Gross profit/(loss)</strong></td>
<td>1,677 £m (30) £m</td>
<td>1,647 £m (46) £m</td>
</tr>
<tr>
<td><strong>Group operating profit/(loss)</strong></td>
<td>1,249 £m (13) £m</td>
<td>1,206 £m (22) £m</td>
</tr>
<tr>
<td>Shares of operating loss in joint ventures and associates</td>
<td>(4) £m</td>
<td>(1) £m</td>
</tr>
<tr>
<td>Loss on closure of discontinued operations</td>
<td>– £m</td>
<td>– £m</td>
</tr>
<tr>
<td><strong>Net interest</strong></td>
<td>– £m</td>
<td>– £m</td>
</tr>
<tr>
<td><strong>Profit/(loss) before tax</strong></td>
<td>428 £m (13) £m</td>
<td>214 £m (85) £m</td>
</tr>
<tr>
<td><strong>Tax</strong></td>
<td>(86) £m</td>
<td>(76) £m</td>
</tr>
<tr>
<td><strong>Profit/(loss) after tax</strong></td>
<td>331 £m (13) £m</td>
<td>176 £m (85) £m</td>
</tr>
<tr>
<td>Dividends</td>
<td>(100) £pence</td>
<td>(530) £pence</td>
</tr>
<tr>
<td><strong>Transfer to/(from) reserves</strong></td>
<td>82 £m</td>
<td>(439) £m</td>
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</table>

There were no recognised gains and losses other than those shown above and a prior year adjustment to reserves of £13 million.

The restatement of 1998 figures (including the prior year adjustment to reserves) arose as a result of a change in the method of accounting for gas production asset decommissioning costs.

The aggregate remuneration of the Directors is disclosed on page 19.

### Segmental analysis for the year ended 31 December

<table>
<thead>
<tr>
<th></th>
<th>1999 Turnover £m</th>
<th>1999 Operating profit/(loss) £m</th>
<th>1998 Turnover £m</th>
<th>1998 Operating profit/(loss) £m</th>
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<tbody>
<tr>
<td><strong>Energy Supply</strong></td>
<td>6,386</td>
<td>461</td>
<td>6,784</td>
<td>248</td>
</tr>
<tr>
<td><strong>Home Services</strong></td>
<td>592</td>
<td>20</td>
<td>526</td>
<td>9</td>
</tr>
<tr>
<td><strong>Road Services</strong></td>
<td>112</td>
<td>(3)</td>
<td>–</td>
<td>(21)</td>
</tr>
<tr>
<td><strong>Financial Services</strong></td>
<td>26</td>
<td>(9)</td>
<td>–</td>
<td>(5)</td>
</tr>
<tr>
<td><strong>Other Activities</strong></td>
<td>18</td>
<td>(16)</td>
<td>2</td>
<td>(7)</td>
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<tr>
<td><strong>Continuing operations</strong></td>
<td>7,134</td>
<td>453</td>
<td>7,312</td>
<td>245</td>
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<tr>
<td><strong>Discontinued operations</strong></td>
<td>83</td>
<td>(25)</td>
<td>169</td>
<td>(31)</td>
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<tr>
<td><strong>Group</strong></td>
<td>7,217</td>
<td>428</td>
<td>7,481</td>
<td>214</td>
</tr>
</tbody>
</table>

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Summary group cash flow statement for the year ended 31 December

<table>
<thead>
<tr>
<th></th>
<th>1999 £m</th>
<th>1998 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash inflow from operating activities before exceptional payments</td>
<td>1 453</td>
<td>870</td>
</tr>
<tr>
<td>Net interest and dividends received</td>
<td>30</td>
<td>59</td>
</tr>
<tr>
<td>Tax paid</td>
<td>(163)</td>
<td>(215)</td>
</tr>
<tr>
<td>Capital expenditure and financial investments</td>
<td>(143)</td>
<td>(70)</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>(1 162)</td>
<td>(101)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(570)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Cash (outflow)/inflow before exceptional payments, use of money market investments and debt</strong></td>
<td>(555)</td>
<td>543</td>
</tr>
<tr>
<td>Exceptional payments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract renegotation</td>
<td>(63)</td>
<td>(86)</td>
</tr>
<tr>
<td>Restructuring</td>
<td>(62)</td>
<td>(10)</td>
</tr>
<tr>
<td>Windfall Tax</td>
<td>–</td>
<td>(96)</td>
</tr>
<tr>
<td>Year 2000 expenditure</td>
<td>(10)</td>
<td>(19)</td>
</tr>
<tr>
<td><strong>Total exceptional payments</strong></td>
<td>(135)</td>
<td>(211)</td>
</tr>
<tr>
<td><strong>Cash (outflow)/inflow before use of money market investments and debt</strong></td>
<td>(690)</td>
<td>332</td>
</tr>
<tr>
<td>Management of money market investments</td>
<td>392</td>
<td>(285)</td>
</tr>
<tr>
<td>Changes in borrowings and share capital</td>
<td>248</td>
<td>(42)</td>
</tr>
<tr>
<td><strong>Net (decrease)/increase in cash for the year</strong></td>
<td>(50)</td>
<td>5</td>
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Debt, net of cash and money market investments

<table>
<thead>
<tr>
<th></th>
<th>1999 £m</th>
<th>1998 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and money market investments, net of debt as at 1 January</td>
<td>223</td>
<td>41</td>
</tr>
<tr>
<td>Money market investments/(debt) acquired</td>
<td>340</td>
<td>(139)</td>
</tr>
<tr>
<td>Net (decrease)/increase in money market investments</td>
<td>(392)</td>
<td>285</td>
</tr>
<tr>
<td>Net (decrease)/increase in cash for the year</td>
<td>(50)</td>
<td>5</td>
</tr>
<tr>
<td>Other changes in debt</td>
<td>(246)</td>
<td>31</td>
</tr>
<tr>
<td><strong>Debt, net of cash and money market investments as at 31 December</strong></td>
<td>(127)</td>
<td>223</td>
</tr>
</tbody>
</table>

Summary group balance sheet as at 31 December

<table>
<thead>
<tr>
<th></th>
<th>1999 £m</th>
<th>1998 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets</td>
<td>2 905</td>
<td>1 947</td>
</tr>
<tr>
<td>Current assets</td>
<td>1 792</td>
<td>2 084</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>(2 138)</td>
<td>(1 663)</td>
</tr>
<tr>
<td><strong>Net current (liabilities)/assets</strong></td>
<td>(346)</td>
<td>421</td>
</tr>
<tr>
<td>Total assets less current liabilities</td>
<td>2 559</td>
<td>2 368</td>
</tr>
<tr>
<td>Creditors due for payment after more than one year</td>
<td>(178)</td>
<td>(169)</td>
</tr>
<tr>
<td>Provisions for liabilities and charges</td>
<td>(1 414)</td>
<td>(1 314)</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>967</td>
<td>885</td>
</tr>
<tr>
<td>Shareholders’ funds</td>
<td>967</td>
<td>885</td>
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</tbody>
</table>

The summary financial statements on pages 16 and 17 were approved by the Board of Directors on 6 March 2000 and were signed on its behalf by:

Sir Michael Perry cBE Chairman

Mark Clare Finance Director
Corporate governance
The Company has considered the Combined Code (which incorporates the Cadbury, Greenbury and Hampel reports) and the guidance in the interpretation of internal control provided by the Turnbull report.

The Board has appointed a number of committees to deal with specific aspects of the management of the Company namely the Audit, Remuneration, Nominations, Executive, Customer Service, Financial and Risk Management and AA Motoring Policy Committees. Directors’ membership of these committees is shown on page 20.

Details of how the Company applies the principles set out in the Combined Code are set out in the report on Corporate Governance in the full Report and Accounts for the year ended 31 December 1999.

Summary Directors’ report
The Annual Review and Summary Financial Statement is a summary of the information contained in the Annual Report and Accounts for the year ended 31 December 1999.

Principal activities and business review
A review of the business and likely future developments of the business are described in the Chairman’s statement on page 1 and the operating review on pages 3 to 13. A description of the principal activities of the Group is set out on page 2.

Dividends
An interim dividend of 1 penny per ordinary share was paid on 7 December 1999. The Directors recommend that, subject to approval at the Annual General Meeting on 8 May 2000, a final dividend of 1.5 pence per ordinary share is paid on 21 June 2000 to those shareholders registered on 2 May 2000. This makes a total dividend for the year of 2.5 pence per share. In addition a special dividend of 12 pence per share was paid on 23 June 1999, associated with a share capital consolidation.

The ordinary share capital was consolidated on the basis of nine new ordinary shares of 5½ pence for every ten ordinary shares of 5 pence held on 7 May 1999.
SUMMARY REMUNERATION REPORT

The full Remuneration Report, which complies with the Listing Rules of the London Stock Exchange, is contained in the 1999 Annual Report, copies of which are available from Lloyds TSB Registrars. See page 21 for details of how to contact them.

This extract provides information on the Directors’ emoluments, pensions and share interests (including those of their families).

Directors’ emoluments and pension benefits

<table>
<thead>
<tr>
<th></th>
<th>Base salary £000</th>
<th>Annual performance bonus £000</th>
<th>Benefits £000</th>
<th>Total emoluments excluding pension £000</th>
<th>Total emoluments excluding pension 1998 £000</th>
<th>Accrued annual pension at 31 December £p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M R Alexander</td>
<td>225</td>
<td>112</td>
<td>19</td>
<td>356</td>
<td>292</td>
<td>99 900</td>
</tr>
<tr>
<td>M S Clare</td>
<td>237</td>
<td>118</td>
<td>18</td>
<td>373</td>
<td>294</td>
<td>31 500</td>
</tr>
<tr>
<td>R A Gardner</td>
<td>430</td>
<td>211</td>
<td>33</td>
<td>674</td>
<td>543</td>
<td>73 500</td>
</tr>
<tr>
<td>R N B Wood</td>
<td>243</td>
<td>100</td>
<td>19</td>
<td>367</td>
<td>321</td>
<td>35 700</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1 135</td>
<td>541</td>
<td>89</td>
<td>1 765</td>
<td>1 450</td>
<td></td>
</tr>
<tr>
<td><strong>Non-Executive Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>W Cockburn (iv)</td>
<td>19</td>
<td>–</td>
<td>–</td>
<td>19</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Sir Sydney Lipworth (v)</td>
<td>20</td>
<td>–</td>
<td>–</td>
<td>20</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>F H MacKay</td>
<td>25</td>
<td>–</td>
<td>–</td>
<td>25</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>P K R Mann</td>
<td>25</td>
<td>–</td>
<td>–</td>
<td>25</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Sir Michael Perry</td>
<td>150</td>
<td>–</td>
<td>–</td>
<td>150</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>Sir Brian Shaw (vi)</td>
<td>12</td>
<td>–</td>
<td>–</td>
<td>12</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>P J Wood</td>
<td>25</td>
<td>–</td>
<td>–</td>
<td>25</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>276</td>
<td>–</td>
<td>–</td>
<td>276</td>
<td>250</td>
<td></td>
</tr>
<tr>
<td><strong>Total emoluments</strong></td>
<td>1 411</td>
<td>541</td>
<td>89</td>
<td>2 041</td>
<td>1 700</td>
<td></td>
</tr>
</tbody>
</table>

(i) The Committee retains the right to vary the annual performance bonus payments.
(ii) Benefits incorporate all assessable tax benefits arising from employment by the Company, which relate in the main to the provision of a company car.
(iii) Accrued pension is that which would be paid annually on retirement at age 65, based on service to 31 December 1999.
(iv) W Cockburn resigned from the Board on 24 September 1999.
(v) Sir Sydney Lipworth was appointed to the Board on 12 March 1999.
(vi) Sir Brian Shaw was appointed to the Board on 23 September 1999. The figure above includes fees of £5,000 in respect of consultancy services to the AA Motoring Policy Unit.
(vii) The total emoluments shown above are in respect of Directors serving during 1999. In 1998, £244,000 was also paid to an Executive Director who served throughout 1998.

Executive Directors’ interests in shares

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December</th>
<th>Beneficial interests in ordinary shares</th>
<th>Restructured executive share options</th>
<th>Sharesave options</th>
<th>Notional allocations under the Long Term Incentive Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>M R Alexander</td>
<td>1999</td>
<td>27 373</td>
<td>86 145</td>
<td>22 402</td>
<td>808 466</td>
</tr>
<tr>
<td></td>
<td>1998</td>
<td>30 000</td>
<td>86 145</td>
<td>22 402</td>
<td>774 746</td>
</tr>
<tr>
<td>M S Clare</td>
<td>1999</td>
<td>23 955</td>
<td>177 645</td>
<td>37 176</td>
<td>821 161</td>
</tr>
<tr>
<td></td>
<td>1998</td>
<td>25 863</td>
<td>177 645</td>
<td>37 176</td>
<td>715 923</td>
</tr>
<tr>
<td>R A Gardner</td>
<td>1999</td>
<td>140 985</td>
<td>1 336 446</td>
<td>37 176</td>
<td>1 476 199</td>
</tr>
<tr>
<td></td>
<td>1998</td>
<td>125 863</td>
<td>1 336 446</td>
<td>37 176</td>
<td>1 571 094</td>
</tr>
<tr>
<td>R N B Wood</td>
<td>1999</td>
<td>54 721</td>
<td>–</td>
<td>37 176</td>
<td>884 146</td>
</tr>
<tr>
<td></td>
<td>1998</td>
<td>50 384</td>
<td>–</td>
<td>37 176</td>
<td>729 347</td>
</tr>
</tbody>
</table>

(i) Interests shown are beneficial interests in the ordinary shares of the Company. The ordinary share capital of the Company was consolidated on 10 May 1999 on the basis of nine new ordinary shares for every ten ordinary shares held on 7 May 1999. The beneficial interests of each Executive Director include 721 shares appropriated under the terms of the Company’s Profit Sharing Scheme.
(ii) Options granted to Company employees under the British Gas plc Executive Share Option Scheme were cancelled and replaced by non Inland Revenue approved options over Centrica plc to an equivalent value at the time of demerger. Options are no longer granted under this scheme.
(iii) The Company also operates an all-employee savings-related share option scheme, the Sharesave Scheme.
(iv) Figures given represent the maximum award possible if all performance criteria are met at the end of the performance period (three or four years) and would not be made until the expiry of the retention period (a further two years). During the year, notional allocations of 143,415 shares, 151,733 shares, 272,446 shares and 154,799 shares were made to M R Alexander, M S Clare, R A Gardner and R N B Wood respectively at a base price of £1.2986. Also during the year, allocations of shares made in October 1995 lapsed as the performance criteria were not met. These awards were made under the terms of the British Gas plc Long Term Incentive Scheme prior to demerger and were replaced at demerger by awards over Centrica shares. 108,695 shares, 46,465 shares and 367,341 shares held by M R Alexander, M S Clare and R A Gardner respectively.

At 31 December 1999 the following Non-Executive Directors also held shares in Centrica plc: Sir Sydney Lipworth 18,000 shares; F H MacKay 9,000 shares; P K R Mann 2,142 shares, Sir Michael Perry 900 shares and P J Wood 180,000 shares.
1. Sir Michael Perry CBE ANR
   Chairman (66)
   Sir Michael Perry became Chairman of Centrica plc on 1 July 1997. He was a Non-Executive Director of British Gas plc from June 1994 until demerger. He is Non-Executive Chairman of Dunlop Slazenger Group Ltd, Non-Executive Deputy Chairman of Bass plc, a Non-Executive Director of Marks & Spencer plc and a member of the Supervisory Board of Royal Ahold.

2. Mike Alexander CEF
   Managing Director British Gas Trading (52)
   Mike Alexander joined British Gas plc in 1991, becoming Director CIS and Eastern Europe (E&P) in 1992 and Managing Director of Public Gas Supply in 1994. He is also a Non-Executive Director of The Energy Saving Trust Limited. He was previously with BP from 1986, where he held a variety of management positions, both in the UK and overseas.

3. Mark Clare E,F
   Finance Director (42)
   Mark Clare joined British Gas plc in March 1994 as Group Financial Controller. He was previously with STC plc, which he joined in 1989 as Finance Manager in the telecommunications business, where he became Finance Director of STC Submarine Systems.

4. Roy Gardner EN
   Chief Executive (54)
   Roy Gardner was appointed Finance Director of British Gas plc in November 1994. From November 1995 he had responsibility for the business units which subsequently formed Centrica plc. Prior to joining British Gas plc, he was Managing Director of GEC-Marconi Limited and a Director of GEC plc. He is a Non-Executive Director of Laporte plc and Manchester United plc. He is President of the Carers National Association and has become Chairman of the Employers’ Forum on Disability.

5. Sir Sydney Lipworth AR
   Non-Executive Director (68)
   Sir Sydney Lipworth was appointed to the Board on 12 March 1999. He is Chairman of the Financial Reporting Council and a Non-Executive Director of Carlton Communications Plc. He was Chairman of Zeneca Group plc until April 1999 and Deputy Chairman of National Westminster Bank Plc until March 2000. He was Chairman of the Monopolies and Mergers Commission until 1993 and before that a Deputy Chairman of Allied Dunbar Assurance, of which he was a co-founder.

6. Francis MacKay AR
   Lead Non-Executive Director (55)
   Francis MacKay, became Executive Chairman of the Compass Group plc in July 1999, having formerly been Chief Executive. He was an Executive Director of Sutcliffe Group (part of P&O) and the Global Group of Companies.

7. Patricia Mann CBE AACCNAR
   Non-Executive Director (62)
   Patricia Mann was a Non-Executive Director of British Gas plc from December 1995 until demerger. She was Vice President International of J Walter Thompson Co Ltd and remains a Director of JWT Trustees Ltd. She is on the Board of the UK Centre for Economic and Environmental Development and is a former Director of the Woolwich Building Society and Yale and Valor plc.

8. Sir Brian Shaw AAR
   Non-Executive Director (67)
   Sir Brian Shaw became a Non-Executive Director of Centrica plc in September 1999 following the acquisition of the Automobile Association, of which Sir Brian was Non-Executive Chairman from 1995 to 1999. He is Chairman of the Port of London Authority, a Director of Henderson plc and Andrew Weir and Company. He is a former Chairman of Furness Withy and of ANZ Grindlays Bank and a former Director of Enterprise Oil. Sir Brian is an Elder Brother of Trinity House and a Benchman of Gray’s Inn.

9. Peter Wood CBE AOR
   Non-Executive Director (53)
   Peter Wood is Vice Chairman of Direct Response Corporation and Homestie Insurance Corporation – auto and homeowners insurance companies in the US. He was founder and former Chairman of Direct Line and a member of the Board of The Royal Bank of Scotland Group plc until June 1997. He is a Non-Executive Director of the Economist and The Underwriter Insurance Company Limited. Peter Wood resigned from the Centrica Board on 21 February 2000.

10. Roger Wood ACAE
    Managing Director Home & Road Services (57)
    Roger Wood joined British Gas plc in April 1996. From 1993 to 1996 he was Director General of Matra Marconi Space NV. Previously he was Managing Director of STC Telecommunications and Group Vice President of Northern Telecom Limited. Prior to 1988 he was UK Director at ICL.

Key
Membership of committees:
A Audit Committee
AA AA Motoring Policy Committee
C Customer Service Committee
E Executive Committee
F Financial and Risk Management Committee
N Nominations Committee
R Remuneration Committee
INFORMATION FOR SHAREHOLDERS

Shareholder product information
Shareholders wishing to find out more about any of our products and services should telephone: 0845 600 1 900,
Monday to Friday 8am – 8pm, Saturday 8am – 6pm

Your shareholding
If you have any queries about your shareholding in Centrica please telephone our Registrars, Lloyds TSB Registrars, on our helpline 0870 600 3985 or text phone 0870 600 3950 or, if you prefer, write to them at:

Lloyds TSB Registrars
The Causeway
Worthing, West Sussex BN19 6DA

If you change your name or address please write to the Registrars at the address given above as soon as possible to prevent any delay in future shareholder communications.

If you receive more than one copy of this mailing please contact the Registrars so that any duplicate accounts you hold can be amalgamated.

If you would like your dividend paid directly into your bank account please contact the Registrars who can arrange this.

Share price information
The latest share price information can be found on Ceefax page 224 or in the financial pages of most daily newspapers and via the Centrica website.

Centrica website
Corporate information, including press releases, financial and latest share price information, full annual report and accounts and community projects can be accessed via the Group’s website at www.centrica.co.uk.

Financial calendar
Ex-dividend date 25 April 2000
Record date for the final dividend 2 May 2000
Annual General Meeting 8 May 2000
Whittle & Fleming Rooms
The Queen Elizabeth II Conference Centre
Broad Sanctuary
Whitehall, London SW1P 3EE
Payment date for the final dividend 21 June 2000
Interim results announced 7 September 2000

Useful historical information in respect of your shareholding
Share apportionment and capital gains tax base cost of shares at demerger
Shares were acquired in Centrica plc at demerger from British Gas plc (which has subsequently changed its name to BG Group plc – ‘BG’) on the basis of one Centrica share for every BG share held at demerger. Shares in Centrica plc, acquired on demerger from BG, will be treated as having a base cost for Capital Gains Tax purposes (ascertained by reference to the value of Centrica and BG shares on 17 February 1997) calculated in accordance with provisions of section 272 of the Taxation and Chargeable Gains Act 1992. The base cost of any holding of BG shares on that date will be adjusted on the same basis. The relevant prices on the London Stock Exchange on 17 February 1997 were: Centrica 64.25 pence; BG 173.25 pence. The base cost of the pre demerger British Gas plc shares will be split between the post demerger Centrica and BG shares in the proportion Centrica 27.053% and BG 72.947%.

Share capital consolidation
On 10 May 1999, the ordinary share capital of the Company was consolidated on the basis of nine new ordinary shares of 5¾ pence for every ten ordinary shares of 5 pence held on 7 May 1999.

American Depository Receipts (ADRs)
Centrica has an American Depository Receipt (ADR) programme. The ADRs, each of which is equivalent to ten ordinary shares, are issued by The Bank of New York. For enquiries about the ADR service, please contact our representatives at:
The Bank of New York
Shareholder Relations
PO Box 11258, Church Street Station
New York NY 10286-1258
Telephone: 001 610 312 5303 from the UK and 1888 BNY ADRS in the US.

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

If you would like a copy of the more detailed Report and Accounts for 1999 please contact the Company’s Registrar at the address shown above.

Report in alternative formats
As part of our commitment to shareholders with disabilities, we are happy to send on request, literature in the following formats:
• large print;
• braille; and
• audio tape.

If you would like to receive shareholder communications in alternative formats please register your name, address, shareholder account number and preferred format with Lloyds TSB Registrars.

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www.centrica.co.uk
Telephone: 01753 758 000 Fax: 01753 758 011

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