

CAPTION SHEET

CASE MANAGEMENT SYSTEM

- 1. REPORT DATE: 00/00/00
- 2. BUREAU: FUS
- 3. SECTION(S):
- 5. APPROVED BY: DIRECTOR: SUPERVISOR:
- 6. PERSON IN CHARGE:
- 8. DOCKET NO: A-110164
- 4. PUBLIC MEETING DATE: 00/00/00
- 7. DATE FILED: 02/02/05
- 9. EFFECTIVE DATE: 00/00/00

PARTY/COMPLAINANT:

RESPONDENT/APPLICANT: DIRECT ENERGY SERVICES, LLC

COMP/APP COUNTY: UTILITY CODE: 110164

ALLEGATION OR SUBJECT

APPLICATION OF DIRECT ENERGY SERVICES, LLC D/B/A DIRECT ENERGY AND DIRECT ENERGY BUSINESS SERVICES, FOR APPROVAL TO OFFER, RENDER, FURNISH, OR SUPPLY ELECTRICITY OR ELECTRIC GENERATION SERVICES AS A BROKER/MARKETER & AGGREGATOR TO THE PUBLIC IN THE COMMONWEALTH OF PENNSYLVANIA.

DOCUMENT FOLDER

DOCKETED FEB 03 2005

212 Locust Street, Suite 300, Harrisburg, Pennsylvania 17101
Tel: (717) 237-7160 ☒ Fax: (717) 237-7161 ☐ www.WolfBlock.com

ORIGINAL

Kevin J. Moody
Direct Dial: (717) 237-7187
Direct Fax: (717) 237-2767
E-mail: kmoody@wolfblock.com

February 2, 2005

VIA HAND DELIVERY

James McNulty, Secretary
PA Public Utility Commission
Commonwealth Keystone Bldg. 2nd Fl.
400 Commonwealth Street
Harrisburg, PA 17105-3265

Re: EGS Application of Direct Energy Services, LLC
Docket No. A-110164

RECEIVED
2005 FEB -2 PM 4:20
SECRETARY'S BUREAU

Dear Secretary McNulty:

Enclosed for filing in accordance with 52 Pa. Code § 54.32 are the original and eight copies of Direct Energy Services, LLC's Application for an Electric Generation Supplier (EGS) License, with supporting attachments, along with a check in the amount of \$350 in payment of the application fee. Also enclosed is a copy of the public notice of the application filing to be published in accordance with 52 Pa. Code § 54.35, along with an electronic copy of the notice in PDF format for posting on the Commission's website. We will submit the certification required by 52 Pa. Code § 54.33(a)(9) after the notice is published.

As evidenced by the attached Certificate of Service, in accordance with 52 Pa. Code § 54.32(d) all parties listed have been served in the manner indicated. If you have any questions, please contact me.

Sincerely,

Kevin J. Moody

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

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FEB 03 2005

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KJM/jls
Enclosures
cc: Certificate of Service (w/enc)
Adrian Pye

HAR:56882.1/DIR023-216494

**PENNSYLVANIA
PUBLIC UTILITY COMMISSION**

Application of Direct Energy Services, LLC d/b/a Direct Energy or Direct Energy Business Services for approval to offer, render, furnish or supply electric power and other services as a generator and supplier of electric power, or marketer/broker or aggregator engaged in the business of supplying electricity to the public in the Commonwealth of Pennsylvania, Docket No. A-110164.

On February 2, 2005, Direct Energy Services, LLC d/b/a Direct Energy or Direct Energy Business Services filed an application with the Pennsylvania Public Utility Commission ("PUC") for a license to provide electric power and other services as (1) a generator and supplier of electric power, (2) a broker/marketer engaged in the business of supplying electricity, and (3) an aggregator engaged in the business of supplying electricity. Direct Energy Services, LLC d/b/a Direct Energy or Direct Energy Business Services proposes to sell electric power and other services to all customer classes throughout all of Pennsylvania under the provisions of the Electricity Generation Customer Choice and Competition Act.

The PUC may consider this application without a hearing. Protests directed to the technical or financial fitness of Direct Energy Services, LLC d/b/a Direct Energy or Direct Energy Business Services may be filed within 15 days of the date of this notice with the Secretary of the PUC, P.O. Box 3265, Harrisburg, PA 17105-3265. You should send copies of any protest to Direct Energy Services, LLC d/b/a Direct Energy or Direct Energy Business Services' attorney at the address listed below. Please include the PUC's "docket number" on any correspondence, which is A-110164.

By and through Counsel:
Kevin J. Moody, Esquire
Counsel for Direct Energy Services, LLC
c/o Wolf, Block, Schorr & Solis-Cohen LLP
212 Locust Street, Suite 300
Harrisburg, PA 17101
(717) 237-7187 (Phone)
(717) 237-7161 (Fax)

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing Application of Direct Energy Services, LLC for an Electric Generation Supplier License, with supporting attachments, at Docket No. A-110164 upon the persons listed below via First Class Mail in accordance with the requirements of 52 Pa. Code § 54.32(d):

Irwin A. Popowsky
Office of Consumer Advocate
5th Floor, Forum Place
555 Walnut Street
Harrisburg, PA 17120

Bernard A. Ryan, Jr.
Commerce Building, Suite 1102
Small Business Advocate
300 North Second Street
Harrisburg, PA 17101

Office of Attorney General
Bureau of Consumer Protection
Strawberry Square, 14th Floor
Harrisburg, PA 17120

Commonwealth of Pennsylvania
Department of Revenue
Bureau of Compliance
Harrisburg, PA 17128-0946

Frank M. Nadolny, General
Manager of Regulatory Affairs Unit
Duquesne Light Company
411 Seventh Street
P.O. Box 1930
Pittsburgh, PA 15230-1930

Blaine W. Uplinger, Jr., Director
Government & Regulatory Affairs
GPU Energy
100 APC Building
800 North Third Street
Harrisburg, PA 17102-2025

Dated: February 2, 2005

Thomas P. Hill, Vice President & Controller
PECO Energy Company
2301 Market Street
Philadelphia, PA 19101-8699

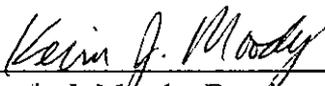
John P. Litz, Division Controller
UGI Utilities, Inc.
Electric Division
Hanover Industrial Estates
400 Stewart Road
P.O. Box 3200
Wilkes-Barre, PA 18773-3200

Paul E. Russell, Associate
General Counsel
Pennsylvania Power & Light Co.
Two North Ninth Street
Allentown, PA 18108-1179

Stephen L. Feld, Esquire
Pennsylvania Power Co.
First Energy Corporation
76 South Main Street
Akron, OH 44308

John L. Munsch, Esquire
Allegheny Power
800 Cabin Hill Drive
Greensburg, PA 15601-1689

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PUC



Kevin J. Moody, Esquire

A-110164

ORIGINAL

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Direct Energy Services, LLC, d/b/a Direct Energy and Direct Energy Business Services, for approval to offer, render, furnish, or supply electricity or electric generation services as a(n) public utility as specified in item #8 below to the public in the Commonwealth of Pennsylvania.

To the Pennsylvania Public Utility Commission:

- 1. **IDENTITY OF THE APPLICANT:** The name, address, telephone number, and FAX number of the Applicant are:

Direct Energy Services, LLC
263 Tresser Blvd., 8th Floor
Stamford, CT 06901

(T)(203) 328-3540
(F)(203) 328-3545

Please identify any predecessor(s) of the Applicant and provide other names under which the Applicant has operated within the preceding five (5) years, including name, address, and telephone number.

N/A

- 2. a. **CONTACT PERSON:** The name, title, address, telephone number, and FAX number of the person to whom questions about this Application should be addressed are:

James Steffes
Vice President,
US Government & Regulatory Affairs
Direct Energy Services, LLC
263 Tresser Blvd., 8th Floor
Stamford, CT 06901

(T) (203) 328-3556
(F) (203) 328-3545

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SECRETARY'S BUREAU

- b. **CONTACT PERSON-PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY:** The name, title, address telephone number and FAX number of the person with whom contact should be made by PEMA:

Juan Padron
Sr. Analyst- Portfolio Management, Operations
Direct Energy Services, LLC
12 Greenway Plaza, Suite 600
Houston, TX 77046

(T) (713) 877-3657
(F) (713) 877-3553

DOCUMENT
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- 3. a. **ATTORNEY:** If applicable, the name, address, telephone number, and FAX number of the Applicant's attorney are:

Dan Clearfield, Esq.
Wolf, Block, Schorr and Solis-Cohen LLP
212 Locust Street
Suite 300
Harrisburg, PA 17101
(T) (717) 237-7173
(F) (717) 237-7161

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b. REGISTERED AGENT: If the Applicant does not maintain a principal office in the Commonwealth, the required name, address, telephone number and FAX number of the Applicant's Registered Agent in the Commonwealth are:

CT Corporation
1515 Market Street
Suite 1210
Philadelphia, PA 19102
(T) (215) 563-7750
(F) (215) 563-7771

4. FICTITIOUS NAME: (select and complete appropriate statement)

X The Applicant will be using a fictitious name or doing business as ("d/b/a"):

We intend to operate under the names of Direct Energy or Direct Energy Business Services.

Attach to the Application a copy of the Applicant's filing with the Commonwealth's Department of State pursuant to 54 Pa. C.S. §311, Form PA-953.

or

The Applicant will not be using a fictitious name.

BUSINESS ENTITY AND DEPARTMENT OF STATE FILINGS: (select and complete appropriate statement)

The Applicant is a sole proprietor.

If the Applicant is located outside the Commonwealth, provide proof of compliance with 15 Pa. C.S. §4124 relating to Department of State filing requirements.

or

The Applicant is a:

- domestic general partnership (*)
- domestic limited partnership (15 Pa. C.S. §8511)
- foreign general or limited partnership (15 Pa. C.S. §4124)
- domestic limited liability partnership (15 Pa. C.S. §8201)
- foreign limited liability general partnership (15 Pa. C.S. §8211)
- foreign limited liability limited partnership (15 Pa. C.S. §8211)

Provide proof of compliance with appropriate Department of State filing requirements as indicated above.

Give name, d/b/a, and address of partners. If any partner is not an individual, identify the business nature of the partner entity and identify its partners or officers.

* If a corporate partner in the Applicant's domestic partnership is not domiciled in Pennsylvania, attach a copy of the Applicant's Department of State filing pursuant to 15 Pa. C.S. §4124.

or

The Applicant is a :

- domestic corporation (none)
- foreign corporation (15 Pa. C.S. §4124)
- domestic limited liability company (15 Pa. C.S. §8913)
- foreign limited liability company (15 Pa. C.S. §8981)
- Other _____

Provide proof of compliance with appropriate Department of State filing requirements as indicated above. Additionally, provide a copy of the Applicant's Articles of Incorporation.

Give name and address of officers.

Deryk King
Chairman
25 Sheppard Avenue West
Suite 1500
Toronto, Ontario M2N 6S6
(416) 590-3504

Lois Hedg-peth
Director,
President & CEO
263 Tresser Blvd., 8th Floor
Stamford, CT 06901
(203) 328-3550

Robert Huggard
Executive VP,
Business Markets
25 Sheppard Avenue West
15th Floor
Toronto, Ontario M2N 6S6
(416) 590-3864

Phil Tonge
Senior VP,
Southern Region
12 Greenway Plaza
Houston, TX 77046
(713) 877-3767

Jay Hellums
Senior VP,
Energy Procurement
12 Greenway Plaza
Houston, TX 77046
(713) 877-3642

Bill Cronin
Chief Operating
Officer
263 Tresser Blvd., 8th Floor
Stamford, CT 06901
(203) 328-3566

David Clarke
Senior VP,
Financial Control
25 Sheppard Avenue West
Suite 1700
Toronto, Ontario M2N 6S6
(416) 590-3348

Clinton Roeder
VP, Finance
12 Greenway Plaza
Houston, TX 77046
(713) 877-3520

James Steffes
VP,
US Regulatory Affairs
263 Tresser Blvd., 8th Floor
Stamford, CT 06901
(203) 328-3556

Thomas Boehlert
Executive VP,
CFO
25 Sheppard Avenue West
Suite 1700
Toronto, Ontario M2N 6S6
(416) 590-3690

Gordon Currie
Secretary

25 Sheppard Avenue West
Suite 1700
Toronto, Ontario M2N 6S6
(416) 590-3462

Jamey Seely
Assistant Secretary

12 Greenway Plaza
Suite 600
Houston, TX 77046
(713) 877-3657
(713) 877-3553

The Applicant is incorporated in the state of Delaware.

6. **AFFILIATES AND PREDECESSORS WITHIN PENNSYLVANIA:** (select and complete appropriate statement)

Affiliate(s) of the Applicant doing business in Pennsylvania are:

Give name and address of the affiliate(s) and state whether the affiliate(s) are jurisdictional public utilities.

Energy America, LLC
263 Tresser Blvd., 8th Floor
Stamford, CT 06901

(T) (203) 328-3540
(F) (203) 328-3545

Energy America, LLC is not a jurisdictional public utility.

If the Applicant or an affiliate has a predecessor who has done business within Pennsylvania, give name and address of the predecessor(s) and state whether the predecessor(s) were jurisdictional public utilities.

Energy America, LLC
263 Tresser Blvd., 8th Floor
Stamford, CT 06901
(T) (203) 328-3540
(F) (203) 328-3545

Energy America, LLC is not a jurisdictional public utility.

or

The Applicant has no affiliates doing business in Pennsylvania or predecessors which have done business in Pennsylvania.

7. **APPLICANT'S PRESENT OPERATIONS:** (select and complete the appropriate statement)

The Applicant is presently doing business in Pennsylvania as a

- vertically-integrated provider of generation, transmission, and distribution services.
- municipal electric corporation providing service outside its municipal limits.
- electric cooperative
- local gas distribution company
- nonintegrated provider of electric generation, transmission or distribution services.
- Other. (Identify the nature of service being rendered.)

Direct Energy Services, LLC is presently doing business as a natural gas supplier in Pennsylvania, license A-125135

or

The Applicant is not presently doing business in Pennsylvania.

8. **APPLICANT'S PROPOSED OPERATIONS:** The Applicant proposes to operate as a:

- X Generator and supplier of electric power.
- Municipal generator and supplier of electric power.
- Electric Cooperative and supplier of electric power
- X Broker/Marketer engaged in the business of supplying electricity.
- X Aggregator engaged in the business of supplying electricity
- Other (Describe):

9. **PROPOSED SERVICES:** Generally describe the electric services or the electric generation services which the Applicant proposes to offer.

Direct Energy Services, LLC seeks to supply electric power and other related services to residential and commercial customers.

10. **SERVICE AREA:** Generally describe the geographic area in which Applicant proposes to offer services.

Direct Energy Services, LLC proposes to offer services throughout Pennsylvania.

11. **CUSTOMERS:** Applicant proposes to initially provide services to:

- X Residential Customers
- X Commercial Customers - (25 kW and Under)
- X Commercial Customers - (Over 25 kW)
- Industrial Customers
- Governmental Customers
- X All of above
- Other (Describe):

12. **FERC FILING:** Applicant has:

- Filed an Application with the Federal Energy Regulatory Commission to be a Power Marketer.
- Received approval from FERC to be a Power Marketer at Docket or Case Number _____.
- X Not applicable
Applicant has in place a Service Agreement with its affiliate Energy America, LLC that will provide wholesale energy services. Energy America, LLC has received permission from FERC to sell wholesale energy, capacity and ancillary services at market based rates in Docket # ER02-1632-000.

13. **START DATE:** The Applicant proposes to begin delivering services on June 1, 2005. (approximate date).

4. **NOTICE:** Pursuant to Section 5.14 of the Commission's Regulations, 52 Pa. Code §5.14, serve a copy of the signed and verified Application with attachments on the following:

Irwin A. Popowsky
Office of Consumer Advocate
5th Floor, Forum Place
555 Walnut Street
Harrisburg, PA 17120

Office of the Attorney General
Bureau of Consumer Protection
Strawberry Square, 14th Floor
Harrisburg, PA 17120

Bernard A. Ryan, Jr.
Commerce Building, Suite 1102
Small Business Advocate
300 North Second Street
Harrisburg, PA 17101

Commonwealth of Pennsylvania
Department of Revenue
Bureau of Compliance
Harrisburg, PA 17128-0946

Any of the following Electric Distribution Companies through whose transmission and distribution facilities the applicant intends to supply customers:

Frank M. Nadolny, General
Manager of Regulatory Affairs Unit
Duquesne Light Company
411 Seventh Street
P.O. Box 1930
Pittsburgh, PA 15230-1930

John P. Litz, Division Controller
UGI Utilities, Inc.
Electric Division
400 Stewart Road
P.O. Box 3200
Hanover Industrial Estates
Wilkes-Barre, PA 18773-3200

(Metropolitan Edison Company or Pennsylvania Electric Company)

Blaine W. Uplinger, Jr., Director of Governmental and
Regulatory Affairs
GPU Energy
100 APC Building
800 North third Street
Harrisburg, PA 17102-2025

Paul E. Russell, Associate
General Counsel
Pennsylvania Power & Light
Company
Two North Ninth Street
Allentown, PA 18108-1179

Thomas P. Hill, Vice President and Controller
PECO Energy Company
2301 Market Street
Philadelphia, PA 19101-8699

Stephen L. Feld, Attorney
Pennsylvania Power Company
First Energy Corporation
76 South Main Street
Akron, OH 44308

John L. Munsch, Attorney
Allegheny Power
800 Cabin Hill Drive
Greensburg, PA 15601-1689

Pursuant to Sections 1.57 and 1.58 of the Commission's Regulations, 52 Pa. Code §§1.57 and 1.58; attach Proof of Service of the Application and attachments upon the above named parties. Upon review of the Application, further notice may be required pursuant to Section 5.14 of the Commission's Regulations, 52 Pa. Code §5.14.

15. **TAXATION:** Complete the TAX CERTIFICATION STATEMENT attached as Appendix B to this application.

16. **COMPLIANCE:** State specifically whether the Applicant, an affiliate, a predecessor of either, or a person identified in this Application has been convicted of a crime involving fraud or similar activity. Identify all proceedings, by name, subject and citation, dealing with business operations, in the last five (5) years, whether before an administrative body or in a judicial forum, in which the Applicant, an affiliate, a predecessor

of either, or a person identified herein has been a defendant or a respondent. Provide a statement as to the resolution or present status of any such proceedings.

7. STANDARDS, BILLING PRACTICES, TERMS AND CONDITIONS OF PROVIDING SERVICE AND CONSUMER EDUCATION: Electricity should be priced in clearly stated terms to the extent possible. Common definitions should be used. All consumer contracts or sales agreements should be written in plain language with any exclusions, exceptions, add-ons, package offers, limited time offers or other deadlines prominently communicated. Penalties and procedures for ending contracts should be clearly communicated.

a. **Contacts for Consumer Service and Complaints:** Provide the name, title, address, telephone number and FAX number of the person and an alternate person responsible for addressing customer complaints. These persons will ordinarily be the initial point(s) of contact for resolving complaints filed with Applicant, the Electric Distribution Company, the Pennsylvania Public Utility Commission or other agencies.

b. *Provide a copy of all standard forms or contracts that you use, or propose to use, for service provided to residential customers.*

c. *If proposing to serve Residential and/or Small Commercial (under 25 kW) customers, provide a disclosure statement. A sample disclosure statement is provided as Appendix C to this Application.*

18. BONDING: In accordance with 66 PA. C.S. Section 2809(C) (1)(I), the Applicant is:

Furnishing a copy of initial bond , letter of credit or proof of bonding to the Commission in the amount of \$250,000.

Furnishing proof of other initial security for Commission approval, to ensure financial responsibility.

Filing for a modification to the \$250,000 and furnishing a copy of an initial bond, letter of credit or proof of bonding to the Commission for the amount of \$_____. Applicant is required to provide information supporting an amount less than \$250,000.

At the conclusion of Applicant's first year of operation it is the intention of the Commission to tie security bonds to a percentage of Applicant's gross receipts resulting from the sale of generated electricity consumed in Pennsylvania. The amount of the security bond will be reviewed and adjusted on an annual basis.

19. FINANCIAL FITNESS:

A. Applicant shall provide sufficient information to demonstrate financial fitness commensurate with the service proposed to be provided. Examples of such information which may be submitted include the following:

- Actual (or proposed) organizational structure including parent, affiliated or subsidiary companies.
- Published parent company financial and credit information.
- Applicant's balance sheet and income statement for the most recent fiscal year. Published financial information such as 10K's and 10Q's may be provided, if available.
- Evidence of Applicant's credit rating. Applicant may provide a copy of its Dun and Bradstreet Credit Report and Robert Morris and Associates financial form or other independent financial service reports.
- A description of the types and amounts of insurance carried by Applicant which are specifically intended to provide for or support its financial fitness to perform its obligations as a licensee.
- Audited financial statements
- Such other information that demonstrates Applicant's financial fitness.

B. Applicant must provide the following information:

- Identify Applicant's chief officers including names and their professional resumes.
- Provide the name, title, address, telephone number and FAX number of Applicant's custodian for its accounting records.

20. **TECHNICAL FITNESS:** To ensure that the present quality and availability of service provided by electric utilities does not deteriorate, the Applicant shall provide sufficient information to demonstrate technical fitness commensurate with the service proposed to be provided. Examples of such information which may be submitted include the following:

- The identity of the Applicant's officers directly responsible for operations, including names and their professional resumes.
- Proposed staffing and employee training commitments
- Business plans
- Documentation of membership in ECAR, MAAC or other regional reliability councils shall be submitted if applicable to the scope and nature of the applicant's proposed services.
- An affidavit stating that you will adhere to the reliability protocols of the North American Electric Reliability Council, the appropriate regional reliability council(s), and the Commission, and that you agree to comply with the operational requirements of the control area(s) within which you provide retail service.

21. **TRANSFER OF LICENSE:** The Applicant understands that if it plans to transfer its license to another entity, it is required to request authority from the Commission for permission prior to transferring the license. See 66 Pa. C.S. Section 2809(D). Transferee will be required to file the appropriate licensing application.

22. **ASSESSMENT:** The Applicant acknowledges that Title 66, Chapter 5, Section 510 grants to the Commission the right to make assessments to recover regulatory expenses and that as a supplier of electricity or an electric generation supplier it will be assessed under that section of the Pennsylvania Code. The Applicant also acknowledges that the continuation of its license as a supplier of electricity or an electric generation supplier will be dependent upon the payment of all prior years assessments.

23. **UNIFORM STANDARDS OF CONDUCT AND DISCLOSURE:** As a condition of receiving a license, Applicant agrees to conform to any Uniform Standards of Conduct and Disclosure as set forth by the Commission.

24. **REPORTING REQUIREMENTS:** Applicant agrees to provide the following information to the Commission or the Department of Revenue, as appropriate:

- a. Reports of Gross Receipts: Applicant shall report its Pennsylvania intrastate gross receipts to the Commission on a quarterly and year to date basis no later than 30 days following the end of the quarter.
- b. The Treasurer or other appropriate officer of Applicant shall transmit to the Department of Revenue by March 15, an annual report, and under oath or affirmation, of the amount of gross receipts received by Applicant during the prior calendar year.
- c. Applicant shall report to the Commission the following information on an annual basis:
 - the percentages of total electricity supplied by each fuel source

for denying the Application or, if later discovered, for revoking any authority granted pursuant to the Application. This Application is subject to 18 Pa. C.S. §§4903 and 4904, relating to perjury and falsification in official matters.

27. FEE: The Applicant has enclosed the required initial licensing fee of \$350.00 payable to the Commonwealth of Pennsylvania.

Applicant: Direct Energy Services, LLC

By: *James P. Steffs*

Title: Vice President

AFFIDAVIT

STATE OF CONNECTICUT :
 :
 : SS.
 :
 :
 COUNTY OF FAIRFIELD :

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James Steffes, Affiant, being duly sworn according to law, deposes and says that:

He is a Vice President of Direct Energy Services, LLC ("DES, LLC");

That he is authorized to and does make this affidavit for said Applicant;

That DES, LLC, the Applicant herein, acknowledges that DES, LLC may have obligations pursuant to this Application consistent with the Public Utility Code of the Commonwealth of Pennsylvania, Title 66 of the Pennsylvania Consolidated Statutes; or with other applicable statutes or regulations including Emergency Orders which may be issued verbally or in writing during any emergency situations that may unexpectedly develop from time to time in the course of doing business in Pennsylvania.

That DES, LLC, the Applicant herein, asserts that it possesses the requisite technical, managerial, and financial fitness to render electric service within the Commonwealth of Pennsylvania and that the Applicant will abide by all applicable federal and state laws and regulations and by the decisions of the Pennsylvania Public Utility Commission.

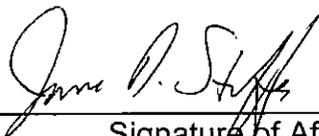
That DES, LLC, Applicant herein, certifies to the Commission that it is subject to, will pay, and in the past has paid, the full amount of taxes imposed by Articles II and XI of the Act of March 4, 1971 (P.L. 6, No. 2), known as the Tax Reform Act of 1971 and any tax imposed by Chapter 28 of Title 66. The Applicant acknowledges that failure to pay such taxes or otherwise comply with the taxation requirements of Chapter 28, shall be cause for the Commission to revoke the license of the Applicant. The Applicant acknowledges that it shall report to the Commission its jurisdictional Gross Receipts and power sales for ultimate consumption, for the previous year or as otherwise required by the Commission. The Applicant also acknowledges that it is subject to 66 Pa. C.S. §506 (relating to the inspection of facilities and records).

As provided by 66 Pa. C.S. §2810 (C)(6)(iv), Applicant, by filing of this application waives confidentiality with respect to its state tax information in the possession of the Department of Revenue, regardless of the source of the information, and shall consent to the Department of Revenue providing that information to the Pennsylvania Public Utility Commission.

That DES, LLC, the Applicant herein, acknowledges that it has a statutory obligation to conform with 66 Pa. C.S. §506, §2807 (C), §2807(D)(2), §2809(B) and the standards and billing practices of 52 PA. Code Chapter 56.

That the Applicant agrees to provide all consumer education materials and information in a timely manner as requested by the Bureau of Public Liaison or other Commission bureaus. Materials and information requested may be analyzed by the Commission to meet obligations under applicable sections of the law.

That the facts above set forth are true and correct to the best of his knowledge, information, and belief.



Signature of Affiant

Sworn and subscribed before me this 28th day of January, 2005.



Signature of official administering oath
Thomas S. Bellantoni
Notary Public
State of Connecticut
My Comm. Exp. 8/31/09

My commission expires _____.

AFFIDAVIT

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PA PUC BUREAU
SECRETARY'S

STATE OF CONNECTICUT

COUNTY OF FAIRFIELD

James Steffes, Affiant, being duly sworn according to law, deposes and says that:

He is a Vice President of Direct Energy Services, LLC ("DES, LLC");

That he is authorized to and does make this affidavit for said Applicant;

That the Applicant herein DES, LLC has the burden of producing information and supporting documentation demonstrating its technical and financial fitness to be licensed as an electric generation supplier pursuant to 66 Pa. C.S. § 2809(B).

That the Applicant herein DES, LLC has answered the questions on the application correctly, truthfully, and completely and provided supporting documentation as required.

That the Applicant herein DES, LLC acknowledges that it is under a duty to update information provided in answer to questions on this application and contained in supporting documents.

That the Applicant herein DES, LLC acknowledges that it is under a duty to supplement information provided in answer to questions on this application and contained in supporting documents as requested by the Commission.

That the facts above set forth are true and correct to the best of his knowledge, information, and belief, and that he expects said Applicant to be able to prove the same at hearing.

James A. Steffe
Signature of Affiant

Sworn and subscribed before me this 28th day of January, 2005.

Thomas S. Bellantoni
Signature of official administering oath
Notary Public

My commission expires State of Connecticut
My Comm. Exp. 8/31/09.

AFFIDAVIT

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PA. PUC
SECRETARY'S BUREAU

STATE OF CONNECTICUT

:

:

ss.

COUNTY OF FAIRFIELD

:

William Cronin, Affiant, being duly sworn according to law, deposes and says that:

He is the Chief Operating Officer and a Director of Energy America, LLC ("EA, LLC");

That he is authorized to and does make this affidavit for said Applicant;

That "EA, LLC", the Applicant herein, certifies to the Commission that it will adhere to the reliability protocols of the North American Electric Reliability Council, the appropriate regional reliability council(s), and the Commission;

That EA, LLC, the Applicant herein, certifies to the Commission that it agrees to comply with the operational requirements of the control area(s) within which EA, LLC provides retail service; and

That the facts above set forth are true and correct to the best of his knowledge, information, and belief.

Bill Cronin

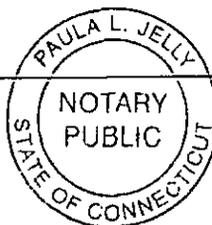
Signature of Affiant

Sworn and subscribed before me this 17th day of January, 2005

Paula L. Jelly

Signature of official administering oath

My commission expires 4/30/08



PAULA L. JELLY
NOTARY PUBLIC
STATE OF CONNECTICUT
Com. Expires 4-30-08

APPENDIX B

TAX CERTIFICATION STATEMENT

8. List of Direct Energy Services, LLC Officers:

Deryk King
Chairman

Lois Hedge-peth
Director,
President & CEO

Phil Tonge
Senior VP,
Southern Region

Jay Hellums
Senior VP,
Energy Procurement

Bill Cronin
Chief Operating
Officer

David Clarke
Senior VP
Financial Control

Clinton Roeder
Vice President, Finance

James Steffes
Vice President,
US Government &
Regulatory Affairs

Thomas Boehlert
Executive Vice President
Chief Financial Officer

Gordon Currie
Secretary

QUESTION 4

See attached Direct Energy Services, LLC's d/b/a filing with the Pennsylvania Department of State pursuant to 54 Pa. C.S. §311, Form PA-953.

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF STATE
CORPORATION BUREAU
206 NORTH OFFICE BUILDING
P. O. BOX 8722
HARRISBURG, PA 17105-8722
WWW.DOS.STATE.PA.US/CORPS

DIRECT ENERGY

THE CORPORATION BUREAU IS HAPPY TO SEND YOU YOUR FILED DOCUMENT. PLEASE NOTE THE FILE DATE AND THE SIGNATURE OF THE SECRETARY OF THE COMMONWEALTH. THE CORPORATION BUREAU IS HERE TO SERVE YOU AND WANTS TO THANK YOU FOR DOING BUSINESS IN PENNSYLVANIA.

IF YOU HAVE ANY QUESTIONS PERTAINING TO THE CORPORATION BUREAU, PLEASE VISIT OUR WEB SITE LOCATED AT WWW.DOS.STATE.PA.US/CORPS OR PLEASE CALL OUR MAIN INFORMATION TELEPHONE NUMBER (717)787-1057. FOR ADDITIONAL INFORMATION REGARDING BUSINESS AND /OR UCC FILINGS, PLEASE VISIT OUR ONLINE "SEARCHABLE DATABASE" LOCATED ON OUR WEB SITE.

ENTITY NUMBER : 3237370

MICROFILM NUMBER : 2004070

MICROFILM START - END : 540 - 541

CT CORP SYSTEM
COUNTER
PA

2004070-540

PENNSYLVANIA DEPARTMENT OF STATE
CORPORATION BUREAU

Entity Number

32 37370

Application for Registration of Fictitious Name

54 Pa.C.S. § 311

Name

Address

City

State

Zip Code

CT CORP-COUNTER

Document will be returned to the name and address you enter to the left.



Fee: \$70

Filed in the Department of State on

JUL 20 2004

Pedro C. Cortes

Secretary of the Commonwealth

PD

In compliance with the requirements of 54 Pa.C.S. § 311 (relating to registration), the undersigned entity(ies) desiring to register a fictitious name under 54 Pa.C.S. Ch. 3 (relating to fictitious names), hereby state(s) that:

1. The fictitious name is:

Direct Energy

2. A brief statement of the character or nature of the business or other activity to be carried on under or through the fictitious name is:

retail provider of electricity & natural gas commodities & services

3. The address, including number and street, if any, of the principal place of business (P.O. Box alone is not acceptable):

263 Tresser Blvd, 8th Floor, Stamford, CT 06901

Number and street

City

State

Zip

County

4. The name and address, including number and street, if any, of each individual interested in the business is:

Name

Number and Street

City

State

Zip

A-DE

hgm

200407 0-541

DSCB:54-311-2

5. Each entity, other than an individual, interested in such business is (are):

Direct Energy Services, LLC	Limited Liability Company	Delaware
Name	Form of Organization	Organizing Jurisdiction
263 Tresser Blvd, 8th Floor, Stamford, CT 06901		
Principal Office Address		
CT Corporation System, 1515 Market St, Suite 1210, Philadelphia, PA 19102 -- Philadelphia County		
PA Registered Office, if any		
Name	Form of Organization	Organizing Jurisdiction
Principal Office Address		
PA Registered Office, if any		

6. The applicant is familiar with the provisions of 54 Pa.C.S. § 332 (relating to effect of registration) and understands that filing under the Fictitious Names Act does not create any exclusive or other right in the fictitious name.

7. Optional: The name(s) of the agent(s), if any, any one of whom is authorized to execute amendments to, withdrawals from or cancellation of this registration in behalf of all then existing parties to the registration, is (are):

IN TESTIMONY WHEREOF, the undersigned have caused this Application for Registration of Fictitious Name to be executed this

16 day of July, 2004

Individual Signature	Individual Signature
Individual Signature	Individual Signature
Direct Energy Services, LLC	
Entity Name	Entity Name
<i>Chad M. Currie</i>	
Signature	Signature
SECRETARY OF COMPANY AND OF	
Title	Title
SOLE MEMBER	

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF STATE
CORPORATION BUREAU
206 NORTH OFFICE BUILDING
P. O. BOX 8722
HARRISBURG, PA 17105-8722
WWW.DOS.STATE.PA.US/CORPS

DIRECT ENERGY BUSINESS SERVICES

THE CORPORATION BUREAU IS HAPPY TO SEND YOU YOUR FILED DOCUMENT. PLEASE NOTE THE FILE DATE AND THE SIGNATURE OF THE SECRETARY OF THE COMMONWEALTH. THE CORPORATION BUREAU IS HERE TO SERVE YOU AND WANTS TO THANK YOU FOR DOING BUSINESS IN PENNSYLVANIA.

IF YOU HAVE ANY QUESTIONS PERTAINING TO THE CORPORATION BUREAU, PLEASE VISIT OUR WEB SITE LOCATED AT WWW.DOS.STATE.PA.US/CORPS OR PLEASE CALL OUR MAIN INFORMATION TELEPHONE NUMBER (717)787-1057. FOR ADDITIONAL INFORMATION REGARDING BUSINESS AND / OR UCC FILINGS, PLEASE VISIT OUR ONLINE "SEARCHABLE DATABASE" LOCATED ON OUR WEB SITE.

ENTITY NUMBER : 3237371

MICROFILM NUMBER : 2004070

MICROFILM START - END : 542 - 543

CT CORP SYSTEM
COUNTER
PA

2004070-543

DSCB:54-311-2

5. Each entity, other than an individual, interested in such business is (are):

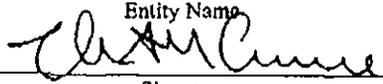
Direct Energy Services, LLC	Limited Liability Company	Delaware
Name	Form of Organization	Organizing Jurisdiction
263 Tresser Blvd, 8th Floor, Stamford, CT 06901		
Principal Office Address		
CT Corporation System, 1515 Market St, Suite 1210, Philadelphia, PA 19102 -- Philadelphia County		
PA Registered Office, if any		
Name	Form of Organization	Organizing Jurisdiction
Principal Office Address		
PA Registered Office, if any		

6. The applicant is familiar with the provisions of 54 Pa.C.S. § 332 (relating to effect of registration) and understands that filing under the Fictitious Names Act does not create any exclusive or other right in the fictitious name.

7. Optional: The name(s) of the agent(s), if any, any one of whom is authorized to execute amendments to, withdrawals from or cancellation of this registration in behalf of all then existing parties to the registration, is (are):

IN TESTIMONY WHEREOF, the undersigned have caused this Application for Registration of Fictitious Name to be executed this

16 day of July, 2004.

Individual Signature	Individual Signature
Individual Signature	Individual Signature
Direct Energy Services, LLC	
Entity Name	Entity Name
	Signature
Signature	Signature
SECRETARY OF COMPANY AND OF	Title
Title	SOLE MEMBER

QUESTION 5

See attached application for foreign registration pursuant to 15 Pa.C.S. §8981 and Direct Energy Services, LLC Certificate of Formation.

PENNSYLVANIA DEPARTMENT OF STATE
CORPORATION BUREAU

Application for Registration - Foreign

(15 Pa.C.S.)

Entity Number

3234274

Registered Limited Liability General Partnership (§ 8211)

Registered Limited Liability Limited Partnership (§ 8211)

Limited Partnership (§ 8582)

Limited Liability Company (§ 8981)

Name

Address

CT CORP-COUNTER

City

State

Zip Code

Document will be returned to the name and address you enter to the left.



Fee: \$250

Filed in the Department of State on JUL 06 2004

Perth C. Cortes

Secretary of the Commonwealth

In compliance with the requirements of the applicable provisions (relating to registration), the undersigned, desiring to register to do business in this Commonwealth, hereby states that:

1. The name to be registered is:

Direct Energy Services, LLC

2. (If the name set forth in paragraph 1 is not available for use in this Commonwealth, complete the following):

The name under which the limited liability company/limited liability partnership/limited partnership proposes to register and do business in this Commonwealth is:

3. The name of the jurisdiction under the laws of which it was organized and the date of its formation:

Jurisdiction: Delaware Date of Formation: 06/22/2004

4. The (a) address of its initial registered office in this Commonwealth or (b) name of its commercial registered office provider and the county of venue is:

(a) Number and street City State Zip County

(b) Name of Commercial Registered Office Provider

CT Corporation System

County Philadelphia

DSCB:15-8981/8211/8582-2

5. Check and complete one of the following:

The address of the office required to be maintained by it in the jurisdiction of its organization by the laws of that jurisdiction is:

Number and street	City	State	Zip
-------------------	------	-------	-----

It is not required by the laws of its jurisdiction of organization to maintain an office therein and the address of its principal office is:

263 Tresser Blvd., 8th Floor, Stamford, CT 06901

Number and street	City	State	Zip
-------------------	------	-------	-----

6. For Restricted Professional Limited Liability Company Only. Strike out if inapplicable: The company is a restricted professional company organized to render the following professional service(s):

N/A

Limited Liability Partnership and Limited Partnership: Complete paragraphs 7 and 8

7. The name and business address of each general partner.

Name	Business Address

8. The address of the office at which is kept a list of the names and addresses of the limited partners and their capital contribution is:

Number and street	City	State	Zip	County
-------------------	------	-------	-----	--------

The registered partnership hereby undertakes to keep those records until its registration to do business in the Commonwealth is canceled or withdrawn.

IN TESTIMONY WHEREOF, the undersigned has caused this Application for Registration to be signed by a duly authorized officer/member or manager thereof this

2nd day of July, 2004.

Direct Energy Services, LLC
 Name of Partnership/Company

[Signature]
 Signature

President of Direct Energy Marketing, Inc.
 as member Title

PENNSYLVANIA DEPARTMENT OF STATE
CORPORATION BUREAU

Application for Registration - Foreign
(15 Pa.C.S.)

Entity Number

- Registered Limited Liability General Partnership (§ 8211)
- Registered Limited Liability Limited Partnership (§ 8211)
- Limited Partnership (§ 8582)
- Limited Liability Company (§ 8981)

Name

Address

CT CORP-COUNTER

City

State

Zip Code

Document will be returned to the name and address you enter to the left.

COPY

Fee: \$250

Filed in the Department of State on _____

Secretary of the Commonwealth

In compliance with the requirements of the applicable provisions (relating to registration), the undersigned, desiring to register to do business in this Commonwealth, hereby states that:

1. The name to be registered is:

Direct Energy Services, LLC

2. (If the name set forth in paragraph 1 is not available for use in this Commonwealth, complete the following):

The name under which the limited liability company/limited liability partnership/limited partnership proposes to register and do business in this Commonwealth is:

3. The name of the jurisdiction under the laws of which it was organized and the date of its formation:

Jurisdiction: Delaware Date of Formation: 06/22/2004

4. The (a) address of its initial registered office in this Commonwealth or (b) name of its commercial registered office provider and the county of venue is:

(a) Number and street	City	State	Zip	County
-----------------------	------	-------	-----	--------

(b) Name of Commercial Registered Office Provider
CT Corporation System

County
Philadelphia

7/14/04 10:00 AM

DSCB:15-8981/8211/8582-2

5. Check and complete one of the following:

The address of the office required to be maintained by it in the jurisdiction of its organization by the laws of that jurisdiction is:

Number and street	City	State	Zip
-------------------	------	-------	-----

It is not required by the laws of its jurisdiction of organization to maintain an office therein and the address of its principal office is:

263 Tresser Blvd., 8th Floor, Stamford, CT 06901

Number and street	City	State	Zip
-------------------	------	-------	-----

6. For Restricted Professional Limited Liability Company Only. Strike out if inapplicable: The company is a restricted professional company organized to render the following professional service(s):

N/A

Limited Liability Partnership and Limited Partnership: Complete paragraphs 7 and 8

7. The name and business address of each general partner.

Name	Business Address
------	------------------

8. The address of the office at which is kept a list of the names and addresses of the limited partners and their capital contribution is:

Number and street	City	State	Zip	County
-------------------	------	-------	-----	--------

The registered partnership hereby undertakes to keep those records until its registration to do business in the Commonwealth is canceled or withdrawn.

IN TESTIMONY WHEREOF, the undersigned has caused this Application for Registration to be signed by a duly authorized officer/member or manager thereof this

2nd day of July, 2004

Direct Energy Services, LLC

Name of Partnership/Company

[Signature]

Signature

President of Direct Energy Marketing, Inc.

as member Title

Docketing Statement DSCB:15-134A (Rev 2001)
Departments of State and Revenue

One (1) copy required

BUREAU USE ONLY:	
Dept. of State Entity #	_____
Dept. of Rev. Box #	_____
Filing Period	Date 3 4 5 _____
SIC/NAICS	Report Code _____

Check proper box:

Pennsylvania Entities

<input type="checkbox"/>	business stock
<input type="checkbox"/>	business non-stock
<input type="checkbox"/>	professional
<input type="checkbox"/>	nonprofit stock
<input type="checkbox"/>	nonprofit non-stock
<input type="checkbox"/>	statutory close
<input type="checkbox"/>	management
<input type="checkbox"/>	cooperative
<input type="checkbox"/>	insurance
<input type="checkbox"/>	limited liability company
<input type="checkbox"/>	restricted professional
<input type="checkbox"/>	limited liability company
<input type="checkbox"/>	business trust

Foreign Entities

State/Country DE Date 06/22/2004

<input type="checkbox"/>	business
<input type="checkbox"/>	nonprofit
<input checked="" type="checkbox"/>	limited liability company
<input type="checkbox"/>	restricted professional
<input type="checkbox"/>	limited liability company
<input type="checkbox"/>	business trust

Other

<input type="checkbox"/>	domestication
<input type="checkbox"/>	division
<input type="checkbox"/>	consolidation

1. Entity Name: <u>Direct Energy Services, LLC</u>
--

2. Individual name and mailing address responsible for initial tax reports: <u>Sharon Rowrick, 25 Sheppard Ave. W., 15th Floor, Toronto, ON M2N 6S6</u>				
Name	Number and street	City	State	Zip

3. Description of business activity: <u>retail provider of electricity and natural gas commodities and services</u>

4. Specified effective date, if any: _____ month/day/year hour, if any
--

5. EIN (Employee Identification Number), if any: <u>applied for</u>

6. Fiscal Year End: <u>12/31</u>
--

7. Fictitious Name (only if foreign corporation is transacting business in PA under a fictitious name): _____

Delaware

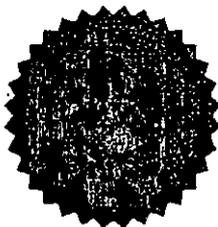
PAGE 1

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF FORMATION OF "DIRECT ENERGY SERVICES, LLC", FILED IN THIS OFFICE ON THE TWENTY-SECOND DAY OF JUNE, A.D. 2004, AT 12:37 O'CLOCK P.M.

3819310 8100

040459100



Harriet Smith Windsor
AUTHENTICATION: 3185943
Harriet Smith Windsor, Secretary of State

DATE: 06-22-04

State of Delaware
Secretary of State
Division of Corporations
Delivered 12:45 PM 06/22/2004
FILED 12:37 PM 06/22/2004
SRV 040459100 - 3819310 FILE

CERTIFICATE OF FORMATION

OF

DIRECT ENERGY SERVICES, LLC

This Certificate of Formation, dated June 22, 2004, has been duly executed and is filed pursuant to Section 18-201 of the Delaware Limited Liability Company Act (the "Act") to form a limited liability company (the "Company") under the Act.

1. *Name.* The name of the Company is: "Direct Energy Services, LLC".
2. *Registered Office; Registered Agent.* The address of the registered office required to be maintained by Section 18-104 of the Act is:

Corporation Trust Center
1209 Orange Street
Wilmington, Delaware 19801

The name and the address of the registered agent for service of process required to be maintained by Section 18-104 of the Act are:

The Corporation Trust Company
Corporation Trust Center
1209 Orange Street
Wilmington, Delaware 19801

EXECUTED as of the date written first above.

By: 
Name: Andrew J. Ericksen
Authorized Person

**LIMITED LIABILITY COMPANY AGREEMENT
OF
DIRECT ENERGY SERVICES, LLC**

A Delaware Limited Liability Company

This LIMITED LIABILITY COMPANY AGREEMENT OF DIRECT ENERGY SERVICES, LLC (this "*Agreement*"), dated as of June 22, 2004, is adopted, executed and agreed to by the Sole Member (as defined below).

1. **Formation.** Direct Energy Services, LLC (the "*Company*") has been formed as a Delaware limited liability company under and pursuant to the Delaware Limited Liability Company Act (the "*Act*").
2. **Term.** The Company shall have a perpetual existence.
3. **Purposes.** The purpose of the Company is to carry on any lawful business, purpose or activity for which limited liability companies may be formed under the Act.
4. **Sole Member.** The name and address of the sole member (the "*Sole Member*") is:

Direct Energy Marketing Inc.
263 Tresser Blvd.
One Stamford Plaza, 8th Floor
Stamford, CT 06901
5. **Contributions.** Without creating any rights in favor of any third party, the Sole Member may, from time to time, make contributions of cash or property to the capital of the Company, but shall have no obligation to do so.
6. **Distributions.** The Sole Member shall be entitled (a) to receive all distributions (including, without limitation, liquidating distributions) made by the Company and (b) to enjoy all other rights, benefits and interests in the Company.
7. **Management.** The management of the Company is fully reserved to the Sole Member, and the Company shall not have "managers", as that term is used in the Act. The powers of the Company shall be exercised by or under the authority of, and the business and affairs of the Company shall be managed under the direction of, the Sole Member, who shall make all decisions and take all actions for the Company; provided, that the Sole Member may from time to time delegate any powers and right to management that it holds with respect to the Company to directors or officers of the Company, as such may be appointed from time to time by the Sole Member. If the Sole Member appoints a board of directors, any action required to be taken by the board of directors shall require the unanimous written approval of the directors; provided, that such approval may be provided in a written consent and the directors shall have no obligation to hold a meeting to discuss such approval.

8. ***Dissolution.*** The Company shall dissolve and its affairs shall be wound up at such time, if any, as the Member may elect. No other event (including, without limitation, an event described in Section 18-801(4) of the Act) will cause the Company to dissolve.
9. ***Liability of Member.*** The Sole Member shall not have any liability for the obligations or liabilities of the Company except to the extent provided in the Act.
10. ***Governing Law.*** THIS AGREEMENT IS GOVERNED BY AND SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE (EXCLUDING ITS CONFLICT-OF-LAWS RULES).

[Signatures Begin on Next Page]

IN WITNESS WHEREOF, the undersigned, being the sole member of the Company, has caused this Limited Liability Company Agreement to be duly executed as of the date first above stated.

DIRECT ENERGY MARKETING INC.

By: *Louis A. Hedy*
Name: *Louis A. Hedy - path*
Title: *President*

QUESTION 16
"Compliance"

Neither the Applicant nor any affiliate, predecessor, or person identified in this Application has been convicted of a crime involving fraud or similar activity.

Georgia

In July 2000, Energy America, LLC (“Energy America”), an affiliate of Direct Energy, was a respondent in a proceeding before the Georgia Public Service Commission, docket number 12126-U. The proceeding resolved claims that Energy America had enrolled door-to-door customers without the appropriate authorizations. Energy America did not admit to any acts which violated any Georgia laws or regulations. However, Energy America did agree to a stipulation implementing certain measures including establishing an energy fund to assist low income and elderly customers and paying costs and expenses to the Georgia PSC.

In July 2003, Energy America, was a respondent in a proceeding before the Georgia Public Services Commission, docket number 16602-U. The proceeding resolved claims that Energy America had enrolled customers without the appropriate authorizations. Energy America did not admit to any acts which violated any Georgia laws or regulations. Pursuant to a stipulation, Energy America agreed to credit the accounts of complaining customers and to contribute to Georgia’s Low-Income Heating Assistance Program.

On January 6, 2004, the Georgia Public Service Commission approved a Stipulation between Energy America and the staff of Georgia Public Service Commission to resolve a matter arising out of the Energy America’s inadvertent failure to timely pay its provider of mailbox services (docket number 9557-U). Consistent with applicable rules, Energy America had maintained a mailbox, as among other things, the primary mailing address for certain payments, including Low Income Home Energy Assistance Program (“LIHEAP”) payments, and other correspondence from Energy America’s customers in the State. As a result of Energy America’s inadvertent failure to pay the vendor payments sent to Energy America at the mailbox address were not forwarded to Energy America resulting in the disconnection of service to several customers. In resolution of these issues, Energy America agreed to reinstate the accounts of all affected customers and made a voluntary contribution to the LIHEAP fund.

Texas

On December 22, 2003, a Republic Power (*d/b/a* Energy America)- an affiliate of Direct Energy – entered into a Stipulation and Settlement Agreement with the Public Utility Commission of Texas (“PUCT”) to resolve certain technical violations of the Texas Commission’s rules relating to the selection or changes of retail electric providers (“REP”). A Notice of Violation (“NOV”) issued by the PUCT had alleged that (i) a pre checked box on the Company’s internet customer enrollment form failed to properly “provide a statement with a box that must be

checked by the customer to indicate that the customer has read and agrees to select the REP to provide electric service and the time and date of the customer's enrollment"; (ii) the Company's "Term of Service" document did not contain a required "Electricity Facts Label"; and that (iii) the enrollment package e-mailed by the company to new customers enrolled via the internet failed to include a document entitled "Your Rights As A Customer." Republic acknowledged its technical violation of the checkbox requirement and, in fact, had corrected the technical violation prior to the NOV. No customer complaints were received by the PUCT regarding the violation.

The Stipulation and Settlement Agreement also addressed certain complaints that arose out of Republic's telemarketing efforts, as conducted by several third party telemarketing firms. It was learned that in violation of Republic's instructions, the telemarketing firms had switched certain customers without obtaining proper approval or without making certain required disclosures required by PUCT rules. Republic addressed this situation by suspending telemarketing activities, terminating relationships with these vendors, and implementing a number of controls and compliance measures before resuming limited telemarketing activities earlier this year. Pursuant to the Stipulation and Settlement Agreement, in consideration of an administrative penalty of \$750,000, all matters that were the subject of the NOV and customer switching related complaints that occurred on or before August 31, 2003 were deemed to be fully resolved. As part of the settlement the PUCT staff and Republic acknowledged that customer confusion about the restructured retail electric market may have been a contributing factor to the lodging of some customer complaints. The parties pledged to work together cooperatively to identify and expeditiously resolve any further problems.

These violations were technical and inadvertent in nature or the result of the actions of third parties. Applicant's affiliates resolved these issues in a responsible and reasonable manner and are working cooperatively with regulators to prevent their re-occurrence.

QUESTION 17

“Standards, Billing Practices, Terms and Conditions of Providing
Service and Consumer Education”

QUESTION 17

- A. The following individual is responsible for handling customer complaints:

Megan Lyons
Senior Manager, Service Delivery
263 Tresser Blvd., 8th Floor
Stamford, CT 06901
(T)(203) 328-3548
(F)(203) 328-3545

An Alternate contact is:

Enver Acevedo
Manager, Regulatory Affairs & Compliance
263 Tresser Blvd., 8th Floor
Stamford, CT 06901
(T)(203) 328-3568
(F)(203) 328-3545

- B. Please see the sample disclosure statement attached. Should any changes be made Direct Energy Services, LLC will share the revised documents with the Pennsylvania Public Utility Commission for review and approval.
- C. Please see the sample disclosure statement attached. Should any changes be made Direct Energy Services, LLC will share the revised documents with the Pennsylvania Public Utility Commission for review and approval.

**Sample Disclosure Statement Format
for Electric Generation Suppliers**

This is an agreement for electric generation service, between Direct Energy Services, LLC (Hereinafter "DES, LLC") and customer's name and full address.

Background

- We at DES, LLC are licensed by the Pennsylvania Public Utility Commission to offer and supply electric generation services in Pennsylvania. Our PUC license number is _____.
- We set the generation prices and charges that you pay. The Public Utility Commission regulates distribution prices and services. The Federal Energy Regulatory Commission regulates transmission prices and services.
- If you ask us, we can bill you directly for our service.

Definitions

- Generation Charge - Charge for production of electricity.
- Transmission Charge - Charge for moving high voltage electricity from a generation facility to the distribution lines of an electric distribution company.
- Nonbasic Charges - *Define each nonbasic service being offered.*

Terms of Service

- (a) Basic Service Prices - *Itemize Basic Services you are billing for and their prices.***

You will pay DES, LLC X cents per kWh for electric generation service.
Suppliers are to include any variable pricing conditions and limits, if charging a variable rate.

You will pay DES, LLC X cents per per kWh for electric transmission service.
Suppliers are to include transmission service prices if billed.

- (b) Nonbasic Service Prices - *Itemize Nonbasic Services you are offering and their prices.***

2. Length of Agreement

You will buy your service from us for your service address beginning on a date set by your electric distribution company ("EDC") and will continue for 24 monthly billing cycles. Your EDC will continue to deliver your electricity supply, and provide billing and other services.

- 3. Special Terms and Conditions - *List and explain all that apply.***
NONE

- 4. Special Services - *Provide explanation of price, terms and conditions, including advanced metering deployment, if applicable.***

- 5. Penalties, Fees and Exceptions - *List any that apply including a late payment charge. The print size for this section must be larger than the print in the rest of the agreement.***

6. Cancellation Provisions - If you don't pay our charges when due, we may cancel this agreement by providing ten (10) days written notice to you. We may also cancel this agreement by providing the notice required by the PUC and your EDC for discontinuance of service by suppliers of electricity. This agreement is also cancelled if your EDC returns you to EDC supply and distribution service. You may cancel this agreement at any time before midnight of the third business day after receiving this disclosure. You may cancel this agreement in writing, orally or electronically if available. Cancellation does not relieve you of your payment obligations to us for service provided up to the date of the cancellation.

7. Renewal Provision - This agreement will automatically renew under the same terms and conditions on a month-to-month basis. While taking service on a month-to-month basis, either you or we may cancel this agreement without fees or penalties.

8. Agreement Expiration/Change in Terms

If you have a fixed term agreement with us and it is approaching the expiration date or if we propose to change our terms of service, we will send you written notice in each of our last three bills or in separate mailings before either the expiration date or the effective date of the changes. We will explain your options in these three advance notices.

9. Dispute Procedures

Contact us with any questions concerning our terms of service. You may call the PUC if you are not satisfied after discussing your terms with us.

10. Contact Information

Generation Supplier Name: Direct Energy Services, LLC
Address: 263 Tresser Blvd., 8th Floor
Stamford, CT 06901

Phone Number: 1-888-734-0741

Internet Address: www.directenergy.com

Electric Distribution Company Name: _____

Provider of Last Resort Name: _____

Address: _____

Phone Number: _____

Public Utility Commission (PUC)
Address: P.O. Box 3265 Harrisburg, PA 17105-3265
Electric Competition Hotline Number: 1-888-782-3228

Universal Service Program Name: _____

Phone Number: _____

QUESTION 18
"Bonding"

APPENDIX A

**Federal Insurance Company
License Bond**

Bond Number: 8196-66-89

KNOW ALL MEN BY THESE PRESENTS that **Direct Energy Services, LLC** as Principal, and **Federal Insurance Company** of Warren, New Jersey, as Surety, are firmly bound unto Pennsylvania Public Utility Commission, as obligee, in the penal sum of two hundred fifty thousand dollars (\$250,000), lawful money of the United States of America for the payment of which, well and truly to be made, we bind ourselves, our heirs, executors and administrators, successors and assigns, jointly, severally, and firmly by these presents.

SIGNED, SEALED AND DATED THIS 27th day of January, 2005.

THE CONDITION OF THIS OBLIGATION IS SUCH, that Whereas the Principal has made application for a license to the Obligee to offer, render, furnish or supply electricity or electric generation services to the public.

NOW THEREFORE, the condition of this obligation is such that the Principal must act in accordance with Section 2809(c)(1)(i) of the Public Utility Code, 66 Pa. C.S. 2809(c)(1)(i), to assure compliance with applicable provisions of the Public Utility Code, 66 Pa. C.S. 101, et seq. and the rules and regulation of the Pennsylvania Public Utility Commission by the Principal as a licensed electric generation supplier; to ensure the payment of Gross Receipts Tax as required by Section 2810 of the Public Utility Code, 66 Pa. C.S. 2810; and to ensure the supply of electricity at retail in accordance with contracts, agreements or arrangement. Payment of claims shall have the following priority: (I) The Commonwealth of Pennsylvania; (II) Electric Distribution Companies for the reimbursement of Gross Receipts Tax; and (III) Private Individuals. Proceeds of the bond may not be used to pay any penalties or fines levied against the Principal for violations of the law, or for the payment of any other tax obligations owed to the Commonwealth of Pennsylvania.

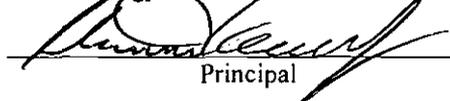
NOW THEREFORE, if the Principal shall, during the period commencing on the aforesaid date, faithfully observe and honestly comply with such rules, regulations and statutes that are applicable to an electric generation supplier licensed in Pennsylvania and fulfills its obligation to pay the Gross Receipts Tax to the Commonwealth, and to deliver electricity at retail in accordance with contracts, agreements and arrangements, require the execution of this bond, then this obligation shall become void and of no effect.

PROVIDED, the Surety may terminate its future liability under this Bond sixty (60) days after furnishing written notice of such intention to terminate. This termination shall not affect the liability of the Surety and the Principal for any liability incurred by the Principal prior to the effective date of such termination. Any claim under this bond must be instituted within three (3) months of the effective date of termination.

THIS BOND WILL EXPIRE January 27, 2006 but may be continued by continuation certificate signed by Principal and Federal Insurance Company. Federal Insurance Company may at any time terminate its liability by giving sixty (60) days written notice of the Obligee, and Federal Insurance Company shall not be liable for any default after such sixty-day notice period, except for defaults occurring prior thereto.

Signed, sealed and dated January 27th, 2005

Direct Energy Services, LLC


Principal

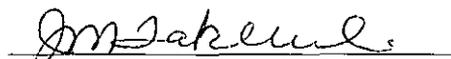
Federal Insurance Company

Surety

COUNTERSIGNED BY

Registered Agent

By


J.M. Takeuchi, Attorney-in-Fact



**POWER
OF
ATTORNEY**

**Federal Insurance Company
Vigilant Insurance Company
Pacific Indemnity Company**

**Attn: Surety Department
15 Mountain View Road
Warren, NJ 07059**

Know All by These Presents, That **FEDERAL INSURANCE COMPANY**, an Indiana corporation, **VIGILANT INSURANCE COMPANY**, a New York corporation, **PACIFIC INDEMNITY COMPANY**, a Wisconsin corporation, do each hereby constitute and appoint **C. Holmes, G.W. Russ, M.J. Feijo and J.M. Takeuchi of Toronto, Canada**

Bond #8196-66-89

each as their true and lawful Attorney-in-Fact to execute under such designation in their names and to affix their corporate seals to and deliver for and on their behalf as surety thereon or otherwise, bonds (other than bail bonds) and undertakings given or executed in the course of its business (but not to include any instruments amending or altering the same, nor consents to the modification or alteration of any instrument referred to in said bonds or obligations).

In Witness Whereof, said **FEDERAL INSURANCE COMPANY, VIGILANT INSURANCE COMPANY, and PACIFIC INDEMNITY COMPANY** have each executed and attested these presents and affixed their corporate seals on this **26th** day of **May, 2000**.

Kenneth C. Wendel
Kenneth C. Wendel, Assistant Secretary

Frank E. Robertson
Frank E. Robertson, Vice President

STATE OF NEW JERSEY }
County of Somerset } ss.

On this **26th** day of **May, 2000**, before me, a Notary Public of New Jersey, personally came Kenneth C. Wendel, to me known to be Assistant Secretary of **FEDERAL INSURANCE COMPANY, VIGILANT INSURANCE COMPANY, and PACIFIC INDEMNITY COMPANY**, the companies which executed the foregoing Power of Attorney, and the said Kenneth C. Wendel being by me duly sworn, did depose and say that he is Assistant Secretary of **FEDERAL INSURANCE COMPANY, VIGILANT INSURANCE COMPANY, and PACIFIC INDEMNITY COMPANY** and knows the corporate seals thereof, that the seals affixed to the foregoing Power of Attorney are such corporate seals and were thereto affixed by authority of the By-Laws of said Companies; and that he signed said Power of Attorney as Assistant Secretary of said Companies by like authority; and that he is acquainted with Frank E. Robertson, and knows him to be Vice President of said Companies; and that the signature of Frank E. Robertson, subscribed to said Power of Attorney is in the genuine handwriting of Frank E. Robertson, and was thereto subscribed by authority of said By-Laws and in deponent's presence:

arial Seal



MICHELE R. MCKENNA
Notary Public, State of New Jersey
No. 2228941
Commission Expires Sept. 25, 2004

Michele R. McKenna
Notary Public

CERTIFICATION

Extract from the By-Laws of **FEDERAL INSURANCE COMPANY, VIGILANT INSURANCE COMPANY, and PACIFIC INDEMNITY COMPANY**:

"All powers of attorney for and on behalf of the Company may and shall be executed in the name and on behalf of the Company, either by the Chairman or the President or a Vice President or an Assistant Vice President, jointly with the Secretary or an Assistant Secretary, under their respective designations. The signature of such officers may be engraved, printed or lithographed. The signature of each of the following officers: Chairman, President, any Vice President, any Assistant Vice President, any Secretary, any Assistant Secretary and the seal of the Company may be affixed by facsimile to any power of attorney or to any certificate relating thereto appointing Assistant Secretaries or Attorneys-in-Fact for purposes only of executing and attesting bonds and undertakings and other writings obligatory in the nature thereof, and any such power of attorney or certificate bearing such facsimile signature or facsimile seal shall be valid and binding upon the Company and any such power so executed and certified by such facsimile signature and facsimile seal shall be valid and binding upon the Company with respect to any bond or undertaking to which it is attached."

I, **Kenneth C. Wendel, Assistant Secretary of FEDERAL INSURANCE COMPANY, VIGILANT INSURANCE COMPANY, and PACIFIC INDEMNITY COMPANY** (the "Companies") do hereby certify that

- (i) the foregoing extract of the By-Laws of the Companies is true and correct,
- (ii) the Companies are duly licensed and authorized to transact surety business in all 50 of the United States of America and the District of Columbia and are authorized by the U. S. Treasury Department; further, Federal and Vigilant are licensed in Puerto Rico and the U. S. Virgin Islands, and Federal is licensed in American Samoa, Guam, and each of the Provinces of Canada except Prince Edward Island; and
- (iii) the foregoing Power of Attorney is true, correct and in full force and effect.

Given under my hand and seals of said Companies at Warren, NJ this **27th** day of **January, 2005**



Kenneth C. Wendel
Kenneth C. Wendel, Assistant Secretary

IN THE EVENT YOU WISH TO NOTIFY US OF A CLAIM, VERIFY THE AUTHENTICITY OF THIS BOND OR NOTIFY US OF ANY OTHER MATTER, PLEASE CONTACT US AT ADDRESS LISTED ABOVE, OR BY Telephone (908) 903-3485 Fax (908) 903-3656 e-mail: surety@chubb.com

QUESTION 19

“Financial Fitness and Chief Officer Resumes”

QUESTION 19

- A. Attached please find copies of the following: Direct Energy's organizational Chart; letters describing the financial relationship between Direct Energy and its parent, Centrica plc; annual reports and accounts for Direct Energy's parent Centrica plc for 2002 and 2003; and a report on Centrica's Credit Rating .

The credit ratings for Centrica plc, are as follows:

Moody's

Long-Term-A2

Short-term-P1

Standard & Poor's

Long-Term-A

Short-Term-A1

- B. The chief officers of Direct Energy are as follows:

Deryk King, Chairman

Deryk King has been president and CEO of Centrica North America since January 2001. He is also a member of Centrica's Executive Committee.

Mr. King spent his early career in sales and marketing, first with Air Products and subsequently with ICI. In a 23 year career with ICI, he held a number of international marketing posts including two and a half years in Tokyo. Mr. King then moved into general management, first as a general manager of ICI's European fertilizer business and then as managing director of ICI's global polyester business.

He left ICI in 1996 to become chief operating officer of Powergen plc. During his tenure with Powergen, the company expanded operations into India, Indonesia, Thailand, Hungary, Portugal and Australia, achieving five successive half-year periods of record earnings.

After leaving Powergen in late 1998, Deryk joined Centrica plc as a senior advisor and projects director for a number of European initiatives the company was undertaking. He joined the company on a permanent basis in August 2000 and moved into his present post at the end of that year.

Mr. King is a graduate of University College, Oxford. He has completed INSEAD Advanced Management Program. He is a fellow of the Chartered Institute of Marketing.

Lois Hedge-peth, President and CEO

Lois leads all U.S. operations as Centrica continues its entry into U.S. energy markets. Lois is responsible for North American business development, regulatory affairs, public relations and marketing.

Lois has more than twenty years of experience, working in various positions at AT&T Corp. She most recently served as President, Fixed Wireless Operations, where she implemented deployment of a consumer and small business network that increased from 100 to 30,000 customers within 15 months, as well as the process and support systems to service the network customers.

During her tenure at AT&T, Lois supervised operations, regulatory affairs and consumer marketing initiatives for various business units.

Bill Cronin, Chief Operating Officer

Bill has profit and loss responsibilities for Centrica's North American business activities in the Northern U.S. Region, which includes the Great Lakes, Mid-Atlantic and Northeastern states.

Bill has more than 17 years of experience, most recently at New Power, Inc. as Managing Director, Risk Strategy and Trading, where he managed a portfolio of 800,000 retail natural gas and electric customers in 16 utility regions. Prior to that, he was at Phibro, Inc. for 14 years, starting as a Senior Credit Analyst and rising to Chief Financial Officer and Head of Business Development.

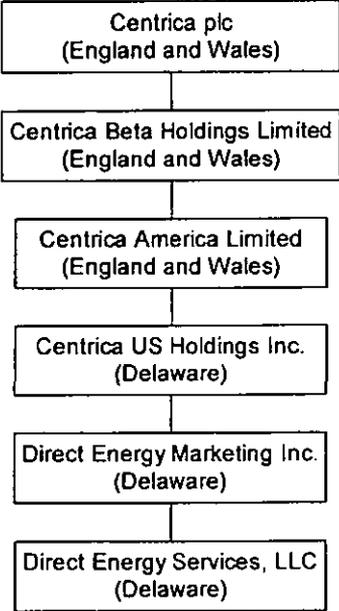
Mr. Cronin has a B.A. degree in economics and communication from Oneonta State University in Oneonta, N.Y.

Our custodian for accounting records is:

Demi Tsioros
Vice President Finance
263 Tresser Blvd., 8th Floor
Stamford, CT 06901
(T)(203) 328-3564
(F)(203) 328-3545

Direct Energy Services LLC

Ownership structure as at January 3, 2005
Direct Energy Services, LLC is wholly owned by Centrica PLC





Direct Energy

July 14, 2004

To: Pennsylvania Public Utility Commission

Dear Sirs/Mesdames:

I am writing in connection with Direct Energy Services, LLC's ("DES, LLC's") proposed licensure in Pennsylvania. More particularly, I am writing to certify, in my capacity as Legal Counsel to DES, LLC, and without personal liability, that (a) DES, LLC is a wholly-owned direct subsidiary of Direct Energy Marketing Inc., which in turn is a wholly-owned direct subsidiary of Centrica US Holdings Inc. ("CUSHI"), and (b) CUSHI is an indirect wholly-owned subsidiary of Centrica plc. For information relating to Centrica plc's business please visit www.centrica.com.

Very Best Regards,

Brandon Parent
Legal Counsel

25 Sheppard Avenue West, Suite 1500, Toronto, ON, M2N 6S6



WACHOVIA

July 14, 2004

Pennsylvania Public Utility Commission

Dear Sir or Madam:

This letter is to inform you that our customer, Centrica US Holdings Inc. (CUSHI) has been a valued customer of Wachovia Bank, N.A. since March 2003 and, as of this writing, has conducted its accounts and operations with us in a satisfactory manner. Centrica US Holdings Inc. has an excellent relationship with Wachovia, maintains significant balances within the bank and always settles its liabilities promptly.

Please feel free to contact me if you need additional information. I can be reached at (704) 715-3919 or mike.wiese@wachovia.com.

Sincerely,

A handwritten signature in cursive that reads "Mike Wiese".

Mike Wiese
Vice President
Wachovia Treasury Services

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1. Centrica PLC

GBR

Organization Ratings

Description	Rating	Rating Date
Credit Rating	A/Stable/A-1	Mar 04, 1999

Issue Ratings

Instrument	Class	Maturity Date	Rating	Rating Date
4(2) CP prog auth amt US\$2 bil			A-1	Sep 29, 1999
£125 mil 5.375% nts due 12/14/2005		Dec 14, 2005	A	Dec 10, 2001
£400 mil 5.875% bnds due 11/02/2012		Nov 02, 2012	A	Oct 23, 2001

1 Additio

Program Ratings

Instrument	Rating	Rating Date
US\$2 bil Sr Unsecd/S-T Debt Euro med-term note prog : S-T debt	A-1	Oct 23, 2001
US\$2 bil Sr Unsecd/S-T Debt Euro med-term note prog : sr_unsecd	A	Oct 23, 2001

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Report Type	Date	Title
-- Liquidity Risk Assessment	21 DEC 2004	Centrica plc
-- Credit Opinion	9 AUG 2004	Centrica plc
-- Rating Action	1 JUL 2004	MOODY'S AFFIRMS CENTRICA'S RATINGS AT A2 / PRIME-1 FOLLOWING AGREEMENT TO SELL AA, RETURN FUNDS TO SHAREHOLDERS AND INCREASE UPSTREAM INVESTMENTS
-- Analysis	26 MAY 2004	Centrica plc
-- Financial Statement Ratios	7 JUN 2003	Centrica plc
-- Analysis	6 MAR 2003	Centrica plc
-- Rating Action	7 JUL 2000	MOODY'S AFFIRMS CENTRICA'S A2 / PRIME-1 RATINGS FOLLOWING THE ANNOUNCEMENT OF ITS AGREED ACQUISITION OF DIRECT ENERGY
-- Rating Action	29 SEP 1999	MOODY'S ASSIGNS PRIME-1 COMMERCIAL PAPER RATING TO CENTRICA PLC
-- Rating Action	4 MAR 1999	MOODY'S ASSIGNS A2 ISSUER RATING TO CENTRICA PLC

Issuer Details

Ticker:
 Domicile: UNITED KINGDOM
 Previous Name:

Broad Industry: INDUSTRIAL
 Specific Industry: GAS

Analyst Information

Analyst: Philipp Lotter
 Backup Analyst: Helen Francis
 Managing Director: Stuart Lawton
 Rating Group: Other

Rating Information

Long Term Rating: A2, Mar 4 1999 , LT Issuer Rating
 ST Most Recent Rating: P-1, Jul 31 2001 , Other Short Term - Fgn Curr
 Outlook: Stable, 15 NOV 2003
 Watchlist Status: No
 Direction:

Date:

Current Rating List

7 records

<i>Debt Id</i>	<i>Class</i>	<i>Curr</i>	<i>Rating</i>	<i>Date</i>	<i>Action</i>	<i>Watch Direction/Date</i>
 XS0137672381	Senior Unsecured	GBP	A2	9 NOV 2001	Assign	No
 XS0140228056	Senior Unsecured	GBP	A2	10 JAN 2002	Assign	No
 XS0163136293	Senior Unsecured	JPY	A2	13 MAR 2003	Assign	No
	Senior Unsecured MTN	USD	A2	31 JUL 2001	Assign	No
	LT Issuer Rating		A2	4 MAR 1999	Assign	No
	Commercial Paper	USD	P-1	29 SEP 1999	Assign	No
	Other Short Term	USD	P-1	31 JUL 2001	Assign	No

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30 DEC 2004, 12:03 Eastern Time

Centrica

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

Sir Michael Perry, Chairman



Annual report and accounts 2003

centrica

taking care of the essentials

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

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

Deepening our relationships with customers

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

Managing risk in the energy markets

Identifying and implementing the right blend of owning production assets, negotiating long term contracts and daily buying activities.

Sharing knowledge and best practice

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

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

Passion for customers

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

Pride

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

Trust

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

Challenge

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

Support

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

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Throughout this report references to British Gas include Scottish Gas.

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

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

Chairman's statement



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

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

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

In 2003 there were sharp rises in UK wholesale prices in both gas and electricity despite lower than average consumption due to warmer weather. The long term outlook for gas supply in the UK is improving, with an increasing diversity of supply and further links between the

UK and mainland Europe. It seems inevitable, however, that the increasing costs of complying with the UK and EU regulations designed to deliver a low carbon economy will create upward pressure on consumer electricity prices.

Dividend

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

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

The board of directors

Sir Brian Shaw retired in May 2003 and we are most grateful for the part he played in the development of Centrica. It is fitting that he continues to chair the AA Motoring Trust, an independent charity supported by Centrica. Mike Alexander, who made a considerable contribution to the success of Centrica, retired from the company in February 2003. In December, my own retirement was announced and my

successor, Roger Carr, subject to re-election to the board, will be taking over as chairman at the end of the annual general meeting (AGM) in May.

The future

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

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

Sir Michael Perry CBE
Chairman

Earnings per share (pence)

03	11.8	16.8
02	11.4	15.2
01	8.1	12.1
00	8.4	10.2
99	4.3	7.9

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

Dividend (pence)

03	5.4
02	4.0
01	3.1
00	2.8
99	2.5

Centrica at a glance



British Gas

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

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

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

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

www.house.co.uk



Centrica Business Services

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

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

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

www.britishgasbusiness.co.uk

centrica
business services

Centrica Energy Management Group

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

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

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

www.centrica.com

centrica
energy

Centrica Storage

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

www.centrica-sl.co.uk

Taking care of the essentials



The AA

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

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

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

www.theaa.com



One.Tel

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

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

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

www.onetel.co.uk



Europe

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

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

www.luminus.be
www.luseoenergia.com



Centrica North America

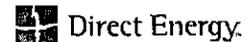
In Ontario, Direct Energy Essential Home Services offers gas and electricity and a range of home services.

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

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

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

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



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

Chief executive's review



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

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

Turnover and profitability

Group turnover (excluding Accord trading revenue) was £11.7 billion in 2003, up 17% from 2002. Increases were achieved in all of the main customer facing businesses as well as in the industrial and wholesaling division of the Centrica Energy Management Group (CEMG). The highest growth came from North America (up 112%) due mainly

to the full year impact of the 2002 acquisitions in Texas. Despite the unseasonably warm weather, turnover in British Gas increased with positive year-on-year contributions from energy, home services and telecoms.

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

Cash flow, capital expenditure and acquisitions

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

In 2003 there was a considerable reduction in acquisition expenditure compared to the prior year. Receipts from disposals net of acquisitions were £292 million versus net expenditure in 2002

of £935 million. This was primarily due to the net receipt on the disposal of Goldfish Bank, partially offset by both our purchases of the Roosecote and Barry power stations, and deferred consideration on the 2002 acquisition of customers in Texas. Operating cash outflow on discontinued activities of £301 million mainly reflected the repayment of Goldfish Bank deposit accounts.

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

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

Outlook

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

British Gas is now part way through its transformation with the heavy financial investment in hardware and software having taken place. We believe this root

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

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

Operating profit (£m)	
03	897 1,058
02	809 932
01	511 679
00	452 1526
99	335 424

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

*Including joint ventures and associates, before goodwill amortisation.

Operating profit by business* (£m)

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

*Including joint ventures and associations, before goodwill amortisation.

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

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

We intend to add to our gas and power asset portfolio in 2004. We continue to target further investment of around £100 million per year in gas reserves to support our UK customer demand and we also intend to increase our equity hedge in electricity in the UK with an investment of around £250 million over the next three

years. 2004 may also bring the first material spend on our renewable generation assets as, with successful surveys, we begin construction of the 90MW offshore wind farm at Barrow. We are also actively seeking further assets in North America, particularly in Texas, where we aim to acquire electricity generation plant to support our retail business.

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

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

The AA will continue to seek revenue growth through value-adding product developments underpinned by further improvements in operational efficiency. We expect to see real benefits from the roll-out of new technology to the roadside patrols with improved service to our customers and reduced

cost-to-serve. An integrated single customer services organisation will help to further deepen the customer relationship and enhance the cross-selling opportunities within the AA.

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

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

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

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

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



Sir Roy Gardner
Chief executive

Operating and financial review



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

In the home did you know...?

- > British Gas is the biggest supplier of both residential gas and electricity in Britain.
- > We have 7,160 qualified engineers and 844 contractors who completed around 7.2 million jobs during the year.
- > One in four homes in Britain with gas central heating has a ServiceCare contract with British Gas.
- > Almost 130,000 customers have signed up to online e-bills since the launch of paperless billing in May 2003.

British Gas residential

Adverse external factors mask strong underlying fundamentals

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

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

of training centres and partnerships with further education establishments has now increased to 13 across the country with 1,267 engineers currently in training.

The British Gas transformation programme to deliver improved customer service has continued to progress in 2003 across the areas of data, processes, systems and people. The transformation impacts every area of the business and will deliver a 'one stop shop' experience for our customers, where a single customer

service agent will be able to deal with all of their enquiries. The customer relationship management infrastructure has now been rolled out to 9,700 staff, enabling them to have a single view of the customer and giving them the ability to serve customers appropriately. This insight will in turn create a different and enhanced customer experience. For integrated cross-selling functionality, we have extended the testing period between pilot and full ramp-up to ensure system integrity throughout. As a consequence,

we will now be testing the billing engine in the second half of 2004, with full roll-out by early 2006. During 2003 we incurred £11 million in revenue costs and £67 million in capitalised costs (cumulative spend to the end of 2003, £325 million).

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

Energy

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

Key residential energy performance indicators

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

** British Gas brand.

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



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

British Gas residential segmental turnover (£m)

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

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

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

energywatch figures showed complaints about our selling practices at just 38% of the level they were in April 2002 with complaints about the transfer process down 49% over the same time period.

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

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

Home services

British Gas home services reported strong growth in 2003 with turnover increasing by 4.6% to £847 million (2002: £810 million). Operating profit* increased by 38% to £84 million (2002: £61 million) with full year operating margins

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

We see home services as a unique and growing opportunity

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

British Gas Communications

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

Key home services performance indicators

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

*Including joint ventures and associates, before goodwill amortisation.

Operating and financial review continued

centrica
business services



centrica
energy

We supply energy to businesses of all sizes, from p/cs to garden centres.

Key British Gas Communications performance indicators

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

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

Centrica Business Services

Consolidating our leading supply position in the commercial sector

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

Operating profit* fell to £51 million (2002: £65 million),

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

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

Centrica Energy Management Group

Further well timed investments made in power generation and renewables

CEMG continued to apply its assets and skills to minimise input costs for the downstream businesses whilst at the same

time delivering steady upstream revenues against a backdrop of warmer than average weather and volatile commodity prices. Operating profit for 2003 was up by 8% to £561 million.

Gas production

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

An extremely successful re-perforation campaign in our South Morecambe field has increased daily deliverability

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

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

Key Centrica Business Services performance indicators

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

*Including joint ventures and associates, before goodwill amortisation.

Sourcing energy did you know...?

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



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

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

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

Industrial sales and wholesaling

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

Electricity generation

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

Key Centrica Energy Management Group performance indicators

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

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

Renewables

In the supply year April 2002 to March 2003, Centrica fulfilled its obligation to source 3% of all electricity supplied from renewable sources through the purchase of certificates and is on track to meet the target of 4.3% for the current supply year. To meet the Government's renewable power generation

target, Centrica announced an investment programme of £500 million over the next five years, working alongside joint venture partners. In 2003, investments included the joint venture with DONG and Statkraft to build a 90MW wind farm offshore at Barrow-in-Furness; and the acquisition of the Inner Dowsing and Lynn offshore wind farm developments in the Greater Wash area (with a combined generation potential of at least 180MW). Centrica was also successful in acquiring sufficient Round 2 licences to give the flexibility to build up to

a further 1,250MW of offshore wind capacity.

Accord

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

Centrica Storage

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

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



On the road did you know...?

- > Our patrols repair around 8 out of 10 breakdowns at the roadside.
- > The AA's website is the UK's number one automotive and insurance site.
- > The AA has the largest dedicated breakdown patrol force in the UK, with approximately 3,500 patrols.
- > AA Tyre Fit is the UK's first all-mobile fleet and retail tyre network.

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

The AA

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

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

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

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

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

AA roadside services

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

Key AA performance indicators

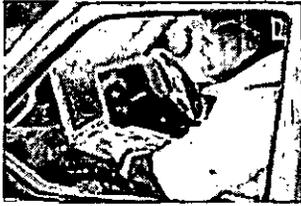
	2003	2002	Δ %
Roadside services			
Customer numbers (year end) (000)	13,522	12,975	4.2
Customer renewal rate (%)	85	85	-
Average transaction value (£)	36	34	6
Roadside patrols employed	3,479	3,651	(4.7)
Personal finance			
Insurance customers (000)			
Motor	952	959	(0.7)
Home	693	664	4.4
Overall renewal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

increasing productivity, improved the operating margin to 12% (2002: 10%).

AA business services won the contract to provide breakdown assistance to the 365,000-strong fleet of new and used Volkswagen vehicles, and recruited additional dedicated patrols to service this contract. Investment in roadside assistance continued with all patrols now equipped

with specialised all weather portable computer systems with fault diagnostic capability, which will enhance patrols' ability to fix faults at the roadside. Called VixEN, the laptop computer also provides AA patrols with GPRS communications functionality which enables more efficient deployment and better management of call to arrive times. In November 2003, VixEN was recognised by the automotive industry

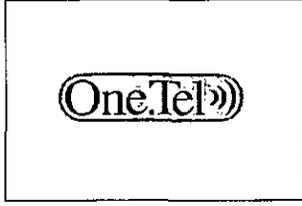
*including joint ventures and associates, before goodwill amortisation.



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



The AA now has an integrated customer services team.



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

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

AA personal finance

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

The value of motor and home insurance commissions grew by 1% despite a 2% reduction in the average annual premium, driven mainly by the cyclical nature of pricing conditions in the motor insurance industry. This was achieved through a major differentiating service initiative, 'Keeping the Customer Mobile', launched in March. In December this mobility initiative was recognised by the insurance

industry with the Insurance Times Award for innovation of the year. This and other initiatives resulted in a record renewal rate of 82% (2002: 78%).

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

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

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

Other AA services

The AA Service Centres made an operating loss* of £20 million (2002: £15 million). We have continued to take actions to reduce the losses, including a staff redeployment

programme which has reduced the operating cost base. There are a number of new initiatives in place aimed at growing the customer base in order to build on the year-on-year turnover increase of 10%.

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

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

One.Tel
Operating profits double with continued brand investment

For One.Tel, 2003 has been a year of continued development and growth. We have maintained our focus on developing new products and internal processes that offer a best total cost

solution to our customers, whilst lobbying for regulatory improvements to enable the enhancement of CPS and the delivery of WLR to encourage open competition.

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

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

*Including joint ventures and associates, before goodwill amortisation.



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

In telecoms did you know...?

- > On One.Tel's busiest day in 2003 our customers spent approximately 9.93 million minutes on the phone.
- > One.Tel was named the UK's Best Consumer ISP 2003 by the Internet Service Providers Association.
- > We are a leading competitor to BT and already 37% of One.Tel's fixed line customers have chosen carrier pre-selection.
- > One.Tel customers can call directory enquiries free by dialling 118 111.

 Direct Energy

 CPL
Retail Energy

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

Operating profit* for 2003 was £4 million, double that of 2002 (£2 million). Investment in our brand campaign has increased by £1.7 million to £3.6 million as we highlighted the comprehensive range of telecommunications services available from One.Tel. Compared to the end of 2002, when we had one call-inclusive package, we now offer a complete range of fixed line, mobile and internet tariffs addressing the many varied needs of customers in today's market. In addition, since the deregulation of the directory enquiries market in August 2003, we have provided a free, brand differentiating, directory enquiries service to our customers. Acquisition costs were up 31% at £29 million supporting a 13% growth in the customer base. This reflects

the higher costs of acquiring customers, associated with offering a greater range of products through a wider array of distribution channels, as well as a full year of mobile acquisition costs. Our mobile base continues to grow steadily, reaching 73,000 customers at the end of 2003 with the new call and text inclusive tariffs (launched in March 2003) successfully attracting high value customers.

Since February 2003, all our customers (including the broadband customers acquired from Iomart in 2001) have been on our single customer care and billing system, enabling us to offer an integrated service to our customers with all their One.Tel services summarised on one bill. In 2003 there was significant progress in the industry debate around WLR deregulation, and we, along with other market entrants, will trial a WLR product in early 2004, enabling our customers to benefit from a single relationship for all

their telecommunications requirements. Following the success of a pilot in 2003, in January 2004 we announced the setting up of a call centre in Bangalore, which will lower One.Tel's cost base.

Centrica North America Operating profits more than double that of 2002

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

Residential and small commercial gas

Turnover increased by 9% over 2002 reflecting the colder winter, together with revenues from approximately 300,000 customers acquired in 2002. Higher wholesale gas costs in the second half lowered

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

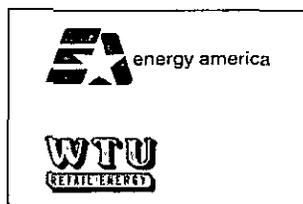
In our US gas markets, the regulatory climate, together with a volatile gas price environment, has continued to make it difficult to add value-creating customers. We will participate only in markets that offer an appropriate return on capital and accordingly we announced our withdrawal from Georgia and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

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

Key One.Tel performance indicators

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

*Including joint ventures and associates, before goodwill amortisation.



In North America did you know...?

- > In 2003, Direct Energy Essential Home Services technicians made 730,240 home visits.
- > We completed an average of 20,000 service calls each week during the autumn and winter – an average of about 3,000 calls every day.

Direct Energy provides a range of services in the home.

Residential and small commercial electricity

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

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

Key North America performance indicators

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

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

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

Home and business services

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

products increased by 16% to over 390,000.

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

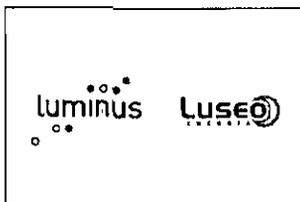
In February 2003 we reduced our holding in the Consumers' Waterheater Income Fund from 41.9% to 19.9%, realising further proceeds of £46 million in addition to the £304 million raised in 2002. We continue to account for the earnings, assets and liabilities of the fund on a fully consolidated basis as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

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

Upstream activities

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

*Including joint ventures and associates, before goodwill amortisation.



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

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

Europe

Well positioned as European supply market deregulates

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

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

valuable insights into the operation of the market.

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

Discontinued business

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

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

was in the best interests of Centrica shareholders.

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

*Including joint ventures and associates, before goodwill amortisation.



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

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

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

Earnings

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

Earnings before exceptional charges and goodwill

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

Operating profit

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

Exceptional charges and goodwill amortisation

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

Net interest

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

in spending on fixed assets and acquisitions, and improved working capital management.

Taxation

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

Earnings per share and dividends

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

Cash flow

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

*Including joint ventures and associates, before goodwill amortisation.

Group financial review continued

Centrica share performance (pence)



Smoothed five day average
 ■ Centrica plc
 ■ FTSE 100 relative

Group operating cash flow (£m)

03	992	1,020
02	717	1,790
01	825	885
00	1,063	1,149
99	1,318	1,464

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

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

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

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

Fixed assets
 Intangible fixed assets of £1,614 million (2002: £1,813 million) represented goodwill that has arisen on acquisitions. During the year,

a further £44 million arose, £40 million of which resulted from the final determination of the fair values of 2002 acquisitions. Goodwill is amortised by way of charges against profits over periods ranging from 5 to 20 years.

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

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

Working capital
 Current assets less current liabilities, excluding net

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

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

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

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

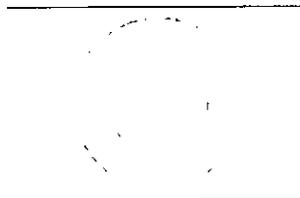
Currency, interest rate, liquidity

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

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

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

Capital funding 31 December 2003



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

Net cash/debt (£m)

03	163	53
02		529
01		433
00		117
99		127
		0

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

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

Interest rate risk

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

Liquidity

Cash forecasts identifying the liquidity requirements of the group are produced frequently. These are reviewed regularly by the board to ensure that sufficient financial headroom exists for at least a 12 month period. The group policy includes maintaining a minimum level of committed facilities and an objective that a proportion of debt should be long term, spread over a range of maturities. Details

of the maturity profile of borrowings are given in note 28 on pages 67 to 71. As at 31 December 2003, the group had undrawn committed facilities of £915 million, which were used as a backstop for the US commercial paper programme.

Counterparty risk

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

Commodity price risk

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

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

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

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

Weather risk

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

Accounting policies

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

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

Conversion to International Financial Reporting Standards

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

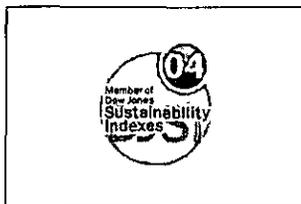
The main impact of adopting IFRS is the potential for earnings volatility resulting from the requirement to mark to market certain of the group's energy contracts. The accounting treatment of pensions, share schemes and goodwill will also change significantly.

Phil Bentley
Group finance director

Corporate responsibility



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



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



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

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

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

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

Our corporate responsibility strategy is based on:

- identifying, consulting with and responding to the views of

stakeholders;

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

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

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

Our aim is to continue to report fairly and transparently on the range of factors that affect us, including our impact on the

environment and society. This section highlights our major issues, based around a framework developed by Business in the Community, under the headings workplace, marketplace, the environment and community.

Workplace

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

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

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

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

Values

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

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

Diversity

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



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



A new graduate brand was developed in 2003.



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

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

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

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

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

Attracting talent

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

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

Leadership

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

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

Based on these competencies, a new performance management system was developed to

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

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

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

In 2003, we launched a new range of personal and professional development opportunities to provide us with a clear understanding of the future leadership talent within the organisation. The programme offers our people

a range of opportunities to develop their skills, whether they are new to the group or existing managers facing new challenges. Programmes cover company induction, change management and leadership skills, personal effectiveness and team building.

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

People development

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

The creation of the British Gas Engineering Academy has



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



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



Centrica is committed to continually improving standards of customer service.

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

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

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

Health and safety

Making proper provision for the health, safety and welfare at work of our employees and others who could be affected by the group's activities is a top priority for our business. Centrica's health and safety

targets are linked to specific performance indicators. All targets and key performance indicators are monitored and reported regularly to the Centrica board. Detailed scrutiny of actual or potentially significant incidents identifies lessons to be learned and preventative action to be taken. Again we are pleased to report no fatal accidents in 2003 – the group having experienced only one fatality since demerger. We have maintained a low frequency of major injuries, despite the significant growth in our operational businesses. This has been due to our continuing programme of risk assessment, training, team briefs and auditing.

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

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

Communication and engagement

Employment policies and a range of other information are

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

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

Marketplace

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

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

Our main impacts are in the following areas:

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

Customer service

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

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

Material recycled from Centrica offices (%)

03		48
02	32	
01	18	
00	15	

30% – initial 2005 target 50% – revised 2006 target



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



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

Meeting diverse needs

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

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

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

At the heart of our service ethic is a commitment to treat all our customers both fairly and equally. Each month we publish an internal diversity report, which looks specifically at the services we provide to diverse groups of customers. More than

750,000 customers are included on British Gas, AA and One.Tel registers, advising us of their service needs as a result of their age or disability.

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

Sales

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

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

Supplier relationships

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

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

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

Environment

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

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

Renewable energy

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

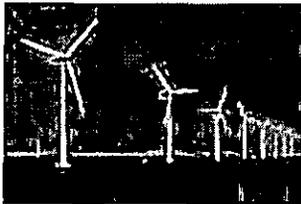
In July, we announced our investment strategy for renewable generation assets. The intention is eventually to source around half of our renewable obligation from our own assets.

Environmental management systems

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

Transport and energy

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



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



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

'here to HELP' progress as at 31 December 2003

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

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

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

Involving our employees

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

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

The first stage of the campaign has targeted office employees,

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

Community

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

British Gas

A key social issue for British Gas is ensuring sustainable access to energy. Through our 'here to HELP' programme, British Gas is working in partnership with

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

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

In July 2003, we were delighted to receive the Business in the Community Award for Excellence in Education and Lifelong Learning for the British Gas 'Think Energy' programme. 'Think Energy' is an energy education programme for 7 to 18 year olds and has reached 49% of schools in the UK since its launch in 2000. It combines a

mixture of classroom learning and home study, helping young people learn about the importance of energy efficiency. To date, more than 17,000 UK schools have requested 'Think Energy' resources.

The AA

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

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

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

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

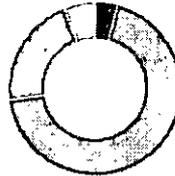


Sir Roy Gardner launched our partnership with Cancer Research UK, our employee charity of the year 2003-2004.



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

Focus of contribution in 2003



- Charitable gifts – 4%
- Community investment – 69%
- Commercial initiatives – 21%
- In-kind support – 6%

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

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

North America

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

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

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

In Texas, Direct Energy supports a 'neighbour-to-neighbour'

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

Our employees

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

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

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

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

Reporting and assurance

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

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

In summary, this commends our systems to manage and implement our corporate responsibility policies, especially the adoption this year of the statement of Centrica's values and business principles. It highlights the fact that we are addressing responsibility issues in our mainstream business practice, such as customer

satisfaction, workplace morale and the environmental impact of our products and services, as well as our long-standing community engagement.

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

Board of directors



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



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



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



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



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



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



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



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



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



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

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

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

Directors' report

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

Directors

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

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

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

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

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

Principal activities

The principal activities during the year were:

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

Business review

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

Financial results

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

Major acquisitions and disposals

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

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

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

Post balance sheet events

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

Dividends

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

Related party transactions

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

Creditor payment policy

It is the group's policy to:

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

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

Employment policies

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

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

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

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

Employee share schemes

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

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

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

Corporate responsibility

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

Charitable and political donations

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

Share capital

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

Material shareholdings

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

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

Auditors

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

Authority to purchase shares

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

Corporate governance

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

The board

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

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

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

The names of the directors and their details including committee memberships, appear on page 24. All of the non-executive directors, including the chairman, are members of the audit and remuneration committees as the board believes that each of them adds value to the business of those meetings. This membership structure gives the non-executive directors

detailed insight into the nature of the matters being discussed, brings continuity to membership and avoids undue reliance on particular individuals. Throughout the year, the chairman and the other non-executive directors were independent of management and the senior independent director was Patricia Mann. In November, the board considered the independence of the non-executive directors (other than the chairman) against the criteria in the new Code and determined that each was independent.

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

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

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

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

Executive committee

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

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

Audit committee

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

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

- monitor the integrity of the interim and annual financial statements, including a review of significant financial reporting judgements contained in them;
- review the company's internal financial controls and internal control and risk management systems;
- monitor and review the effectiveness of the company's internal audit function; and

- establish and oversee the company's relationship with the external auditors, including the monitoring of their independence.

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

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

Remuneration committee

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

Nominations committee

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

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

Customer service committee

This committee determines and monitors customer service targets, as key drivers of the long term success

of the group. It was chaired on an interim basis by Mark Clare between May 2002 and January 2003. Helen Alexander succeeded Mark Clare as chairman of this committee with effect from February 2003.

Relations with shareholders

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

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

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

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

Internal control

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

Identification, assessment and management of risks

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

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

Assurance

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

The board's review of the system of internal control

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

Going concern

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

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



Grant Dawson
General Counsel and Company Secretary
12 February 2004

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

Remuneration report

Composition and role of the remuneration committee

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

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

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

Framework and policy on executive directors' remuneration

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

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

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

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

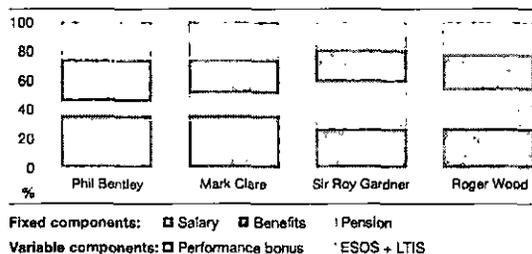
As a matter of policy, all executive directors and certain senior executives are expected to retain a minimum shareholding in the company at least equal in value to the executive's base salary.

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

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

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

Relative proportions of components of executive directors' remuneration: 2003



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

Components of remuneration

Base salary

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

Annual performance bonus

At the beginning of each year, the committee reviews the bonus scheme to ensure that it remains competitive in the market and continues to incentivise the executive directors.

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

Executive share option scheme (ESOS)

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

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

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

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

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

Long term incentive scheme (LTIS)

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

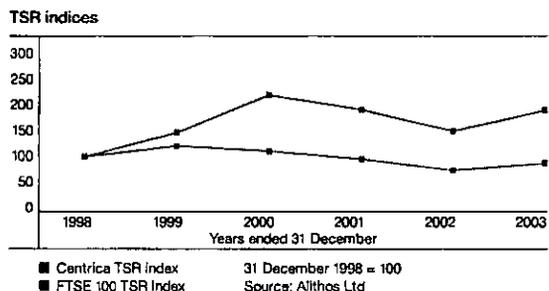
Allocations made prior to May 2001 are subject to a performance period of either three or four years (at the participant's choice), followed by a retention period of two years. Changes to these arrangements were approved at the 2001 AGM. Allocations made from May 2001 will be released to the participant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

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

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

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

TSR – Centrica and FTSE 100: 1999-2003



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

Pension

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

Other employment benefits

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

Service contracts

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

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

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

Upon Mike Alexander's retirement from the board on 28 February 2003, he forfeited all of the options granted to him under the ESOS (see the table on page 34) and the conditional allocations of shares made to him under the LTIS on 2 October 2000, 1 October 2001 and 2 April 2002 (see the table on page 33). The performance targets in

respect of the allocations of shares made to him under the LTIS on 1 October 1998 and 7 October 1999 had previously been achieved and those shares were or will be released to him at the end of the retention periods on 30 September 2003 and 30 September 2004 respectively. Mike Alexander has not received and will not receive any payments other than his pension, the details of which are disclosed on pages 35 to 36.

External appointments of executive directors

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

Non-executive directors

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

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

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

Remuneration report continued

Directors' emoluments

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

(i) Benefits include all taxable benefits arising from employment by the company, mainly the provision of a company car.

(ii) The following are excluded from the table above:

(a) pensions – see pages 35 and 36.

(b) share options – see page 34. The aggregate of the amount of gains made by executive directors on the exercise of share options was £1,029,874 (2002: £305,950); and

(c) long term incentive scheme – see pages 32 and 33. The aggregate value of shares vested to executive directors under the LTIS was £1,648,680 (2002: £4,630,479).

(iii) The total emoluments figure for 2002 excludes £22,000 paid to Sir Sydney Lipworth for his services as a director of the company and one of its subsidiaries during part of that year.

(iv) The figure for Sir Brian Shaw includes fees of £7,232 (2002: £20,000) in respect of consultancy services to The Automobile Association Limited while a director of Centrica plc.

Directors' interests in shares

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

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

(i). Shareholdings shown as at 1 January 2003 or subsequent date of appointment of the director.

(ii) As at 9 February 2004, the beneficial shareholdings of the executive directors had increased from the totals shown at 31 December 2003 by the following numbers of shares: Phil Bentley 81; Mark Clare 81; and Sir Roy Gardner 81.

(iii) As at 31 December 2003, 21,200,505 shares (1 January 2003: 27,238,473) were held by the trustee of the employee share trust for the purposes of the LTIS. As with other employees, the directors are deemed to have a potential interest in those shares, being beneficiaries under the trust. These interests remained unchanged as at 9 February 2004.

(iv) From 1 January 2003 to 9 February 2004, none of the directors had any beneficial interests in the company's securities other than ordinary shares, nor any non-beneficial interests in any of the company's securities, nor in those of its subsidiary or associated undertakings.

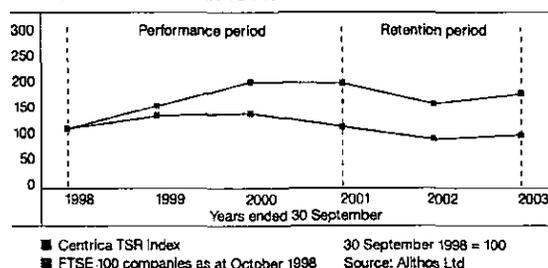
The following table gives details of the LTIS allocations held by executive directors who served during the year:

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

- (i) At the end of the performance period to 30 September 2001, the company ranked in fourth position in the relevant LTIS comparator group. Accordingly, 100% of the allocations were released on the vesting date of 1 October 2003 following the expiry of the two year retention period. These shares were subject to income tax at the individual's marginal rate and national insurance contributions (NICs) at the rate of 1%, based on the market value of the shares at the date of vesting. The income tax and NICs liability was satisfied by the sale of sufficient shares and, accordingly, the directors only received the net number of shares following disposal, which is reflected in the shareholdings as at 31 December 2003 in the second table on page 32.
- (ii) At the end of the performance period to 30 September 2002, the company ranked fourth in the relevant LTIS comparator group. Accordingly, 100% of the allocations are being held in trust for a further two years, at the end of which time they will be released to the directors at the trustee's discretion.
- (iii) At the end of the performance period to 1 October 2003, the company ranked in fortieth position in the relevant LTIS comparator group. Accordingly, 75% of the original allocations are being held in trust for a further two years, at the end of which time they will be released to the directors at the trustee's discretion.
- (iv) The respective performance periods relating to these allocations will end on 30 September 2004, 1 April 2005 and 31 March 2006. If, and to the extent that, the performance conditions are met, the allocations will vest and the relevant number of shares will be released to the directors at the trustee's discretion.
- (v) Details of the treatment of allocations on Mike Alexander's retirement from the board on 28 February 2003 appear on page 31.
- (vi) The end of the qualifying period is the date on which it is judged whether or not the qualifying conditions (see LTIS section on page 30) have been fulfilled.
- (vii) The vesting date was the next business day after the end of the qualifying period.

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

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



Remuneration report continued

Directors' interests in share options

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

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

(i) **Executive share option scheme (ESOS)**

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

(ii) **Sharesave scheme**

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

(iii) **Restructured executive share option scheme (RESOS)**

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

(iv) **Exercise of share options**

Options were exercised at the following dates and prices:

- (a) 28 August 2003 at 177 pence; and
- (b) 4 April 2003 at 158 pence.

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

Directors' pensions

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

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

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

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

Normal retirement age

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

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

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

Pension benefits earned by directors (£)

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

- Accrued pension is that which would be paid annually on retirement at age 65, based on eligible service to 31 December 2003.
- The increase in accrued pension during the year excludes any pension arising from additional voluntary contributions. The increase in accrued pension adjusted to exclude inflation may be derived by discounting the figure in the first column by the rate of inflation (2.8% – see note (iv)) and subtracting the figure in the second column.
- Contributions were paid in the year by the directors under the terms of the scheme up to the maximum rate of 15% of the earnings 'cap'.
- The rate of inflation used was 2.8%, the annual rate to 30 September 2003, the date used for pension increases under the scheme.
- The accrued pension shown for Mike Alexander includes a credit in relation to a transfer from a previous employer's pension scheme.

Remuneration report continued

- (vi) With effect from 1 January 1998, the pensions for Mike Alexander and Mark Clare have accrued at the rate of 2.26% (approximately $\frac{1}{4}$) and 2.28% (approximately $\frac{1}{4}$) of pensionable salary respectively for each year of pensionable service. Pensions in relation to service prior to 1 January 1998 will continue to accrue at the rate of 1.67% ($\frac{1}{6}$) of pensionable salary.
- (vii) Mike Alexander retired from the Company on 28 February 2003. In accordance with the rules of the scheme he receives an unreduced pension. The significant increase in the transfer value between 31 December 2002 and 31 December 2003 is almost all accounted for by the fact that the pension is now in payment whereas, as at 31 December 2002, it was calculated on the basis of an assumed retirement date at age 60. Because the increase in the amount of pension is less than the rate of inflation (see note (iv)) no figure is given in the final column of the table. This is because that column is derived from the increase in pension as distinct from the increase in the value of the pension.
- (viii) The pension for Phil Bentley accrues at the rate of 2.31% (approximately $\frac{1}{4}$) of pensionable salary for each year of pensionable service.
- (ix) The pensions for Sir Roy Gardner and Roger Wood accrue at the rate of 3.33% ($\frac{1}{3}$) of pensionable salary per year of service.
- (x) Had the change in normal retirement age for individuals referred to above been implemented at 31 December 2003 it would have resulted in the transfer value of the increase in accrued pension excluding inflation for Phil Bentley, Mark Clare, Sir Roy Gardner and Roger Wood being £156,155, £344,343, £1,640,835 and £937,152 respectively; and the increase in accrued pension for those directors being £16,700, £34,000, £104,600 and £51,600 respectively.

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



Grant Dawson
General Counsel and Company Secretary
12 February 2004

Statement of directors' responsibilities

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

In preparing those financial statements the directors are required to:

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

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

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

Independent auditors' report to the members of Centrica plc

Independent auditors' report to the members of Centrica plc

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

Respective responsibilities of directors and auditors

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

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

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

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

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code issued in 1998 specified for our review by the Listing Rules of the Financial Services

Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Opinion

In our opinion:

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
12 February 2004

Financial statements

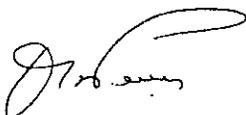
	Notes	2003			2002		
		Results for the year before goodwill amortisation and exceptional charges £m	Goodwill amortisation and exceptional charges £m	Results for the year £m	Results for the year before goodwill amortisation and exceptional charges £m	Goodwill amortisation and exceptional charges £m	Results for the year £m
Group profit and loss account							
Year ended 31 December							
Turnover:							
Group and share of joint ventures' turnover – continuing operations		18,177	–	18,177	14,429	–	14,429
Less share of joint ventures' turnover		(347)	–	(347)	(207)	–	(207)
Group turnover – continuing operations		17,830	–	17,830	14,222	–	14,222
Discontinued operations		101	–	101	123	–	123
Group turnover	2	17,931	–	17,931	14,345	–	14,345
Cost of sales	3	(14,572)	–	(14,572)	(11,358)	–	(11,358)
Gross profit		3,359	–	3,359	2,987	–	2,987
Operating costs	3	(2,367)	(155)	(2,522)	(2,108)	(116)	(2,224)
Group operating profit:							
Continuing operations		1,019	(144)	875	919	(102)	817
Discontinued operations		(27)	(11)	(38)	(40)	(14)	(54)
		992	(155)	837	879	(116)	763
Share of operating profit/(loss) in joint ventures and associates – continuing operations	2	66	(6)	60	53	(7)	46
Operating profit including joint ventures and associates:							
Continuing operations	2	1,085	(150)	935	972	(109)	863
Discontinued operations	2	(27)	(11)	(38)	(40)	(14)	(54)
	2	1,058	(161)	897	932	(123)	809
Continuing operations:							
Loss on closure of business	4	–	(16)	(16)	–	–	–
Loss on disposal of business	4	–	–	–	–	(14)	(14)
Loss on disposal of fixed assets	4	–	–	–	–	(14)	(14)
Discontinued operations:							
Loss on disposal of business	4	–	(51)	(51)	–	–	–
	4	–	(67)	(67)	–	(28)	(28)
Net interest payable:							
Group		(36)	–	(36)	(47)	–	(47)
Share of joint ventures and associates		(16)	–	(16)	(15)	–	(15)
	6	(52)	–	(52)	(62)	–	(62)
Profit on ordinary activities before taxation		1,006	(228)	778	870	(151)	719
Taxation on profit on ordinary activities	7	(282)	16	(266)	(243)	(7)	(250)
Profit on ordinary activities after taxation							
for the year		724	(212)	512	627	(158)	469
Minority interests (equity and non-equity)	22	(10)	(2)	(12)	9	–	9
Profit attributable to the group		714	(214)	500	636	(158)	478
Dividends	8	–	–	(229)	–	–	(172)
Transfer to reserves	20	–	–	271	–	–	306
Earnings per ordinary share							
		Pence		Pence		Pence	
basic	9			11.8			11.4
diluted	9			11.6			11.3
adjusted basic	9	16.8			15.2		

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

Group balance sheet

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

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



Sir Michael Perry CBE
Chairman



Phil Bentley
Group finance director

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

Financial statements continued

Statement of total recognised gains and losses

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

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

Group cash flow statement

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

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

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

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

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

Notes to the financial statements

1 Principal accounting policies

Accounting principles

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

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

Basis of preparation

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

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

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

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

Turnover

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

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

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

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

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

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

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

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

Cost of sales

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

Employee share schemes

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

Research and development expenditure

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

Foreign currencies

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

Notes to the financial statements continued

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

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

Intangible fixed assets

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

Tangible fixed assets

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

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

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

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

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

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

Leases

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

Asset impairments

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

Investments

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

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

Stocks

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

Take or Pay contracts

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

Decommissioning costs

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

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

Pensions and other post retirement benefits

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

Long term sales contracts

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

Taxation

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

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

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

Deferred tax is not recognised when fixed assets are revalued unless, by the balance sheet date, there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Deferred tax is not recognised

when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

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

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

Deferred tax is measured on a non-discounted basis.

Financial instruments

a) Debt instruments

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

b) Derivative financial instruments

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

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

Derivative financial instruments are accounted for as follows:

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

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

Notes to the financial statements continued

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

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

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

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

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

Comparative figures

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

2 Segmental analysis

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

	Turnover year ended 31 December		Operating profit/(loss) before goodwill amortisation, including share of results of joint ventures and associates year ended 31 December		Operating profit/(loss) after goodwill amortisation, including share of results of joint ventures and associates year ended 31 December		Net assets/(liabilities) 31 December	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
a) By business segment								
Continuing operations:								
Residential energy	5,289	5,185	136	218	136	218		
Home services	847	810	84	61	83	60		
British Gas								
Communications	56	52	(14)	(35)	(14)	(35)		
British Gas residential	6,192	6,047	206	244	205	243	486	347
Centrica Business Services	1,125	971	51	65	40	59	347	353
Industrial sales and wholesaling	809	784	64	72	64	72		
Gas production	54	74	480	447	480	447		
Accord energy trading	6,218	4,304	17	-	17	-		
Centrica Energy Management Group ^(M)	7,081	5,162	561	519	561	519	556	314
Centrica Storage ^(N)	82	9	40	1	40	1	367	390
The AA	797	760	93	73	44	23	645	685
One.Tel	178	153	4	2	1	(4)	47	53
Centrica North America	2,369	1,118	130	63	50	24	1,159	1,192
Other operations	6	2	-	5	(6)	(2)	60	49
	17,830	14,222	1,085	972	935	863	3,667	3,383
Discontinued operations: ^(O)								
Goldfish Bank	101	123	(27)	(40)	(38)	(54)	(4)	181
Unallocated net liabilities ^(M)							(909)	(1,162)
	17,931	14,345	1,058	932	897	809	2,754	2,402
b) By geographical area of operation								
UK:								
Continuing operations	15,442	13,089	955	914	891	850	2,536	2,140
Discontinued operations ^(N)	101	123	(27)	(40)	(38)	(54)	(4)	181
	15,543	13,212	928	874	853	796	2,532	2,321
Rest of Europe	19	15	-	(5)	(6)	(11)	(28)	51
North America	2,369	1,118	130	63	50	24	1,159	1,192
Unallocated net liabilities ^(M)							(909)	(1,162)
	17,931	14,345	1,058	932	897	809	2,754	2,402

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

Notes to the financial statements continued

2 Segmental analysis continued		2003	2002
c) Turnover by geographical destination		£m	£m
UK:			
Continuing operations		14,797	12,608
Discontinued operations ^(a)		101	123
		14,898	12,731
Rest of Europe		664	496
North America		2,369	1,118
		17,931	14,345

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

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

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

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

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

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

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

- (i) Gas transportation costs of £1,522 million (2002: £1,459 million) and electricity transportation and distribution charges of £726 million (2002: £647 million) were included within cost of sales. Operating costs consist entirely of administrative expenses.
- (ii) Goldfish Bank loyalty scheme costs of £30 million were reclassified in the prior year from turnover to cost of sales.
- (iii) The profit on disposal of tangible fixed assets was £3 million (2002: £6 million) and profit on sale of fixed asset investments was £8 million (2002: £12 million).
- (iv) Included in auditors' remuneration, excluding the statutory audit, were non-audit fees payable arising in the UK of £1.1 million (2002: £6.2 million). In addition, the group's auditors acted as auditor to the group's pension schemes. The appointment of auditors to the group's pension schemes and the fees paid in respect of these audits are agreed by the trustees of each scheme, who act independently from the management of the group.
- (v) It is the group's policy to seek competitive tenders for all major consultancy and advisory projects. Appointments are made taking into account other factors including expertise and experience. In addition, the board has approved a detailed policy defining the types of work for which the auditors can tender and the approvals required. The auditors have been engaged on assignments additional to their statutory audit duties where their expertise and experience with the group are particularly important, including tax advice and due diligence reporting on acquisitions. In 2002, other services included £5 million paid to the consulting business of the auditors prior to its sale in October 2002.
- (vi) Audit fees for subsidiary undertakings in 2003 included £0.2 million in respect of 2002.

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

- (i) Loss on closure of business relates to the closure of the Direct Energy home services retail stores in Ontario on which a tax credit of £6 million has been recognised.
- (ii) In 2002 a £14 million loss arose on the disposal of the LPG business.
- (iii) Following the reduction in operation of Golf England Limited, a subsidiary undertaking, a £14 million provision was recognised in respect of losses on disposal of fixed assets.
- (iv) Discontinued operations relate to the disposal of the group's interest in the Goldfish credit card and loan business for a premium of £112.5 million over the receivables book value, resulting in a pre-tax non-operating loss on disposal of £51 million on which a tax credit of £10 million and a minority interest charge of £2 million have been recognised.

Notes to the financial statements continued

5 Directors and employees

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

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

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

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

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

- (i) Interest on supplier early payment arrangements arose on the prepayment of gas transportation charges.
(ii) The interest cost relates to subsidised credit arrangements provided to customers purchasing central heating installation.

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

- (i) The tax credit arising on the exceptional loss on disposal of business was £10 million and on the exceptional loss on closure of business was £6 million (note 4).
- (ii) The exceptional tax charge in 2002 comprised an increase in deferred tax provisions arising from the supplementary charge applicable to profits on ring-fenced offshore gas production.

b) Factors affecting the tax charge for the year

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

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

c) Factors that may affect future tax charges

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

Notes to the financial statements continued

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

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

9 Earnings per ordinary share

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

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

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

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

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

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

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

Direct Energy Services Inc

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

Electricity Direct

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

Centrica Storage

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

WTU/CPL

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

Notes to the financial statements continued

10 Intangible fixed assets – goodwill continued

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

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

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

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

- (i) The net book value of the group's land and buildings at 31 December 2003 comprised freehold of £34 million (2002: £44 million), long leasehold of £19 million (2002: £23 million) and short leasehold of £15 million (2002: £18 million).
- (ii) The net book value of the group's tangible fixed assets held under finance leases at 31 December 2003 within plant, equipment and vehicles was £4 million (2002: £8 million), power generation £nil (2002: £73 million) and within storage, exploration and production was £96 million (2002: £120 million). The depreciation and amortisation charge for the year in respect of finance leased assets included £6 million (2002: £4 million) on plant, equipment and vehicles, £nil (2002: £10 million) on power generation and £17 million (2002: £19 million) on storage, exploration and production assets.
- (iii) The amounts capitalised in the year in respect of customer relationship management infrastructure included within plant, equipment and vehicles at 31 December 2003 amounted to £72 million (2002: £180 million).
- (iv) The net book value of the fixed assets of the Consumers' Waterheater Income Fund (the Fund) within plant, equipment and vehicles was £190 million (2002: £182 million). Debt issued by a subsidiary of the Fund, without recourse to the group, is secured on the assets as set out in note 31.
- (v) Included within the group's exploration and production assets at 31 December 2003 were costs of £19 million pending determination (2002: £60 million). The net book value of the group's decommissioning costs at 31 December 2003 was £40 million (2002: £17 million).
- (vi) Included within acquisitions are revisions to fair values totalling a credit of £25 million, as explained in the footnotes to note 10.

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

(i) The group's share of net assets of associates was £1 million (2002: £2 million). The group's share of joint ventures' gross assets and gross liabilities principally comprised its interests in Humber Power Limited (power generation), Centrica Personal Finance Limited (AA and British Gas personal loans activities), AA Financial Services (AA credit card activities) and Luminus NV (energy supply).

The group's share of joint ventures' gross liabilities included loans payable to the group amounting to £nil (2002: £4 million). The share of Humber Power Limited's gross liabilities included £268 million (2002: £269 million) of lease finance, of which £249 million (2002: £254 million) was repayable after more than five years. Although the group holds a majority of the voting rights in Humber Power Limited, it is restricted in its ability to exercise these rights under an agreement with the other shareholder. Consequently the investment has not been consolidated but has been accounted for as a joint venture.

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

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

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

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

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

Notes to the financial statements continued

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

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

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

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

15 Current asset investments	2003 £m	2002 £m
Money market investments	992	320

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

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

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

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

16 Borrowings continued

(iii) This is debt issued by the Consumers' Waterheater Income Trust, a wholly owned subsidiary of the Consumers' Waterheater Income Fund (the Fund), which is treated as a quasi-subsiary and consolidated in the group accounts. The debt is secured solely on the assets of the Fund and its subsidiaries, without recourse to the group. Summary financial information for the Fund is given in note 31.

In January 2003 the Consumers' Waterheater Income Trust issued C\$500 million of secured fixed rate bonds receiving net proceeds of C\$497 million. The proceeds received were used to repay C\$500 million of floating rate bonds previously issued in December 2002. The bonds were issued in two series and are repayable between 11 and 13 years bearing interest between 4.700% and 5.245% respectively.

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

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

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

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

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

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

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

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

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

Notes to the financial statements continued

18 Provisions for liabilities and charges continued

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

19 Called up share capital	2003 £m	2002 £m
Authorised share capital of the company		
4,950,000,000 ordinary shares of 5½ pence each (2002: 4,950,000,000 ordinary shares of 5½ pence each)	275	275
100,000 cumulative redeemable preference shares of £1 each	–	–
Allotted and fully paid share capital of the company		
4,265,901,206 ordinary shares of 5½ pence each (2002: 4,252,856,414 ordinary shares of 5½ pence each)	237	236

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

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

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

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

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

19 Called up share capital continued

Long term incentive scheme

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

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

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

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

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

- (i) Cumulative goodwill taken directly to the profit and loss reserve at 31 December 2003 amounted to £85 million (2002: £85 million). This goodwill had been taken to reserves as a matter of accounting policy and will be charged in the profit and loss account should there be a subsequent disposal of the business to which it related.
- (ii) Exchange gains of £42 million (2002: £84 million) on net investment in overseas undertakings have been offset in full in reserves against exchange losses of £46 million (2002: £92 million) on foreign currency borrowings.
- (iii) Centrica intends to fund certain of its long term incentive schemes through the issue of new shares when these schemes vest. The amount shown represents the expected value of the shares to be issued using the market price at the date allocations were granted.

21 Movements in shareholders' funds

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

Notes to the financial statements continued

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

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

23 Acquisitions and disposals

(i) Acquisitions

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

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

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

(i) Tangible fixed assets have been adjusted to their estimated value in use.

(ii) Deferred consideration is due within one year.

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

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

(i) Accounting policy alignments relate to the valuation of turbine parts.

(ii) Tangible fixed assets have been adjusted to their estimated value in use.

23 Acquisitions and disposals continued

c) Other

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

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

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

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

(ii) Disposals

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

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

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

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

Notes to the financial statements continued

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

(i) This represents the grant date market value of matching shares issued to employees during the year under the share incentive plan (SIP). Further details of the SIP can be found on page 26 of the directors' report.

(ii) Included in 2002 was a reduction of £168 million from the acceleration of gas transportation payments, which the group has the option to prepay.

(iii) Sold as part of the disposal of the Goldfish credit card and loan business.

(iv) The Goldfish Bank working capital facility primarily financed the Goldfish credit card and loan balances. In accordance with generally accepted practice for banking activities, movements on this working capital facility are included within operating cash flow rather than financing. The repayment of this working capital facility of £701 million following the disposal on 30 September 2003 is included in note 24e.

b) Returns on investments and servicing of finance		
	2003 £m	2002 £m
Interest received	54	29
Interest paid	(61)	(42)
Interest element of finance lease rental payments	(8)	(12)
	(15)	(25)

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

24 Notes to the group cash flow statement continued

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

	2003 £m	2002 £m
d) Capital expenditure and financial investment		
Purchase of tangible fixed assets	(323)	(449)
Sale of tangible fixed assets	39	28
Loans to joint ventures repaid	2	19
	(282)	(402)

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

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

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

	2003 £m	2002 £m
f) Management of liquid resources		
Net (purchase)/sale of current asset investments	(669)	134

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

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

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

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

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

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

Notes to the financial statements continued

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

(i) This included an exchange loss on cash of £3 million (2002: loss £4 million).

(ii) £143 million of the current asset investment cash flow related to discontinued operations.

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

25 Pensions

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

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

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

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

The long term assumptions applied to calculate group pension costs, as agreed with the independent actuary, are set out below:

	2003 %	2002 %
Rate of price inflation and pension increases	2.50	2.50
Annual rate of return on investments	6.70	6.70
Future increases in employee earnings	4.50	4.50
Dividend growth	3.75	3.75

25 Pensions continued

The group's pension costs arising and the reconciliation to the balance sheet provision was as follows:

	2003 £m	2002 £m
Regular pension costs	105	95
Amortisation of surplus	(21)	(21)
Interest	84	74
Net pension costs	74	64
Contributions paid	(124)	(107)
Decrease in provision for pension costs	(50)	(43)
Pension provision at 1 January	55	98
Pension provision at 31 December	5	55
AA post retirement private medical insurance ⁹	24	21
Direct Energy Marketing Limited post retirement benefits ⁹	1	(1)
Pension and other retirement benefits provision (note 18)	30	75

Other retirement benefits

- (i) The group has a commitment to provide post retirement private medical insurance cover for certain AA current and past employees. The triennial independent actuarial valuation undertaken at 31 December 2001, assuming a 2.5% per annum real increase in premiums, disclosed a liability of £27 million. The provision under this scheme as recognised under SSAP 24 was £24 million (2002: £21 million). The net cost to the group of retirement benefits under this scheme was £3 million (2002: £3 million).
- (ii) The group has a commitment to provide certain pension and other post retirement benefits to employees of Direct Energy Marketing Limited (Canada). The Direct Energy Marketing Limited pension plan was established on 1 March 2002 and an independent actuarial valuation carried out on 7 May 2002, which disclosed a surplus in respect of pension benefits of £6 million and a deficit in respect of non-pension post retirement benefits of £4 million, resulting in a net surplus of £2 million. The provision under this scheme as recognised under SSAP 24 was £1 million (2002: £1 million surplus). The net cost to the group of retirement benefits under this scheme was £2 million (2002: £1 million).

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

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

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

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

Notes to the financial statements continued

25 Pensions continued

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

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

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

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

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

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

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

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

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

26 Commitments and contingencies

a) Acquisitions

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

The transaction is subject to the satisfaction of certain conditions.

b) Capital expenditure

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

c) Decommissioning costs

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

d) Lease commitments

At 31 December non-cancellable operating lease commitments of the group for the following year were:

	Land and buildings		Other	
	2003	2002	2003	2002
	£m	£m	£m	£m
Expiring:				
Within one year	7	4	9	1
Between one and five years	13	7	36	24
After five years	48	38	3	3
	68	49	48	28

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

e) Litigation

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

f) Guarantees and indemnities

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

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

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

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

Notes to the financial statements continued

26 Commitments and contingencies continued

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

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

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

g) Gas purchase contracts

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

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

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

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

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

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

h) Other

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

27 Related party transactions

a) Joint ventures and associates

	2003 £m	2002 £m
Sales for the year ended 31 December:		
Humber Power Limited [¶]	4	—
Motorfile Limited	2	—
Centrica Personal Finance Limited	1	—
Purchases for the year ended 31 December:		
Accuread Limited	34	17
Humber Power Limited [¶]	75	74
ACTA SA (an associate)	2	—
Loans receivable outstanding as at 31 December:		
Centrica Personal Finance Limited	—	2

27 Related party transactions continued

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

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

b) Pension schemes

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

c) Transactions with directors

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

d) Other

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

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

28 Financial instruments

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

a) Interest rate risk profile of financial instruments

Financial assets

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

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

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

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

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

Notes to the financial statements continued

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

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

23 Acquisitions and disposals

(i) Acquisitions

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

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

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

(i) Tangible fixed assets have been adjusted to their estimated value in use.

(ii) Deferred consideration is due within one year.

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

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

(i) Accounting policy alignments relate to the valuation of turbine parts.

(ii) Tangible fixed assets have been adjusted to their estimated value in use.

23 Acquisitions and disposals continued

c) Other

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

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

- (i) Goodwill is being amortised over periods ranging from 5 to 15 years.
(ii) Contingent consideration comprises: £1 million in respect of IBT, payable within one year and dependent upon the performance of IBT in the period post acquisition; and £2 million in respect of Offshore Wind Power which is expected to be paid within one year and is contingent on achievement of key stages in the development of the wind farms.

(ii) Disposals

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

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

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

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

Notes to the financial statements continued

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

(i) This represents the grant date market value of matching shares issued to employees during the year under the share incentive plan (SIP). Further details of the SIP can be found on page 26 of the directors' report.

(ii) Included in 2002 was a reduction of £168 million from the acceleration of gas transportation payments, which the group has the option to prepay.

(iii) Sold as part of the disposal of the Goldfish credit card and loan business.

(iv) The Goldfish Bank working capital facility primarily financed the Goldfish credit card and loan balances. In accordance with generally accepted practice for banking activities, movements on this working capital facility are included within operating cash flow rather than financing. The repayment of this working capital facility of £701 million following the disposal on 30 September 2003 is included in note 24e.

b) Returns on investments and servicing of finance	2003	2002
	£m	£m
Interest received	54	29
Interest paid	(61)	(42)
Interest element of finance lease rental payments	(8)	(12)
	(15)	(25)

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

24 Notes to the group cash flow statement continued

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

	2003 £m	2002 £m
d) Capital expenditure and financial investment		
Purchase of tangible fixed assets	(323)	(449)
Sale of tangible fixed assets	39	28
Loans to joint ventures repaid	2	19
	(282)	(402)

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

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

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

	2003 £m	2002 £m
f) Management of liquid resources		
Net (purchase)/sale of current asset investments	(669)	134

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

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

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

- (i) Where currency swap agreements are used to hedge overseas net investments, the realised net (losses)/gains are recognised in financing cash flows.
- (ii) Includes capital contributions to Goldfish Bank of £12 million (2002: £21 million) and £46 million (2002: £108 million) from the disposal of 22.0% (2002: 58.1%) of our holding in the Consumers' Waterheater Income Fund, net of distributions paid to non-equity minority unitholders of £17 million (2002: £nil).
- (iii) Cash inflow from the issue of ordinary share capital is stated net of issue costs of £nil (2002: £6 million).

Notes to the financial statements continued

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

(i) This included an exchange loss on cash of £3 million (2002: loss £4 million).

(ii) £143 million of the current asset investment cash flow related to discontinued operations.

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

25 Pensions

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

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

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

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

The long term assumptions applied to calculate group pension costs, as agreed with the independent actuary, are set out below:

	2003 %	2002 %
Rate of price inflation and pension increases	2.50	2.50
Annual rate of return on investments	6.70	6.70
Future increases in employee earnings	4.50	4.50
Dividend growth	3.75	3.75

25 Pensions continued

The group's pension costs arising and the reconciliation to the balance sheet provision was as follows:

	2003 £m	2002 £m
Regular pension costs	105	95
Amortisation of surplus	(21)	(21)
	84	74
Interest	(10)	(10)
Net pension costs	74	64
Contributions paid	(124)	(107)
Decrease in provision for pension costs	(50)	(43)
Pension provision at 1 January	55	98
Pension provision at 31 December	5	55
AA post retirement private medical insurance ^o	24	21
Direct Energy Marketing Limited post retirement benefits ^o	1	(1)
Pension and other retirement benefits provision (note 18)	30	75

Other retirement benefits

- (i) The group has a commitment to provide post retirement private medical insurance cover for certain AA current and past employees. The triennial independent actuarial valuation undertaken at 31 December 2001, assuming a 2.5% per annum real increase in premiums, disclosed a liability of £27 million. The provision under this scheme as recognised under SSAP 24 was £24 million (2002: £21 million). The net cost to the group of retirement benefits under this scheme was £3 million (2002: £3 million).
- (ii) The group has a commitment to provide certain pension and other post retirement benefits to employees of Direct Energy Marketing Limited (Canada). The Direct Energy Marketing Limited pension plan was established on 1 March 2002 and an independent actuarial valuation carried out on 7 May 2002, which disclosed a surplus in respect of pension benefits of £6 million and a deficit in respect of non-pension post retirement benefits of £4 million, resulting in a net surplus of £2 million. The provision under this scheme as recognised under SSAP 24 was £1 million (2002: £1 million surplus). The net cost to the group of retirement benefits under this scheme was £2 million (2002: £1 million).

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

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

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

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

Notes to the financial statements continued

25 Pensions continued

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

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

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

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

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

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

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

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

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

26 Commitments and contingencies

a) Acquisitions

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

The transaction is subject to the satisfaction of certain conditions.

b) Capital expenditure

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

c) Decommissioning costs

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

d) Lease commitments

At 31 December non-cancellable operating lease commitments of the group for the following year were:

	Land and buildings		Other	
	2003	2002	2003	2002
	£m	£m	£m	£m
Expiring:				
Within one year	7	4	9	1
Between one and five years	13	7	36	24
After five years	48	38	3	3
	68	49	48	28

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

e) Litigation

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

f) Guarantees and indemnities

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

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

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

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

Notes to the financial statements continued

26 Commitments and contingencies continued

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

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

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

g) Gas purchase contracts

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

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

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

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

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

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

h) Other

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

27 Related party transactions

a) Joint ventures and associates

	2003 £m	2002 £m
Sales for the year ended 31 December:		
Humber Power Limited [®]	4	-
Motorfile Limited	2	-
Centrica Personal Finance Limited	1	-
Purchases for the year ended 31 December:		
Accuread Limited	34	17
Humber Power Limited [®]	75	74
ACTA SA (an associate)	2	-
Loans receivable outstanding as at 31 December:		
Centrica Personal Finance Limited	-	2

27 Related party transactions continued

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

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

b) Pension schemes

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

c) Transactions with directors

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

d) Other

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

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

28 Financial instruments

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

a) Interest rate risk profile of financial instruments

Financial assets

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

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

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

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

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

Notes to the financial statements continued

28 Financial instruments continued

Financial liabilities

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

	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) ⁹	-	(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

	2002			
	US dollar	Canadian dollar	Sterling	Total
Floating interest rate (£m)	(80)	(196)	(973)	(1,249)
Fixed interest rate (£m)	-	(2)	(288)	(290)
No interest payable (£m) ⁹	-	(108)	(33)	(141)
Total financial liabilities (£m)	(80)	(306)	(1,294)	(1,680)
Weighted average fixed interest rate (%)	-	6.5	6.0	6.0
Weighted average period for which rate is fixed (months)	-	28	101	100
Weighted average period for which no interest is payable (months)	-	-	62	62

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

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

b) Currency risk

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

c) Maturity of financial liabilities

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

	2003			2002		
	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	298	65	363	721	13	734
In more than one year but not more than two years	155	24	179	39	1	40
In more than two years but not more than five years	-	43	43	349	36	385
In more than five years	632	19	651	401	19	420
Non-equity minority interests ⁹	-	164	164	-	108	108
	1,085	315	1,400	1,510	177	1,687

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

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

28 Financial instruments continued

d) Borrowing facilities

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

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

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

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

e) Fair values of financial assets and liabilities

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

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

- (i) Due to the nature and/or short maturity of these financial instruments, book values approximated fair values.
- (ii) Fair values have been determined by reference to closing exchange rates at 31 December.
- (iii) Prior year amounts include C\$500 million (£196 million) Canadian dollar bonds previously classified as loan notes.
- (iv) The fair values of energy derivatives are calculated as the product of the volume and the difference between their strike or traded price and the corresponding market prices. The market price is based upon the corresponding closing price of that market. Where there is no organised market and/or the market is illiquid, the market price is based upon management estimates, taking into consideration all relevant current market and economic factors. Energy derivatives held for trading includes both physical and financial energy contracts entered into for trading purposes. Prior year amounts have been restated to include the fair value of physical energy trading contracts as explained in note 28f.
- (v) The fair values of these financial instruments are based upon discounted cash flows, using discount rates based upon the group's cost of borrowing.
- (vi) Fair values have been determined by reference to closing prices at 31 December.

Notes to the financial statements continued

28 Financial instruments continued

f) Gains and losses on financial instruments held for trading

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

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

g) Gains and losses on hedges

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

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

h) Additional disclosures for Goldfish Bank

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

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

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

28 Financial instruments continued

Derivatives

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

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

Interest rate sensitivity gap analysis

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

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

(i) Repayable on demand.

Fair value of non-trading instruments

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

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

29 Post balance sheet events

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

Notes to the financial statements continued

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

(i) All principal undertakings are indirectly held by the company, except for GB Gas Holdings Limited, which is a direct subsidiary undertaking.

(ii) Automobile Association Financial Services is unincorporated and its principal place of business is Capital House, Queen's Park Road, Handbridge, Chester CH88 3AN.

(iii) Barrow Offshore Wind Limited is a joint venture with DONG AS (37.5%) and Statkraft Energy Europe (37.5%).

(iv) Motorfile Limited is a joint venture with Experian Limited and has a 31 March year end.

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

The Consumers' Waterheater Income Fund is consolidated as a quasi-subsiary 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	2003	2002
Period ending 31 December	£m	£m
Turnover	60	3
Profit before tax	17	2
Distribution to unit holders	(23)	(2)

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

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

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

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

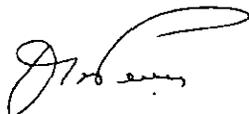
Class A units of the Fund are traded on the Toronto Stock Exchange and represent the minority interest included in the group financial statements. The Fund's full financial statements are prepared in accordance with generally accepted accounting practices in Canada, and accordingly there are differences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

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

Company balance sheet

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

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



Sir Michael Perry GBE
Chairman



Phil Bentley
Group finance director

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

Notes to the company balance sheet

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

No assets were held under finance leases (2002: £nil).

Amounts capitalised in respect of customer relationship management infrastructure included within tangible fixed assets at 31 December 2003 were £29 million (2002: £26 million).

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

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

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

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

Notes to the company balance sheet continued

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

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

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

£17 million (2002: £10 million) of money market investments were held by the Law Debenture Trust, on behalf of the company, as security in respect of the Centrica unapproved pension scheme, as described in note 25.

	2003		2002	
	Within one year £m	After one year £m	Within one year £m	After one year £m
36 Borrowings				
Amounts falling due				
Sterling bonds ^h	-	535	-	518
Commercial paper	205	-	237	-
	205	535	237	518

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

	2003		2002	
	Within one year £m	After one year £m	Within one year £m	After one year £m
37 Other creditors				
Amounts falling due				
Trade creditors	12	-	28	-
Amounts owed to group undertakings	3,403	73	2,239	205
Taxation and social security	3	-	16	-
Accruals and deferred income	88	-	91	-
Dividend payable	157	-	110	-
	3,663	73	2,484	205

	1 January 2003 £m	Profit and loss charge £m	Utilised in the year £m	31 December 2003 £m
38 Provisions for liabilities and charges				
Pension costs ^h	9	6	(10)	5
Other ^h	24	14	(12)	26
	33	20	(22)	31

Potential unrecognised deferred corporation tax assets amounted to £19 million (2002: £29 million).

- (i) The pension cost provision includes the difference between charges to the profit and loss account and the contributions paid to the pension schemes in respect of retirement pensions and other related benefits.
- (ii) Other provisions principally represents estimated liabilities for restructuring, outstanding litigation and National Insurance in respect of long term incentive scheme liabilities. The National Insurance provision was based on a share price of 211 pence at 31 December 2003 (2002: 171 pence).

39 Reserves	Share premium account £m	Profit and loss account ⁽ⁱ⁾ £m	Total £m
1 January 2003	537	1,059	1,596
Retained loss for the year ⁽ⁱⁱ⁾	–	(238)	(238)
Shares to be issued under long term incentive scheme ⁽ⁱⁱⁱ⁾	–	3	3
Issue of ordinary share capital (note 19)	12	–	12
31 December 2003	549	824	1,373

- (i) As permitted by section 230(3) of the Companies Act 1985, no profit and loss account is presented. The company's loss for the financial year was £9 million (2002: £28 million).
- (ii) The company intends to fund certain of its long term incentive schemes through the issue of new shares when these schemes vest. The amount shown represents the expected value of the shares to be issued using the market price at the date allocations were granted.
- (iii) Exchange losses of £53 million (2002: £84 million gain) on foreign currency borrowings have been offset in reserves against exchange gains of £53 million (2002: £90 million loss), on the cost of investments in overseas undertakings.

40 Movements in shareholders' funds	2003 £m	2002 £m
1 January	1,832	1,548
Loss attributable to the company	(9)	(28)
Dividends	(229)	(172)
Exchange translation differences	–	(6)
Issue of shares net of issue costs	13	488
Shares to be issued under long term incentive scheme	3	2
Net movement in shareholders' funds for the financial year	(222)	284
31 December	1,610	1,832

41 Commitments and contingencies

a) Capital expenditure

At 31 December 2003, the company had placed contracts for capital expenditure amounting to £10 million (2002: £5 million).

b) Lease commitments

At 31 December 2003, there were £1 million of land and building and £6 million of computer lease commitments in relation to non-cancellable operating leases for the company (2002: £1 million and £7 million respectively). The company has guaranteed operating commitments of a subsidiary undertaking at 31 December 2003 of £10 million (2002: £8 million) in respect of land and buildings.

c) Guarantees and indemnities

Refer to note 26(f).

Gas and liquids reserves (unaudited)

The group has estimated proven and probable gas and liquid reserves in the UK and North America. Estimates are made by management.

The principal fields in the UK are South Morecambe, North Morecambe, Galleon and the Rough field associated with Centrica Storage. The principal fields in North America are Medicine Hat and Entice.

Estimated net proven and probable reserves of gas (billion cubic feet)	UK	North America	Total
1 January 2003	2,442	404	2,846
Revisions of previous estimates ⁹	193	(17)	176
Purchases of reserves in place	12	–	12
Production	(382)	(36)	(418)
Sales of reserves in place	(5)	–	(5)
31 December 2003	2,260	351	2,611

(i) Includes 188 billion cubic feet in relation to the Rough field associated with Centrica Storage.

Estimated net proven and probable reserves of liquids (million barrels)	UK	North America	Total
1 January 2003	3	4	7
Revisions of previous estimates	3	(1)	2
Purchases of reserves in place	3	–	3
Production	(1)	–	(1)
31 December 2003	8	3	11

Liquid reserves includes condensate, propane, butane and oil.

Five year summary

Results	1999	2000	2001	2002	2003
Year ended 31 December	£m	£m	£m	£m	£m
Turnover	7,217	9,933	12,611	14,345	17,931
Operating profit before goodwill amortisation and exceptional charges, including share of joint ventures and associates:					
British Gas residential		164	(46)	244	206
Centrica Business Services		36	44	65	51
Centrica Energy Management Group		308	573	519	561
Centrica Storage				1	40
	476	508	571	829	858
The AA	3	19	72	73	93
Goldfish Bank ⁽ⁱ⁾	(14)	(15)	(32)	(40)	(27)
One.Tel			4	2	4
Centrica North America		8	68	63	130
Other operations	(41)	6	(4)	5	-
	424	526	679	932	1,058
Exceptional items	(136)	(14)	(80)	(35)	(53)
Goodwill amortisation	(13)	(60)	(88)	(123)	(161)
Profit attributable to the group	182	335	323	478	500
	Pence	Pence	Pence	Pence	Pence
Earnings per ordinary share	4.3	8.4	8.1	11.4	11.8
Adjusted earnings per ordinary share ⁽ⁱⁱ⁾	7.9	10.2	12.1	15.2	16.8
Cash flows					
Year ended 31 December	1999	2000	2001	2002	2003
	£m	£m	£m	£m	£m
Cash inflow from operating activities before exceptional payments	1,453	1,139	869	733	992
Exceptional payments	(135)	(76)	(44)	(16)	-
Disposals and acquisitions	(1,162)	(590)	(607)	(935)	292
Cash (outflow)/inflow before use of liquid resources and financing	(690)	55	(342)	(918)	652
Assets and liabilities					
as at 31 December	1999	2000	2001	2002	2003
	£m	£m	£m	£m	£m
Intangible fixed assets	992	1,309	1,524	1,813	1,614
Tangible fixed assets and fixed asset investments	1,913	1,993	2,225	2,865	2,844
Net current (liabilities)/assets	(346)	(469)	(397)	(108)	241
Long term creditors and provisions	(1,592)	(1,535)	(1,816)	(2,168)	(1,945)
Net assets	967	1,298	1,536	2,402	2,754
Debt, net of cash and money market investments:					
Net (debt)/cash (excluding Goldfish Bank and non-recourse debt)	(127)	(117)	(433)	(529)	163
Goldfish Bank working capital facility			(610)	(430)	-
Consumers' Waterheater Income Fund (non-recourse) debt				(196)	(216)
	(127)	(117)	(1,043)	(1,155)	(53)

The analysis between British Gas residential, Centrica Business Services and Centrica Energy Management Group is not available for 1999.

Prior years have been restated for changes in accounting policies. 1999 was restated on implementation of FRS 12 Provisions, contingent liabilities and contingent assets in 1999. On implementation in 2001 of FRS 19 Deferred Tax and mark to market accounting for energy trading derivative financial instruments, values for 2000 were restated but not those for 1999.

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

Information for shareholders

Financial calendar

Ex-dividend date for 2003 final dividend	28 April 2004
Record date for 2003 final dividend	30 April 2004
Annual general meeting, Queen Elizabeth II Conference Centre London SW1	10 May 2004
Final dividend payment date	16 June 2004
2004 interim results announced	29 July 2004
Interim dividend payment date	10 November 2004

Centrica shareholder helpline

Centrica's shareholder register is maintained by Lloyds TSB Registrars who are responsible for making dividend payments and updating the register, including details of changes to shareholders' addresses and purchases or sales of Centrica shares. If you have a question about your shareholding in Centrica, you should contact:

Centrica shareholder helpline: 0870 600 3985
Text phone: 0870 600 3950
Write to: Lloyds TSB Registrars
The Causeway, Worthing,
West Sussex BN99 6DA

Frequent shareholder enquiries

If you change your address

Please notify Lloyds TSB Registrars in writing. If shares are held in joint names, the notification must be signed by the first-named shareholder. A form is also available on our website.

If you change your name

Please notify Lloyds TSB Registrars in writing and enclose a copy of any marriage certificate or change of name deed as evidence.

Lost Centrica share certificate

If your share certificate is lost or stolen, you should call the Centrica shareholder helpline immediately. A letter of indemnity will be sent to you to sign. Lloyds TSB Registrars will charge for this service.

Duplicate shareholder accounts

Shareholders who receive more than one copy of Centrica communications may have shares registered inadvertently in at least two accounts. This happens when the registration details of separate transactions differ slightly. If you wish to consolidate these accounts, call the Centrica shareholder helpline to request an account combination form. The form is also available on our website.

Buying and selling shares in the UK

If you wish to trade in Centrica shares, you will need to use a stockbroker or high street bank which trades on the London Stock Exchange. There are many telephone and online services available. If you are selling, you will need to present your share certificate at the time of sale.

Transferring Centrica shares

Transferring shares to someone else requires the completion of a stock transfer form. This form, and details of the procedure you need to follow, are available from the Centrica shareholder helpline. Stamp duty is not normally

payable if the transfer is to a relative or if there is no money being paid in exchange for the shares.

Direct dividend payments

Dividends can be paid automatically into your bank or building society account. This service has a number of benefits:

- there is no chance of the dividend cheque going missing in the post;
- the dividend payment is received more quickly as the cash is paid directly into the account on the payment date without the need to pay in the cheque and wait for it to clear; and
- a single consolidated tax voucher is issued at the end of each tax year, in March, in time for your self-assessment tax return.

Having your dividends paid in this way also helps Centrica improve its efficiency by reducing postage and cheque clearance costs. If you wish to register for this service, please call the Centrica shareholder helpline to request a direct dividend payment form. The form is also on our website.

The Centrica website

The Centrica website at www.centrica.com provides news and details of the company's activities, plus information on the share price and links to our brand sites.

The investor information section of the website contains up-to-date information for shareholders including the company's latest results and key dates such as dividend payment dates. It also holds historical details such as past dividend payment dates and amounts, and a comprehensive share price information section. Visit www.centrica.com/shareholders

Electronic communications

Shareholders who prefer to receive communications from Centrica electronically are encouraged to register their email address via the investor section of our website. The company's annual report is available on the Centrica website and, by registering, shareholders will receive an electronic notification when the company's annual reports and notices of general meeting become available. Shareholders are also able to complete and return voting papers for the company's annual general meeting electronically. Registration is free and easy to complete. All that is required for registration is the shareholder reference number which is shown on your tax vouchers and share certificates. Once you are registered, you may also look up a range of information including the number of Centrica shares you hold, the registered name and address details and information held for dividend payment instructions.

Share price information

The Centrica share price and historical details may be viewed on our website. Shareholders can find share prices listed in most national newspapers. Ceefax and Teletext pages also display share prices that are updated regularly throughout the trading day. For an accurate buying or selling price, you should contact a stockbroker or high street bank.

The Centrica FlexiShare service

Centrica has teamed up with Lloyds TSB Registrars to offer a new range of services aimed at making life easier for shareholders. FlexiShare participants will have access to a dividend reinvestment plan and a low cost, reduced time share dealing facility. There is no cost to shareholders for transferring into the FlexiShare service and participants will benefit from the same rights as all other shareholders. For further details about FlexiShare, please call the Centrica shareholder helpline or visit www.centrica.com/flexishare.

ShareGift

ShareGift, the charity share donation scheme, is a free service for shareholders wishing to give shares to charitable causes. It may be especially useful for those who wish to dispose of a small parcel of shares which would cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information can be obtained at www.sharegift.org or from the Centrica shareholder helpline.

The Unclaimed Assets Register

The Unclaimed Assets Register is a unique search service that helps individuals to find their lost assets and re-establish contact with financial institutions. It has a database of unclaimed life policies, pensions, unit trust holdings, and share dividends drawn from many companies and can search for lost assets and entitlements. The Unclaimed Assets Register charges a small fixed fee for each search, 10% of which goes to charity. For further information, visit www.uar.co.uk or call the Centrica shareholder helpline.

Overseas dividend payments

A service has been established to provide shareholders in over 30 countries worldwide with the opportunity to receive Centrica dividends in their local currency. For a small fixed fee, shareholders can have their dividends automatically converted from sterling and paid into their bank account, normally within five working days of the dividend payment date. For further details, please contact the Centrica shareholder helpline on +44 121 415 7061.

Useful historical information

Demerger

Centrica plc traded on the London Stock Exchange for the first time on 17 February 1997, the date of demerger from British Gas plc. Shares were acquired in Centrica plc on the basis of one Centrica share for every British Gas plc share held at demerger. Shares in Centrica plc, acquired on demerger, are treated as having a base cost for capital gains tax purposes (calculated in accordance with taxation legislation) of 64.25 pence each.

Share capital consolidation

On 10 May 1999, the ordinary share capital of Centrica plc was consolidated on the basis of nine new ordinary shares of 5½ pence for every ten ordinary shares of 5 pence held on 7 May 1999. The consolidation was linked to the payment of a special dividend of 12 pence per share on 23 June 1999.

Shareholder benefits

We are pleased to offer a series of shareholder benefits on selected products and services. If you would like to receive information about these items, and have not previously registered, please call the Centrica shareholder helpline or visit the shareholder benefits page of our website.

American Depositary Receipts

Centrica has an American Depositary Receipt (ADR) programme. The ADRs, each of which is equivalent to ten ordinary Centrica shares, trade under the symbol CNTCY.

For enquiries, please contact:

ADR Depositary
The Bank of New York
Investor Relations
PO Box 11258, Church Street Station
New York NY 10286-1258

email: shareowner-svcs@bankofny.com
or via www.stockbny.com

Telephone: 1 888 BNY ADRs in the US
or 00 1 610 382 7836 from outside the US.
www.adrbny.com

Analysis of shareholders as at 31 December 2003

Distribution of shares by the type of shareholder	Holdings	Shares
Nominees and institutional investors	12,317	3,724,341,021
Individuals	1,147,334	541,560,185
Total	1,159,651	4,265,901,206

Size of shareholding	Number of holdings	Shares
1 – 500	864,482	219,544,635
501 – 1,000	193,624	133,203,069
1,001 – 5,000	93,052	158,677,844
5,001 – 10,000	4,971	34,319,964
10,001 – 50,000	1,909	37,440,589
50,001 – 100,000	346	24,821,353
100,001 – 1,000,000	846	290,271,996
1,000,001 and above	421	3,367,621,756
Total	1,159,651	4,265,901,206

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If you would like this annual report in a different format, such as large print, Braille or cassette, please call us on 0870 600 3985. Alternatively if you have a text phone, please make your request on 0870 600 3950.

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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Centrica

We continued to make progress
By concentrating on what our

customers want
Our Chairman

Centrica's vision is to be a leading supplier of essential services in our chosen markets. Our strategy is to retain and attract customers in our core businesses with continual improvements in service and value, while at the same time developing new opportunities in the UK and internationally.

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Visit our websites

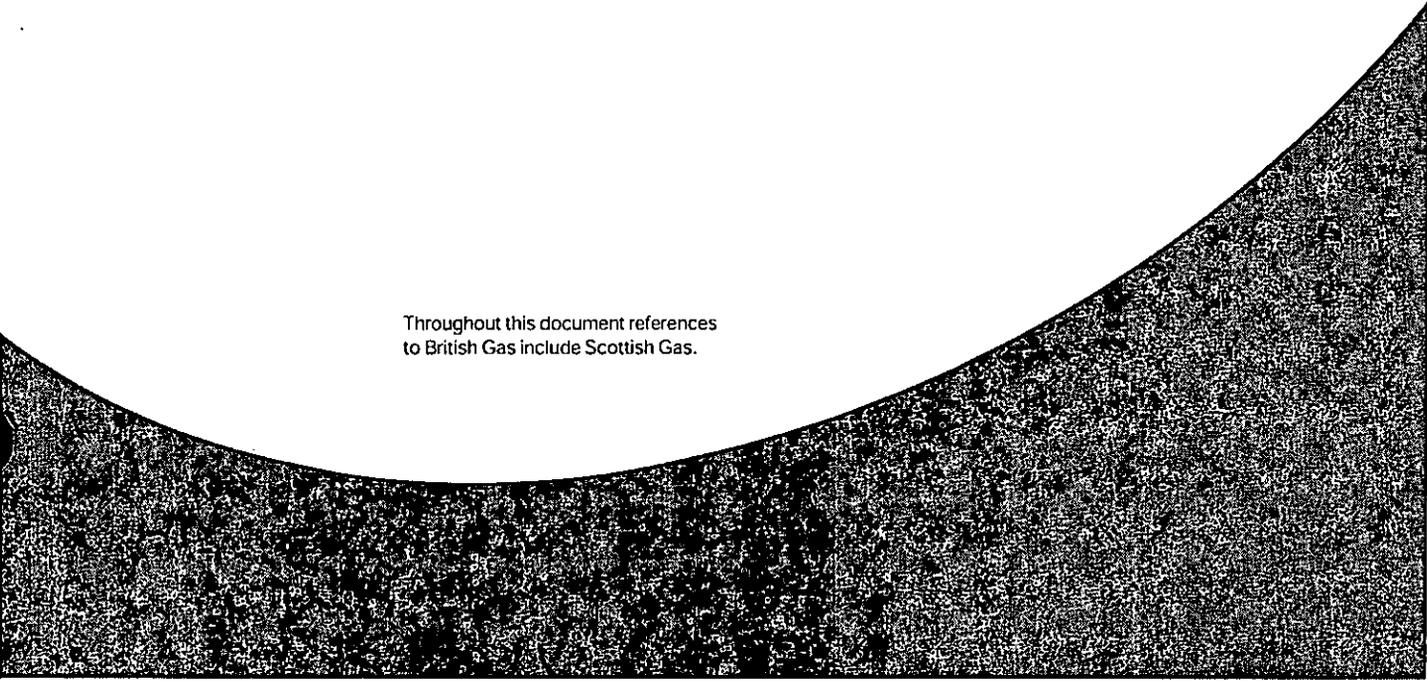
You can find out more about Centrica and the businesses in our group by visiting our websites.

www.centrica.com provides information about the group, including our corporate responsibility activity and shareholder services.

You can find out more about the products and services we offer by visiting our customer sites:

www.theAA.com
www.house.co.uk
www.britishgasbusiness.co.uk
www.goldfish.com
www.onetel.co.uk
www.directenergy.com
www.energyamerica.com
www.luminus.be

Throughout this document references to British Gas include Scottish Gas.



Overview of the year

Before exceptionals and goodwill amortisation including joint ventures and associates

Earnings per share (pence)

02	117.2
01	92.1
00	10.2
99	7.9
98	4.0

Operating profit (£m)

02	1,032
01	1,674
00	1,276
99	1,124
98	1,213

After exceptionals and goodwill amortisation including joint ventures and associates

Earnings per share (pence)

02	111.4
01	81
00	8.4
99	11.3
98	21

Operating profit (£m)

02	1,809
01	1,511
00	1,152
99	1,275
98	1,228

Operating profit: up 37% (58% after exceptionals and goodwill)

Earnings: up 32% (48% after exceptionals and goodwill)

British Gas residential: improved gas margins and growth in electricity and services

Centrica Business Services: profit up 48% with organic growth supported by acquisitions

AA: core business growth in roadside and personal finance

Telecoms: losses reduced by two thirds and improving sector outlook

Goldfish: credit card growth from renewed brand building

North America: acquisitions of incumbent positions but slower organic growth

Dividend: final dividend up 37%; up 29% for the year

All operating profit numbers and earnings are stated, throughout the commentary, before exceptionals and goodwill amortisation unless otherwise stated. The directors believe this measure assists with understanding the underlying performance of the group. The equivalent amounts after exceptionals and goodwill amortisation are reflected in note 3 and are reconciled at group level in the group profit and loss account on page 32, with descriptions of the exceptional items in note 5.

Centrica at a glance

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

People know us through our brands but behind those brands lie the skill, knowledge and expertise of thousands of employees.

Centrica has unrivalled experience in providing essential services to people in their homes and on the road.



British Gas

Gas: We supply gas to homes throughout Britain, under the British Gas and Scottish Gas brands. Against the background of a highly competitive energy market, millions of customers continue to choose us as their gas supplier.

Electricity: Since the residential electricity market opened to competition in 1998 we've become one of the largest suppliers of electricity in Britain.

We are committed to providing our customers with excellent service and great value for money.

Telecommunications: British Gas Communications was launched in September 2000, and offers customers fixed line, mobile and internet services.

Home services: We continue to be the largest provider of gas central heating installation and servicing in the country. We also offer our customers the reassurance of protection in other areas of the home, providing services for kitchen appliances, plumbing and drains, electrical wiring and home security systems.

www.house.co.uk

British Gas 

Scottish Gas 

Nwy Prydain 



Centrica Business Services

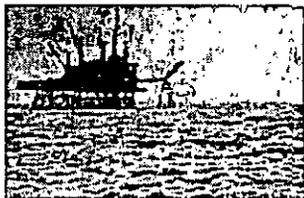
During the year we created Centrica Business Services.

We supply gas, electricity and telecoms to industrial and commercial customers across Britain using the British Gas, Scottish Gas and One.Tel brands.

In addition to increasing our share of the energy market for small and medium sized enterprises, we are creating broader bundled offers. These build on emerging operational synergies, as well as our local and national presence.

www.britishgasbusiness.co.uk

centrica
business services



Centrica energy management group (CEMG)

Gas and electricity operations: Our equity gas production and electricity generation capabilities, along with third party supply and transportation contracts are managed to optimise value and assure reliable supply for customers.

Energy trading: Our trading and wholesaling business, Accord Energy, trades with all the major participants in the

wholesale UK energy market and is an active player in the emerging European markets.

www.centrica.com

We aim to enhance the service we provide to our customers and the value we give to our shareholders by continually deepening our understanding of what our customers want.

We do this by training our people, enhancing our systems and developing our brands. Centrica strives to ensure that all our experience and knowledge is shared across our businesses for the benefit of customers and shareholders alike.



The AA

www.theaa.com

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

are a growing provider of personal loans and financial services.

Other AA services: AA Service Centres offer a range of maintenance and repair services to motorists across Britain.

Personal finance: We are the UK's number one independent insurance intermediary, and we

We are the only national driving school exclusively using fully qualified driving instructors.



One.Tel

www.onetel.co.uk

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

Our mobile service offers one of the lowest monthly line rental charges in the country.

One.Tel»»



Goldfish Bank

www.goldfish.com

Building on the success of the Goldfish card, we have launched the Goldfish Bank in partnership with Lloyds TSB to develop a wide range of financial services products.

New products include a savings account, personal loans and a guaranteed savings bond.



North America and Europe

www.directenergy.com
www.energyamerica.com
www.luminus.be

North America: Through Direct Energy in Canada and Energy America in the US we supply energy to homes and businesses in several provinces and states.

ventilation installation and maintenance services.

Our Direct Energy home services division provides heating and

Europe: Our joint venture energy business, Luminus, is an active participant in the liberalising Belgian market.





Our strong brands, enhanced customer insight and asset management expertise will continue to enable us to create value for customers and shareholders.

During 2002, Centrica continued to make progress towards our vision of 'taking care of the essentials' for customers in our chosen markets. We have done this by concentrating on what our customers want. This has led to top-line growth across our business units and helped drive adjusted earnings per share up 26% (before exceptional items and goodwill amortisation).

We took significant steps to ensure that British Gas remains the market leader in residential energy and continues to improve its performance in other home services. The AA had a year of solid performance as we repositioned the AA brand to increase awareness of the wide range of products and services available to motorists. Our North American business has made progress despite a challenging regulatory environment.

Centrica remains well placed to compete in an increasingly international energy marketplace where we expect further consolidation.

In the UK, the measures to underpin a competitive energy market enable us to continue to deliver benefits to customers. In the wider European context, good progress was made towards agreeing a framework for introducing competition to the entire energy market. In addition a number of important improvements were made to the competitive conditions in the UK telecoms market but there is still further work to be done.

Dividend

The board of directors is proposing a final dividend of 2.6 pence per share to be paid in June 2003. When combined with the interim dividend of 1.4 pence per share paid in November 2002, the total dividend for 2002 would be 4.0 pence per share. This represents an increase of 29% on the previous year and reflects our positive medium term outlook for both earnings and cash flow.

The board of directors

We announced a number of changes to the board during the year. Sir Sydney Lipworth retired at the annual general meeting in May and we are most grateful for the significant contribution he made to the development of Centrica. In September we announced the appointment of Helen Alexander and in October the appointment of Robert Tobin as non-executive directors with effect from 1 January 2003. I am delighted that Helen and Robert have joined us. Their considerable experience will further strengthen the board.

Corporate responsibility

We recognise that creating sustainable shareholder value depends on a full understanding of our impact on society and the responsible management of our business in a manner consistent with our values and principles. To this end, we established a corporate responsibility committee which sets the framework for developing and reporting our efforts in this area. Our approach was recognised by our inclusion in the FTSE4Good and Dow Jones Sustainability indices.

We recognise that creating sustainable shareholder value depends on a full understanding of our impact on society.

The future

Centrica remains well placed to compete in an increasingly international energy marketplace where we expect further consolidation. Our strong brands, enhanced customer insight and asset management expertise, combined with our financial and operational scale, will continue to enable us to create value for customers and shareholders alike.

The collective efforts of all Centrica employees have ensured that we have made further progress towards our vision during 2002. I would like to thank them for their commitment and I look forward to working with them to deliver the business performance, which will provide our customers with the service that they want and reward our shareholders appropriately.

Sir Michael Perry CBE
Chairman

Chief executive's review



We have a strong business with leading market positions and I am confident that our strategy will continue to deliver value for our shareholders.

In 2002 the group continued its strong overall financial performance, in particular from our leading UK energy operations, where improvement in margins and growth were accompanied by new momentum in our services to business customers and expansion of our upstream energy asset portfolio.

Our AA roadside and personal finance operations continue to deliver solid underlying profit growth. Despite slow regulatory progress in our UK telecoms and North American energy markets, we are expanding in both businesses. Goldfish brand development continues with a more focused product line. Our reinvestment in growth areas is proceeding selectively, with a constant focus on economic value creation.

Global energy markets were hit in 2002 by turbulence and the retrenchment or exit of certain market participants, and the UK was no exception. Positive underlying progress in the transparency and competitiveness of the UK wholesale electricity market resulted in financial pressure on some asset owners, and poor performance for those market participants that had not anticipated the fundamental impact on wholesale pricing.

However, the wholesale gas and electricity markets are resilient, with ample commodity supply enabling British Gas to benefit from both retail brand leadership and the hedging effect of our energy asset management. The value strategies that we are pursuing in both the upstream and downstream markets within the UK continue to afford the group a competitive advantage.

Turnover and profitability
Group turnover (excluding Accord trading revenue) was £10 billion in 2002, up 11% from the prior-year period. Higher sales to our business customers - through Centrica Business Services - were complemented by an increase in residential electricity sales as well as growth in North America, the AA's roadside and personal finance units, home services and One.Tel. UK gas sales volumes were lower, largely due to unusually warm weather in the first and fourth quarters of the year.

Group operating profit (including joint ventures and associates, before exceptionals and goodwill amortisation) of £932 million was up 37% from £679 million in 2001, with improved performance across most brand units, particularly British Gas. Aggregate group gross and operating margins (excluding Accord) were 30% and 9%, up from 26% and 7% respectively in 2001.

Customer service

We maintained our focus on improving customer service levels across all of our brands. We are now placing greater importance on qualitative and value-based measures of customer service which are built into a scorecard evaluation and reflected in the remuneration of staff at all levels.

As testament to our focus on these areas, we continue to be highly rated by external agencies. In particular, the AA won the JD Power & Associates 2002 UK Roadside Assistance Study award for customer satisfaction for the third time in five years. Further accolades include Which? magazine naming the AA as the UK's best motoring organisation, and www.house.co.uk winning the 2002 Customer Management National E-commerce Customer Service Award.

Outlook

Whilst the economic outlook remains uncertain, we are moving from a period of considerable investment in growth opportunities and strategic market entries, to a period of delivery from these investments, underpinned by new customer relationship management (CRM) platforms and common competencies in securing value from deeper customer relationships.

For British Gas, we expect continuing recovery in residential gas gross margins and further electricity growth to generate further profit improvement, partially offset by the higher costs of the government's Energy Efficiency Commitment and peak CRM system implementation expenses through to 2004. Annual CRM cost synergies will drive further medium term growth in British Gas operating margins.

In the UK retail energy sector competition remains tough, although we believe that the transaction prices paid recently by acquirers should result in retail pricing consistent with positive supply margins. In addition, reduced doorstep selling in the industry appears to be leading to lower churn

Operating profit by business* (£m)

	2002	2001
British Gas residential	244	(46)
Centrica Business Services	65	44
Centrica energy management group (CEMG)	520	573
The AA	73	72
Goldfish Bank ¹	(40)	(32)
One.Tel	2	4
Centrica North America	63	68
Other operations	5	(4)
Group	932	679

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

Chief executive's review continued

Operating profit (£m)

02	932
01	670
00	526
99	424
98	213

Before exceptionals and goodwill amortisation, including joint ventures and associates.

Operating profit (£m)

02	908
01	511
00	442
99	275
98	128

After exceptionals and goodwill amortisation, including joint ventures and associates.

rates. While we expect the result of this reduced industry churn to be slower growth in our residential electricity customer base than we had previously anticipated, reduced customer acquisition expenses should contribute to better electricity profits.

We expect to increase market share and profitability in the UK commercial energy sector. The launch of Centrica Business Services has resulted in increased management focus and growing product portfolios in this unit.

It is anticipated that output volumes from our Morecambe Bay gas production facilities will decrease by around 10% per year, offset over time by greater output from other currently held gas assets and future acquisitions. We expect our cash petroleum revenue tax (PRT) payments to decline significantly over the next few years.

Profitability of the AA is expected to continue to improve, and expenditure in information technology will peak in 2003. For One.Tel, we expect that regulatory improvements will warrant renewed organic investment in brand and product marketing at the same time as developing our growing mobile and internet businesses. For Goldfish, significant improvement to credit card and loans contributions are expected in 2003 and with a more focused rollout of new products, breakeven will occur towards the end of the year.

North America continues to offer a significant value creation opportunity, given our focus on the marketing and service elements of deregulated energy supply. We continue to lobby regulators to maintain legal frameworks and incumbent pricing levels which

allow sufficient and stable gross margin headroom to attract new market entrants. Without this regulatory commitment to proper competitive markets, current organic growth prospects and customer renewals are being negatively affected. In this environment, we expect to focus in 2003 primarily on the integration of our existing customer bases and on profitability. We will maintain a flexible approach to customer acquisition, seeking to acquire incumbent supplier customer bases and playing a key role in markets at early stages of deregulation. Our organic growth will be focused in a few larger state and provincial markets which offer sufficient scale for successfully marketing our energy and related services. As a result of this industry environment and our strategic focus, the timing for achievement of our broader ambition in North America will depend upon the availability and pace of key acquisition opportunities.

Our strategy in continental Europe is to build a significant customer base in the medium term. Although the pace of deregulation varies across the individual markets there are now clear timetables for commercial and residential market openings. The whole of the European Union household energy market is expected to be liberalised by mid 2007. We are focusing on those countries where the speed of market opening and legal and political conditions, including unbundling and independent regulation, are more advanced.

Employees

Our employees are central to the delivery of our strategy and we need to continue to attract and retain high quality, highly motivated people. I am pleased that we have recruited some excellent people

over the last year to complement our existing team. We are also developing programmes to ensure that we have the leadership capability to drive our strategy forward.

I am committed to making Centrica an employer of choice and the recent accreditation of our AA brand unit as 'Investors in People' is one indication that we are developing the highest standards of employment policies and practices. Increased scores in our satisfaction survey in 2002 demonstrate that our employees share our vision and are committed to delivering our strategy. I would like to join the chairman in thanking them all for their ongoing and valued commitment.

Conclusion

To sum up, we have a strong business with leading market positions. Our core businesses are growing and are strongly cash generative and our investment in new businesses is proceeding as market opportunities emerge. I am therefore confident that our strategy will continue to deliver value for shareholders.



Sir Roy Gardner
Chief Executive

Operating and financial review




British Gas serves millions of customers every day.

British Gas residential Improved gas margins and growth in electricity and services

2002 has seen progression in the performance of British Gas residential, driven by improved gas margins, continuing growth in electricity and home services and reduced losses in communications. Aggregate turnover was up 2.3% in 2002, at £6 billion with operating profit at £244 million (2001: loss of £46 million), despite warmer weather. Our energy and home services operations have been integrated to reflect our vision of enhancing customer loyalty through greater understanding and to realise higher revenue and cost synergies. Our investment in the British Gas brand continues to support our leading position in the residential energy and services sectors and allows us to continue to build further multi-product customer relationships, with the aim of becoming Britain's leading home services provider. Our operations will be further supported by our investment in customer relationship management (CRM) infrastructure, enabling improved service levels, a lower cost to serve and lower costs to acquire new product relationships.

At British Gas we're making investments to enhance the quality of service we provide to millions of customers every day. We are now significantly increasing the number of engineers and developing a range of skills and expertise to sustain our competitive edge in the market. Continued investment in development of our employees so that they are able to provide ever improving service standards will lead to durable and profitable customer relationships.

British Gas strongly believes that selling practices across the energy industry must continue to be improved. It has taken a leading position driving the new code of sales practice, removing commission-only sales agents and implementing an independent compliance regime.

At 40%, British Gas's share of the aggregate residential energy customer base in Britain remained steady against the same time last

year. Net losses in gas customers were in line with 2001 but reflect a longer term trend of stabilising market share with losses occurring primarily during the few months following retail price increases. Second half losses were 186,000 compared with 426,000 in the first half. Electricity sales growth was reduced by the withdrawal of commission-only sales agents. Churn rates declined in the second half of the year, with the market showing signs of lower switching

rates overall. We believe that our premium British Gas brand, improving customer service and breadth of branded home service offerings will continue to afford us competitive advantages in our sectors.

Increases in residential energy gross profits were partially offset by the £26 million expensed investment in CRM infrastructure (2001: £9 million). We expect this will begin to improve our operating profit by reducing the costs to acquire and serve our customers from 2004. We also capitalised £154 million of CRM expenditure during the year (2001: £60 million). General and administrative expenses were higher as a result of higher manpower costs (largely to support a growing home services engineering workforce), higher debtor provisions (£20 million) and increased spending (£25 million) to meet our obligations under the government's Energy Efficiency Commitment.

Most of this spend was incorporated in our 'here to HELP' programme. This programme, created by British Gas, is the country's biggest independent initiative to tackle household poverty. In alliance with local housing providers and seven leading charities, this programme will provide help to 500,000 households over the next three years. This will take the form of energy efficiency measures, benefit checks and a range of services provided by our charity partners.

British Gas's home management website, www.house.co.uk, gives customers online access to British Gas 24 hours a day, every day of the week. Research shows that the site has averaged around 28% of all utility related web traffic in

Key residential energy performance indicators

	2002	2001	Δ %
Customer numbers (period end) (000)			
Residential gas	12,839	13,451	(4.5)
Residential electricity	5,795	5,374	8
Estimated market share (%)			
Residential gas	64	67	(3ppts)
Residential electricity*	22	21	1ppt
Average consumption			
Residential gas (therms)	607	661	(8)
Residential electricity (kWh)	4,132	4,098	0.8
Weighted average sales price			
Residential gas (p/therm)	47.12	43.80	8
Residential electricity (p/kWh)	6.06	5.99	1.2
Weighted average unit costs			
Residential gas (WACOG, p/therm)	21.96	21.90	0.3
Residential electricity (WACOE, p/kWh)	2.47	2.55	(3.1)
Transportation and metering charges (£m)			
Residential gas	1,256	1,508	(17)
Residential electricity	444	342	30
Total	1,700	1,850	(8)
Sales and marketing expenses (% of turnover)	4.2	4.3	(0.1ppts)
Average products per customer** (period end)	1.53	1.50	2
Turnover (£m)			
Residential gas	3,805	4,029	(6)
Residential electricity	1,380	1,121	23
Total	5,185	5,150	0.7
Gross profit margin (%)²			
Residential gas	20	12	8ppts
Residential electricity	26	27	(1ppt)
Total	22	15	7ppts
Operating profit (£m)			
Residential energy	218	19	n/m
Operating margin (%)			
Residential energy	4.2	0.4	3.8ppts

*2001 restated to reflect Ofgem market resizing during 2002.

**British Gas residential brand.

Δ% has been used to express 'percentage change'.
n/m has been used to represent 'not meaningful'.

Operating and financial review continued



We continue to invest in the development of employees.

British Gas residential segmental turnover (£m)

	2002	2001
Residential gas	3,805	4,029
Residential electricity	1,380	1,121
Home services	810	722
British Gas Communications	52	37
Total	6,047	5,909

Britain, up from around only 6% on the old British Gas site.

Residential gas

Turnover decreased by 6% to £3.81 billion. Higher average selling prices were offset by a reduction in sales volumes, reflecting warmer UK weather (operating profit impact £42 million) and the net loss of around 600,000 customer accounts. We believe that our brand and the scale of service we provide support our average revenue per customer being above the average of the competition.

Gross margins recovered to 20% (2001: 12%). The recovery was driven by the increase in average selling prices and a reduction in transportation and metering costs of £252 million compared with 2001, due to lower volume and timing differences. A large portion of the lower costs arose in the early part of the year reflecting a reversal of the over-recovery by Transco in 2001 of National Transmission System (NTS) entry fees with a year-on-year impact of £98 million.

In 2002 we withdrew from the liquefied petroleum gas (LPG) business in line with our strategy of focusing on direct customer relationships as a large portion of the LPG business operated through third party retailers.

Residential electricity

Turnover increased by 23% to £1.38 billion. Our weighted average retail price was slightly higher, as the full year effect of a reduction in prices in 2001 was offset by a shift in our customer mix following growth in the prepayment segment, which operates on higher tariffs given related administrative costs. Average consumption was broadly flat year on year. We believe that our average retail pricing is approximately 8% below the average of the incumbent suppliers and we estimate our market share at year end was 22% (2001: 21%).

Gross profit grew by 21% due to higher volumes, while our gross margin fell one percentage point to 26% due to increased transportation and metering

Key British Gas Communications performance indicators

	2002	2001	Δ %
Customer numbers (fixed line) (period end) (000)	367	400	(8)
Average minutes use per month (fixed line)	340	347	(2)
ARPU (fixed line) (£)	10.52	10.87	(3.2)
Variable gross margin (%)	28	26	2ppts
Sales and marketing expenses (% of turnover)	7	22	(15ppts)
Turnover (£m)	52	37	41
Operating loss (£m)	(35)	(101)	65

costs being only partially offset by lower commodity costs.

Home services

British Gas home services continued to report strong growth in the year. Turnover increased by 12% to £810 million. Higher central heating volumes, augmented by the impact of our Trohurst acquisition in late 2001, were complemented by good contributions from our newer products, in particular home electrical care. We are the only major service supplier providing bundled service products under our own brand, using our own people. This integrated offering gives competitive advantage over outsourced products and services marketed by other suppliers and is a strong tool for the retention of energy customers.

A £64 million improvement in gross profit resulted from an increase in volume and average order value along with a higher gross margin due to product mix, increased productivity and the lower price of materials. This was partly offset by increased operating costs, mainly due to higher manpower and home services marketing expenses. The resulting growth of 69% in operating profit illustrated the continuing scalability of our home services business model as we increased both customer numbers and product penetration.

Our engineering staff numbers (including installation engineers)

grew by 13%. Securing access to skilled engineering staff is a key challenge and during the first half of the year we announced our intention to recruit and train approximately 5,000 engineers over the next five years: this is already well under way. To this end British Gas has set up its own engineering academy which will co-ordinate all engineering recruitment, skills training and apprentice development across the company. It will also liaise with external bodies including government and the wider industry to promote training and to reduce skills shortages.

British Gas Communications

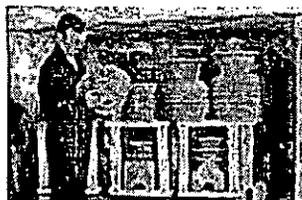
Turnover in 2002 was up 41% at £52 million (2001: £37 million), due primarily to a higher average number of customers over the 12 month period. Our gross margin increased to 28% (2001: 26%) as call traffic was transferred to the group's switches, managed by One.Tel. Our switches allow us to take advantage of the lowest cost routing for each individual call.

The business continues to operate at a loss, mainly due to underlying infrastructure costs and the cost of customer acquisition in an environment of continuing high churn rates. Since the implementation of enhanced carrier pre-selection (CPS) processes in July, all new customer connections are fulfilled using this method. Initial results support our expectation that the average revenue per customer

Key home services performance indicators

	2002	2001	Δ %
Customer relationships (period end) (000)			
Central heating service contracts	3,482	3,314	5
Kitchen appliances care (no. of appliances)	871	562	55
Plumbing and drains care	905	743	22
Electrical care	367	143	157
Home security	28	28	-
Total relationships	5,653	4,790	18
Central heating installations	102	109	(6)
Turnover (£m)			
Central heating service contracts	398	371	7
Central heating installations	260	255	2
Other	152	96	58
Total	810	722	12
Engineering staff employed	6,036	5,356	13
Sales and marketing expenses (% of turnover)	6	5	1ppt
Gross margin (%)	46	42	4ppts
Total operating profit (£m)	61	36	69
Operating margin (%)	8	5	3ppts

centrica
business services



Centrica Business Services focuses on the needs of small and medium sized enterprises.

CEMG segmental turnover (£m)

	2002	2001
Industrial sales and wholesaling	784	921
Gas production	83	80
Accord energy trading	4,304	3,570
Total	5,171	4,571

(ARPU) will increase and the rate of churn for customers using CPS will reduce. We are continuing to lobby for a converged process for both CPS and wholesale line rental (WLR) in order to make it simpler for customers to switch suppliers but we remain of the view that considerable work needs to be done before a fit for purpose product can be launched.

Significant reductions have been made to operating costs as synergies with One.Tel have been realised. Cancellation and churn rates have improved in the second half through better customer targeting and quality of service. Customer care and billing were transferred onto One.Tel's system in June, reducing information systems spending by approximately £1 million per month.

Centrica Business Services Profit up 48% with organic growth supported by acquisitions

Centrica Business Services established itself as the number one supplier of energy to the commercial sector in the UK by maintaining its position in the gas market and by achieving strong organic growth in the electricity sector, supplemented by the acquisition of Electricity Direct. The organic growth accounted for almost half of the 53% growth in the electricity customer base since the beginning of the year.

Enron Direct has been successfully integrated, increasing overall business profitability, giving enhanced sales capability across the market and improving service to larger multi-site customers.

Turnover has increased by 67% to £971 million as a result of organic growth as well as a full year's results from Enron Direct and five months' contribution from Electricity Direct. Overall gross margin increased

by 3 percentage points to 17% following price rises in gas.

Centrica Business Services has increased its UK commercial energy market share to 27% (2001: 22%, measured by share of supply points), comprising 51% of the gas market and 20% of the electricity market. In gas we seek to defend our market position through focusing on customer service and a value proposition rather than acquiring market share. In electricity, due to the acquisition activity and better targeted organic growth, average consumption per customer has increased by 39%. We believe our pricing is approximately in line with other major branded suppliers.

Key Centrica Business Services performance indicators

	2002	2001	Δ %
Customer supply points (period end) (000)			
Gas	383	389	(1.6)
Electricity	516	337	53
Total	899	726	24
Average consumption			
Gas (therms)	3,276	3,878	(16)
Electricity (kWh)	22,398	16,115	39
Weighted average sales price			
Gas (p/therm)	36.72	34.04	8
Electricity (p/kWh)	4.79	5.49	(13)
Weighted average unit costs			
Gas (WACOG, p/therm)	20.71	20.46	1.2
Electricity (WACOE, p/kWh)	2.25	2.44	(8)
Transportation and metering charges (£m)			
Gas	126	130	(3)
Electricity	170	40	325
Total	296	170	74
Sales and marketing expenses (% of turnover)	2.9	2.1	0.8ppts
Turnover (£m)			
Gas	457	460	(0.6)
Electricity	514	121	324
Total	971	581	67
Gross margin (%)			
Gas	16	12	4ppts
Electricity	18	22	(4ppts)
Total	17	14	3ppts
Operating profit (£m)			
Commercial energy	65	44	48
Operating margin (%)			
Commercial energy	7	8	(1ppt)

CEMG Upstream gas assets portfolio being enhanced

The Centrica energy management group (CEMG) consists of gas production operations, the newly acquired Rough gas storage facilities, electricity generation (managed for British Gas residential and Centrica Business Services), large volume industrial and wholesale gas sales, and our energy procurement, optimisation and scheduling operations. This unit is fundamental - through its provision of competitively priced energy supplies - to the success of the customer facing operations that are at the core of Centrica's consumer marketing business.

Gas production

Upstream gas profits were adversely affected by the reduction in wholesale prices compared with last year, reducing the average unit sales price (which is linked to market) by 5% in 2002. Production volumes, which represented 27% of our downstream demand, were 5% lower than last year due in part to warm weather in the first and last quarter. Unit production costs increased as a percentage of turnover given the higher volume taken from those fields which attract higher unit depreciation charges and the overall reduction in turnover to cover our fixed cost base.

During the year, a number of upstream gas transactions were concluded in line with our strategy of increasing gas equity ownership beyond the Morecambe fields. In the first, Centrica undertook a strategic swap with Agip in which Centrica acquired uncontracted gas and equity in the large Goldeneye development, and built its equity in the Armada complex in the Central North Sea, together with other small equity parcels and cash. In return, Agip acquired Centrica's equity in the Liverpool Bay development, where the gas is not contracted to British Gas.

Subsequently, an 18% stake in the Seymour development, adjacent to Armada, was acquired from BP. This well, which was drilled late in the year and contains significant quantities of gas and liquids, should be in production in the first quarter of 2003. At the end of the year, Centrica entered into a contract to acquire the remaining 60% equity and overall operatorship in the Rose gas development in the Southern North Sea.

The development is expected to deliver its first gas in 2004. Finally, agreement was reached for the sale to Talisman of the R Block

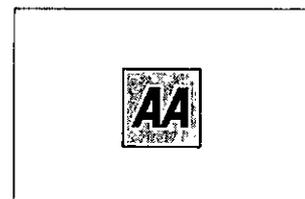
Operating and financial review continued



We now have interests in four power stations across the country.



The energy management group sources the energy needed by our customer facing operations.



oil production interests acquired from Agip as part of the swap deal.

In total an estimated 135 billion cubic feet (bcf) (1.3 billion therms) of gas was acquired.

We have also focused on making best use of our asset infrastructure in the East Irish Sea. In November, the Centrica operated Bains field came on stream and now links into our South Morecambe infrastructure. During the year, an innovative drilling project in our South Morecambe field added a small amount of additional reserves to the portfolio. This technique is now being evaluated for future use at our other East Irish Sea assets and offers us the potential of adding reserves cost effectively.

Storage

In November Centrica acquired the Rough gas storage facilities in the North Sea. During the period of Centrica's ownership, turnover was £9 million with an operating profit of £1 million. The Secretary of State for Trade and Industry has to decide whether to clear the acquisition, refer it to the Competition Commission for further investigation or accept undertakings in lieu of a reference.

Industrial sales and wholesaling

Sales volumes were down by 8% against 2001 due to reduced takes under long term interruptible contracts with power stations, and the termination of one European contract. However, better gross margins, a profit of £9 million recognised in the first half of 2002 in connection with the early termination of a gas supply contract, and one-off losses on the termination of other contracts in 2001 contributed to increased profits relative to last year.

Key CEMG performance indicators

	2002	2001	Δ %
Gas production and storage:			
Production volumes (m therms)			
Morecambe	3,659	3,892	(6)
Other	397	395	1
Total	4,056	4,287	(5)
Average sales price (p/therm)	21.5	22.5	(5)
Turnover* (£m)	932	1,033	(10)
Turnover (external) (£m)	83	80	3.8
Operating costs (% of turnover)			
Royalties	7	7	-
Petroleum revenue tax	8	8	-
Volume related production costs	25	23	2ppts
Other production costs	12	10	2ppts
Total	52	47	5ppts
Rough operating profit (£m)	1	n/a	n/a
Operating profit (£m)	448	552	(19)
Industrial and wholesale:			
Sales volumes (m therms)	5,694	6,215	(8)
Average sales price (p/therm)	19.8	19.5	2
Turnover (£m)	784	921	(15)
Operating profit (£m)	72	5	n/m
Accord*			
Traded volumes (physical)			
Gas (m therms)	20,399	18,512	10
Electricity (GWh)	95,329	29,446	224
Turnover (£m)	4,304	3,570	21
Operating profit (£m)	0	16	(100)
CEMG operating profit (£m)**	520	573	(9)

*91% was to group companies in 2002.

Electricity generation

We currently have interests in four power stations with peak capacity of 1.7 GW as well as a 0.9 GW tolling agreement with Intergen for the entire output capacity of its Spalding plant, where operations are expected to commence by the end of 2004. The volume of production at our generation plants was 7,662 GWh, an increase of 160% on last year due mainly to the addition of Glanford Brigg and the full period use of the King's Lynn and Peterborough plants. Our stations provided 22% of our annual downstream demand, and 20% of peak requirements. The main value of our plants

remains in their flexible mid-merit and peak generation capacity in a less liquid market for peak supplies. However, they also provide strategic upside potential in the event of higher wholesale prices, with the option to increase generation volumes as it becomes more profitable.

Accord Energy

Our Accord trading operations continued to support our strategic procurement requirements and take additional trading positions within strictly controlled limits based on our wholesale market outlook.

Accord broke even on the year, a drop of £16 million on 2001. After a positive first half,

we experienced gas trading losses during the unplanned shutdown of the continental European interconnector. Given Centrica's trading positions in Europe, this led to Accord having to procure gas at short notice to meet its obligations, which would have been fulfilled by exports from the UK. Accord's performance also suffered in the power markets through the highly publicised problems of TXU and British Energy, which contributed to high volatility. Accord also provided for a one-off loss of £6 million when TXU went into administration late in 2002. Physical volumes traded during 2002 were equal to 1.4 times the gas and 2.2 times the electricity volumes supplied to our downstream customers.

The AA Core business growth in roadside and personal finance

2002 saw further progress in the development of the underlying profitability of the AA's core roadside and personal finance operations. Key to the AA's future growth is the ongoing investment in brand repositioning which was launched in May. The 'JustAAask' message focuses consumer attention on the product range offered by the AA and has increased product awareness beyond roadside assistance from 33% to 43%. Turnover grew 10% to £760 million. Operating profit increased by 1.4% to £73 million with increases in roadside services and personal finance offset by start-up losses for the AA Service Centres. This repositioning of the AA brand will support the AA's continued drive towards end-to-end motoring services to members and cross-sales of the whole product range.



The 'JustAAAsk' campaign launched in May has helped broaden awareness of the AA product range.



Our network of Service Centres has now been fully rebranded.

In addition, the AA is investing in a major CRM infrastructure programme over three years. In 2002, £30 million of expenditure was incurred (of which £26 million was capitalised). This investment is central to developing the AA's cross-selling potential and at the same time achieving cost efficiencies across the business.

The AA's website continues to attract new customers to buy AA products and services online. Judged to be the UK's most popular automotive related site in 2002, the website also brought the AA the award for e-business strategy of the year at the National Business Awards. TheAA.com supplied 16 million route maps in 2002 and was accessed by 21 million visitors.

The AA continues to act as the independent voice of the motorist. Highlights included February's launch of EuroRAP, a system to give a safety star rating to Europe's roads, and the Chancellor's budget commitment not to make any further fuel tax increases.

AA roadside services

Turnover increased by 5% to £476 million, driven primarily by membership growth, and whilst our overall share of the personal and business market marginally increased to 31%, the average price per customer fell by 0.6% due to a change in product mix.

Operating profits increased by 23% to £54 million, as higher turnover was accompanied by tight management controls and initiatives to contain the roadside breakdown costs and increase patrol utilisation.

Investment in roadside assistance continues with the provision of new vehicles, GPS route guidance and

Improved management systems. The growth in roadside assistance membership has continued and with increased productivity of the 3,600 patrols, customer satisfaction has improved from 66% to 68%. The AA won the JD Power & Associates UK Roadside Assistance Study award for customer satisfaction and was named the UK's best motoring organisation in a Which? magazine survey.

Also, the first tranche of specialised all weather, portable computer systems with fault diagnostic capability were deployed to AA patrols to help maintain their ability to fix faults at the roadside. All patrols will be similarly equipped during 2003.

In the year the AA continued to train patrols and Service Centre technicians at its dedicated training college. Some 125 new patrol recruits were trained during 2002.

AA personal finance

Turnover in personal finance grew by 11% to £172 million. Supported by the 'JustAAAsk' campaign, over 70,000 car and personal loans were taken out during the year which, after renewals, left a year end portfolio of approximately 117,000 fixed term personal loans (2001: 77,000) provided through the AA joint venture. At the year end, the fixed term loan book had increased by 54% to stand at a record £661 million (2001: £428 million) with provision levels decreasing by 1% to below 3%. Continued product improvements coupled with specific advertising, emphasised the benefits of getting 'car loans from car people'.

Motor and home insurance commissions grew by 9%

Key AA performance indicators

	2002	2001	Δ %
Roadside services¹			
Customer numbers (period end) (000)	12,975	12,194	6
Customer renewal rate (%)	85	85	-
Average transaction value (£)	34	35	(1)
Roadside patrols employed	3,651	3,592	2
Personal finance²			
Insurance customers (000)			
Motor	959	906	6
Home	664	618	7
Overall renewal rate (%)	78	74	4ppts
Average annual premium (£)	261	257	2
Motor and home insurance commissions (£m)	93	86	9
Loans (fixed term) book size (£m)	661	428	54
Loans (fixed term) operating profit (£m)	20	17	18
Number of fixed term personal loans (000)	117	77	52
AA Service Centres			
Site numbers	129	129	-
Average turnover per site (£000)	320	n/a	-
Turnover (£m)			
AA roadside services	476	452	5
AA personal finance	172	155	11
Other AA services	112	82	37
Total	760	689	10
Sales and marketing expenses (% of turnover)	10	9	1ppt
Operating profit (£m)			
AA roadside services	54	44	23
AA personal finance	47	40	17
Other AA services	(28)	(12)	(133)
Total	73	72	1
Operating margin (%)	10	10	-

on higher policy volume (up to £93 million), with customer renewal rates rising to 78% (2001: 74%). The average annual premium rose by 2% to £261, reflecting general pricing conditions in the industry.

Operating profits increased by 17% to £47 million. Turnover growth of 11% was augmented by close control of support costs with increased efficiency improving the ratio of employees to insurance policy levels.

A tailored motor insurance policy specifically for AA personal members was launched in 2002 and sales

of 6,000 have been achieved in its first year. Breakdown history is one of the major factors that form part of the premiums assessment. The number of policyholders of the AA's new insurance product for parts and labour repairs grew from 3,000 in December 2001, following its launch in May to 130,000 by December 2002.

Other AA services

Turnover is up 37% to £112 million, including a full year of turnover from the AA's network of 129 garages acquired from Halfords in September 2001. In 2002 the business rebranded and relaunched the garages as




One.Tel now offers a complete telecoms service covering landline, mobile and internet.



AA Service Centres to provide a retail presence for AA members and customers. As a further step towards providing a complete motoring service it also purchased Tyreserve and expanded its own mobile tyre replacement service, which now gives private and fleet customers access to a network of more than 3,000 AA approved fixed and mobile tyre centres.

Other AA services incurred operating losses of £28 million. £4.5 million of this came from the closure of AA workshops, with the Service Centres producing an operating loss of £15 million. £7 million of investment in infrastructure and rebranding of the Service Centres was expensed. We are carrying out various initiatives such as a cost reduction programme, advertising campaigns and offers to the current membership base to increase utilisation and rapidly reduce the ongoing loss.

The AA in the Republic of Ireland contributed a profit of nearly £2 million, an increase of over 80% on 2001, due to growth in both insurance and roadside assistance membership, thereby remaining the leading roadside assistance and personal insurance provider in the country.

Publishing, car data check, the driving school and roadside signs made positive contributions which were offset by start-up investments in Tyreserve and costs in AABuyacar and information services.

AA exceptional item

The group has decided to reduce the operations of Golf England Limited, a subsidiary undertaking, and has recognised a £14 million provision in respect of losses on the disposal of fixed assets.

One.Tel Improving sector outlook

Our focus for this year has been on increasing the value of the existing One.Tel customer base through enhanced product offerings and operational efficiencies. In the medium term, we believe that this positioning provides us with a sound platform to develop in the UK, assuming recent regulatory proposals are implemented quickly and fully.

In the second half of the year turnover grew by 20% over the second half of 2001 to £78 million, as a result of further growth in the customer base. Our variable gross margin increased by 5% to 52% as we took advantage of opportunities to negotiate improved transmission charges with our carriers. Our switched reseller business model relies on the use of the networks of a variety of infrastructure owners (13 as at 31 December 2002), mitigating the risks associated with network failure or carrier financial distress. Operating profit for the year was £2.1 million reflecting the investment in new products, particularly mobile and a £2 million marketing campaign undertaken in the fourth quarter to raise awareness of One.Tel's transition from

a discounted international calls provider to a full communications provider offering landline, mobile and narrow and broadband internet services. To this end, during the second half of the year we launched our first call inclusive package.

Customer acquisition costs increased to £14 million in the second half (full year: £22 million) supporting full year growth in the customer base of 23% from 2001. ARPU increased by 1% against the second half of 2001. With the implementation of the revised industry process for carrier pre-selection (CPS) in July, the level of our new landline sales using this connection method increased to 37% in December.

Mobile sales have been very encouraging with more than 35,000 contracts sold since the launch in July, supported by attractive pricing and expanded retail distribution. The migration of our broadband customers onto the One.Tel customer care and billing system is due for completion in the first quarter of 2003 enabling us to offer a complete customer experience with all our telecoms services charged on a single bill.

Goldfish Bank Credit card growth from renewed brand building

Goldfish Bank has continued to make progress. Following a review of product strategy by the Goldfish management team, we are focusing increasingly on brand performance through a smaller range of more capital efficient products.

The credit card business was migrated to Goldfish's new infrastructure in November. This was a significant and complex process involving more than one million cards in issue and their associated loyalty points records. The new platform is operating well and customer service, through the new contact centre in Glasgow, has improved significantly. Independent research indicates that brand awareness has remained high in the credit card market and strengthened in the overall financial services business. The key objective has been to generate awareness of Goldfish as a financial services provider, rather than simply a credit card. Spontaneous awareness improved from 6% at the end of 2001 to 12% at the end of 2002, which puts Goldfish towards the top end of non traditional banking brands.

Credit card recruitment performance has strengthened throughout the year following changes to the channel mix and customer management approach. Total card net interest income was up 9% at £36 million despite lower margins prevailing within the industry and higher utilisation of interest free promotional balance transfers. Fee income rose 6% to £54 million, primarily due to higher levels of customer spend. Credit losses remained low at 3% of outstanding balances.

Key One.Tel performance indicators

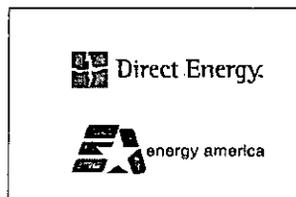
	2002	2001	Δ %
Customer numbers (period end) (000)			
Fixed line	746	668	12
Other services	216	117	85
Total *	962	785	23
Average minutes used per month (fixed line)	284	277	2.5
ARPU (fixed line) (£)	16.20	15.85	2.2
Variable gross margin (fixed line) (%)	51	47	4ppts
Sales and marketing expenses (% of turnover)	14	8	6ppts
Turnover ** (£m)	153	65	135
Operating profit (£m)	2.1	4	(48)
Operating margin (%)	1.4	6	(4.6ppts)

*30 day tolling

**2001 turnover is from date of acquisition (3 July 2001)



A new internet based savings account was launched during the year.



Key Goldfish Bank performance indicators

	2002	2001	Δ %
Credit cards in force (000)	1,082	1,025	6
Average monthly spend per active card (£)	541	476	14
Gross card receivables	773	677	14
Net interest margin (%)	5.2	5.1	0.1ppts
Credit card income (£m)			
Net interest income	36	33	9
Fee revenue and other income	54	51	6
Total (before deduction of loyalty costs)	90	84	7
Loyalty scheme costs (% of income)	33	31	2ppts
Credit losses (% of receivables)	3	3.2	(0.2ppts)
Credit card profit contribution (£m)	9	12	(25)
Goldfish non-credit card product contribution (£m)	(2.4)	n/a	n/a
Sales and marketing expenses (% of income)	6	5	1ppt
Goldfish operating loss before minority interest (£m)	(40)	(32)	(25)

The number of cards in force has increased by 6% to 1.08 million (2001: 1.02 million). During the year 77,000 new accounts were opened (2001: 27,600), with attrition low at 4.5%. The average monthly spend on the Goldfish card increased by 14% against 2001, making it among the highest in the UK market. The credit card profit contribution of £9 million was £3 million lower than 2001 due to a £4.5 million increase in customer acquisition costs and a £3 million cost relating to the migration to Goldfish's new infrastructure in November.

In the autumn Goldfish entered the personal loan market, focusing initially on generating a high quality applicant pool. The product proposition was based on flexibility featuring no redemption penalties for early settlement. At the year end approximately 1,800 personal loans had been drawn down with total outstanding balances of £14 million. Increased awareness, response and take-up rates will be sought in 2003. Goldfish customers purchased 104,000 additional Goldfish branded products including travel insurance, home

insurance and personal accident insurance. This is 69% up on 2001 and is an encouraging indicator of future cross-sales potential. The profit contribution from all non-credit card products was negative: a net loss of £2 million due to the investment of £5 million in customer acquisition during the period.

Goldfish successfully launched its internet based savings account and began active marketing in the autumn. This has proved to have strong appeal with £286 million in deposits and over 11,000 accounts opened of which approximately 50% were customers new to Goldfish. Savings will continue to form part of a diversified funding strategy.

The overall operating loss was £40 million with operating expenses at Goldfish, consisting of brand marketing, banking systems and product development, up 7% at £47 million. A further £46 million investment was capitalised in the development of the IT systems platform. As this nears completion, we expect significantly lower investment in 2003.

Centrica North America Acquisitions of incumbent positions but slower organic growth

Total North American turnover was £1,118 million in 2002, an increase of 46% over 2001 driven largely by our entry into the Ontario and Texas electricity markets, our entry into the Ontario services market through the acquisition of Enbridge Services Inc and the addition of over 300,000 gas customers through the acquisitions of Enbridge Services Inc and parts of NewPower Company's customer base.

Operating profit fell by 7%, as profits from our home services businesses (£23 million) and reduced losses in our electricity business (by £5 million) were offset by lower profits (by £4 million) in our gas business. Included within the retail energy results are the increase in the cost base (£10 million) due to the development of the infrastructure to support future growth and £21 million of expensed costs incurred in acquiring customers organically. Upstream profits were lower as wholesale prices fell and favourable forward contract prices expired. These results include the adverse currency movements (£4 million), with a 6% decline in the average Canadian dollar exchange rate during the year.

The pace of organic growth slowed in 2002 owing to a combination of slow emergence of competitive markets, restrictive legislative and political developments affecting sales activities, and large fluctuations in wholesale natural gas prices. We are continuing our efforts with governments and regulators at state, provincial and federal levels in support of market

liberalisation. We remain of the view that momentum will be regained in the regions that are important to our future, but the timing remains uncertain.

Retail energy

Turnover for the residential gas supply business increased by 12%, driven primarily by higher selling prices and acquisitions. Our Ontario residential gas market share was approximately 26% at year end. In our US gas markets, slower growth caused by high rates of customer churn was offset by the acquisition in August of 212,000 customers in Michigan, Ohio and Pennsylvania from the NewPower Company. We continue to manage our portfolio of US gas customers closely, and will focus our efforts on maximising the value from our current position.

In our first year of operating in the electricity business in Ontario (from May) and Texas, turnover was £189 million with an operating loss of £10 million. Based on operating experience this year, we estimate that average annual consumption for our residential electricity customers would be 11,000 kWh, broadly in line with our expectations and more than twice our UK customer average. The Texas residential electricity market continues to support a positive competitive environment, with the presence of a pricing regime that affords reasonable, sustainable gross margin prospects to both incumbents and new market entrants. Following our entry into this market in January, we served 890,000 retail energy customers by the year end, consisting of both acquired positions (810,000 customers) in southern and western Texas (for which our transaction closed in late December 2002) and organic programmes mainly in the Houston and Dallas/Fort Worth regions.

Operating and financial review continued



The integration of Enbridge Services Inc has allowed us to broaden the range of products we offer.

Our retail energy supply gross profit grew by 14% to £95 million. Our gross margin decreased to 14%. Our current gross margins (other than for our acquired incumbent positions) are largely driven by our historic hedging activities in each local market, through which we have procured the energy commodity at a fixed forward cost, achieving a margin on the quantities supplied to our fixed price retail customers over a contracted period. There are risks to these margins from the complexities involved in accurately forecasting total commodity requirement, linked to rates of consumption, customer acquisition and retention. We are now the third largest electricity retailer in Texas.

Volatility in wholesale gas spot prices remained high, as benchmark gas contract prices moved between US\$10/mmbtu and US\$2/mmbtu. In markets where we compete against utilities flowing through gas or electricity to customers at wholesale spot cost, this made winning new forward curve-based business extremely challenging and also led to high levels of churn among customers signed up to what became relatively high priced programmes. This cyclical pattern will continue to be a feature of our organic growth. In the latter part of the year, prices returned to levels that we believe are more sustainable in the long term (US\$4-5/mmbtu) and conducive to the development of our customer base.

Gross margins for our recently acquired customers in Texas are based upon prices approved by the Texas Public Utility Commission under the 'Price To Beat' structure, which we can apply to have modified twice in any year to reflect changes in gas feedstock costs. Under the acquisition

Key North America performance indicators

	2002	2001	Δ %
Customer numbers (period end)			
Residential and small commercial gas (000)	1,339	1,230	9
Residential and small commercial electricity (000)	1,416	n/a	n/a
Home and business services (000)	1,627	n/a	n/a
Industrial and commercial energy (sites served)	61	49	24
Average consumption			
Residential and small commercial gas (therms)	1,138	1,154	(1)
Residential and small commercial electricity (kWh)	10,666	n/a	n/a
Industrial and commercial energy (m therms)	19	23	(18)
Gas production and energy trading			
Gas production volumes (m therms)	356	344	3
Average sales price (p/therm)	21.4	27.9	(23)
Turnover (£m)			
Residential and small commercial gas	486	433	12
Residential and small commercial electricity	189	n/a	n/a
Home and business services	159	n/a	n/a
Gas production and energy trading	124	105	18
Industrial and commercial energy	160	230	(30)
Total	1,118	768	46
Sales and marketing expenses (% of turnover)			
	1.7	3.7	(2ppts)
Gross margin (%)			
Residential and small commercial gas	13	19	(6ppts)
Residential and small commercial electricity	16	n/a	n/a
Operating profit (£m)			
Residential and small commercial gas	16	20	(20)
Residential and small commercial electricity	(10)	(15)	33
Home and business services	23	-	n/a
Gas production and energy trading	33	62	(47)
Industrial and commercial energy	1	1	-
Total	63	68	(7)
Operating margin (%)			
	6	9	(3ppts)

arrangement, Centrica has an economic interest in the profitability of these businesses with effect from 1 September 2002 through to completion on 24 December 2002. These amounts will be credited against amounts payable, under the acquisition agreement, in respect of the sharing of earnings over the next four years. All such payments will be treated as deferred purchase consideration. With effect from 24 December 2002 the full profits have been recognised in the accounts.

Market entry costs this year for Ontario and Texas of £20 million have been expensed. Organic

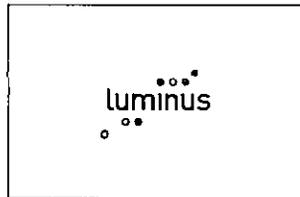
customer acquisition costs were lower, following high levels of Ontario electricity customer acquisition in 2001 and due to slower organic growth in the US market. This, along with the growth in turnover meant that sales and marketing costs as a percentage of turnover reduced by 2 percentage points.

We entered the Ontario electricity market when it opened in May, and successfully converted over 500,000 contracts signed pre-opening to flowing customers. We now have 15% of the residential electricity market. On 11 November, the Ontario government announced that it would cap residential and

small business electricity prices at below market rates, to be subsidised by government, effectively suspending competition until 2006. Under this legislation, Centrica remains entitled to receive the market pricing mitigation agreement payment, amounting to £16 million relating to 2002. Margins on residential retail contracts already written are protected, at least to 2006. The regulations regarding business customers are still formative. This electricity customer base of over 500,000 will continue to retain value and be used for cross-selling gas and home services products, but further organic electricity growth is unlikely to be possible until this new legislation expires in 2006.

We continue to seek opportunities to acquire incumbent customer positions from utilities seeking to exit the retail function. Our agreement in December, which is subject to legislative changes and regulatory consents, to purchase the incumbent retail energy business of ATCO Group in Alberta - which currently consists of approximately 820,000 gas and 160,000 electricity customers - will give us an 80% share of the gas market and 14% of the electricity market. We will maintain growth momentum into 2003 as we migrate customers to unregulated energy and services packages.

Home and business services
As part of our strategy to gain competitive advantage and operating leverage from an energy and home services cross-selling platform, the acquisition of Enbridge Services Inc for C\$1 billion (£438 million) was completed in May 2002. Enbridge Services Inc made an operating profit of £23 million during the year. We subsequently



A major advertising campaign launched Luminus in Belgium.

raised some C\$744 million (£303 million) through selling down 58% of our interest in the waterheater assets acquired as part of the transaction by way of the launch of The Consumers' Waterheater Income Fund. Our remaining 42% retained interest had a value of C\$218 million (£89 million) at 31 December, which we intend to continue to sell down in 2003. Centrica remains the exclusive installer and provider of maintenance and repair services for our customers' waterheaters and, accordingly, without legal ownership of these assets, retains relationships with approximately 1.3 million households.

In the group's balance sheet the waterheaters are included in fixed assets and the debt financing raised (C\$500 million), for which there is no recourse to Centrica, is included in loans, net of expenses. The profit and loss account includes the entire rental income and related costs, including depreciation and interest on the income fund's debt financing from the date of launch of the fund in December. The income fund unit holders' share of profit is reflected in a non-equity minority interest in the profit and loss account. The balance sheet non-equity minority interest includes amounts raised from the sale of units.

The value of the retained businesses together with the cash receipts for the divested assets has created major value for Centrica shareholders. We also remain a leading installer of heating, ventilation and air-conditioning (HVAC) equipment in Ontario, which has a profitable associated financing business

and, in addition, some 330,000 of households have contracted with us for HVAC maintenance and protection plans. We now have around 50% share of this home services market and increasing this share is a key objective of 2003. Beginning in 2003 we intend to manage services for our business customers separately.

Upstream gas

Development of our gas fields in Alberta continues. We drilled, completed and began production at 218 wells during 2002, compared with 307 in 2001. Production volumes were up slightly at 356 million terms, representing 24% of our North American downstream gas sales. Operating profit fell by 47%, primarily as a result of a lower wholesale market which led to a 23% decline in our average sales price and the expiry of higher priced forward sales contracts.

Europe

In developing our strategy for Europe, we are focusing on those countries where the speed of market opening and legal and political conditions, including unbundling and independent regulation, are more advanced.

Through Luminus, our joint venture in Belgium, we now have approximately 18% of the electricity market above 1 GWh in Flanders which opened in January 2002. The broader commercial energy market opening in early 2003 will be followed closely by the residential market opening in July 2003 for both electricity and gas. Luminus is positioned as the number two player in the Flemish market. When the

residential market opens the business expects to have over 600,000 residential electricity customers and nearly 200,000 residential gas customers.

Our second move in Europe is in Spain, where our initial aim is to enter the small and medium sized business sector of the market and to build a business organically which utilises the skills we have developed in other markets. We are currently testing our proposition with a view to opening for business in the second quarter of 2003.

The operating loss in 2002 was £7 million, reflecting start-up costs in Belgium and Spain.

Note: All current financial results listed are for the year ended 31 December 2002. All references to 'the prior-year period', '2001' and 'last year' mean year ended 31 December 2001 unless otherwise specified.



We aim to grow our earnings and cash flow within a prudent risk management framework. During the year our share price out performed the FTSE 100 by 3.1% and since demerger in February 1997 to the end of 2002 we out performed the index by 187%.

Centrica's aim is to achieve a total shareholder return (TSR) ranking in the first quartile of UK FTSE 100 companies, taking account of share price growth and dividends received and reinvested over a sustained period. Centrica promotes continuing growth in earnings and cash flow and seeks to maximise the return on capital it achieves within a prudent risk management framework. The remuneration report on pages 25 to 30 summarises our TSR performance over recent years against our FTSE 100 comparator group.

The company's closing share price on 31 December 2002 was 171 pence (31 December 2001: 222 pence), resulting in a market capitalisation of £7.3 billion (2001: £8.9 billion). World stock markets continued to fall in 2002, the FTSE 100 index dropping by 24.5%. The company's share price still out performed the FTSE 100 by 3.1% (2001: 2.1%) and since demerger to the end of 2002 we out performed the index by 187%.

Earnings

Earnings increased by £155 million to £478 million in 2002. This reflected improved operating profits* up £253 million and lower exceptional charges offset by taxation up from £155 million to £250 million and higher goodwill amortisation, up by £35 million to £123 million.

Earnings before exceptional charges and goodwill amortisation were up 32% to £636 million. This represents a return on capital employed over the year of 32% or 7.9% on our average market capitalisation.

Operating profit

Operating profit* was £932 million (2001: £679 million). Most of the

improvement came from our UK residential gas supply business, and growth in our business services and home services operations.

Exceptional charges and goodwill amortisation

During the year, non-operating exceptional charges arose of £26 million net of tax (2001: £71 million operating exceptionals net of tax). These related to changes in our Golf England operation and disposal of our LPG cylinder business. In addition, a £9 million (2001: £ nil) exceptional tax charge arose (see Taxation below). The goodwill amortisation charge for the year was £123 million (2001: £88 million), in line with our programme of continuing acquisitions.

Net interest

Net interest charged to the profit and loss account was £62 million compared with £43 million in 2001 and was covered 15 times by operating profit* compared with 16 times a year earlier. The increase in interest payable was due to higher average indebtedness mainly as a result of acquisitions, offset by lower interest rates and the net proceeds of the share placement during the year.

Taxation

The ongoing taxation charge of £243 million for 2002 represents a 28% rate on profits adjusted for goodwill amortisation and exceptionals (2001 comparative rate: 26%). The increase in the effective rate is principally due to the introduction of a 10% corporation tax surcharge on UK offshore gas production, with effect from 17 April 2002. This surcharge increased the tax charge for the year by £12 million and resulted in a restatement of the deferred tax liability of £9 million, which

has been treated as exceptional. The overall charge is still less than the UK 30% statutory rate, primarily because previously unrecognised deferred tax assets of £35 million have been utilised during 2002.

Earnings per share and dividends

Basic earnings per share grew from 8.1 pence to 11.4 pence and adjusted earnings per share from 12.1 pence to 15.2 pence. Over the last three years the adjusted performance measure has grown by an average compound growth rate of 24% and facilitated a progressive dividend policy. We are proposing a final dividend of 2.6 pence giving a total of 4.0 pence (2001: 3.1 pence), an increase of 29%.

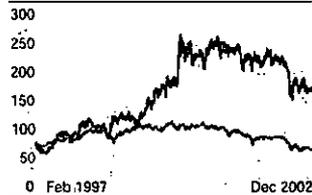
Cash flow

Group operating cash flow (including dividends from joint ventures and associates, from continuing operations before exceptional payments) was £790 million for 2002, compared with £885 million in 2001. An increase of £299 million in operating profit* before depreciation and amortisation of investments was more than offset by changes in working capital, including growth in trade debtors, the timing of gas transportation payments, petroleum revenue tax (PRT) and gas production royalty payments.

Total capital expenditure was £449 million this year, up from £312 million in 2001. This includes £180 million of costs capitalised for information systems investments associated with our new customer relationship management (CRM) infrastructure. Acquisition expenditures (net of cash and overdrafts acquired) were £989 million in 2002 (2001: £1,204 million), consisting primarily of our purchases of the Brigg power plant and Rough

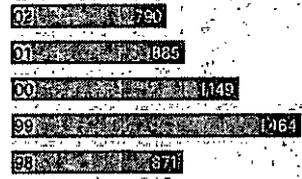
*Before exceptional charges and goodwill amortisation, including joint ventures and associates.

Centrica share performance (pence)



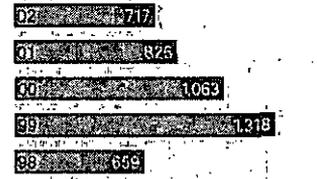
Smoothed 5 day average
 ■ Centrica plc
 ■ FTSE 100 relative

Group operating cash flow (£m)



Including dividends from joint ventures and associates before exceptional payments.

Group operating cash flow (£m)



Excluding dividends from joint ventures and associates after exceptional payments.

gas storage facilities in the UK, Enbridge Services Inc in Canada and WTU Retail Energy LP and CPL Retail Energy LP in the US. The group's net cash outflow before liquid resources and financing was, as a result, £918 million, against a net outflow of £342 million in 2001.

Balance sheet

The net assets of the group increased during the year from £1,536 million to £2,402 million.

Fixed assets

Net intangible fixed assets of £1,813 million (2001: £1,524 million) represented goodwill, which has arisen on acquisitions. During the year, £466 million (2001: £314 million) was added, including £193 million for the acquisition of Enbridge Services Inc, £167 million for WTU Retail Energy LP and CPL Retail Energy LP and £80 million for Electricity Direct. Goodwill is amortised by way of charges against profits over periods ranging from 5 to 20 years.

Tangible fixed assets, mainly comprising gas field assets and power stations, had a net book value of £2,763 million (2001: £2,058 million). During the year gas field assets, including the Rough gas storage facilities, and power stations totalling £590 million were acquired. At the year end, the proven and probable gas reserves represented by our field interests amounted to 2,846 billion cubic feet (bcf) (2001: 3,232 bcf), which included 404 bcf (2001: 446 bcf) in North America. At the year end, hardware and software costs relating to our major investments in CRM had a net book value of £237 million.

The group's investment in joint ventures stood at £74 million (2001: £112 million), comprising

its share of gross assets of £810 million and share of gross liabilities of £736 million, of which £629 million related to borrowings. These investments related principally to the investments in 60% of Humber Power Limited, 50% interest in the AA's joint ventures with HBOS and 50% of Luminus NV.

Working capital

Current assets less current liabilities, excluding net indebtedness and Goldfish funding amounted to a deficit of £243 million (2001: deficit of £625 million). Excluding Goldfish, growth in trade debtors and accrued energy income has given rise to a net increase of £565 million in working capital.

Goldfish Bank

Goldfish Bank debtors, mainly in respect of credit card balances receivable, were £792 million (2001: £ 673 million), offset by customer savings account balances of £286 million (2001: £ nil). Goldfish Bank borrowings amounted to £430 million (2001: £610 million).

Net debt

Net debt (excluding the Goldfish Bank facility of £430 million and the £196 million of non-recourse debt raised on the water heater assets acquired with Enbridge Services Inc) increased to £529 million at 31 December 2002 from £433 million at the previous year end.

Issue of share capital

In February 2002 £426 million, net of expenses, was raised via the issue of 232 million ordinary shares.

Provisions and other creditors due after more than one year

Together these increased during the year to £1,384 million (2001: £1,218 million). Increases

in respect of decommissioning costs, mainly from acquisitions, and deferred corporation tax have more than offset the decrease in provisions for deferred PRT.

Financial risk management

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

Currency, interest rate, liquidity and counterparty risks are managed centrally by a treasury and risk management team, within parameters set by the board. This team is also responsible for managing the relationships with the agencies setting the company's credit ratings and managing the cost of its debt capital. Energy market price and weather risks are managed by business led energy and risk management teams operating within group established policies. Where appropriate, financial instruments are used to manage financial risks as explained below and in note 29 on pages 59 to 62. Goldfish Bank interest rate risks are managed by a treasury team with Lloyds TSB Bank plc within parameters set by the Goldfish Bank board.

Credit rating

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

Currency risk

Through wholly-owned US and Canadian subsidiaries, the group has operational exposure in Canadian and US dollars. Canadian dollar translation exposure is hedged by maintaining a portfolio

of Canadian dollar financial liabilities, which approximate to the net asset value of the Canadian operations. US dollar exposure has been hedged by borrowing on a short term basis through a combination of US commercial paper programme and currency instruments. In addition there is an element of exposure to the euro through the 50% interest in Luminus, which has been hedged by selling euro forward on a rolling basis. Exposures to foreign currency movements from operating activities are also hedged through the use of forward foreign exchange contracts. All debt raised in US dollars through the US commercial paper programme, apart from that hedging the US translation exposure, is either swapped into sterling or another functional currency as part of the translation hedging operations described above.

Interest rate risk

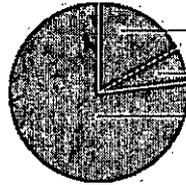
Throughout the year, the group's policy has been to maintain approximately 50% of long term borrowings at a fixed rate of interest. This is achieved by using derivative financial instruments, such as interest rate swaps, to adjust the interest basis of the portfolio of long term debt (see note 29 on pages 59 to 62). At the year end debt has been raised on both a fixed and floating rate basis.

Liquidity

Cash forecasts identifying the liquidity requirements of the group are produced frequently. These are reviewed regularly by the board to ensure that sufficient financial headroom exists for at least a 12 month period. The group policy includes maintaining a minimum level of committed facilities and an objective that a proportion of debt should be long term, spread over a

Group financial review continued

Capital funding 31 December 2002



Net debt, excluding Goldfish Bank working capital borrowings - £529 million
Non-recourse debt (Consumers' Waterheater Income Trust) - £196 million
Equity including minority interest - £2,402 million

range of maturities. Details of the maturity profile of borrowings are given in note 29 on pages 59 to 62. At 31 December 2002, the group had undrawn committed facilities of £1 billion (2001: £935 million), which were used as a backstop for the US commercial paper programme.

Counterparty risk

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

Commodity price risk

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

The group's policy is to hedge a proportion of the exposure for a number of years ahead matched to the underlying sale and purchase risk profiles. The group aims to manage

its risk by using financial instruments such as oil and gas swaps and gas derivatives and bilateral agreements for gas and power, as well as asset ownership.

The financial risk management committee regularly monitors the extent of the group's commodity price exposure and the level of hedging activity alongside the availability of forward prices and market liquidity.

The acquisition of the Glanford Brigg power station has further contributed to the company's target to cover around a quarter of its electricity requirement from its own sources in 2002.

Weather risk

Gas sales volumes, and to a lesser extent electricity volumes, are influenced by temperature and other weather factors. In Britain, the weather derivatives market remains relatively immature. We again entered into a number of weather derivative transactions for the winter period October 2002 to March 2003 in order to hedge part of the group's weather exposure.

Accounting policies

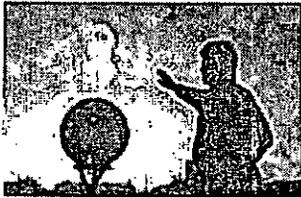
The principal accounting policies remain unchanged over last year and are described in note 1 to the financial statements on pages 35 to 37. Where appropriate, wording has been expanded to more fully explain policies, particularly in relation to financial instruments, and energy trading activities.

In keeping with many other major companies, adoption of FRS 17 Retirement Benefits, has been deferred in line with the revised timetable announced by the Accounting Standards Board. Accordingly, the group has continued to report under SSAP 24 Accounting for Pension Costs.

In accordance with FRS 17, additional disclosures are contained in note 26 on pages 55 and 56. If the standard had been fully adopted in 2002, profit would have been reduced by £47 million (2001: £16 million) and net assets would have been reduced by £507 million (2001: £117 million). Full adoption is not mandatory until 2005, but the group will continue to keep this under review.

Phillip Bentley
Group Finance Director

Corporate responsibility

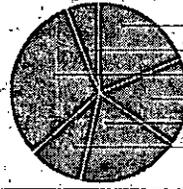


Bruno Peek OBE, chairman of the Golden Jubilee Summer Party, test-fires the British Gas Jubilee Beacon that illuminated Buckingham Palace during the weekend celebrations.



Energy Angel Eleanor Whitehead whose school, Little Gaddesden Primary, signed on for the next stage of British Gas's award winning 'Think Energy' educational programme.

Centrica community investment



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

Our businesses are focused on delivering essential products and services to millions of people every day. Continued and sustainable success requires that we accept and respond to our social responsibilities. By understanding our impact on society, the economy and the wider environment, we can develop positive relationships with stakeholders to benefit both business and the community.

Corporate responsibility is integral to all our activities. Our framework is set and co-ordinated by the Centrica corporate responsibility committee that was formed in 2002. Detailed information about our range of corporate responsibility activities is available at www.centrica.com/responsibility.

The effectiveness of our approach was illustrated by Centrica's inclusion in the 2002 FTSE4Good Index and, for the first time, in the Dow Jones Sustainability Indexes for 2003.

We are aware not only of the positive business potential of demonstrating our commitment to corporate responsibility, but also of the negative impact of poor performance in this area.

Corporate responsibility concerns have been fully integrated into the group's risk management structures. These address the financial impact on the business of social and environmental threats as well as the potential impact on the reputation of our brands.

Our corporate responsibility activities fall into four main categories:

Environment

Our prime responsibility is managing the impact of our operations on the environment. We also have a responsibility for

helping our customers make informed decisions about using our products and services in a way that minimises any negative impact on the environment. British Gas plays a leading role in helping to achieve the government's fuel poverty and climate change targets through the provision of free or subsidised energy efficiency products. During our Energy Efficiency Standards of Performance (EESoP) programme, which finished in April 2002, British Gas provided 1.4 million energy efficient products to 585,000 households throughout Britain, in total saving 5,250 GWh of energy.

From April 2002, EESoP was replaced by the Energy Efficiency Commitment, a three year programme with an energy saving target of around 27,000 GWh. British Gas is on target to deliver these savings. Key to this success has been our ability to engage customers through new product innovation and groundbreaking customer propositions. Through our Warm-A-Life programme, more than 70,000 disadvantaged customers have received a range of benefits including free insulation products, benefits assessment to ensure that they are claiming everything that they are entitled to and discounts on British Gas energy bills.

In 2002, we worked hard on delivering our environmental programme. Notable improvements included increasing the recycling in our offices from 18% to 34% and improving their energy efficiency by implementing projects that saved more than 4.5 million kWh per annum. In terms of environmental management, sites that were certified to ISO14001 have completed their reassessment and the British Gas Service Centres and AA Service Centres achieved certification for the first time.

We published our second environment report in March 2002.

We also promoted environmental good practice in the home through our 'Think Energy' education programme for schools. To date, more than 14,000 primary and secondary schools in Britain have signed up for the programme, involving an estimated one million school children between the ages of 7 to 14. The programme will be extended to include 14 to 16 year olds from 2003. During 2002, 'Think Energy' won a British Commitment to the Environment Premier Award.

Community

Our community programme addresses issues relevant to our business and, where possible, we also support our employees' volunteering activities. Communities will benefit most from our investment if there is a sound business case for it, since this provides the best foundation for sustained involvement.

We contributed £5.66 million to community causes in 2002 as measured by the London Benchmarking Group model, which includes both cash and in-kind support.

Our UK charity of the year initiative enables employees across the group to raise funds for a charity chosen by a panel of employees. From April 2001 until July 2002, our partner was the Cystic Fibrosis Trust and our employees raised more than £475,000 to fund vital research and treatment for the UK's most common life threatening inherited disease. The partnership received an Institute of Public Relations Sword of Excellence award in July.

We hope for similar success with our new chosen charity, the Meningitis Trust. Between

its launch in September 2002 and the end of the year, employees raised more than £150,000.

In North America, we launched 'Direct in the Community'. The programme seeks to play a leadership role in fostering, supporting and encouraging charitable initiatives that provide services related to safe and affordable housing, especially for adults, families, older people and people with disabilities.

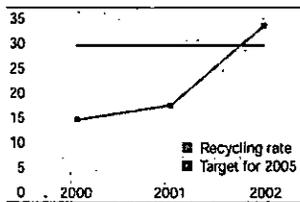
The British Gas partnership with Help the Aged continues to support some of Britain's most vulnerable older people. Since its launch in 1999, British Gas has provided Help the Aged with more than £5.4 million of support and to date there have been 1.6 million beneficiaries of partnership initiatives. The partnership received the Business in the Community Excellence Award for cause related marketing in July.

We have enjoyed a successful association with Carers UK since 1996. In 2002 we sought to identify 'hidden' carers and guide them to information, advice and support. Promotion, including a bill message to more than two million customers, also generated awareness among our employees about Centrica's carer friendly employment policies. Our chief executive is president of the charity.

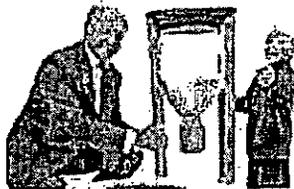
The AA Accessible Hotel of the Year Awards highlight the importance of ensuring equal access for people with disabilities to hotels and guest accommodation in the lead up to the next phase of the Disability Discrimination Act in 2004. During 2002, AA hotel inspectors assessed 60 hotels and guest houses selected from the results of a detailed questionnaire returned from more than 300 of the

Corporate responsibility continued

Material recycled from Centrica offices (%)



The success of our recycling initiatives has meant that we have already exceeded our target for 2005, initially set in 2000.



Sir Roy Gardner is joined by meningitis sufferer Samuel Cloke to launch the 'Every Second Counts' partnership - a year-long partnership with our employee charity of the year, Meningitis Trust.



Employees in Cardiff ride the world's largest bicycle to raise funds for Cystic Fibrosis Trust, Centrica employee charity of the year 2001 to 2002.



Rod Kenyon, director of the British Gas Engineering Academy, is joined by a group of trainees to launch the academy.

AA's 8,000 strong list. The awards will be repeated in 2003 to make more establishments aware of the need for improved accessibility.

The AA Foundation for Road Safety Research published reports in 2002 on the safety of young male and female drivers, when and why older drivers give up driving and on safety in pan-European tunnels. During the year, research continued on the effect of surface conditions on road safety and accidents on high speed dual carriageways.

In December, it was announced that One.Tel would be working with the Samaritans, the emotional health charity, to promote its new telephone directory enquiries service. During 2003, One.Tel will donate 1p for every call made to the new service generating vital funds for the charity.

Marketplace

We try to take a responsible approach to the marketing and selling of our products and services. We take care of our customers' daily essentials and provide the necessary access and expertise to ensure they benefit fully from the products and services we offer. For example, we currently provide over 500 communications each day to customers who are blind or visually impaired in the format they require, which includes Braille, large print and audio.

Some of our customers have specific needs. Current services include the Home Energy Care Register, the password scheme, providing information in alternative formats and using access technology such as text phones. We have developed our own website accessibility guidelines based on internationally recognised standards and intend that all our business websites will meet and exceed these standards in the near future.

We have reviewed the needs of hearing- and speech-impaired customers in collaboration with the RNID and the Royal Association for Deaf People. Text phones have been installed throughout the business and the AA has developed a text messaging service so that hearing and speech-impaired members can communicate effectively via their mobile phones.

The British Gas 'here to HELP' initiative was launched in 2002 to help tackle household poverty in the most deprived communities in Britain. From a package of £150 million, British Gas's investment of more than £70 million is supported by additional government and social housing provider funding. Over the next three years, 500,000 homes will be supported in urban, suburban and rural areas through a network of local authorities, housing associations and charity organisations. Households are offered energy efficiency measures and advice along with other services delivered by our charity partners.

Workplace

Relationships with all our employees are based on trust and respect for the individual. We aim to attract, develop, reward and retain high quality people who are motivated to achieve our business objectives. Our employment policies seek to create an environment that motivates and engages all our employees, rewards performance, and satisfies material needs whilst supporting equality of opportunity for all. This is achieved through policies such as family leave, carers, personal development and supporting employees to find a successful balance between work and personal life. A new guide to sound business practice was developed in 2002, setting out

how we expect our employees to act in a variety of situations. This is being disseminated in 2003.

The growing diversity among our customers and employees presents us with opportunities for change. In an increasingly competitive environment, it is essential that we recognise the importance of operating as an inclusive organisation, through embracing diversity in the workforce and selecting the very best employees from a wide and varied choice of applicants. We work with a number of partners to achieve this goal including the Employers' Forum on Disability, an organisation chaired by our chief executive.

Diversity modules form part of the training for all our customer facing employees and a disability awareness training package has also been developed. More than 29,000 booklets giving practical advice on how best to serve disabled people have been issued throughout the business.

We have created employment opportunities for individuals from disadvantaged backgrounds. More than 180 individuals have been employed through targeted recruitment in our contact centres. In July 2002 we received a Business in the Community award for our investment in disabled people as employees and customers.

British Gas has committed to recruiting 200 gas engineers, targeting the long term unemployed and those who have trouble finding a career that fits in with their lifestyle. The engineer training course, developed with the Gas and Water Industries National Training Organisation, includes a part-time option aimed at single parents. The initiative is part of the

government backed Ambition Energy programme, chaired by Centrica's chief executive, to address an anticipated shortage of skilled and qualified gas engineers.

We are delighted that, in recognition of its commitment to the development and training of its employees, the AA has received corporate Investors in People accreditation.

Nearly three quarters of our employees took part in the annual global employee satisfaction survey in 2002, up from under two thirds in 2000. The survey measures four key improvement drivers - customer focus, performance and development, management impact and working life. Part of the performance related element of directors' remuneration is linked to this survey.

The health and safety of our employees is of paramount importance. Our performance is targeted and monitored through key performance indicators. In 2002, the amount of time lost to injuries or occupational ill health was low. Injuries have been attributable mainly to slips, trips and falls, and our accident prevention programmes focus on the underlying causes of these and other near miss events.

We have also taken steps to protect employees who may encounter violence while they do their jobs, for example gas engineers, roadside patrols and debt collectors. We have launched an occupational road risk programme to manage the risks to employees who drive in the course of their employment. Good practice workshops share new safety techniques and opportunities for performance improvement.

Board of directors



1 Sir Michael Perry G&E



2 Helen Alexander



3 Mike Alexander



4 Phillip Bentley



5 Roger Carr



6 Mark Clare



7 Sir Roy Gardner



8 Sir Sydney Lipworth



9 Patricia Mann OBE



10 Sir Brian Shaw



11 Robert Tobin



12 Roger Wood

1 Sir Michael Perry G&E Chairman (69) A, N, R
Sir Michael Perry became chairman of Centrica plc in 1997. He was a non-executive director of British Gas plc from June 1994 until demerger. He is a member of the supervisory board of Royal Ahold NV, president of the Marketing Council, chairman of the Shakespeare Globe Trust and chairman of the Oxford University Faculty Board for Management.

2 Helen Alexander Non-executive director (46) A, C, R
Helen Alexander joined the board on 1 January 2003. She is chief executive of The Economist Group, a trustee of the Tate Gallery and was formerly a non-executive director of BT Group plc and Northern Foods plc.

3 Mike Alexander Chief operating officer (55) C, E
It was announced on 4 February 2003 that, by agreement of the company, Mike Alexander would be retiring from the board with effect from 28 February 2003. He was managing director of British Gas Trading from 1997 until the end of 2001 and from 1 January 2002, chief operating officer, Centrica plc.

4 Phillip Bentley Group finance director (44) E
Phillip Bentley joined Centrica plc in 2000 from Diageo plc, where he was finance director of GuinnessUDV. Prior to that, he was group treasurer and director of risk management of Diageo plc from 1997 and group treasurer of Grand Metropolitan plc from 1995. He is a non-executive director of Kingfisher plc.

5 Roger Carr Non-executive director (56) A, R
Roger Carr was appointed to the board in 2001. He is the senior non-executive director of Six Continents plc and Cadbury Schweppes plc and a senior adviser to Kohlberg, Kravis Roberts Co Ltd. He was previously chief executive of Williams plc and chairman of Thames Water plc and Chubb plc. He is a member of the Industrial Development Advisory Board and the CBI council.

6 Mark Clare Deputy chief executive and managing director, British Gas (45) C, E
Mark Clare joined British Gas plc in 1994 as group financial controller and was appointed finance director of Centrica plc in 1997. In 2000, he was appointed deputy chief executive and from 1 January 2002, managing director of British Gas. He is a non-executive director of BAA plc and The Energy Saving Trust Ltd.

7 Sir Roy Gardner Chief executive (57) E, N
Sir Roy Gardner was appointed finance director of British Gas plc in 1994. From 1995, he had responsibility for the business units which subsequently formed Centrica plc. Prior to joining British Gas plc, he was managing director of GEC-Marconi Ltd and a director of GEC plc. He is non-executive chairman of Manchester United plc, president of Carers UK and chairman of the Employers' Forum on Disability.

8 Sir Sydney Lipworth Non-executive director (71) A, C, R
Sir Sydney Lipworth was appointed a director in 1999 and retired from the board following the annual general meeting on 13 May 2002.

9 Patricia Mann OBE Senior non-executive director (65) A, C, N, R
Patricia Mann was a non-executive director of British Gas plc from 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 Valour plc.

10 Sir Brian Shaw Non-executive director (69) A, R
Sir Brian Shaw joined the board in 1999 following the acquisition of the Automobile Association, of which he was non-executive chairman. He is a former chairman of Furness Withy, ANZ Grindlays Bank and the Port of London Authority. Sir Brian is an elder brother of Trinity House and a bencher of Gray's Inn.

11 Robert Tobin Non-executive director, US citizen (64) A, R
Robert Tobin was appointed to the board on 1 January 2003. He is a member of the supervisory board of Royal Ahold NV. Until September 2001, he was chairman of Ahold USA, a subsidiary of Royal Ahold NV. Since 2000, he has been chairman of the board of directors of the Worldwide Retail Exchange.

12 Roger Wood Managing director, the AA (60) C, E
Roger Wood joined British Gas plc in 1996 as managing director of British Gas Services. In 1999, following the acquisition of the AA business, he became managing director, home & road services. On 1 January 2002, he was appointed managing director of the AA. Previously, he was director general of Matra Marconi Space NV, group vice president of Northern Telecom Ltd and a UK director at ICL.

Key to membership of committees
A Audit committee
E Executive committee
R Remuneration committee

C Customer service committee
N Nominations committee

Directors' report

The directors present their report and the audited group accounts of Centrica plc for the year ended 31 December 2002.

Principal activities

The principal activities during the year were:

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

Business review

The chairman's statement, and the operating and financial review featured on pages 4 to 15 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 16 to 18 of this report.

Major acquisitions and disposals

In May, the acquisition of the Toronto based home and business services operation Enbridge Services Inc for C\$1 billion (£438 million) was completed. The acquisition comprised 1.75 million customer relationships and 1.3 million waterheaters which were leased to customers. In December, the waterheater assets were transferred to the Consumers' Waterheater Income Fund (CWIF), which listed units and debt securities on the Toronto Stock Exchange, implying an enterprise value of C\$1 billion. The group retained a 41.9% equity and voting interest in the CWIF.

In June, agreement was reached to dispose of non-core interests in the Liverpool Bay Fields in consideration for a package of offshore gas assets in the North Sea and a cash balance, with a total value of approximately £88 million.

In June, Regional Power Generator's Ltd, which owns and operates the 240MW Glanford Brigg power station in Lincolnshire, was acquired for £37 million.

In August, the acquisition of 212,000 natural gas customers of NewPower Holdings, Inc and its subsidiaries in Ohio and Pennsylvania was completed for US\$26 million (£17 million).

In August, Electricity Direct (UK) Ltd, the UK's largest independent commercial electricity supplier, was acquired for £50 million.

In November, offshore gas storage facilities in the North Sea and an associated onshore terminal were acquired for a net cash consideration of £488 million. The Secretary of State for Trade and Industry has to decide whether to clear the acquisition, refer it to the Competition Commission for further investigation or accept undertakings in lieu of a reference.

In November, the group's liquefied petroleum gas (LPG) business was sold for £40 million.

In December, the group acquired the electricity supply operations of Texas based Central Power and Light Company and West Texas Utilities Company, for a purchase price of approximately US\$246 million (£154 million).

In December, agreement was reached to acquire the retail gas and electricity supply businesses of ATCO Group in Alberta, Canada, with 988,000 customers, for C\$128.5 million (£52 million), payable over two years. This acquisition is conditional on legislative changes and regulatory consents in 2003.

Post balance sheet events

Details of post balance sheet events are disclosed in note 30 to the financial statements on page 62.

Dividends

An interim dividend of 1.4 pence per ordinary share was paid on 27 November 2002. The directors recommend that, subject to approval at the annual general meeting (AGM) on 12 May 2003, a final dividend of 2.6 pence per ordinary share be paid on 18 June 2003 to those shareholders registered on 2 May 2003. This makes a total dividend for the year of 4.0 pence per share (2001: 3.1 pence per share).

Related party transactions

Details of related party transactions are set out in note 28 on page 58.

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 2002 was 34 (2001: 32) for the group (excluding Accord Energy Trading Limited) and 41 days (2001: 42 days) for the company.

Employment policies

The group employed an average of 38,051 people during 2002. 35,563 were employed in the UK, 301 in the rest of Europe and 2,187 in North America.

The group is committed to pursuing equality and diversity in all its employment activities, with particular emphasis on recruitment and selection, training and development, appraisal and promotion. By supporting and encouraging the diversity of our people, we aim to increase employee motivation and provide better service to our diverse customer base in the community at large. This approach is reflected in our employee policies and procedures and we are proud to offer a range of benefits that go beyond the requirements of legislation. For example, we have a comprehensive 'carers policy', which enables employees to balance the demands of long term caring commitments with the requirements of their job.

The group continues to support the Government's New Deal for people with disabilities, the aim of which is to recruit unemployed disabled people and carers into the group's operations. Centrica's experience of embracing diversity is being shared with other UK employers through its membership of the Employers' Forum on Disability and the Employers' Forum on Age.

We comply with national gender pay policies and are committed to implementing them through a programme of equal pay audits.

Employee communications

Employees are regularly provided with a wide range of information concerning the direction and performance of the group by means of employee briefing arrangements such as team briefs, intranet, CDs and company magazines. We also actively seek employee involvement through regular employee surveys and action planning forums. Employees' views are also taken into account by means of local consultative bodies. The group continues to be a strong supporter of Investors in People.

Employee share schemes

The group encourages employee share ownership through the operation of tax authority approved share schemes open to all eligible employees, including executive directors.

Each year, the company operates sharesave schemes in the UK and Ireland which enable eligible employees to acquire

shares in the company at the end of a three or five year saving period. A total of 17,446 employees in the UK and Ireland participate in the schemes.

During the year, the company launched 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 5,065 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 19 to 20. A comprehensive guide on these matters including the company's policies and procedures is available at www.centrica.com/responsibility.

The company's reporting on such matters is being developed having regard to the ABI's disclosure guidelines. The system of internal control described on page 24 covers significant risks associated with social, environmental and health and safety matters.

Charitable and political donations

An outline of the group's involvement in the community appears on pages 19 to 20. Charitable donations in the UK during the year amounted to £4.7 million (2001: £4.0 million). In line with group policy, no donations were made for political purposes.

Share capital

The company's authorised and issued share capital as at 31 December 2002, together with details of shares issued during the year, is set out in note 20 on page 48.

Material shareholdings

At 17 February 2003, the following material shareholdings were recorded in the register maintained in accordance with the Companies Act 1985:

Legal & General Investment Management Ltd	150,067,973	3.53%
Aviva plc	145,117,187	3.41%
Barclays plc	134,330,258	3.16%

Directors

The board of directors section on page 21 gives details of all directors who served during the period between 1 January 2002 and the date of this report. On 13 May 2002, Sir Sydney Lipworth retired as a director of the company. It was announced on 4 February 2003 that, by agreement of the company, Mike Alexander would be retiring from the board with effect from 28 February 2003. Helen Alexander and Robert Tobin were appointed as non-executive directors on 1 January 2003. On 19 February 2003, Paul Walsh agreed to become a non-executive director of the company with effect from 1 March 2003.

In accordance with the articles of association, Sir Michael Perry, Sir Roy Gardner and Sir Brian Shaw will retire by rotation at the 2003 AGM. Sir Michael and Sir Roy will be proposed for re-election. Sir Brian will not be seeking re-election, having by then reached the age of 70.

It being the first AGM since their appointment, Helen Alexander, Robert Tobin and Paul Walsh will be proposed for election. All have considerable experience of leading consumer facing international businesses.

The biographical details of all directors being proposed 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 25 to 30.

Auditors

Following the conversion by PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, a resolution to appoint the new firm, PricewaterhouseCoopers LLP, as auditors to the company will be proposed at the AGM.

Authority to purchase shares

The directors were authorised at the 2002 AGM to purchase the company's own shares, within certain limits and as permitted by the Articles of Association. Although no such purchases have been made to date pursuant to this authority, the directors will seek to renew the authority at the 2003 AGM.

Corporate governance

The group is committed to high standards of corporate governance. Following the recommendations in the reports on the Role and Effectiveness of Non-Executive Directors (the Higgs Report) and Audit Committees (the Smith Report), the board is reviewing its governance arrangements and will consider making changes as necessary and appropriate. Throughout the year, the company fully complied with the provisions of the Combined Code on Corporate Governance (the Code) and applied the principles of the Code as follows:

The board

An effective board of directors leads and controls the group. The board, which meets at least 10 times a year, has a schedule of matters reserved for its approval. One of its meetings each year is substantially devoted to the development of strategy. During 2002, there was full attendance at board and audit, remuneration and nominations committee meetings, other than by one director who missed one board meeting.

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

The names of the directors and their biographical details including committee memberships appear on page 21. Throughout the year, the chairman and the other non-executive directors were independent of management and the senior independent director, as required by the Code, was Patricia Mann. The non-executive directors, including the chairman, meet independently of management on a regular basis.

All directors joining the board are required to submit themselves for election at the next AGM. They are subject to re-election every third year thereafter. 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 board has delegated authority to a number of committees to deal with specific aspects of the management and control of the group. These committees have specific terms of reference and meet on a regular basis. The minutes of the meetings of these committees are made available to all the directors on a timely basis.

Executive committee

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

There are five sub-committees of the executive committee: the group risk management committee; the group financial risk management committee; the corporate responsibility committee; the health, safety and environment committee; and the business continuity steering group.

Directors' report continued

Audit committee

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

The audit committee considers the nature and scope of the audit process and its cost effectiveness. It reviews the internal audit programme, matters brought to its attention by both the internal and external auditors and the annual and interim financial statements before submission to the board. It also reviews the system of internal control and reports its findings to the board.

The audit committee also monitors the independence of the external auditors. Note 4 to the financial statements on page 40, sets out the group's policy to seek competitive tenders for all major consultancies and advisory projects.

From the beginning of 2002, in recognition of increasing public concern over the effect of consulting services on auditors' independence, this policy was strengthened such that the external auditors' consulting arm, PwC Consulting, would not be invited to tender for any further general consultancy work unless their proprietary skill base was uniquely valuable. In addition, the external auditors may still be used in respect of taxation advice and financial due diligence on transactions. All such assignments are reported to the audit committee on a quarterly basis, along with a full breakdown of all non-audit fees incurred during the year.

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

Remuneration committee

The remuneration committee, which meets four times a year, consists entirely of independent non-executive directors. It is chaired by Patricia Mann. The role of this committee and details of how the company applies the principles of the Code in respect of directors' remuneration are set out on pages 25 to 30.

Nominations committee

The nominations committee, chaired by Sir Michael Perry, makes recommendations to the board for appointments of replacement or additional directors. It met formally on two occasions during the year.

Customer service committee

This committee, which determines and monitors customer service targets, is one of the key drivers of the long term success of the group. It was chaired by Sir Sydney Lipworth until his retirement from the board on 13 May 2002. From then until January 2003, it was chaired by Mark Clare. Helen Alexander was appointed chairman of this committee with effect from February 2003.

AA motoring policy committee

This committee, chaired by Sir Brian Shaw, acted as an advocate on public policy issues affecting motorists. With effect from January 2003, this committee was disbanded and its work has been carried out by the independent AA Motoring Trust.

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 a useful opportunity for dialogue with private shareholders, many of whom are also customers. At the AGM, the chief executive presents a review of the businesses of the group. Representatives from the group's brand units are available for discussion in the exhibition area both before and after the

meeting. Centrica also holds regular meetings with its major institutional shareholders.

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

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 fostered throughout the group. The board, directly or through its committees, sets objectives, performance targets and policies for management of key risks facing the group. These include strategic planning, acquisitions, investments, expenditure control, treasury, environment, health and safety, trading and customer service.

Across the group, each business has a risk management committee that seeks to identify, assess and advise on the management of operational risks. In addition, the group risk management committee considers the risks which might affect the company at group level.

The processes of newly acquired companies are integrated with those of the group.

Assurance

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

The board's review of the system of internal control

The board of directors, with the advice of the audit committee, has reviewed the effectiveness of the internal control system operated (as described above) throughout the period 1 January 2002 to the date of this report and is satisfied that the group complies with the guidance contained in the Turnbull Committee report 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 32 to 67.

By order of the board



Grant Dawson
General Counsel and Company Secretary
20 February 2003

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

Remuneration report

Composition and role of the remuneration committee
The board has established a remuneration committee, which is chaired by Patricia Mann. The other members of the committee in 2002 were Roger Carr, Sir Sydney Lipworth (until his retirement on 13 May 2002), Sir Michael Perry and Sir Brian Shaw. Helen Alexander and Robert Tobin became members of the committee when they joined the board on 1 January 2003. All of the members of the committee are independent non-executive directors.

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. The committee has access to advice provided by the group head of reward (Mike New), the group human resources director (Anne Minto), the company secretary (Grant Dawson), the chief executive (Sir Roy Gardner) and external consultants. During 2002, the committee consulted, but did not formally appoint, Towers Perrin, who provided survey and other information 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 change management processes during the year.

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

Framework and policy on executive directors' remuneration

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

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

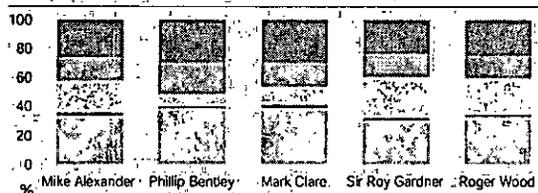
The current practice is to make conditional awards each year under both the executive share option scheme (ESOS) and the long term incentive scheme (LTIS). These schemes are designed to align the interests of executive directors and other senior executives with the longer term interests of shareholders by rewarding them for delivering increased shareholder value.

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

The committee believes that these arrangements, which are further explained below, are important in providing a potential remuneration package that will attract, retain and continue to motivate executive directors and senior executives in a marketplace that is increasingly challenging and competitive in both commercial and human resource terms. It is intended that the current remuneration policy, which has previously been approved by shareholders, will continue for 2003 and succeeding years.

In 2002, the total compensation of the executive directors, detailed on page 27, consisted of components in the following proportions:

Relative proportions of components of executive directors' remuneration 2002



Fixed elements: Salary, Benefits, Pension
Variable elements: Performance bonus, ESOS + LTIS

Note: Salary and benefits are amounts received during 2002; pension is the increase in transfer value less director's contributions during 2002; performance bonus is that paid in respect of 2002; and ESOS and LTIS is the estimated value of the awards made in 2002 based on a Black Scholes model, provided that all performance conditions are met, at the end of the relevant performance periods.

Components of remuneration

Base salary

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

Annual performance bonus

To recognise performance against agreed objectives, the committee has put in place an annual bonus scheme for executive directors similar to that applying to other senior executives in the group. Annual bonuses for executive directors are determined by the achievement of demanding individual, business and corporate objectives. The scheme provided the potential for a maximum bonus payment of 60% of base salary should every element of every objective be achieved in full. Annual bonus objectives and targets are approved by the committee and, in 2002, related to financial performance, customer and employee satisfaction and personal performance, each at 20% of base salary. For executive directors with business unit responsibilities, the scheme is structured to reflect the performance of their business unit as well as that of the group. No bonus at all is payable to an individual if their agreed minimum personal performance target is not met.

Executive share option scheme (ESOS)

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

In respect of each grant of options, the committee has determined that, for the option to be exercisable in full, EPS growth must exceed RPI growth by 18 percentage points or more over the three year performance period. No part of the option grant will be exercisable if EPS growth fails to exceed RPI growth by at least 9 percentage points over the performance period. The proportion of the option grant exercisable by the

Remuneration report continued

executive will increase on a sliding scale between 40% and 100% if EPS growth exceeds RPI growth by between 9 and 18 percentage points over the performance period.

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

In April 2002, options were granted to each executive director equal to twice 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 30. 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.

Three of the executive directors hold options under the restructured executive share option scheme (RESOS). The RESOS was put in place to replace options which executives had previously held over British Gas plc shares and which were cancelled at demerger. There are no performance conditions attaching to options under the RESOS. Further details are given on page 30.

Long term incentive scheme (LTIS)

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

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

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

In April 2002, LTIS allocations equal to three quarters of base salary were awarded to executive directors and, at the same or lower rates, to certain other senior executives. The maximum number of shares that could eventually be

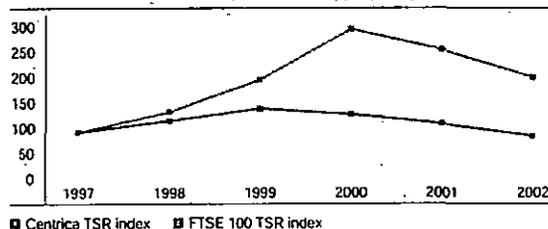
transferred to each executive director upon satisfaction of the performance criteria appears on page 29.

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

TSR: Centrica and FTSE 100: 1997 to 2002

The following table shows graphs of the company's TSR performance and that of the FTSE 100 index. As required by the Directors' Remuneration Report Regulations 2002, this uses a rolling definition of the FTSE 100; whereas the definition used for the purposes of the LTIS is the FTSE 100 as constituted at the beginning of the period. In order to demonstrate the delivery of shareholder value during the respective performance periods, TSR graphs for LTIS awards that vested in March and October 2002 are shown in the tables on page 29.

TSR indices – Centrica and FTSE 100: 1997-2002



Other employment benefits

In common with other senior management, executive directors are entitled to a range of benefits, including a contributory, final salary pension (see pages 27 and 28), a company car, life assurance, private medical insurance and a financial counselling scheme. They are also eligible, on the same basis as other employees, to participate in the company's Inland Revenue-approved sharesave and share incentive plans. These are open to all eligible employees and provide a long term savings and investment opportunity.

Service contracts

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

The executive directors' service contracts have no fixed term but provide that either the director or the company may terminate the employment by giving one year's written notice and that the company may pay compensation in lieu of notice. Phillip Bentley's contract provides for an initial notice period of two years, which reverted in November 2002 to one year on the same basis as the other executive directors. The dates of the executive directors' service contracts are disclosed in the table on page 27.

Upon Mike Alexander's retirement from the board on 28 February 2003, he will forfeit all of the options granted to him under the ESOS (see the table on page 30) and the conditional allocations of shares made to him under the LTIS on 2 October 2000, 1 October 2001 and 2 April 2002 (see the table on page 29). The performance targets in respect of the allocations of shares made to him under the LTIS on 1 October 1998 and 7 October 1999 have previously been achieved and those shares will be released to him at the end of the retention periods on 30 September 2003 and 30 September 2004, respectively. Mike Alexander will not receive any payments other than his pension, the details of which are disclosed on pages 27 and 28.

External appointments of executive directors

The board believes that experience of other companies' practices and challenges is valuable both for the personal development of its executive directors and for the company. It is therefore the company's policy to allow each executive director to accept one non-executive directorship of another company, although the board retains the discretion to vary this policy. Fees are retained by the individual director. Details of individual directors' external appointments are given in their biographies on page 21.

Non-executive directors

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

In addition to their fees as non-executive directors of the company, Sir Brian Shaw received fees for consultancy services to the AA Motoring Policy Unit and Sir Sydney Lipworth received fees for services as a non-executive director of Goldfish Bank Limited.

The remuneration report from page 25 to page 27 up to this statement has not been audited. From this point until the end of the report on page 30, the disclosures, with the exception of the two line graphs on page 29, have been audited.

Directors' emoluments

		Base salary/fees £000	Annual performance bonus £000	Benefits ⁽ⁱ⁾ £000	Total emoluments ⁽ⁱⁱ⁾ 2002 £000	Total emoluments ⁽ⁱⁱ⁾ 2001 ⁽ⁱⁱⁱ⁾ £000
Executive directors	Date of service contract					
Mike Alexander	10 January 2002	389	199	29	617	506
Phillip Bentley ^(iv)	13 September 2000	400	231	16	647	536
Mark Clare	21 March 2001	418	181	27	626	553
Sir Roy Gardner	21 March 2001	678	376	44	1,098	847
Roger Wood	21 March 2001	389	194	25	608	559
		2,274	1,181	141	3,596	3,001
Non-executive directors	Date of appointment					
Roger Carr	1 January 2000	34	-	-	34	30
Sir Sydney Lipworth ^(v)	12 March 1999	22	-	-	22	45
Patricia Mann	4 December 1996	34	-	-	34	30
Sir Michael Perry	4 December 1996	195	-	-	195	180
Sir Brian Shaw ^(vi)	23 September 1999	54	-	-	54	50
		339	-	-	339	335
Total emoluments		2,613	1,181	141	3,935	3,336

- (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:
- pensions - see below and page 28;
 - share options - see page 30. The aggregate of the amount of gains made by executive directors on the exercise of share options was £305,950; and
 - long term incentives - see pages 28 and 29. The aggregate value of shares vested to executive directors under the LTIS was £4,630,479.
- (iii) The total emoluments figure for 2001 excludes £30,000 paid to Francis Mackay for his services as a director during that year.
- (iv) In addition to the emoluments shown above, Phillip Bentley received a payment of £200,000 (2001: £250,000) as the second and final tranche of compensation for loss of entitlement under his previous employer's performance bonus and share option schemes.
- (v) The figure for Sir Sydney Lipworth for 2002 includes fees of £8,333 in respect of services as a non-executive director of Goldfish Bank Limited while a director of Centrica plc.
- (vi) The figures for Sir Brian Shaw include fees of £20,000 per annum in respect of consultancy services to the AA Motoring Policy Unit.

Directors' pensions

The pension arrangements for the executive directors, who are all members of the Centrica staff pension scheme, are shown below. The staff pension scheme is a funded, Inland Revenue-approved, final salary, occupational pension scheme. Its rules provide for the following main features:

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

Remuneration report continued

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

Pension benefits earned by directors (£)

	Accrued pension as at 31 December 2002 ⁽ⁱ⁾	Accrued pension as at 31 December 2001	Increase in accrued pension ⁽ⁱⁱ⁾	Transfer value as at 31 December 2002	Transfer value as at 31 December 2001	Contributions paid in 2002 ⁽ⁱⁱⁱ⁾	Difference, in transfer values less contributions	Transfer value of the increase in accrued pension excluding inflation ^(iv)
Mike Alexander ^(v)	176,700	160,400	16,300	2,598,800	2,328,300	14,513	255,987	181,777
Phillip Bentley ^(vi)	19,600	9,500	10,100	196,400	93,100	14,513	88,787	83,410
Mark Clare ^(vii)	74,300	61,900	12,400	793,000	643,200	14,513	135,287	104,576
Sir Roy Gardner ^(viii)	183,400	140,000	43,400	2,883,800	2,227,100	14,513	642,187	619,708
Roger Wood ^(ix)	89,300	73,200	16,100	1,645,400	1,325,200	14,513	305,687	254,634

- (i) Accrued pension is that which would be paid annually on retirement at age 65, based on eligible service to 31 December 2002.
- (ii) The increase in accrued pension during the year excludes any pension arising from additional voluntary contributions. The increase in accrued pension adjusted to exclude inflation may be derived by discounting the figure in the first column by the rate of inflation (1.7% - see note (iv)) and subtracting the figure in the second column.
- (iii) Contributions were paid in the year by the directors under the terms of the scheme, up to the maximum rate of 15% of the earnings 'cap'.
- (iv) The rate of inflation used was 1.7%, the annual rate to 30 September 2002, the date used for pension increases under the scheme.
- (v) The accrued pension shown for Mike Alexander includes a credit in relation to a transfer from a previous employer's pension scheme.
- (vi) With effect from 1 January 1998, the pensions for Mike Alexander and Mark Clare have accrued at the rate of 2.26% (approximately 1/44) and 2.28% (approximately 1/44) of pensionable salary respectively for each year of pensionable service. Pensions in relation to service prior to 1 January 1998 will continue to accrue at the rate of 1.67% (1/60) of pensionable salary.
- (vii) The pension for Phillip Bentley accrues at the rate of 2.31% (approximately 1/43) of pensionable salary for each year of pensionable service.
- (viii) The pensions for Sir Roy Gardner and Roger Wood accrue at the rate of 3.33% (1/30) of pensionable salary per year of service.

Directors' interests in shares

The directors' beneficial interests (which include those of their families) in the ordinary shares in the company and the executive directors' interests in the long term incentive scheme (LTIS) are shown in the following two tables:

Directors as at 31 December 2002	Shareholdings as at 31 December 2002	Shareholdings as at 1 January 2002	LTIS: total allocations as at 31 December 2002	LTIS: total allocations as at 1 January 2002
	Executive directors			
Mike Alexander	328,194	27,849	773,614	1,129,858
Phillip Bentley	80,095	50,000	453,857	317,069
Mark Clare	354,625	24,539	840,895	1,187,130
Sir Roy Gardner	771,661	166,569	1,382,870	2,012,367
Roger Wood	366,011	55,197	800,876	1,208,491
Non-executive directors				
Roger Carr	4,700	4,700	-	-
Patricia Mann	2,142	2,142	-	-
Sir Michael Perry	15,900	15,900	-	-
Sir Brian Shaw	1,000	1,000	-	-

- (i) As at 17 February 2003, the beneficial shareholdings of the executive directors had increased from the totals shown at 31 December 2002 by the following numbers of shares: Mike Alexander 93; Phillip Bentley 20,093; Mark Clare 10,093; Sir Roy Gardner 30,093; Roger Wood 20,000; and Sir Michael Perry 10,000.
- (ii) As at 31 December 2002, 27,238,473 shares (1 January 2002: 39,361,377) were held by the trustee of the employee share trust under the LTIS rules. 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 17 February 2003.
- (iii) From 1 January 2002 to 17 February 2003, 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, or those of its subsidiary or associated undertakings.

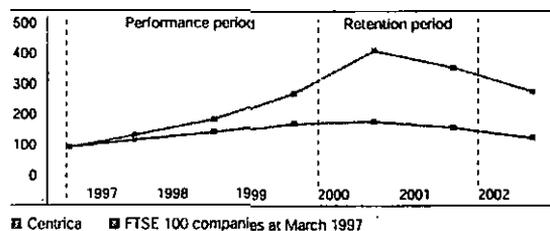
The following table gives details of the LTIS allocations held by each director:

	Vested during 2002		In retention period		In performance period		
	4 March 1997 ^M	1 October 1997 ^M	1 October 1998 ^M	7 October 1999 ^M	2 October 2000 ^M	1 October 2001 ^M	2 April 2002 ^M
Mike Alexander	282,843	205,184	178,024	142,415	185,994	135,398	131,783
Phillip Bentley					181,671	135,398	136,788
Mark Clare	282,843	205,184	181,431	151,703	221,422	144,547	141,792
Sir Roy Gardner	500,186	362,851	340,716	272,446	312,943	223,225	233,540
Roger Wood	312,616	226,782	189,949	154,799	188,947	135,398	131,783
Market price at allocation date	64.00p	94.25p	118.00p	161.50p	220.50p	214.50p	227.00p
End of qualifying period ^M	2/3/2002	30/9/2002	30/9/2003	30/9/2004	1/10/2005	30/9/2004	1/4/2005
Market price at vesting date ^M		215.88p	165.46p				

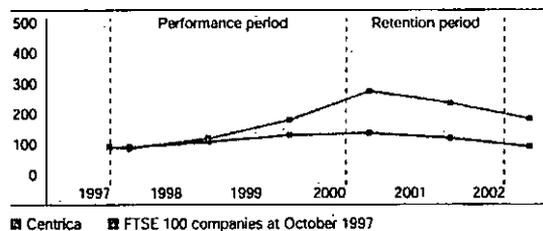
- (i) At the end of the respective performance periods (2 March 2000 and 30 September 2000), the company ranked in sixth and fourth positions respectively in the relevant LTIS comparator groups. Accordingly, 100% of the allocations were released on the vesting dates (4 March 2002 and 1 October 2002 respectively) following the expiry of the two year retention period. These shares were subject to income tax at the individual's marginal rate, based on the market value of the shares at the date of vesting. The income tax liability was satisfied by the sale of sufficient shares and, accordingly, the directors only received the net number of shares following disposal, which is reflected in the shareholdings as at 31 December 2002 in the second table on page 28.
- (ii) At the end of the respective performance periods (30 September 2001 and 30 September 2002), the company ranked fourth in the relevant LTIS comparator groups. Accordingly, 100% of the allocations are being held in trust for a further two years at the end of which time they will be released to the directors at the trustee's discretion.
- (iii) The performance period relating to this allocation will end on 1 October 2003. If and to the extent that the performance condition is met, the relevant number of shares will then be held in trust for two years, at the end of which time they will be released to the directors at the trustee's discretion.
- (iv) The respective performance periods relating to these allocations will end on 30 September 2004 and 1 April 2005. If and to the extent that the performance conditions are met, the allocations will vest and the relevant number of shares will be released to the directors, at the trustee's discretion.
- (v) The end of the qualifying period is the date on which it is judged whether or not the qualifying conditions (see LTIS section on page 26) have been fulfilled.
- (vi) The vesting date was the next business day after the end of the qualifying period.

The following tables, which have not been audited, show the TSR performance of Centrica and the respective TSR comparator groups over the qualifying periods relating to the two LTIS awards that vested during 2002:

TSR indices – Centrica and FTSE 100:
March 1997 LTIS award



TSR indices – Centrica and FTSE 100:
October 1997 LTIS award



Remuneration report continued

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 2002	Options granted during year	Options exercised during year ^(a)	Options held as at 31 December 2002	Exercise price (pence)	Date from which exercisable	Expiry date
Mike Alexander							
RESOS ⁽ⁱ⁾	86,145	-	86,145 ^(a)	-	90.266	Oct 1996	Oct 2003
ESOS ⁽ⁱⁱ⁾	308,269	-	-	308,269	240.050	Jun 2004	May 2011
ESOS ⁽ⁱⁱ⁾	-	351,423	-	351,423	224.800	Apr 2005	Apr 2012
Sharesave ⁽ⁱⁱⁱ⁾	7,435	-	7,435 ^(a)	-	46.400	Jun 2002	Nov 2002
Sharesave ⁽ⁱⁱⁱ⁾	14,967	-	-	14,967	92.200	Jun 2003	Nov 2003
Sharesave ⁽ⁱⁱⁱ⁾	-	1,863	-	1,863	177.600	Jun 2007	Nov 2007
	416,816	353,286	93,580	676,522			
Phillip Bentley							
ESOS ⁽ⁱⁱ⁾	308,269	-	-	308,269	240.050	Jun 2004	May 2011
ESOS ⁽ⁱⁱ⁾	-	364,768	-	364,768	224.800	Apr 2005	Apr 2012
Sharesave ⁽ⁱⁱⁱ⁾	5,071	-	-	5,071	191.000	Jun 2004	Nov 2004
	313,340	364,768	-	678,108			
Mark Clare							
RESOS ⁽ⁱ⁾	177,645	-	-	177,645	81.060	Oct 1997	Oct 2004
ESOS ⁽ⁱⁱ⁾	329,098	-	-	329,098	240.050	Jun 2004	May 2011
ESOS ⁽ⁱⁱ⁾	-	378,113	-	378,113	224.800	Apr 2005	Apr 2012
Sharesave ⁽ⁱⁱⁱ⁾	37,176	-	37,176 ^(a)	-	46.400	Jun 2002	Nov 2002
Sharesave ⁽ⁱⁱⁱ⁾	-	9,318	-	9,318	177.600	Jun 2007	Nov 2007
	543,919	387,431	37,176	894,174			
Sir Roy Gardner							
RESOS ⁽ⁱ⁾	1,336,446	-	-	1,336,446	81.889	Nov 1997	Nov 2004
ESOS ⁽ⁱⁱ⁾	508,227	-	-	508,227	240.050	Jun 2004	May 2011
ESOS ⁽ⁱⁱ⁾	-	622,775	-	622,775	224.800	Apr 2005	Apr 2012
Sharesave ⁽ⁱⁱⁱ⁾	37,176	-	37,176 ^(a)	-	46.400	Jun 2002	Nov 2002
Sharesave ⁽ⁱⁱⁱ⁾	-	9,318	-	9,318	177.600	Jun 2007	Nov 2007
	1,881,849	632,093	37,176	2,476,766			
Roger Wood							
ESOS ⁽ⁱⁱ⁾	308,269	-	-	308,269	240.050	Jun 2004	May 2011
ESOS ⁽ⁱⁱ⁾	-	351,423	-	351,423	224.800	Apr 2005	Apr 2012
Sharesave ⁽ⁱⁱⁱ⁾	37,176	-	37,176 ^(a)	-	46.400	Jun 2002	Nov 2002
Sharesave ⁽ⁱⁱⁱ⁾	-	9,318	-	9,318	177.600	Jun 2007	Nov 2007
	345,445	360,741	37,176	669,010			

(i) **Restructured executive share option scheme (RESOS)**

Options granted to company employees under the British Gas plc executive share option scheme prior to February 1997 were cancelled and replaced at demerger by non-Inland Revenue-approved options to acquire Centrica shares. The replacement options were granted on the same terms as British Gas executive share options, with the same exercise date and aggregate exercise price per share, and the number of shares placed under option was adjusted to take account of the demerger.

No further options have been or will be granted under this scheme.

(ii) **Executive share option scheme (ESOS)**

Options were granted to executives under the terms of the Centrica executive share option scheme on 31 May 2001 and 2 April 2002. For details of the operation of this scheme see page 25.

(iii) **Sharesave scheme**

The company operates an Inland Revenue-approved all-employee savings-related share option scheme. The scheme is designed to provide a long term savings and investment opportunity for employees and is described on page 22.

(iv) **Exercise of share options**

Options were exercised at the following dates and prices: (a) 5 April 2002 at 225 pence; (b) 5 June 2002 at 207.5 pence; and (c) 1 July 2002 at 202.75 pence.

No director's options lapsed during the year.

The closing price of a Centrica ordinary share on the last trading day of 2002 (31 December) was 171 pence. The range during the year was 239 pence (high) and 150 pence (low).

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



Grant Dawson
General Counsel and Company Secretary
20 February 2003

Statement of directors' responsibilities for preparing the financial statements

The directors are required by the Companies Act 1985 to prepare financial statements for each year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that, in preparing the financial statements on pages 32 to 67, the company has used appropriate accounting policies, consistently applied and supported by

reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and the group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Centrica plc

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

Respective responsibilities of directors and auditors

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

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 in to whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code 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 2002 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.

The maintenance and integrity of the Centrica plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2N 6RH
20 February 2003

Financial statements

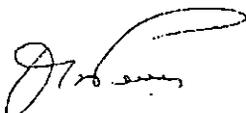
		2002			2001		
		Results for the year before goodwill amortisation and exceptional charges	Goodwill amortisation and exceptional charges	Results for the year	Results for the year before goodwill amortisation and exceptional charges	Goodwill amortisation and exceptional charges	Results for the year
		Em	Em	Em	Em	Em	Em
Group profit and loss account							
Year ended 31 December							
	Notes						
Turnover:							
Continuing operations before acquisitions		14,003	-	14,003	12,611	-	12,611
Acquisitions		312	-	312	-	-	-
Continuing operations		14,315	-	14,315	12,611	-	12,611
Share of joint ventures' turnover		207	-	207	229	-	229
Group and share of joint ventures' turnover		14,522	-	14,522	12,840	-	12,840
Less share of joint ventures' turnover		(207)	-	(207)	(229)	-	(229)
Group turnover	3	14,315	-	14,315	12,611	-	12,611
Cost of sales	4	(11,328)	-	(11,328)	(10,224)	-	(10,224)
Gross profit		2,987	-	2,987	2,387	-	2,387
Operating costs:							
Exceptional items	5	-	-	-	-	(80)	(80)
Other	4	(2,108)	(116)	(2,224)	(1,755)	(86)	(1,841)
		(2,108)	(116)	(2,224)	(1,755)	(166)	(1,921)
Group operating profit:							
Continuing operations before acquisitions		857	(104)	753	632	(166)	466
Acquisitions		22	(12)	10	-	-	-
Continuing operations		879	(116)	763	632	(166)	466
Share of operating profit in joint ventures and associates - continuing operations	3	53	(7)	46	47	(2)	45
Operating profit including joint ventures and associates:							
Continuing operations before acquisitions		910	(111)	799	679	(168)	511
Acquisitions		22	(12)	10	-	-	-
Continuing operations	3	932	(123)	809	679	(168)	511
Loss on disposal of business	5	-	(14)	(14)	-	-	-
Loss on disposal of fixed assets	5	-	(14)	(14)	-	-	-
Net interest payable:							
Group		(47)	-	(47)	(32)	-	(32)
Share of joint ventures and associates	7	(15)	-	(15)	(11)	-	(11)
		(62)	-	(62)	(43)	-	(43)
Profit on ordinary activities before taxation		870	(151)	719	636	(168)	468
Taxation on profit on ordinary activities	8	(243)	(7)	(250)	(164)	9	(155)
Profit on ordinary activities after taxation for the financial year		627	(158)	469	472	(159)	313
Minority interests (equity and non-equity)	23	9	-	9	10	-	10
Profit attributable to the group		636	(158)	478	482	(159)	323
Dividends	9	-	-	(172)	-	-	(172)
Transfer to reserves	21	-	-	306	-	-	306
		Pence		Pence	Pence		Pence
Earnings per ordinary share							
basic	10			11.4			8.1
diluted	10			11.3			8.0
adjusted basic	10	15.2			12.1		

The notes on pages 35 to 63 form part of these financial statements.

Group balance sheet

31 December	Notes	2002 £m	2001 £m
Fixed assets			
Intangible assets	11	1,813	1,524
Tangible assets	12	2,763	2,058
Investments:			
Share of gross assets of joint ventures		810	709
Share of gross liabilities of joint ventures		(736)	(597)
	13	74	112
Other investments	13	28	55
		4,678	3,749
Current assets			
Stocks	14	180	193
Debtors:			
Goldfish Bank debtors (amounts falling due within one year)	15	781	673
Goldfish Bank debtors (amounts falling due after more than one year)	15	11	-
Other debtors (amounts falling due within one year)	15	2,598	1,923
Other debtors (amounts falling due after more than one year)	15	134	130
		3,524	2,726
Current asset investments	16	320	454
Cash at bank and in hand		28	72
		4,052	3,445
Creditors (amounts falling due within one year)			
Goldfish Bank borrowings	17	(430)	(610)
Other borrowings	17	(289)	(361)
Other amounts falling due within one year:			
Goldfish Bank customer deposits		(286)	-
Other creditors		(3,155)	(2,871)
	18	(3,441)	(2,871)
		(4,160)	(3,842)
Net current liabilities		(108)	(397)
Total assets less current liabilities		4,570	3,352
Creditors (amounts falling due after more than one year)			
Borrowings	17	(784)	(598)
Other creditors	18	(122)	(34)
		(906)	(632)
Provisions for liabilities and charges	19	(1,262)	(1,184)
Net assets		2,402	1,536
Capital and reserves – equity interests			
Called up share capital	20	236	223
Share premium account	21	537	62
Merger reserve	21	467	467
Profit and loss account	21	1,008	750
Shareholders' funds	22	2,248	1,502
Minority interests (equity and non-equity)	23	154	34
Total capital employed		2,402	1,536

The financial statements were approved by the board of directors on 20 February 2003 and were signed on its behalf by:



Sir Michael Perry GBE
Chairman



Phillip Bentley
Group Finance Director

The notes on pages 35 to 63 form part of these financial statements.

Financial statements continued

Statement of total recognised gains and losses

Year ended 31 December	Notes	2002 £m	2001 £m
Profit for the financial year		478	323
Exchange translation differences		(8)	-
Total gains and losses recognised since last annual report		470	323

Profit for the financial year includes joint ventures' and associates' profit after tax of £15 million (2001: £27 million).

Group cash flow statement

Year ended 31 December	Notes	2002 £m	2001 £m
Cash inflow from operating activities ⁽ⁱ⁾	25a	717	825
Dividends received from joint ventures and associates		57	16
Returns on investments and servicing of finance	25b	(25)	(15)
Taxation paid	25c	(192)	(109)
Capital expenditure and financial investment	25d	(402)	(337)
Acquisitions and disposals	25e	(935)	(607)
Equity dividends paid		(139)	(115)
Cash outflow before use of liquid resources and financing		(918)	(342)
Management of liquid resources	25f	134	(257)
Financing	25g	747	686
(Decrease)/increase in net cash		(37)	87

(i) Cash inflow from operating activities includes movements on the Goldfish Bank working capital facility.

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

Year ended 31 December	Notes	2002 £m	2001 £m
(Decrease)/increase in net cash		(37)	87
Movement in Goldfish Bank working capital facility		180	(610)
Cash inflow from increase in other debt and lease financing		(117)	(635)
Cash (inflow)/outflow from (decrease)/increase in liquid resources		(134)	257
Change in debt, net of cash and current asset investments resulting from cash flows		(108)	(901)
Loans and finance leases acquired		-	(37)
Exchange adjustments		(4)	12
Movement in debt, net of cash and current asset investments		(112)	(926)
Debt, net of cash and current asset investments, at 1 January		(1,043)	(117)
Debt, net of cash and current asset investments, at 31 December	25h	(1,155)	(1,043)
Of which:			
Goldfish Bank		(430)	(610)
Other businesses - non-recourse debt		(196)	-
Other businesses - recourse debt		(529)	(433)
Total group		(1,155)	(1,043)

The notes on pages 35 to 63 form part of these financial statements.

Notes to the financial statements

1 Principal accounting policies

Accounting principles

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention and the Companies Act 1985 except for the accounting policy for energy trading activities; further details explaining this departure are in note 2. In accordance with the transitional arrangements of FRS 17 Retirement Benefits, additional disclosures are contained in the notes to the financial statements.

The accounting policies, where applicable, are materially 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 comprise a consolidation of the accounts of the company and 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.

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).

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).

Under FRS 5 Reporting the Substance of Transactions, the Consumers' Waterheater Income Fund has been consolidated as a quasi-subsiary.

Turnover

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

Energy supply: Turnover for energy supply activities includes an assessment of energy supplies 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.

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 receivable, fees and commissions receivable from financial services activities.

Telecommunications: Turnover is recognised on the basis of telephony services actually 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 and royalty costs, bought in materials and services, and direct labour and related overheads on installation works, repairs and service contracts. 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. Financial services cost of sales also 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 pages 22 and 23. As permitted by UITF Abstract 17, the group does not recognise the difference between market value and option price to employees in relation to the UK sharesave scheme within the profit and loss account, on the basis that the scheme is UK Inland Revenue-approved. Upon vesting, the difference between market value and the option price is taken directly to reserves. The cost of potential share awards under the group's long term incentive schemes is charged to the profit and loss account over the period to which the performance criteria of each allocation relates. Cost is defined as the difference between the contribution receivable from employees and the market value at the date of grant, or the actual cost of shares where market purchases are made at, or around, grant date. Cost also includes provision for employer's National Insurance charges expected to arise at exercise dates.

Research and development expenditure

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

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at closing rates of exchange. The results of overseas subsidiary undertakings and joint ventures are translated into sterling at average rates of exchange for the relevant period. Differences resulting from the retranslation of the opening net investment in overseas subsidiary undertakings and from the retranslation of the 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 monetary assets and liabilities are taken to the profit and loss account, except that exchange differences on foreign currency borrowings 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 dealt with through the profit and loss account.

Intangible fixed assets

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

Notes to the financial statements continued

1 Principal accounting policies continued

In the case of investments in customer relationship management (CRM) and other technology infrastructure, cost includes contractors' charges, payments on account, materials, direct labour and directly attributable overheads. Capitalisation begins when expenditures for the asset are being incurred and activities that are necessary to prepare the asset for use are in progress.

Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Depreciation commences at the point of commercial deployment.

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

Freehold and leasehold buildings	up to 50 years
Plant	5 to 20 years
Power stations	20 years
Equipment and vehicles	3 to 10 years
Storage	up to 30 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 developed 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 as incurred.

Asset impairments

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

Investments

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

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

Stocks

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

'Take or Pay' contracts

Where payments are made to external suppliers under 'Take or Pay' obligations for gas not taken, they are treated as prepayments and are 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, an asset is recognised. Decommissioning assets are amortised using the unit of production method, based on proven and probable reserves, except for decommissioning assets relating to storage facilities, which are amortised on a straight-line basis over the useful economic life of the storage facilities. 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 the transitional arrangements set out in FRS 17 Retirement Benefits. The cost of providing retirement pensions and other benefits is charged to the profit and loss account over the periods benefiting from employees' service. The difference between the charge to the profit and loss account and the contributions paid to the pension schemes is shown as a provision in the balance sheet. The regular pension cost, variations from the regular pension cost and interest are all charged within employee costs, and the straight-line method is applied for amortising surpluses and interest.

Long term sales contracts

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

Taxation

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

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

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

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax 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.

1 Principal accounting policies continued

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 17 and 18.

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. Open 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 2. 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, foreign currency forecasted transactions and the retranslation of overseas net investments. All instruments are used for hedging purposes to alter the risk profile on existing underlying exposures and probable future commitments in line with the group's risk management policies.

Amounts payable or receivable in respect of interest rate swaps and forward rate agreements are recognised as adjustments to the net interest charge over the term of the contracts.

Currency swap agreements and forward exchange contracts are retranslated at the rates ruling in the agreements and contracts. Resulting gains or losses are offset against foreign exchange gains or losses on the related borrowings or, where the instrument is used to hedge a committed future transaction, are deferred until the transaction occurs. Where used to hedge overseas net investments, gains or losses are recorded in the statement of total recognised gains and losses, with interest recorded in the profit and loss account.

Where derivatives used to manage interest rate risk or to hedge other anticipated cash flows are terminated before the underlying debt matures or the hedged transaction occurs, the resulting gain or loss is recognised on a basis that matches the timing and accounting treatment of the underlying debt or hedged transaction. When an anticipated transaction is no longer likely to occur or finance debt is terminated before maturity, any deferred gain or loss that has arisen on the related derivative is recognised in the profit and loss account, together with any gain or loss on the terminated item.

2 Accounting policy for energy trading activities

Energy trading financial derivatives and open positions on physical energy trading contracts are marked to market using externally derived market prices. 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 that these requirements would fail to provide a true and fair view of the profit for the year 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 the departure on the financial statements is an increase in profit for the year amounting to £7 million (2001: £2 million) and an increase in net assets at 31 December 2002 amounting to £9 million (2001: £2 million).

Notes to the financial statements continued

3 Segmental analysis

The segmental analysis reflects, in the opinion of the directors, how the group's activities were managed during the year. The segmental analysis has changed from last year in order to reflect the brand unit divisions that are now utilised in the day-to-day management of the business. These have been structured to mirror the brand focused customer relationships that are at the core of the Centrica business model^(iv). All activities were continuing.

	Turnover year ended 31 December		Operating profit/(loss) before exceptional charges and goodwill amortisation, including share of results of joint ventures and associates year ended 31 December		Operating profit/(loss) after exceptional charges and goodwill amortisation, including share of results of joint ventures and associates year ended 31 December		Net assets/(liabilities) 31 December	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
a) By business segment								
British Gas residential:								
Continuing operations	6,047	5,909	244	(46)	243	(81)	347	257
Acquisitions ^(vi)								
	6,047	5,909	244	(46)	243	(81)	347	257
Centrica Business Services:								
Continuing operations	883	581	64	44	60	37	267	235
Acquisitions ^(vi)	88		1		(1)		86	
	971	581	65	44	59	37	353	235
Centrica energy management group (CEMG):								
Continuing operations ^(iv)	5,160	4,571	522	573	522	543	265	25
Acquisitions ^(vi)	111		(2)		(2)		439	
	5,171	4,571	520	573	520	543	704	25
The AA:								
Continuing operations	758	689	74	72	24	8	682	746
Acquisitions ^(vi)	2		(1)		(1)		3	
	760	689	73	72	23	8	685	746
Goldfish Bank:								
Continuing operations	93	22	(40)	(32)	(54)	(37)	181	112
Acquisitions ^(vi)								
	93	22	(40)	(32)	(54)	(37)	181	112
One.Tel:								
Continuing operations	151	65	5	4	1	5	54	59
Acquisitions ^(vi)	2		(3)		(5)		(1)	
	153	65	2	4	(4)	5	53	59
Centrica North America:								
Continuing operations	909	768	36	68	5	39	611	652
Acquisitions ^(vi)	209		27		19		581	
	1,118	768	63	68	24	39	1,192	652
Other operations:								
Unallocated net liabilities ^(vii)	2	6	5	(4)	(2)	(3)	49	53
							(1,162)	(603)
Group	14,315	12,611	932	679	809	511	2,402	1,536
b) By geographical area of operation								
UK:								
Continuing operations	13,079	11,831	879	609	805	472	1,794	1,436
Acquisitions ^(vi)	103		(5)		(9)		527	
	13,182	11,831	874	609	796	472	2,321	1,436
Rest of Europe:								
Continuing operations	15	12	(5)	2	(11)	-	51	51
North America:								
Continuing operations	909	768	36	68	5	39	611	652
Acquisitions ^(vi)	209		27		19		581	
	1,118	768	63	68	24	39	1,192	652
Unallocated net liabilities ^(vii)							(1,162)	(603)
Group	14,315	12,611	932	679	809	511	2,402	1,536

See opposite for footnotes (i) - (v)

3 Segmental analysis continued

c) By geographical destination	Turnover	
	2002 £m	2001 £m
UK:		
Continuing operations	12,598	11,226
Acquisitions ⁽ⁱ⁾	103	
	12,701	11,226
Rest of Europe:		
Continuing operations	496	607
North America:		
Continuing operations	909	776
Acquisitions ⁽ⁱⁱ⁾	209	
	1,118	776
Rest of world:		
Continuing operations		2
Group	14,315	12,611

(i) Turnover includes energy trading turnover of £4,304 million (2001: £3,570 million).

(ii) Acquisitions are explained in note 24.

(iii) Unallocated net liabilities comprised:

	2002 £m	2001 £m
Fixed asset investments	26	52
Accrued interest payable	(7)	(2)
Dividends payable	(110)	(76)
Taxation	(346)	(144)
Debt, net of cash and money market investments (except for the Goldfish Bank working capital facility)	(725)	(433)
	(1,162)	(603)

The group's share of operating losses of associates before exceptional charges and goodwill amortisation for the year ended

31 December 2002 was £1 million (2001: £nil) and after exceptional charges and goodwill amortisation for the year ended

31 December 2002 was a loss of £2 million (2001: loss of £1 million).

The group's share of turnover and operating profits of joint ventures for the year ended 31 December was:

	Turnover		Operating profit/(loss) before exceptional charges and goodwill amortisation		Operating profit/(loss) after exceptional charges and goodwill amortisation	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
British Gas residential	25	24	2	2	2	2
Centrica energy management group (CEMG)	77	142	40	28	40	28
The AA	63	51	16	17	16	17
Goldfish Bank	-	11	-	-	-	-
Other operations	42	1	(4)	-	(10)	(1)
	207	229	54	47	48	46

(iv) The effect of this change on the 2001 segmental analysis of turnover was to split the turnover of the previously reported UK Energy Supply segment of £10,302 million into British Gas residential, Centrica Business Services and Centrica energy management group, to include British Gas home services turnover of £722 million and Telecommunications turnover (excluding One.Tel) of £37 million within British Gas residential, to combine AA road services and AA personal finance to form the AA segment and to reallocate turnover previously reported in other businesses of £62 million to the AA.

The effect on the 2001 segmental analysis of operating profit before exceptional charges and goodwill amortisation was to split the operating profit of the previously reported UK Energy Supply segment of £652 million into British Gas residential, Centrica Business Services and Centrica energy management group, to include British Gas home services operating profit of £36 million and Telecommunications operating loss (excluding One.Tel) of £101 million within British Gas residential, to combine AA road services and AA personal finance to form the AA segment and to reallocate operating losses previously reported in other businesses to British Gas residential of £16 million and to the AA of £2 million.

The effect on the 2001 segmental analysis of operating profit after exceptional charges and goodwill amortisation was to split the operating profit of the previously reported UK Energy Supply segment of £601 million into British Gas residential, Centrica Business Services and Centrica energy management group, to include British Gas home services operating profit of £30 million and Telecommunications operating loss (excluding One.Tel) of £116 million within British Gas residential, to combine AA road services and AA personal finance to form the AA segment, and to reallocate operating losses previously reported in other businesses to British Gas residential of £16 million and to the AA of £2 million.

The effect on the 2001 segmental analysis of net assets was to split the net assets of the previously reported UK Energy Supply segment of £678 million into British Gas residential, Centrica Business Services and Centrica energy management group, to include British Gas home services net liabilities of £162 million within British Gas residential, to combine AA road services and AA personal finance to form the AA segment, and to reallocate net assets of £1 million previously reported in other businesses to British Gas residential, and to reallocate net liabilities of £4 million previously reported in other businesses to the AA.

(v) Inter-segment transfers from Centrica energy management group to British Gas residential and Centrica Business Services totalled £4,142 million (2001: £4,363 million).

Notes to the financial statements continued

4 Costs	2002			2001		
	Goodwill amortisation & exceptional charges £m	Other costs £m	Total £m	Goodwill amortisation & exceptional charges £m	Other costs £m	Total £m
Cost of sales ⁽ⁱ⁾ :						
Continuing operations before acquisitions	-	11,141	11,141	-	10,224	10,224
Acquisitions	-	187	187	-	-	-
Continuing operations	-	11,328	11,328	-	10,224	10,224
Operating costs ⁽ⁱⁱ⁾ :						
Continuing operations before acquisitions	104	2,005	2,109	166	1,755	1,921
Acquisitions	12	103	115	-	-	-
Continuing operations	116	2,108	2,224	166	1,755	1,921
Total costs recognised in arriving at group operating profit	116	13,436	13,552	166	11,979	12,145

Gross profit attributable to acquisitions amounted to £125 million, and to continuing operations before acquisitions £2,862 million.

	2002 £m	2001 £m
Group operating profit is stated after charging:		
Amortisation of goodwill	116	86
Amortisation of fixed asset investments	7	14
Depreciation:		
Owned assets ⁽ⁱⁱⁱ⁾	357	331
Leased assets	33	26
	390	357
Profit on disposal of fixed assets ^(iv)	18	13
Operating lease rentals:		
Plant and machinery	31	7
Other	42	22
	73	29
Auditors' remuneration:		
Statutory audit		
Company	0.2	0.2
Subsidiary undertakings	1.5	1.4
Other audit	1.2	0.9
Other non-audit ^(iv)	6.3	7.1
	9.2	9.6

- (i) Gas transportation costs of £1,459 million (2001: £1,759 million) and electricity transportation and distribution charges of £647 million (2001: £395 million) were included within cost of sales. Operating costs were all considered to be administrative expenses.
- (ii) Depreciation and amortisation of owned assets for the year ended 31 December 2002 included £nil (2001: £25 million) of asset impairment. Of this impairment charge, £nil (2001: £20 million) has been treated as exceptional.
- (iii) The profit on disposal of tangible fixed assets was £6 million (2001: £7 million) and profit on sale of fixed asset investments (against the previously impaired cost of the investment) was £12 million (2001: £6 million).
- (iv) 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. 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. Other charges comprised due diligence of £0.5 million (2001: £2.1 million), taxation advice of £0.6 million (2001: £1.2 million) and consulting projects of £5.2 million (2001: £3.8 million), including amounts of £5 million (2001: £3 million) paid to the consulting business of the auditors prior to its sale in October 2002.

5 Exceptional items	2002 £m	2001 £m
a) Recognised in arriving at operating profit		
Continuing operations:		
Business integration costs	-	(35)
Energy trading costs	-	(37)
Other	-	(8)
Total recognised in arriving at operating profit	-	(80)

5 Exceptional items continued	2002	2001
b) Recognised after operating profit	£m	£m
Continuing operations:		
Loss on disposal of business ⁽ⁱ⁾	(14)	-
Loss on disposal of fixed assets ⁽ⁱⁱ⁾	(14)	-
Total recognised after operating profit	(28)	-

- (i) During the year the group recognised a £14 million loss on disposal of the LPG business. The loss included £11 million relating to the write-off of unamortised goodwill, further information of which is provided in note 24.
- (ii) The group decided to reduce the operations of Golf England Limited, a subsidiary undertaking, and recognised a £14 million provision in respect of losses on disposal of fixed assets.

6 Directors and employees	2002	2001
a) Employee costs	£m	£m
Wages and salaries	905	716
Social security costs	73	59
Other pension and retirement benefits costs (note 26)	68	54
Long term incentive scheme	11	14
Employee Profit Sharing Scheme	-	6
	1,057	849

Details of directors' remuneration, share options, long term incentive scheme interests and pension entitlements on pages 25 to 30 of the remuneration report form part of these financial statements. Details of employee share schemes are given on pages 22 to 23 and in note 20.

b) Average number of employees during the year	2002	2001
	Number	Number
British Gas residential	19,584	17,546
Centrica Business Services	842	368
Centrica energy management group (CEMG)	585	450
The AA	11,640	9,911
Goldfish Bank	189	59
One.Tel	740	638
Centrica North America	2,187	438
Other operations	2,284	2,140
	38,051	31,550
Great Britain	35,563	30,832
North America	2,187	438
Rest of Europe	301	280
	38,051	31,550

7 Net interest	2002			2001		
	Interest payable £m	Interest receivable £m	Total £m	Interest payable £m	Interest receivable £m	Total £m
Cost of servicing net debt (excluding Goldfish Bank)						
Interest receivable by the parent and subsidiary companies	-	16	16	-	23	23
Interest payable on bank loans and overdrafts	(40)	-	(40)	(24)	-	(24)
Finance lease charges	(11)	-	(11)	(14)	-	(14)
	(51)	16	(35)	(38)	23	(15)
Other interest						
Share of joint ventures' interest payable ⁽ⁱ⁾	(15)	-	(15)	(11)	-	(11)
Notional interest arising on discounted items	(15)	-	(15)	(12)	-	(12)
Interest on supplier early payment arrangements ⁽ⁱⁱ⁾	-	13	13	-	11	11
Interest on customer finance arrangements ⁽ⁱⁱⁱ⁾	(7)	-	(7)	(8)	-	(8)
Other	(3)	-	(3)	(8)	-	(8)
	(40)	13	(27)	(39)	11	(28)
Interest (payable)/receivable	(91)	29	(62)	(77)	34	(43)

Product income generated by AA personal finance and Goldfish Bank for the year ended 31 December 2002 was £100 million (2001: £23 million), £69 million of the increase related to the inclusion of Goldfish Bank as a subsidiary of the group for a full year. Financial services product charges were £33 million (2001: £nil). This related entirely to Goldfish Bank. Both financial services income and charges have been included within group operating profit.

- (i) The share of associates' interest (payable)/receivable is £nil (2001: £nil).
- (ii) Interest on supplier early payment arrangements arose on the prepayment of gas transportation charges.
- (iii) The interest cost relates to subsidised credit arrangements provided to customers purchasing central heating installation.

Notes to the financial statements continued

£ Tax	2002 £m	2001 £m
a) Analysis of tax charge for the year		
The tax charge comprises:		
Current tax		
UK corporation tax	148	157
Tax on exceptional items ⁽ⁱ⁾	(2)	(9)
Adjustments in respect of prior years	16	(43)
	162	105
Foreign tax		
Foreign tax	17	6
Adjustments in respect of prior years	-	(2)
	17	4
Total current tax	179	109
Deferred tax		
Origination and reversal of timing differences	(9)	(10)
Deferred petroleum revenue tax relief	55	49
Exceptional deferred tax charge ⁽ⁱⁱ⁾	9	-
Total deferred tax	55	39
Share of joint ventures' tax	16	7
Total tax on profit on ordinary activities	250	155

(i) The tax credit arising on exceptional items related to those costs identified as exceptional in note 5.

(ii) The exceptional tax charge in 2002 comprised an increase in deferred tax provisions arising from the supplementary charge applicable to profits on 'ring-fenced' offshore gas production.

b) Factors affecting the tax charge for the year

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2002 £m	2001 £m
Profit on ordinary activities before tax	719	468
Less: share of joint ventures' and associates' profit before tax	(31)	(34)
Group profit on ordinary activities before tax	688	434
Tax on group profit on ordinary activities at standard UK corporation tax rate of 30% (2001: 30%)	207	130
Effects of:		
Expenses not deductible for tax purposes, including goodwill amortisation	51	61
Depreciation in excess of capital allowances	7	50
Utilisation of tax losses and other short term timing differences	(82)	(40)
Deferred petroleum revenue tax relief	(55)	(49)
Higher tax rates on overseas earnings	6	2
Adjustments to tax charge in respect of prior years	16	(45)
Supplementary charge applicable to upstream profits	12	-
Overseas losses or taxation not available for credit	17	-
Group current tax charge for the year	179	109

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%. 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 £168 million of which £146 million is provided in the balance sheet as deferred tax. 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	2002 £m	2001 £m
2001 final dividend in respect of share issues after the balance sheet date	37	-
Interim dividend of 1.4p (2001: 1.2p) per ordinary share	59	48
Proposed final dividend of 2.6p (2001: 1.9p) per ordinary share	110	76
	172	124

The interim dividend was paid on 27 November 2002 and the proposed final dividend is payable on 18 June 2003 to shareholders on the register at the close of business on 2 May 2003.

10 Earnings per ordinary share

Earnings per ordinary share has been calculated by dividing the earnings for the financial year of £478 million (2001: £323 million) by the weighted average number of ordinary shares in issue during the year of 4,181 million (2001: 3,984 million). The number of shares excluded 27 million ordinary shares (2001: 34 million), being the weighted average number of the company's own shares recorded on the group balance sheet during the year in accordance with UITF Abstract 13 ESOP Trusts.

The directors believe that the presentation of an adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for exceptional charges and goodwill amortisation, assists with understanding the underlying performance of the group. The reconciliation of basic to adjusted basic earnings per ordinary share is as follows:

	2002		2001	
	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings - basic	478	11.4	323	8.1
Exceptional items net of tax	35	0.9	71	1.8
Goodwill amortisation	123	2.9	88	2.2
Earnings - adjusted basic	636	15.2	482	12.1
Earnings - diluted	478	11.3	323	8.0

In addition to basic and adjusted basic earnings per ordinary share, information is presented for diluted earnings per ordinary share. Under this presentation, there are no adjustments to the reported earnings for either 2002 or 2001, but the weighted average number of shares used as the denominator is adjusted. The adjustments relate mainly to notional share awards made to employees under the long term incentive scheme and the share options granted to employees under the savings-related share option scheme, as follows:

	2002 million shares	2001 million shares
Weighted average number of shares in issue	4,181	3,984
Estimated vesting of long term incentive scheme shares	35	34
Dilutive effect of shares to be issued at a discount to market value under the savings-related share option scheme	10	43
Potentially dilutive shares issuable under the executive share option scheme	1	1
Weighted average number of shares used in the calculation of diluted earnings per ordinary share	4,227	4,062

Notes to the financial statements continued

11 Intangible fixed assets - goodwill		£m
Cost		
1 January 2002		1,684
Acquisitions ⁽ⁱ⁾		466
Disposals		(17)
Exchange adjustments		(56)
31 December 2002		2,077
Amortisation		
1 January 2002		160
Charge for the year		116
Disposals		(6)
Exchange adjustments		(6)
31 December 2002		264
Net book value		
31 December 2002⁽ⁱⁱ⁾		1,813
31 December 2001		1,524

(i) Acquisitions included £8 million for the revision of provisional fair values relating to the recoverability of certain receivables on the Enron Direct acquisition made in 2001.

(ii) The net book value of goodwill at 31 December related to the following acquisitions:

	2002 £m	2001 £m	Amortisation period years
The AA	829	879	15-20
Goldfish Bank	124	138	10
Direct Energy	279	332	15
Energy America	41	52	15
Enron Direct	53	49	15
One.Tel	49	53	15
Enbridge Services Inc	167	-	15
Electricity Direct	78	-	15
WTU and CPL	167	-	15
NewPower	8	-	5
British Gas LPG	-	11	20
Other	18	10	5-20
	1,813	1,524	

12 Tangible fixed assets	Land and buildings ⁽ⁱ⁾ £m	Plant, equipment ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾ and vehicles ⁽ⁱⁱⁱ⁾ £m	Power generation ⁽ⁱⁱⁱ⁾ £m	Storage, exploration and production ⁽ⁱⁱⁱ⁾ £m	Total
					£m
Cost					
1 January 2002	123	713	169	3,324	4,329
Additions	2	395	4	69	470
Acquisitions	-	234	46	544	824
Disposals	(12)	(96)	(2)	-	(110)
Disposal of subsidiary	(2)	(77)	-	(179)	(258)
Revision of abandonment asset	-	-	-	6	6
Exchange adjustments	-	(25)	-	(19)	(44)
31 December 2002	111	1,144	217	3,745	5,217
Depreciation and amortisation					
1 January 2002	28	318	2	1,923	2,271
Charge for the year	6	130	12	242	390
Disposals	(8)	(78)	(2)	-	(88)
Disposal of subsidiary	-	(40)	-	(79)	(119)
31 December 2002	26	330	12	2,086	2,454
Net book value					
31 December 2002	85	814	205	1,659	2,763
31 December 2001	95	395	167	1,401	2,058

(i) The net book value of the group's land and buildings at 31 December 2002 comprised freehold of £44 million (2001: £48 million), long leasehold of £23 million (2001: £26 million) and short leasehold of £18 million (2001: £21 million).

(ii) The net book value of the group's tangible fixed assets held under finance leases at 31 December 2002 within plant, equipment and vehicles was £8 million (2001: £9 million), power generation £73 million (2001: £167 million) and within storage, exploration and production was £120 million (2001: £136 million). The depreciation and amortisation charge for the year in respect of finance leased assets included £4 million (2001: £nil) on plant, equipment and vehicles, £10 million (2001: £6 million) on power generation and £19 million (2001: £20 million) on storage, exploration and production assets.

See opposite for footnotes (iii) - (v)

12 Tangible fixed assets continued

- (iii) The amounts capitalised in the year in respect of customer relationship management (CRM) infrastructure included within plant, equipment and vehicles at 31 December 2002 amounted to £180 million (2001: £60 million).
- (iv) The net book value of the fixed assets of the Consumers' Waterheater Income Fund (the Fund) within plant, equipment and vehicles was £182 million (2001: £nil). 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 the group's exploration and production assets at 31 December 2002 were costs of £60 million pending determination (2001: £16 million). The net book value of the group's decommissioning costs at 31 December 2002 were £17 million (2001: £11 million).

13 Fixed asset investments	Joint ventures and associates		Own shares ^(v)	Other investments	Total
	Shares ⁽ⁱⁱ⁾	Loans			
	£m	£m	£m	£m	£m
Share of net assets/cost					
1 January 2002	57	23	65	5	150
Disposals and transfers ^{(iii), (iv) and (v)}	2	(19)	(14)	-	(31)
Dividends receivable	(59)	-	-	-	(59)
Share of profits less losses for the year	22	-	-	-	22
31 December 2002	22	4	51	5	82
Goodwill					
1 January 2002	70	-	-	-	70
Disposals	(11)	-	-	-	(11)
Goodwill amortisation	(7)	-	-	-	(7)
Exchange adjustments	3	-	-	-	3
31 December 2002	55	-	-	-	55
Amounts written off					
1 January 2002	(12)	(2)	(36)	(3)	(53)
Amortisation under long term incentive schemes	-	-	(7)	-	(7)
Disposals ^(vi)	11	-	14	-	25
31 December 2002	(1)	(2)	(29)	(3)	(35)
Net book value					
31 December 2002	76	2	22	2	102
31 December 2001	115	21	29	2	167

- (i) The group's share of net assets of associates was £2 million (2001: £3 million). The group's share of joint ventures' gross assets and gross liabilities principally comprised its interests in Humber Power Limited (a power station), Centrica Personal Finance Limited (AA and British Gas personal loans activities), AA Financial Services (AA credit card activities) and Luminus NV (energy supply). The group's share of joint ventures' gross liabilities included loans payable to the group amounting to £4 million (2001: £12 million). The share of Humber Power Limited's gross liabilities includes £269 million (2001: £270 million) of lease finance, of which £254 million (2001: £258 million) is 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.

	2002					2001	
	Humber Power Limited £m	Centrica Personal Finance Limited £m	AA Financial Services £m	Luminus NV £m	Other £m	Total £m	£m
Investments in joint ventures							
Share of gross assets	346	349	45	62	8	810	709
Share of gross liabilities	(327)	(345)	(45)	(13)	(6)	(736)	(597)
	19	4	-	49	2	74	112
Share of net assets of associates						74	112
						2	3
						76	115
Net (debt)/cash included in above	(251)	(333)	(43)	2	(2)	(627)	(675)

- (ii) The Centrica Employees Share Trust held 27 million (2001: 39 million) shares in the company. This represented 0.64% of the called up ordinary share capital (2001: 1%), which had a market value at 31 December 2002 of £47 million and a nominal value of £2 million (2001: £88 million and £2 million respectively). During the year 12,213,398 shares (2001: 1,272,944 shares) were transferred from trust in respect of awards held by employees. All other investments were unlisted.
- (iii) On 22 November 2002, Humber Power Limited repaid a £15 million loan to the group. Since the acquisition the group has entered into tolling agreements with Humber Power Limited for 750 MWh of capacity through to 2014.
- (iv) The group's 42% interest in the Spalding Energy Company Limited was disposed of during the year for consideration of £16 million. The group recognised a profit on disposal of £12 million, against the previously impaired cost of investment.
- (v) Transfers comprised AA Buyacar which became a 100% subsidiary of the group on 29 November 2002 when the 30% interest not previously owned by the group was acquired.

The principal undertakings of the group are listed in note 31 on page 62.

Notes to the financial statements continued

14 Stocks	2002 Em	2001 Em
Gas in storage	67	140
Other raw materials and consumables	96	44
Finished goods and goods for re-sale	17	9
	180	193

15 Debtors Amounts falling due	2002		2001	
	Within one year Em	After one year Em	Within one year Em	After one year Em
a) Goldfish Bank debtors:				
Trade debtors: loans and advances to customers	761	10	652	-
Prepayments and accrued income	11	1	2	-
Other	19	-	19	-
	781	11	673	-
b) Other businesses' debtors:				
Trade debtors	785	44	479	-
Accrued energy income	1,427	-	1,168	-
Deferred corporation tax	-	36	-	91
Other debtors	246	5	196	2
Prepayments and other accrued income:				
'Take or Pay'	13	-	7	2
Other	127	49	73	35
	140	49	80	37
	2,598	134	1,923	130

16 Current asset investments	2002 Em	2001 Em
Money market investments	320	454

Current asset investments included £159 million (2001: £142 million) held by the group's insurance subsidiary undertakings and £10 million (2001: £9 million) held by the Law Debenture Trust, on behalf of the company, as security to cover unfunded pension liabilities. These amounts were not readily available to be used for other purposes within the group.

17 Borrowings Amounts falling due	2002		2001	
	Within one year Em	After one year Em	Within one year Em	After one year Em
a) Goldfish Bank borrowings				
Bank loans and overdrafts (note 29d)	430	-	610	-
b) Other businesses' borrowings				
Bank loans and overdrafts	13	-	16	-
Sterling bonds ⁽ⁱ⁾	-	518	-	493
Canadian dollar bonds ⁽ⁱⁱ⁾	-	196	-	-
Commercial paper	237	-	307	-
Loan notes	3	-	5	-
Obligations under finance leases ⁽ⁱⁱⁱ⁾	36	70	33	105
	289	784	361	598

- (i) Sterling bonds are repayable as follows: between one and two years Enil (2001: Enil); between two and five years £125 million (2001: £100 million); and after five years £400 million (2001: £400 million). The bonds bear interest at fixed rates between 5.375% and 5.875% (2001: 5.375% and 5.875%). The bonds have a face value of £525 million (2001: £500 million) and are stated net of £7 million (2001: £7 million) of issuance discount.
- (ii) Canadian dollar bonds are repayable between four and five years bearing interest at a floating rate. The bonds were issued by the Consumers' Waterheater Income Trust, a wholly-owned subsidiary of the Consumers' Waterheater Income Fund, which is treated as a quasi-subsidiary and consolidated into 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.
- (iii) Group obligations under finance leases after more than one year at 31 December 2002 were repayable as follows: between one and two years £39 million (2001: £37 million); between two and five years £31 million (2001: £68 million); and after five years Enil (2001: Enil).

18 Other creditors Amounts falling due	2002		2001	
	Within one year £m	After one year £m	Within one year £m	After one year £m
Goldfish Bank customer deposits	286	-	-	-
Trade creditors	1,343	-	1,141	-
Taxation and social security	137	-	127	-
Other creditors	715	23	659	2
Accruals and deferred income:				
Transportation ⁽ⁱ⁾	18	-	183	-
Other accruals and deferred income	832	99	685	32
	850	99	868	32
Dividend payable (note 9)	110	-	76	-
	3,441	122	2,871	34

(i) The group has the option to either prepay or accrue its gas transportation charges in Great Britain. For much of the year, the group prepaid these charges. The group prepaid most of these charges for December 2002, but did not prepay them in December 2001.

19 Provisions for liabilities and charges	1 January 2002 £m	Foreign exchange £m	Transfers, acquisitions and disposals £m	Revisions £m	Profit and loss charge £m	Utilised in the year £m	31 December 2002 £m
Decommissioning costs	129	-	67	6	4	-	206
Deferred petroleum revenue tax	519	-	-	-	75	(199)	395
Deferred corporation tax ⁽ⁱ⁾	134	(1)	145	-	-	-	278
Pension and other retirement benefits (note 26)	116	-	(2)	-	68	(107)	75
Restructuring costs	13	-	-	-	18	(10)	21
Sales contract loss and renegotiation provisions	227	-	-	-	14	(23)	218
Other	46	-	20	-	23	(20)	69
	1,184	(1)	230	6	202	(359)	1,262

(i) Group deferred tax (assets)/liabilities comprised:

	Amounts provided		Potential assets unrecognised	
	2002 £m	2001 £m	2002 £m	2001 £m
Accelerated capital allowances	436	230	(56)	(93)
Deferred petroleum revenue tax	(158)	(156)	-	-
Other timing differences including losses carried forward	(36)	(31)	(107)	(105)
	242	43	(163)	(198)
Deferred corporation tax liability	278	134		
Deferred corporation tax asset included in debtors (note 15)	(36)	(91)		
	242	43		

Decommissioning costs

Provision has been made for the estimated net present cost of decommissioning gas production facilities at the end of their producing 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 a number of fields but are anticipated to occur between 2005 and 2042. The revision in the year is due to an increase in the estimate for gas field abandonment costs. The profit and loss charge represents £4 million of notional interest (2001: £3 million).

Deferred petroleum revenue tax

The provision for tax on gas and oil activities has been calculated on a unit of production basis.

Deferred corporation tax

A deferred tax provision has been made in respect of accelerated capital allowances and other timing differences, net of recognised deferred tax assets.

Pension and other retirement benefits

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.

Restructuring costs

The provision represented costs relating to surplus properties, redundancy and other costs relating to reorganisations. Surplus properties arose mainly following the closure of retail operations in both British Gas Energy Centres and in the AA. The provision relating to surplus properties was calculated as the lower of the difference between rental costs and sublet income over the remainder of the leases and the potential cost to surrender those leases. The provision for redundancy costs reflected announced restructuring plans. The majority of these sums were expected to be spent between 2004 and 2005.

Notes to the financial statements continued

19 Provisions for liabilities and charges continued

Sales contract loss and renegotiation provisions

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 the contracted sales price and the expected weighted average cost of gas. These contracts terminate between 2005 and 2006. The profit and loss charge included £14 million of notional interest (2001: £15 million).

In previous years, the group renegotiated certain long term 'Take or Pay' contracts which would have resulted in commitments to pay for gas that would be excess to requirements and/or at prices above likely market rates. The provision represented the net present cost of estimated payments due to suppliers as consideration for the renegotiations, which are due for settlement between 2003 and 2008.

Other

Other provisions principally cover estimated liabilities in respect of claims reflected in the group's insurance subsidiaries, Goldfish credit card loyalty points, 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 171 pence at 31 December 2002 (2001: 222 pence).

	2002 £m	2001 £m
20 Called up share capital		
Authorised share capital of the company		
4,950,000,000 ordinary shares of 5½ pence each		
(2001: 4,950,000,000 ordinary shares of 5½ pence each)	275	275
100,000 cumulative redeemable preference shares of £1 each		-
Allotted and fully paid share capital of the company		
4,252,856,414 ordinary shares of 5½ pence each		
(2001: 4,020,931,056 ordinary shares of 5½ pence each)	236	223

During 2002, 231,925,358 ordinary shares were allotted and issued pursuant to a cash placing in February and, throughout the year, to satisfy the exercise of share options and the matching element of the share incentive plan as follows:

	2002	2001
For the year ended 31 December		
Number	231,925,358	7,512,180
Nominal value (£m)	12.9	0.4
Consideration (net of issue costs 2002: £6 million; 2001: £nil) (£m)	488 ⁽ⁱ⁾	17

(i) Consideration of £488 million included £44 million in respect of employee share schemes and £444 million received from third parties.

	Options outstanding over ordinary shares		Latest exercise date	Exercise prices
	2002 million	2001 million		
RESOS ⁽ⁱ⁾	2.1	2.2	November 2004	81.060p to 90.266p
ESOS ⁽ⁱⁱ⁾	13.5	5.6	April 2012	240.050p and 224.800p
UK sharesave ^{(iii) (iv)}	61.6	78.0	November 2007	92.200p to 202.600p
Irish sharesave ^(iv)	0.3	0.3	May 2008	132.800p to 168.700p
Total 31 December	77.5	86.1		

(i) Details of the RESOS appear on page 30 in note (i) to the table of directors' interests in share options.

(ii) Details of the ESOS appear on pages 25 and 26.

(iii) Details of the UK and Irish sharesave schemes appear on pages 22 and 23.

(iv) As permitted by UITF 17 (revised 2000), the group does not recognise the cost of awards to employees in the profit and loss account for the year, on the basis that it operates a UK Inland Revenue-approved sharesave scheme.

The closing price of a Centrica ordinary share on 31 December 2002 was 171 pence (2001: 222 pence).

Long term incentive scheme

At 31 December 2002, 34 million shares (2001: 40 million) were outstanding in respect of allocations made under the long term incentive scheme, which includes allocations of 23 million shares (2001: 23 million) that are subject to performance conditions and allocations of 11 million shares (2001: 17 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 26.

The Centrica Employees Share Trusts were established to acquire ordinary shares in the company, by subscription or purchase, with funds provided by way of interest free loans from the company to satisfy rights to shares on the vesting of allocations made under the company's long term incentive arrangements.

Since the beginning of 2002, no further shares have been acquired by the trust. Any future shortfall will be satisfied by the allotment and issue of new shares.

At 31 December 2002, the trusts held 27 million (2001: 39 million) ordinary shares in the company which had a market value of £47 million (2001: 39 million ordinary shares with a market value of £88 million). Dividends due on shares held in trust are waived in accordance with the trust deeds. All administration costs are borne by the group.

	Share premium account £m	Merger reserve £m	Profit and loss account ^(a) £m	Total £m
21 Reserves				
1 January 2002	62	467	750	1,279
Retained profit for the year	-	-	306	306
Exchange translation differences ^(b)	-	-	(8)	(8)
Issue of ordinary share capital ^(c)	475	-	(44)	431
Shares to be issued under long term incentive scheme ^(d)	-	-	4	4
31 December 2002	537	467	1,008	2,012

- (i) Cumulative goodwill taken directly to the profit and loss reserve at 31 December 2002 amounted to £85 million (2001: £85 million). This goodwill had been taken to reserves as a matter of accounting policy and will be charged in the profit and loss account should there be a subsequent disposal of the business to which it related.
- (ii) Exchange gains of £84 million (2001: £18 million) on foreign currency borrowings have been offset in full in reserves against exchange losses of £92 million (2001: £18 million) on the net investment in overseas undertakings.
- (iii) The share issue movement in the group profit and loss account represented the difference between the share issue prices (being the market prices on the date of exercise of options) and the share option prices. This difference was funded by the company and its subsidiaries. Shares were allotted to a qualifying share ownership trust, for subsequent transfer to eligible employees, who have exercised options.
- (iv) Centrica intends to fund certain of its long term incentive schemes through the issue of new shares when these schemes vest. The amount shown represents the expected value of the shares to be issued using the market price at the date allocations were granted.

	2002 £m	2001 £m
22 Movement in shareholders' funds		
1 January	1,502	1,298
Profit attributable to the group	478	323
Dividends	(172)	(124)
Goodwill adjustment	-	(2)
Exchange translation differences	(8)	-
Issue of shares net of reserves movement on employee share schemes	444	7
Shares to be issued under long term incentive scheme	4	-
Net movement in shareholders' funds for the financial year	746	204
31 December	2,248	1,502

	Equity £m	Non-equity £m	Total £m
23 Minority interests			
1 January 2002	34	-	34
Minority interest arising during the year	21	108	129
Loss on ordinary activities after taxation	(9)	-	(9)
31 December 2002	46	108	154

Equity minority interests at 31 December 2002 related to a 30% economic interest held by Lloyds TSB Bank plc in the Goldfish Bank Limited. Non-equity minority interests at 31 December 2002 related to the 58.1% of units in the Consumers' Waterheater Income Fund (note 32), listed on the Toronto Stock Exchange.

Notes to the financial statements continued

24 Acquisitions and disposals

(i) Acquisitions

During the year the group acquired controlling interests in Enbridge Services Inc, Regional Power Generators Ltd (Regional Power), Electricity Direct (UK) Limited (Electricity Direct), Dynegy Storage Limited, Dynegy Offshore Processing UK Limited, and Dynegy Onshore Processing UK Limited (collectively known as Rough gas storage facilities), WTU Retail Energy LP (WTU) and CPL Retail Energy LP (CPL) and selected assets from NewPower Holdings Inc (NewPower). The group also made a number of smaller acquisitions which are aggregated in section h. The acquisition method of accounting was adopted in all cases. The analysis of assets and liabilities acquired, and the fair value of these acquisitions, were as shown below. In addition the group acquired interests in a number of gas fields, in exchange for its interest in the Liverpool Bay gas fields. The fair values at 31 December 2002 are provisional because the directors have not yet reached a final determination on all aspects of the fair value exercise.

	Book value £m	Accounting policy alignment ⁽ⁱ⁾ £m	Fair value adjustment ⁽ⁱⁱ⁾ £m	Fair value
				£m
a) Enbridge Services Inc				
Intangible fixed assets	20	(13)	(7)	-
Tangible fixed assets	264	(37)	-	227
Stock	11	-	-	11
Debtors (amounts falling due within one year)	24	-	1	25
Debtors (amounts falling due after more than one year)	55	-	-	55
Creditors (amounts falling due within one year)	(29)	-	-	(29)
Provisions	(44)	-	-	(44)
Net assets acquired	301	(50)	(6)	245
Goodwill arising ⁽ⁱⁱⁱ⁾				193
Cash consideration				438

The group acquired Enbridge Services Inc on 7 May 2002. The profit after tax for Enbridge Services Inc from 1 January 2002 to 7 May 2002 was £10 million. The profit for the previous financial year was £38 million.

- (i) Accounting policy alignments have been made in respect of certain items previously capitalised within fixed assets and intangibles.
- (ii) The book value of assets and liabilities has been adjusted to align with the fair value of the assets and liabilities acquired.
- (iii) Goodwill arising is amortised over 15 years.

	Book value £m	Accounting policy alignment ⁽ⁱ⁾ £m	Fair value adjustment ⁽ⁱⁱ⁾ £m	Fair value
				£m
b) Regional Power (Brigg)				
Tangible fixed assets	78	-	(32)	46
Stock	3	2	(1)	4
Debtors (amounts falling due within one year)	2	-	9	11
Creditors (amounts falling due within one year)	(2)	-	(12)	(14)
Provisions	(19)	-	9	(10)
Net assets acquired	62	2	(27)	37
Goodwill arising				-
Cash consideration				37

The group acquired Regional Power on 28 June 2002. The loss after tax and minority interests for Regional Power from 1 January 2002 to 28 June 2002 was £5 million. The loss for the previous financial year was £19 million.

- (i) Adjustments were made to align the accounting policies of Regional Power with those of the group.
- (ii) The book value of assets and liabilities has been adjusted to align with the fair value of the assets and liabilities acquired. Tangible fixed assets have been valued at their estimated value in use. Adjustments have been made to debtors and creditors to value certain long term gas purchase contract arrangements at market value.

24 Acquisitions and disposals continued

c) Electricity Direct	Book value £m	Accounting policy alignment ⁽ⁱ⁾ £m	Fair value adjustment ⁽ⁱⁱ⁾ £m	Fair value £m
Tangible fixed assets	6	-	-	6
Debtors (amounts falling due within one year)	71	(11)	(11)	49
Bank overdrafts	(30)	-	-	(30)
Creditors (amounts falling due within one year)	(49)	-	(6)	(55)
Net liabilities acquired	(2)	(11)	(17)	(30)
Goodwill arising ⁽ⁱⁱⁱ⁾				80
Consideration				50
Cash consideration				38
Contingent consideration ^(iv)				12
				50

The group acquired Electricity Direct on 5 August 2002. The loss after tax and minority interests for Electricity Direct from 1 April 2002 to 5 August 2002 was £9 million. The profit after tax and minority interests for the previous financial year was £4 million.

- (i) Adjustments were made to align the accounting policies in respect of commission payments with those of the group.
- (ii) The book value of debtors has been adjusted based on management's estimate of recoverable value.
- (iii) Goodwill arising is amortised over 15 years.
- (iv) Contingent consideration comprises amounts paid but held in escrow. The calculation of final payments from escrow to the vendors, or repayments to the group, is contingent upon verification of certain working capital balances acquired. The final payment is expected to be between £nil and £12 million.

d) Rough gas storage facilities	Book value £m	Accounting policy alignment ⁽ⁱ⁾ £m	Fair value adjustment ⁽ⁱⁱ⁾ £m	Fair value £m
Tangible fixed assets	339	-	124	463
Stock	9	-	(5)	4
Debtors (amounts falling due within one year)	12	-	-	12
Cash at bank and in hand	184	-	-	184
Creditors (amounts falling due within one year)	(18)	-	-	(18)
Provisions	(126)	(31)	-	(157)
Net assets acquired	400	(31)	119	488
Goodwill arising				-
Cash consideration				488

The group acquired Dynegy Storage Limited, Dynegy Offshore Processing UK Limited and Dynegy Onshore Processing UK Limited on 14 November 2002. The profit after tax and minority interest for the acquired entities from 1 January 2002 to 14 November 2002 was £8 million. The profit after tax for the previous financial year was £9 million.

- (i) Adjustments were made to align the accounting policies for abandonment and deferred tax provisions with those of the group.
- (ii) The book value of assets and liabilities has been adjusted to align with the fair value of the assets and liabilities acquired. Tangible fixed assets have been valued at their estimated value in use.

The acquisition is a merger qualifying for investigation under the Fair Trading Act 1973. As such, the Secretary of State for Trade and Industry will decide whether to clear the merger, refer it to the Competition Commission for further investigation or accept undertakings in lieu of a reference.

e) WTU and CPL	Book and Fair value £m
Debtors (amounts falling due within one year)	103
Creditors (amounts falling due within one year)	(76)
Creditors (amounts falling due after more than one year)	(40)
Net liabilities acquired	(13)
Goodwill arising ⁽ⁱ⁾	167
Consideration	154
Cash consideration	95
Deferred consideration ⁽ⁱⁱ⁾	26
Contingent consideration ⁽ⁱⁱⁱ⁾	33
	154

The group acquired the businesses on 23 December 2002. Prior to the acquisition WTU and CPL formed part of an integrated utility and there is therefore no historical information available relating to the profitability of these retail customer components.

- (i) Goodwill arising is amortised over 15 years.
- (ii) Deferred consideration will be paid within one year.
- (iii) Contingent consideration is expected to be paid annually from February 2004 to February 2007 and is dependent on annual business performance up to 31 December 2006. It is stated net of an estimated amount recoverable from the vendor of £40 million in relation to the liability for regulatory claw back, dependent upon the retention of customers above specific levels in 2002 and 2003, time apportioned to the date of change in ownership.

Notes to the financial statements continued

24 Acquisitions and disposals continued

	Book and fair value £m
f) NewPower	
Stock	8
Net assets acquired	8
Goodwill arising ⁽ⁱ⁾	9
Consideration	17
Cash consideration	14
Deferred consideration ⁽ⁱⁱ⁾	3
	17

The group acquired a selected list of customers and inventory from NewPower Holdings Inc on 31 July 2002. Prior to acquisition the customers formed part of the above legal entity and its subsidiary undertakings. In these circumstances it is not practical to provide details of results for financial periods before acquisition.

- (i) Goodwill arising is amortised over five years.
(ii) Deferred consideration is payable within one year.

	Book value £m	Accounting policy alignment ⁽ⁱ⁾ £m	Fair value adjustments ⁽ⁱⁱ⁾ £m	Fair value £m
g) Interests in gas fields acquired as swap for Liverpool Bay				
Tangible fixed assets	46	4	4	54
Cash at bank and in hand	38	-	-	38
Provisions for liabilities and charges	-	(4)	-	(4)
Net assets acquired	84	-	4	88
Goodwill arising				-
Consideration				
Fair and book value of assets disposed				88

On 28 November 2002, the group acquired interests in the following fields, along with £38 million, in exchange for its 8.9% interest in Liverpool Bay: Armada (5.58%), Goldeneye (4.50%), Renee (17.26%), Rochelle (17.26%) and Rubie (4.78%). Prior to acquisition the assets acquired formed an integral part of the business of the ENI Group. As a result information relating to prior period profitability is not readily available.

- (i) Adjustments have been made to align the accounting policies with those of the group.
(ii) The book value of the assets and liabilities has been adjusted to align with the fair value of the assets and liabilities acquired.

	Book value £m	Accounting policy alignments ⁽ⁱ⁾ £m	Fair value adjustments ⁽ⁱⁱ⁾ £m	Fair value £m
h) Other acquisitions				
Tangible fixed assets	21	1	6	28
Creditors (amounts falling due within one year)	(2)	-	-	(2)
Provisions for liabilities and charges	-	(1)	-	(1)
Net assets acquired	19	-	6	25
Goodwill arising ⁽ⁱⁱⁱ⁾				9
Consideration				34
Cash consideration				29
Deferred consideration ^(iv)				5
				34

During the year, the group acquired the assets and business of Stapleton's (Tyre Services) Limited (on 1 June 2002), the broadband assets and business of Iomart Group plc (on 7 January 2002), Alternative Energy Solutions Ltd (AES) (on 14 February 2002), and interests in a number of gas fields (on 17 January 2002, 28 August 2002 and 20 December 2002).

- (i) Adjustments were made to align the accounting policies of the acquired businesses with those of the group.
(ii) The book value of assets and liabilities has been adjusted to align with the fair value of the assets and liabilities acquired.
(iii) Goodwill is being amortised over periods ranging from 5 to 20 years.
(iv) Deferred consideration is payable within one year.

24 Acquisitions and disposals continued

(ii) Disposals

The group disposed of its liquid petroleum gas business, British Gas LPG on 30 November 2002. The analysis of the assets and liabilities sold and consideration received is given below:

	£m
Tangible fixed assets	39
Stock	1
Debtors (amounts falling due within one year)	7
Creditors (amounts falling due within one year)	(4)
Net assets sold	43
Goodwill sold	11
Loss arising on disposal	(14)
Cash consideration received	40

The profit made by British Gas LPG from 1 January 2002 to the date of disposal was £4 million.

25 Notes to the group cash flow statement

a) Reconciliation of operating profit to operating cash flow

	2002 £m	2001 £m
Group operating profit	763	466
Exceptional charges	-	80
Group operating profit before exceptional charges	763	546
Amortisation of goodwill	116	86
Depreciation and impairment	390	337
Amortisation of investments	7	14
Profit on sale of investments	(12)	(6)
Profit on sale of fixed assets	(6)	(7)
Provisions	(161)	(173)
Change in working capital:		
Stocks - decrease/(increase)	30	(54)
Goldfish Bank debtors - (increase)/decrease	(119)	19
Goldfish Bank working capital facility - (decrease)/increase ⁽ⁱ⁾	(180)	20
Goldfish Bank customer accounts - increase	286	-
Other debtors - (increase)	(541)	(89)
Other creditors - increase	160	176
	(364)	72
Cash inflow from operating activities before exceptional payments:		
Continuing operations before acquisitions	712	773
Acquisitions	21	96
Continuing operations	733	869
Payments relating to exceptional charges:		
Contract renegotiations	(5)	(13)
Business integration	(10)	(27)
Other	(1)	(4)
	(16)	(44)
Cash inflow from operating activities after exceptional payments	717	825

(i) The Goldfish Bank working capital facility primarily finances the Goldfish Bank credit card and other receivable balances. In accordance with generally accepted practice for banking activities, movements on this working capital facility are included within operating cash flow rather than within financing.

b) Returns on investments and servicing of finance

	2002 £m	2001 £m
Interest received	29	27
Interest paid	(42)	(28)
Interest element of finance lease rental payments	(12)	(14)
	(25)	(15)

Interest income/charges on banking receivables and related working capital facilities are included within operating cash flow in note 25a.

c) Taxation paid

	2002 £m	2001 £m
UK corporation tax paid	(196)	(109)
Overseas tax paid	-	(6)
Consortium tax relief received	4	6
	(192)	(109)

Notes to the financial statements continued

25 Notes to the group cash flow statement continued	2002	2001
d) Capital expenditure and financial investment	£m	£m
Purchase of tangible fixed assets	(449)	(312)
Sale of tangible fixed assets	28	11
Purchase of own shares	-	(14)
Loans to joint ventures repaid/(made)	19	(22)
	(402)	(337)

e) Acquisitions and disposals	2002	2001
	£m	£m
Payments on acquisition of Goldfish	-	(710)
Payments on acquisition of other subsidiary undertakings	(1,107)	(402)
Payments on acquisition of joint ventures and associates	(4)	(80)
Payments of deferred consideration ⁽ⁱ⁾	(70)	(17)
Total cash payments	(1,181)	(1,209)
Cash acquired	222	17
Overdraft acquired	(30)	(12)
Drawdown from Goldfish Bank working capital facility	-	590
Proceeds from disposals	54	7
	(935)	(607)

Cash consideration, net of cash and overdrafts acquired, at acquisition date rates of exchange totals £959 million (note 24).

The difference of £44 million to acquisition cash flows noted above is due to foreign exchange movements.

(i) Deferred consideration includes £68 million in respect of the 2001 Goldfish acquisition.

f) Management of liquid resources	2002	2001
	£m	£m
Net sale/(purchase) of current asset investments	134	(257)

Liquid resources comprised short term deposits with banks which mature within one year of the date of inception.

g) Financing	£m	£m
Debt due within one year:		
Net increase in short term borrowings	309	196
Repayment of loans	(381)	(22)
Capital element of finance lease rentals	(32)	(32)
Bonds issued	221	493
Realised net foreign exchange gain ⁽ⁱ⁾	57	-
Investment by equity and non-equity minority shareholders	129	44
Issue of ordinary share capital ⁽ⁱⁱ⁾	444	7
	747	686

(i) Where currency swap agreements are used to hedge overseas net investments, the realised net gains are recognised in financing cash flows.

(ii) Cash inflow from the issue of ordinary share capital is stated net of issue costs of £6 million.

h) Analysis of debt, net of cash and money market investments	1 January 2002	Cash flow	Debt acquired (excluding cash and overdrafts)	Exchange adjustments and other non-cash investments ⁽ⁱ⁾	31 December 2002
	£m	£m	£m	£m	£m
Cash at bank and in hand	72	(40)	-	(4)	28
Overdrafts	(16)	3	-	-	(13)
		(37)			
Bonds	(493)	(221)	-	-	(714)
Loan notes due within one year	(5)	2	-	-	(3)
Obligations under finance leases	(138)	32	-	-	(106)
Goldfish Bank working capital facility	(610)	180	-	-	(430)
Other borrowings	(307)	70	-	-	(237)
		63			
Current asset investments	454	(134)	-	-	320
	(1,043)	(108)	-	(4)	(1,155)
Of which:					
Goldfish Bank working capital facility	(610)	180	-	-	(430)
Other businesses - non-recourse debt	-	(196)	-	-	(196)
Other businesses - recourse debt	(433)	(92)	-	(4)	(529)
	(1,043)	(108)	-	(4)	(1,155)

(i) This included an exchange loss on cash of £4 million (2001: gain £12 million).

26 Pensions

Substantially all of the group's UK employees at 31 December 2002 were members of one of the four main schemes in the group: the Centrica Staff Pension Scheme, the Centrica Engineers' Pension Scheme, the Centrica Management Pension Scheme and the AA Staff Pension Scheme. They 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 Statement of Standard Accounting Practice (SSAP) 24 purposes at 31 March 2001 showed aggregate actuarial asset values and those values relative to benefits due to members, (calculated on the basis of pensionable earnings and services on an ongoing basis using the projected unit method) as follows:

	Asset values £m	Asset values relative to liabilities %
Centrica Staff Pension Scheme	713	105
Centrica Engineers' Pension Scheme	396	106
Centrica Management Pension Scheme	254	115
AA Staff Pension Scheme	676	117
The long term assumptions applied to calculate group pension costs, as agreed with the independent actuary, are set out below:	2002 %	2001 %
Rate of price inflation and pension increases	2.50	2.50
Annual rate of return on investments	6.70	6.70
Future increases in employee earnings	4.50	4.50
Dividend growth	3.75	3.75
The pension costs arising, together with unfunded pension costs, and the reconciliation to the balance sheet provision was as follows:	2002 £m	2001 £m
Regular pension costs	95	84
Amortisation of surplus	(21)	(21)
Interest	74	63
Net pension costs	(10)	(12)
Contributions paid	64	51
	(107)	(26)
(Decrease)/Increase in provision for pension costs	43	25
Pension provision at 1 January	98	73
Pension provision at 31 December	55	98
AA post retirement private medical insurance ⁽ⁱ⁾	21	18
Direct Energy Marketing Limited post retirement benefits ⁽ⁱⁱ⁾	(1)	-
Pension and other retirement benefits provision (note 19)	75	116

Other retirement benefits

- (i) The group has a commitment to provide post retirement private medical insurance cover for certain AA current and past employees. The triennial independent actuarial valuation undertaken at 31 December 2001, assuming a 2.5% per annum real increase in premiums disclosed a liability of £27 million. The provision under this scheme as recognised under SSAP 24 was £21 million (2001: £18 million). The net cost to the group of retirement benefits under this scheme was £3 million (2001: £3 million).
- (ii) The group has a commitment to provide certain pension and other post retirement benefits to employees of Direct Energy Marketing Limited (Canada). The Direct Energy Marketing Limited pension plan was established on 1 March 2002 and an independent actuarial valuation carried out on 7 May 2002, which disclosed a surplus in respect of pension benefits of £6 million and a deficit in respect of non-pension post retirement benefits of £4 million, resulting in a net surplus of £2 million. The net cost to the group of retirement benefits under this scheme was £1 million and the net surplus recognised at 31 December 2002 was £1 million. The total net cost to the group of other retirement benefits on a SSAP 24 basis was £4 million (2001: £3 million).

Additional disclosures regarding the group's defined benefit pension schemes, the unapproved pension arrangement and the post retirement medical plan are required under the transitional provisions of FRS 17 Retirement Benefits. The disclosures provide information which will be necessary for the full implementation of FRS 17 in due course.

The latest full actuarial valuations were carried out as at the following dates: the approved pension schemes at 31 March 2001, the unapproved pension scheme at 6 April 2002, the Direct Energy Marketing Limited pension plan at 7 May 2002 and the post retirement medical liability at 31 December 2001. These have been updated to 31 December 2002 for the purposes of meeting the requirements of FRS 17. Investments have been valued, for this purpose, at market value.

	31 December 2002 %	31 December 2001 %
The major assumptions used for the actuarial valuation were:		
Rate of increase in employee earnings	4.3	4.5
Rate of increase in pensions in payment	2.3	2.5
Discount rate	5.75	5.8
Inflation assumption	2.3	2.5

Notes to the financial statements continued

26 Pensions continued

The market value of the assets in the schemes, the present value of the liabilities in the schemes and the expected rate of return at the balance sheet date were:

	Expected rate of return per annum 2002 %	Valuation 2002 £m	Expected rate of return per annum 2001 %	Valuation 2001 £m
31 December				
Equities	8.4	1,503	8.0	1,759
Bonds	4.8	267	5.2	274
Property	6.9	62	7.1	60
Cash and other assets	4.0	50	4.5	100
Total fair value of assets	7.7	1,882	7.5	2,193
Present value of schemes' liabilities		(2,713)		(2,526)
Deficit in the schemes		(831)		(333)
Related deferred tax asset		249		100
Net pension liability		(582)		(233)

Under SSAP 24 the balance sheet on page 33 includes a provision of £75 million at 31 December 2002 (2001: £116 million).

Had FRS 17 been implemented in full at that date the net assets of the group would have been reduced by £507 million (2001: £117 million), and the net charge for pension costs in the profit and loss account would have increased by £47 million (2001: £16 million) compared with that under SSAP 24, as set out below:

	FRS 17 £m	SSAP 24 £m	Increase/ (decrease) £m
For the year ended 31 December 2002			
Amount charged to operating profit	133	68	65
Amount credited to net finance income	(18)	-	(18)
Net charge to profit and loss account	115	68	47

	2002 £m
Analysis of the amount that would have been charged to operating profit under FRS 17	
Current service cost	131
Past service cost	2

	2002 £m
Analysis of the amount that would have been credited to net finance income under FRS 17	
Expected return on pension scheme assets	170
Interest on pension scheme liabilities	(152)

	2002 £m
Analysis of the actuarial gain/(loss) that would have been recognised in the statement of total recognised gains and losses	
Actual return less expected return on pension scheme assets	(588)
Experience gains and losses arising on the scheme liabilities	(3)
Changes in assumptions underlying the present value of the scheme liabilities	99
Actuarial (loss) to be recognised in the statement of total recognised gains and losses before adjustment for tax	(492)

	2002 £m
History of experience gains and losses	
Difference between the expected and actual return on scheme assets:	
Amount (£m)	(588)
Percentage of scheme assets	31.2%
Experience gains and losses on scheme liabilities:	
Amount (£m)	(3)
Percentage of the present value of scheme liabilities	0.1%
Total actuarial loss recognised in the statement of total recognised gains and losses:	
Amount (£m)	(492)
Percentage of the present value of scheme liabilities	18.1%

	2002 £m
The movement in deficit during the year under FRS 17 would have been:	
Deficit in schemes at beginning of year	(333)
Movements in the year to 31 December 2002:	
Current service cost	(131)
Past service cost	(2)
Employer contributions	107
Other finance income	18
Acquisition of surplus in year	2
Actuarial loss	(492)
Deficit in schemes at end of year	(831)

27 Commitments and contingencies

a) Acquisitions

On 10 December 2002 the group reached agreement to acquire the retail gas and electricity supply businesses of the ATCO Group in Alberta, Canada for consideration of approximately £52 million, payable over two years.

The transaction is subject to the satisfaction of certain conditions, including the receipt of required regulatory approvals and the promulgation of legislation that reflects the market refinements announced by the Minister of Energy in August 2002. It is expected that the Alberta Legislature will consider these legislative changes in the spring of 2003. Completion is expected by mid to late 2003.

b) Capital expenditure

At 31 December 2002, the group had placed contracts for capital expenditure amounting to £106 million (2001: £31 million) of which £72 million relates to the investment in customer relationship management (CRM) infrastructure (2001: £nil).

c) Decommissioning costs

The company and its wholly-owned subsidiary, Hydrocarbon Resources Limited, have agreed to provide security to BG International Limited, which, as original licence holder for the Morecambe gas fields, will have exposure to decommissioning costs relating to the Morecambe gas fields should liabilities not be fully discharged by the group. The security is to be provided when the estimated future net revenue stream from the Morecambe gas fields falls below 150% of the estimated cost of such decommissioning. The nature of the security may take a number of different forms and will remain in force unless and until the costs of such decommissioning have been irrevocably discharged and the relevant Department of Trade and Industry decommissioning notice in respect of the Morecambe gas fields has been revoked.

d) Lease commitments

At 31 December non-cancellable operating lease commitments of the group for the following year were:

	Land and buildings		Other	
	2002 £m	2001 £m	2002 £m	2001 £m
Expiring:				
Within one year	4	-	1	3
Between one and five years	72	5	24	23
After five years	38	42	3	10
	49	47	28	36

There were no commitments at 31 December 2002 under finance leases entered into, but for which inception occurs after 31 December 2002 (2001: £nil).

e) Litigation

The group has a number of outstanding disputes arising out of its normal activities, for which appropriate provisions have been made, in accordance with FRS12.

f) Guarantees and indemnities

The company has £1 billion of bilateral credit facilities (2001: £935 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.

The group and BG Group plc have agreed, subject to certain limitations, to indemnify each other against certain actual and contingent liabilities associated with their respective businesses.

In relation to the sale and leaseback of the Morecambe gas field tangible fixed assets recorded in these financial statements, the group has given guarantees amounting to £92 million (2001: £116 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 (2001: £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 is required if the credit rating falls further.

The group has given guarantees and indemnities 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.

Notes to the financial statements continued

27 Commitments and contingencies continued

g) Gas purchase contracts

The group is contracted to purchase 65 billion therms of gas (2001: 46 billion therms) in Great Britain under long term contracts. The significant increase on last year is largely due to a number of contracts that have recently been entered into where the price is linked to the market price for gas. A proportion of this gas (37 billion therms) however relates to 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. Whilst there remains uncertainty regarding future prices and market share, in the opinion of the directors, no general provision for onerous contract losses is required.

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:

	2002 million therms	2001 million therms
Within five years	45,900	29,900
After five years	19,200	15,900
	65,100	45,800

The directors do not consider it feasible to estimate reliably the actual future cost of committed gas purchase as the group's weighted average cost of gas from these contracts is subject to a variety of indexation bases. The group's average cost of gas from its long term contracts for the year ended 31 December 2002 was 19.6 pence per therm (for the year ended 31 December 2001: 19.9 pence per therm. This compares to 20.8 pence per therm being the weighted average cost for the three month period ending 31 December 2001 which was used to estimate the financial commitment in 2001). Applying this value would imply a group financial commitment of approximately £12.7 billion (2001: £9.5 billion as previously stated).

The commitment profile on this same basis is set out below:

	2002 £m	2001 £m
Within one year	1,900	1,900
Between one and five years	7,000	4,300
After five years	3,800	3,300
	12,700	9,500

In addition, the group has entered into two new contracts to purchase significant additional volumes of gas at market prices from Statoil (17 billion therms over 10 years from 1 July 2005) and Gasunie (27 billion therms over 10 years from 1 April 2005). Both of these contracts remain conditional at this stage and so are excluded from the numbers above.

h) Other

The group's use of financial instruments is explained in the group financial review on pages 17 and 18 and in note 29.

28 Related party transactions

a) Joint ventures and associates

	2002 £m	2001 £m
Purchases for the year ended 31 December:		
AccuRead Limited	17	32
Humber Power Limited ^{a)}	74	48
AG Solutions Limited (an associate)	-	9
Loans given in the year ended 31 December:		
Humber Power Limited	-	15
Spalding Energy Company Limited	-	4
Aldbrough Limited	-	2
Goldbrand Development Limited	-	1
Loans receivable outstanding as at 31 December:		
Humber Power Limited	-	15
Spalding Energy Company Limited	-	4
Aldbrough Limited	-	2
Centrica Personal Finance Limited	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 2002 with Humber Power Limited of £6 million (2001: £18 million).

b) Pension schemes

In 2002 the group incurred £2 million (2001: £1 million) of administrative costs relating to group pension schemes.

c) Transactions with directors

The aggregate amount outstanding at 31 December 2002 in respect of credit cards made available by Goldfish Bank Limited to directors of the company was £47,000, and the number of directors concerned was five.

d) Other

Lloyds TSB Bank plc who have a 30% economic interest in Goldfish Bank Limited have made available an £850 million working capital facility to Goldfish Bank Limited, of which £430 million had been drawn down at 31 December 2002 (2001: £610 million).

The group has also entered into several derivative transactions with Lloyds TSB Bank plc to hedge against interest rate fluctuations. Other activity with Lloyds TSB Bank plc included interest receivable of £nil, interest payable of £27 million and charges of £17 million, of which £6 million has been capitalised (2001: £1 million, £1 million and £14 million respectively). Creditors at 31 December 2002 included £19 million due to Lloyds TSB Bank plc (2001: £26 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 17 and 18. 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. Additional information on Goldfish Bank interest rate sensitivities is provided in note 29h below.

a) Interest rate risk profile of financial instruments

Financial assets

The interest rate risk profile of the group's financial assets at 31 December was as follows:

	2002 Canadian Dollar	2001 Canadian Dollar	2002 Sterling	2001 Sterling	2002 Total	2001 Total
Floating interest rate (£m)	19	67	331	475	350	542
Fixed interest rate (£m)	44	-	5	5	49	5
No interest receivable (£m) ⁽ⁱ⁾	-	-	5	15	5	15
Total financial assets (£m)	63	67	341	495	404	562
Weighted average fixed interest rate (%)	15	-	6.5	7.4	14.1	7.4
Weighted average period for which rate is fixed (months)	38	-	58	10	40	10
Weighted average period for which no interest is receivable (months)	-	-	-	2	-	2

With the exception of uncleared items, floating rate financial assets attract interest rates mainly based upon LIBOR for periods of one year or less.

(i) Financial assets on which no interest is paid relate to Tracker Fund 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:

	2002 Canadian Dollar	2001 Canadian Dollar	2002 Sterling	2001 Sterling	2002 Total	2001 Total
Floating interest rate (£m)	(276)	-	(973)	(1,070)	(1,249)	(1,070)
Fixed interest rate (£m)	(2)	(3)	(288)	(496)	(290)	(499)
No interest payable (£m) ⁽ⁱ⁾	(108)	-	(33)	(28)	(141)	(28)
Total financial liabilities (£m)	(386)	(3)	(1,294)	(1,594)	(1,680)	(1,597)
Weighted average fixed interest rate (%)	6.5	6.0	6.0	5.8	6.0	5.8
Weighted average period for which rate is fixed (months)	28	21	101	113	100	113
Weighted average period for which no interest is payable (months)	-	-	62	15	62	15

With the exception of uncleared items, 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 £108 million relating to non-equity minority interests. Non-equity minority interests relate to a 58.1% economic interest in the Consumers' Waterheater Income Fund, represented by units listed on the Toronto Stock Exchange, for which no maturity date is specified.

b) Currency risk

Sterling, Canadian and US dollars were the functional currencies for all material operations in 2002 and 2001. There were no material monetary assets and liabilities in currencies other than these functional currencies, except for £9 million of monetary assets denominated in euros (2001: £16 million) and £7 million (2001: £69 million) of monetary assets denominated in US dollars. The euro assets represent short term cash flow timing differences on European gas trading. The US assets represent margin deposits placed in respect of energy trading positions. In the UK the cost of gas under long term purchase contracts is dependent upon indices, which in part are influenced by US dollar denominated oil prices. An element of the foreign (US\$) exchange risk so arising was hedged using forward foreign currency contracts (note 29g).

c) Maturity of financial liabilities

The maturity profile of the group's financial liabilities at 31 December was as follows:

	2002			2001		
	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	721	13	734	971	20	991
In more than one year but not more than two years	39	1	40	38	2	40
In more than two years but not more than five years	349	36	385	167	4	171
In more than five years	401	19	420	400	2	402
Non-equity minority interests ⁽ⁱ⁾	-	108	108	-	-	-
	1,510	177	1,687	1,576	28	1,604

The maturity profile of borrowings includes £525 million (2001: £500 million) of bonds stated at face value. As disclosed in note 17, the bonds are stated in the group balance sheet net of £7 million (2001: £7 million) of issuance discount.

(i) As noted above, no maturity date is specified for non-equity minority interests.

Notes to the financial statements continued

29 Financial instruments continued

d) Borrowing facilities

At 31 December 2002, the group had undrawn committed borrowing facilities, in which all conditions precedent had been met at that date, of £1 billion (2001: £935 million). Of these facilities, 50% mature during 2003, whilst the remainder do not mature until 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 2002 were a US commercial paper programme of US\$2 billion (2001: US\$2 billion) and a euro medium term note (EMTN) programme of US\$2 billion (2001: US\$2 billion). At 31 December 2002, US\$374 million (£237 million) had been issued under the commercial paper programme (2001: US\$446 million) and bonds totalling £525 million (2001: £500 million) had been issued under the EMTN programme. Of the commercial paper issued, US\$299 million had been swapped into sterling, and the remainder was held in US dollars. In relation to the bonds, 24% mature between two and five years and 76% mature after five years.

Goldfish Bank also has a £850 million (2001: £850 million) borrowing facility from Lloyds TSB Bank plc, from which £430 million (2001: £610 million) was drawn down at 31 December 2002.

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:

	2002		2001	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the group's operations:				
Cash at bank and in hand and current asset investments ⁽ⁱ⁾	348	348	526	526
Loan to Centrica Personal Finance Limited	2	2	-	-
Humber Power loan	-	-	15	15
Long term trade debtors ⁽ⁱ⁾	44	44	-	-
Other financial assets	10	10	21	21
	404	404	562	562
Bank loans and overdrafts ⁽ⁱ⁾	(13)	(13)	(16)	(16)
Commercial paper ⁽ⁱⁱ⁾	(237)	(237)	(307)	(307)
Goldfish Bank	(430)	(430)	(610)	(610)
Bonds ⁽ⁱⁱⁱ⁾	(518)	(548)	(493)	(491)
Finance lease borrowings ^(iv)	(106)	(111)	(138)	(154)
Loan notes ^(v)	(199)	(199)	(5)	(5)
Other financial liabilities ⁽ⁱ⁾	(69)	(69)	(28)	(28)
	(1,572)	(1,607)	(1,597)	(1,611)
Non-equity minority interests ^(iv)	(108)	(119)	-	-
	(1,680)	(1,726)	(1,597)	(1,611)
Derivative financial instruments held to manage the group's currency, interest rate profile and energy price exposures:				
Forward foreign currency contracts ^(iv) , interest rate swaps and forward rate agreements ^(iv)	45	30	21	21
Energy derivatives ^(v)	11	93	-	(92)
Derivative financial instruments held for trading:				
Energy derivatives ^(v)	5	5	(10)	(10)

(i) Due to the nature and/or short maturity of these financial instruments, book values approximated to fair values.

(ii) The fair values of these financial instruments are based upon discounted cash flows, using discount rates based upon the group's cost of borrowing.

(iii) Fair values have been determined by reference to closing exchange rates at 31 December.

(iv) Fair values have been determined by reference to closing prices at 31 December.

(v) 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.

f) Gains and losses on financial instruments held for trading

There was no net gain or loss from trading in energy derivatives included in the group profit and loss account for the year ended 31 December 2002 (2001: gain of £6 million). Energy derivatives used for this purpose comprised energy swaps, futures, forwards and options. As permitted by FRS 13, physical contracts are not cash-settled commodity contracts and have accordingly been excluded. The average fair value of instruments held during the year ended 31 December 2002 did not materially differ from the year end position. The fair value of financial assets and financial liabilities held for trading at 31 December 2002 amounted to £14 million and £9 million respectively.

29 Financial instruments continued

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 2002	66	(158)	(92)	25	(5)	20
Arising in previous years that were recognised in 2002	(9)	1	(8)	(20)	5	(15)
Arising in previous years that were not recognised in 2002	57	(157)	(100)	5	-	5
Arising in 2002	59	108	167	57	(6)	51
At 31 December 2002	116	(49)	67	62	(6)	56

Of which:

Expected to be recognised in 2003	78	(17)	61	31	(6)	25
Expected to be recognised in 2004 or later	38	(32)	6	31	-	31

h) Additional disclosures for Goldfish Bank

Credit card balances and customer deposits constitute the core element of the bank's operations.

Derivatives

All derivatives held are used to hedge interest rate risk. The bank does not hold any derivatives for trading. At 31 December 2002 and 31 December 2001 the maturity of the notional principal amounts and replacement cost of non-trading financial instruments, all entered into with Lloyds TSB Bank plc were as follows:

	One year or less		Between one and and five years		Over five years		Total	
	Notional principal £m	Replacement cost £m	Notional principal £m	Replacement cost £m	Notional principal £m	Replacement cost £m	Notional principal £m	Replacement cost £m
Interest rate related contracts								
31 December 2002	52	-	236	-	-	-	288	-
31 December 2001	20	-	156	-	-	-	176	-

Interest rate sensitivity gap analysis

The tables below summarise the repricing mismatches of the bank's non-trading assets and liabilities. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Non- interest bearing £m	Total
							£m
31 December 2002							
Loans and advances to customers	759	1	1	10	-	-	771
Other assets	-	-	-	-	-	271	271
Customer deposits ⁽ⁱ⁾	(286)	-	-	-	-	-	(286)
Goldfish Bank working capital facility	(344)	(86)	-	-	-	-	(430)
Other liabilities and shareholders' funds	-	-	-	-	-	(326)	(326)
Interest rate swaps (off balance sheet)	288	-	(52)	(236)	-	-	-
Interest rate sensitivity gap	417	(85)	(51)	(226)	-	(55)	-
Cumulative gap	417	332	281	55	55	-	-

(i) Repayable on demand.

	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Non- interest bearing £m	Total
							£m
31 December 2001							
Loans and advances to customers	405	-	-	-	-	259	664
Other assets	-	-	-	-	-	230	230
Goldfish Bank working capital facility	(601)	(9)	-	-	-	-	(610)
Other liabilities and shareholders' funds	-	-	-	-	-	(284)	(284)
Off balance sheet items	176	-	(20)	(156)	-	-	-
Interest rate sensitivity gap	(20)	(9)	(20)	(156)	-	205	-
Cumulative gap	(20)	(29)	(49)	(205)	(205)	-	-

Notes to the financial statements continued

29 Financial instruments continued

Fair value of non-trading instruments

At 31 December 2002 and 31 December 2001 the notional principal amounts, fair values and book values of non-trading instruments entered into with third parties were as follows:

	Notional principal amount £m	Year end positive fair value £m	Year end positive book value £m	Year end negative fair value £m	Year end negative book value £m
Interest rate swaps					
31 December 2002	288	-	-	4	-
31 December 2001	176	-	1	-	1

30 Post balance sheet events

As part of the arrangements to launch the Consumers' Waterheater Income Fund in Canada in December 2002, the Fund issued C\$500 million of Floating Rate Notes. On 22 January 2003 these Notes were refinanced through the issuance of two series of senior notes, pursuant to a prospectus filed with the Canadian securities regulatory authorities. The series A-1 Notes have an expected final payment date of five years and legal maturity of 11 years, and were issued at par with a coupon of 4.700%. The series A-2 Notes have an expected final payment date of seven years and legal maturity of 13 years and were issued at par with a coupon of 5.245%. Both series are non-recourse to the Centrica group, and are rated AAA by Standard & Poors and the Dominion Bond Rating Service.

On 7 February 2003 the group announced a series of four year electricity purchase contracts entered into by its wholly-owned subsidiary British Gas Trading Limited with British Energy Power and Energy Trading Limited, a subsidiary of British Energy plc, for the purchase of 38TWh of power, amounting to 20% of the group's electricity requirements over the period. More than half of the electricity purchased will be at a fixed price the remainder being linked to future electricity market prices.

On 11 February 2003 the group confirmed that it had acquired the full legal title to the King's Lynn power station for a consideration of £1, previously held under a finance lease (note 12(ii)). This followed the acquisition of the legal title to the Peterborough Power Station for a consideration of £1 announced on 23 December 2002.

31 Principal undertakings 31 December 2002 ⁽ⁱ⁾	Country of incorporation	% group holding in ordinary shares and net assets	Principal activity
Subsidiary undertakings			
AA Corporation Limited	England	100	Holding company and roadside services in Ireland
AA Reinsurance Company (Guernsey) Limited	Guernsey	100	Insurance services
Accord Energy Limited	England	100	Wholesale energy trading
Automobile Association Developments Limited	England	100	Roadside and financial services
Automobile Association Insurance Services Limited	England	100	Financial services
Automobile Association Underwriting Services Limited	England	100	Roadside and financial services
British Gas Services Limited	England	100	Servicing and installation of gas heating systems
British Gas Trading Limited	England	100	Energy supply
Centrica Canada Limited	Canada	100	Holding company and gas production
Centrica Insurance Company Limited	Isle of Man	100	Insurance services
Centrica KL Limited	England	100	Power generation
Centrica Overseas Holdings Limited	England	100	Holding company
Centrica PB Limited	England	100	Power generation
Centrica Resources Limited	England	100	Gas and oil production
Centrica Storage Holdings Limited	England	100	Gas production and storage
Centrica Telecommunications Limited	England	100	Telecommunications
CPL Retail Energy LP	USA	100	Energy supply
Direct Energy Marketing Limited	Canada	100	Energy supply
Enbridge Services Inc	Canada	100	Rental and servicing of waterheaters
Energy America, LLC	USA	100	Energy supply
Electricity Direct (UK) Limited	England	100	Energy supply
GB Gas Holdings Limited	England	100	Holding company
Goldfish Bank Limited	England	75 ⁽ⁱⁱ⁾	Financial services
Hydrocarbon Resources Limited	England	100	Gas production from the Morecambe fields
Regional Power Generators Limited	England	100	Power generation
Republic Power LP	USA	100	Energy supply
The Automobile Association Limited	Jersey	100	Roadside services
WTU Retail Energy LP	USA	100	Energy supply
Joint ventures			
AccuRead Limited	England	49	Meter reading
Automobile Association Financial Services ⁽ⁱⁱⁱ⁾	England	50	Financial services
Centrica Personal Finance Limited	England	50	Financial services
Humber Power Limited	England	60	Power generation
Luminus NV	Belgium	50	Energy supply
Motorfile Limited	England	50	Used car data checking
Associates			
The First Resort Limited	England	20	Travel

(i) All principal undertakings are indirectly held by the company, except for GB Gas Holdings Limited, which is a direct subsidiary undertaking.

(ii) The group has a 70% economic interest in the net assets of Goldfish Bank Limited.

(iii) Automobile Association Financial Services is unincorporated and its principal place of business is Capital House, Queen's Park Road, Handbridge, Chester CH88 3AN.

32 Summary financial information for the Consumers' Waterheater Income Fund (the Fund)

In the context of the short period of operation of the Fund which was inadequate to demonstrate its independent operation in practice, and Centrica's retained interest in the Fund, directors have concluded that it is appropriate to consolidate the Fund as a quasi-subsidiary in accordance with FRS 5 Reporting the Substance of Transactions. A summary of the financial information which (before elimination of intra-group items) has been consolidated into the group accounts is set out below:

a) Profit and loss account	
Period from 17 to 31 December	2002 £m
Turnover	3
Operating costs	(1)
Net income before distributions	2
Distribution to unit holders	(2)
Retained earnings	-

There are no recognised gains or losses other than the profit for the period.

b) Balance sheet	
31 December	2002 £m
Intangible fixed assets - goodwill ^(iv)	241
Tangible fixed assets	182
	423
Current assets	19
Creditors (amounts falling due within one year) ^(v)	(15)
Net current assets	4
Total assets less current liabilities	427
Creditors (amounts falling due after more than one year) ^(vi)	(196)
Provisions for liabilities and charges	(42)
Net assets	189

Capital and reserves	
Class A fund units	108
Class B Exchangeable Units ^(vii)	81
Unit holders' funds	189

c) Cash flow statement	
Period from 17 to 31 December	2002 £m
Cash inflow from operating activities	3
Taxation received	2
Acquisitions	(294)
Cash outflow before financing	(289)
Management of liquid resources	(3)
Financing	303
Increase in net cash	11

The Fund commenced operating on 17 December 2002 and accordingly no comparative information is available.

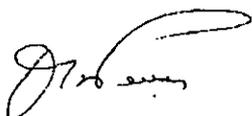
The initial public offering of units in the Fund closed on the Toronto Stock Exchange on 17 December 2002. At 31 December 2002 Centrica held a 42% interest in the Fund, through its wholly-owned subsidiary, Enbridge Services Inc, who hold 100% of the Class B Exchangeable units in Waterheater Holding Limited Partnership, a subsidiary of the Fund.^(viii)

- (i) Creditors (amounts due after more than one year) include bonds of C\$500 million gross of issue costs of C\$2 million. The bonds bear a floating rate of interest and are repayable after four years. The bonds were issued by the Consumers' Waterheater Operating Trust (the Trust), a wholly-owned subsidiary of the Fund. The debt is secured solely on the assets of the Fund and its subsidiaries, without recourse to the Centrica group.
- (ii) As disclosed in note 30, on 22 January 2003 the Trust issued C\$500m of bonds, the proceeds of which have been applied to repay the bonds in place at 31 December 2002. The bonds carry interest at a fixed rate and an expected final repayment date of between five and seven 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 Centrica group.
- (iii) Class B Exchangeable Units attract comparable voting rights to Units in the Fund, and are exchangeable into Units of the Fund. The Class B units are held by Enbridge Services Inc, a 100% owned subsidiary of the Centrica group.
- (iv) The goodwill balance eliminates on consolidation with the Centrica group. The summary financial information above has been prepared under UK generally accepted accounting practices (GAAP). Class A units in the Fund are traded on the Toronto stock exchange, and accordingly its full financial statements are prepared in accordance with GAAP in Canada. Under Canadian GAAP the Fund does not recognise a goodwill balance, and adjustments have been made under the purchase method of accounting, to allocate the excess consideration raised through the unit and debt offering to the fair value of the assets acquired by the Fund from Enbridge Services Inc.
- (v) Creditors (amounts falling due within one year) include £11 million due to Enbridge Services Inc which eliminates on consolidation with the group.

Company balance sheet

Company balance sheet		2002	2001
31 December		£m	(as restated) £m
	Notes		
Fixed assets			
Tangible assets	33	61	28
Investments:			
Subsidiary undertakings		(1,023)	788
Other investments		22	29
	34	1,045	817
		1,106	845
Current assets			
Debtors (amounts falling due within one year)	35	3,431	2,872
Debtors (amounts falling due after more than one year)	35	309	207
		3,740	3,079
Current asset investments	36	147	250
Cash at bank and in hand		316	-
		4,203	3,329
Creditors (amounts falling due within one year)			
Borrowings	37	(237)	(447)
Other creditors	38	(2,484)	(1,445)
		(2,721)	(1,892)
Net current assets		1,482	1,437
Total assets less current liabilities		2,588	2,282
Creditors (amounts falling due after more than one year)			
Borrowings	37	(518)	(493)
Other creditors	38	(205)	(205)
		(723)	(698)
Provisions for liabilities and charges	39	(33)	(36)
Net assets		1,832	1,548
Capital and reserves - equity interests			
Called up share capital	20	236	223
Share premium account	40	537	62
Profit and loss account	40	1,059	1,263
Shareholders' funds	41	1,832	1,548

The financial statements were approved by the board of directors on 20 February 2003 and were signed on its behalf by:



Sir Michael Perry CBE
Chairman



Phillip Bentley
Group Finance Director

The re-statement of the 2001 balance sheet is explained in note 34(iv).

The notes on pages 65 to 67 form part of these financial statements, along with the accounting policies (note 1) and note 20.

Notes to the company balance sheet

	Plant, equipment and vehicles £m
33 Tangible fixed assets	
Cost	
1 January 2002	64
Additions	45
Disposals	(7)
31 December 2002	102
Depreciation and amortisation	
1 January 2002	36
Charge for the year	9
Disposals	(4)
31 December 2002	41
Net book value	
31 December 2002	61
31 December 2001	28

No assets were held under finance leases (2001: £nil).

Amounts capitalised in respect of customer relationship management (CRM) infrastructure included within tangible fixed assets at 31 December 2002 were £26 million (2001: £nil).

	Investments in subsidiaries ⁸			Total £m
	Shares £m	Loans £m	Own shares ⁽ⁱⁱⁱ⁾ £m	
34 Fixed asset investments				
Cost				
1 January 2002 (as restated) ⁽ⁱⁱ⁾	222	566	65	853
Additions ⁽ⁱ⁾	-	608	-	608
Disposals ⁽ⁱ⁾	-	(283)	(14)	(297)
Exchange adjustments	-	(90)	-	(90)
31 December 2002	222	801	51	1,074
Amounts written off				
1 January 2002 (as restated) ⁽ⁱⁱ⁾	-	-	(36)	(36)
Amortisation under long term incentive schemes	-	-	(7)	(7)
Disposals	-	-	14	14
31 December 2002	-	-	(29)	(29)
Net book value				
31 December 2002	222	801	22	1,045
31 December 2001 (as restated)⁽ⁱⁱ⁾	222	566	29	817

(i) Investments comprise £1,023 million (2001: £788 million) of investments in subsidiary undertakings, being shares in subsidiaries of £222 million (2001: £222 million) and loans of £801 million (2001: £566 million), and own shares at cost of £51 million (2001 as restated: £65 million) to the Centrica Employees Share Trust.

(ii) An investment of £434 million was made during the year in Enbridge Services Inc. Following the establishment of the Consumers' Waterheater Income Fund, a repayment of part of the original investment of £283 million was made (note 32). Additional investments were also made in Centrica America Limited and Centrica Finance US Limited during the year.

(iii) The Centrica Employees Share Trust held 27 million (2001: 39 million) ordinary shares in the company. This represented 0.64% of the called up ordinary share capital (2001: 1%), which had a market value at 31 December 2002 of £47 million and a nominal value of £2 million (2001: £88 million and £2 million respectively). During the year 12,213,398 shares were transferred from the trust with respect to awards held by employees of the company and its subsidiaries.

(iv) In 2001 the company balance sheet showed the loan to the Centrica Employees Share Trust (£69 million) within fixed asset investments. This year the balance sheet has been restated to reflect the substance of the arrangements with the trust, whereby Centrica shares are held by the trust for the purpose of fulfilling awards to employees of Centrica plc and its subsidiaries under the long term incentive scheme. The balance sheet of the trust has therefore been consolidated with that of the company. This treatment is consistent with UITF 13 ESOP Trusts. £18 million of the amortisation carried forward has not been charged through the profit and loss account, but is included in amounts owed by group undertakings in note 35, as it reflects amounts recoverable from subsidiaries for awards due to their employees. At 31 December 2001, the amount owed by group undertakings relating to amortisation was £27 million, of which £16 million was due after more than one year. Debtors have been restated accordingly in note 35. Provisions have also been restated in note 39, reducing the 31 December 2001 balance by £13 million. Amounts previously included within provisions related to long term incentive scheme costs for company employees. These have now been included above within amortisation brought forward. The operation of the long term incentive scheme is described more fully in the remuneration report on page 26.

Notes to the company balance sheet continued

	2002		2001 (as restated) ⁽ⁱ⁾	
	within one year £m	after one year £m	within one year £m	after one year £m
35 Debtors				
Amounts owed by group undertakings ⁽ⁱⁱ⁾	3,360	309	2,837	190
Deferred corporation tax	-	-	-	17
Other debtors	55	-	24	-
Prepayments and other accrued income	16	-	11	-
	3,431	309	2,872	207

(i) A total of £18 million (2001: £23 million) is included relating to the accumulated cost of shares expected to be released to employees of subsidiaries under the long term incentive scheme.

(ii) Explanation of the restatement is given in note 34(iv).

	2002 £m	2001 £m
36 Current asset investments		
Money market investments	147	250

£10 million (2001: £9 million) of money market investments were held by the Law Debenture Trust, on behalf of the company, as security to cover unfunded pension liabilities.

	2002		2001	
	Within one year £m	After one year £m	Within one year £m	After one year £m
37 Borrowings				
Amounts falling due				
Bank loans and overdrafts	-	-	140	-
Bonds ⁽ⁱ⁾	-	518	-	493
Commercial paper	237	-	307	-
	237	518	447	493

(i) Bonds are sterling denominated and repayable as follows: between one and two years Enil (2001: Enil); between two and five years £125 million (2001: £100 million); and after five years £400 million (2001: £400 million). The bonds bear interest at fixed rates between 5.375% and 5.875% (2001: between 5.375% and 5.875%). The bonds have a face value of £525 million (2001: £500 million) and are stated net of £7 million (2001: £7 million) of issuance discount.

	2002		2001	
	Within one year £m	After one year £m	Within one year £m	After one year £m
38 Other creditors				
Amounts falling due				
Trade creditors	28	-	25	-
Amounts owed to group undertakings	2,239	205	1,255	205
Other creditors	16	-	10	-
Accruals and deferred income	91	-	79	-
Dividend payable	110	-	76	-
	2,484	205	1,445	205

	1 January 2002 (as restated) ⁽ⁱ⁾ £m	Profit and loss charge £m	Utilised in the year £m	31 December 2002 £m
	39 Provisions for liabilities and charges			
Pension costs ⁽ⁱⁱ⁾	12	9	(12)	9
Other ⁽ⁱⁱⁱ⁾	24	5	(5)	24
	36	14	(17)	33

Potential unrecognised deferred corporation tax assets amounted to £29 million (2001: £10 million).

(i) The pension cost provision includes the difference between charges to the profit and loss account and the contributions paid to the pension schemes in respect of retirement pensions and other related benefits.

(ii) Other provisions principally represents estimated liabilities for restructuring, outstanding litigation and National Insurance in respect of long term incentive scheme liabilities. The National Insurance provision was based on a share price of 171 pence at 31 December 2002 (2001: 222 pence).

(iii) Explanation of the restatement is given in note 34(iv).

40 Reserves	Share premium account £m	Profit and loss account ^(a) £m	Total £m
1 January 2002	62	1,263	1,325
Retained loss for the year ^(b)	-	(200)	(200)
Exchange translation differences ^(c)	-	(6)	(6)
Shares to be issued under long term incentive scheme ^(d)	-	2	2
Issue of ordinary share capital (note 20)	475	-	475
31 December 2002	537	1,059	1,596

- (i) As permitted by section 230(3) of the Companies Act 1985, no profit and loss account is presented. The company's loss for the financial year was £28 million (2001: £11 million profit).
- (ii) Exchange gains of £84 million (2001: £18 million) on foreign currency borrowings have been offset in reserves against exchange losses, of £90 million (2001: £18 million), on the cost of investments in overseas undertakings.
- (iii) The company intends to fund certain of its long term incentive schemes through the issue of new shares when these schemes vest. The amount shown represents the expected value of the shares to be issued using the market price at the date allocations were granted.

41 Movement in shareholders' funds	2002 £m	2001 £m
1 January	1,548	1,644
(Loss)/profit attributable to the company	(28)	11
Dividends	(172)	(124)
Exchange translation differences	(6)	-
Issue of shares net of issue costs	488	17
Shares to be issued under long term incentive scheme	2	-
Net movement in shareholders' funds for the financial year	284	(96)
31 December	1,832	1,548

42 Commitments and contingencies

a) Capital expenditure

At 31 December 2002, the company had placed contracts for capital expenditure amounting to £5 million (2001: £1 million).

b) Lease commitments

At 31 December 2002, there were £1 million of land and building operating lease commitments in relation to non-cancellable operating leases for the company (2001: £2 million). The company has guaranteed operating commitments of a subsidiary undertaking at 31 December 2002 of £8 million (2001: £4 million) in respect of land and buildings.

There were no commitments at 31 December 2002 under finance leases entered into, but for which inception occurs after 31 December 2002 (2001: £nil) for the company.

c) Guarantees and indemnities

Refer to note 27(f).

Gas and liquids reserves

The group has estimated proven and probable gas reserves in the UK and North America and estimated proven and probable liquid reserves in the UK. Estimates are made by management.

The principal fields in the UK are South Morecambe, North Morecambe, Galleon and Armada. 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 2002 (as restated) ⁽ⁱ⁾	2,786	446	3,232
Revisions of previous estimates	(14)	(6)	(20)
Purchases of reserves in place	134	1	135
Production	(399)	(37)	(436)
Sales of reserves in place	(65)	-	(65)
31 December 2002	2,442	404	2,846

(i) Estimated net proven and probable reserves of gas at 1 January 2002 have been restated to include non-producing assets which were previously excluded. The impact of the restatement is to increase net proven and probable gas reserves in the UK by 55 billion cubic feet.

Estimated net proven and probable reserves of liquids (million barrels)	UK	North America	Total
1 January 2002	9	4	13
Revisions of previous estimates	2	-	2
Purchases of reserves in place	1	-	1
Production	(2)	-	(2)
Sales of reserves in place	(7)	-	(7)
31 December 2002	3	4	7

Liquid reserves includes condensate, propane, butane and oil.

Five year summary

Results Year ended 31 December	1998 £m	1999 £m	2000 £m	2001 £m	2002 £m
Turnover	7,481	7,217	9,933	12,611	14,315
Operating profit/(loss) before exceptional charges and goodwill amortisation, including share of joint ventures and associates:					
British Gas residential			164	(46)	244
Centrica Business Services			36	44	65
Centrica energy management group (CEMG)			308	573	520
	262	476	508	571	829
The AA	-	3	19	72	73
Goldfish Bank	(12)	(14)	(15)	(32)	(40)
One.Tel	-	-	-	4	2
Centrica North America	-	-	8	68	63
Other operations	(37)	(41)	6	(4)	5
	213	424	526	679	932
Exceptional items	(85)	(136)	(14)	(80)	(35)
Goodwill amortisation	-	(13)	(60)	(88)	(123)
Profit attributable to the group	91	182	335	323	478
	Pence	Pence	Pence	Pence	Pence
Earnings per ordinary share	2.1	4.3	8.4	8.1	11.4
Adjusted earnings per ordinary share ⁽ⁱ⁾	4.0	7.9	10.2	12.1	15.2
Cash flows Year ended 31 December	1998 £m	1999 £m	2000 £m	2001 £m	2002 £m
Cash inflow from operating activities before exceptional payments	870	1,453	1,139	869	733
Exceptional payments	(211)	(135)	(76)	(44)	(16)
Acquisitions and disposals	(101)	(1,162)	(590)	(607)	(935)
Cash inflow/(outflow) before use of liquid resources and financing	332	(690)	55	(342)	(918)
Assets and liabilities as at 31 December	1998 £m	1999 £m	2000 £m	2001 £m	2002 £m
Intangible fixed assets	10	992	1,309	1,524	1,813
Tangible fixed assets and fixed asset investments	1,937	1,913	1,993	2,225	2,865
Net current assets/(liabilities)	421	(346)	(469)	(397)	(108)
Long term creditors and provisions	(1,483)	(1,592)	(1,535)	(1,816)	(2,168)
Net assets	885	967	1,298	1,536	2,402
(Debt), net of cash and money market investments:					
Goldfish Bank	-	-	-	(610)	(430)
Other businesses - non-recourse debt	-	-	-	-	(196)
Other businesses - recourse debt	223	(127)	(117)	(433)	(529)
	223	(127)	(117)	(1,043)	(1,155)

Prior year numbers have been restated, as far as practicable, to reflect the revisions to the activities in the different segments that took place during the year, as disclosed in note 3 to the financial statements. The analysis between British Gas residential, Centrica Business Services and Centrica energy management group is not available for 1998 and 1999.

Prior years have been restated for changes in accounting policies. 1998 and 1999 were restated on implementation of FRS 12 Provisions, contingent liabilities and contingent assets in 1999. On implementation in 2001 of FRS 19 Deferred Tax and mark to market accounting for energy trading derivative financial instruments, values for 2000 were restated but not those for 1998 and 1999.

Goldfish Bank included certain financial service activities under the British Gas brand until 1 April 2000. From that date, the activities transferred to AA personal finance.

(i) Adjusted earnings per share exclude exceptional charges and goodwill amortisation.

Information for shareholders

Financial calendar

Ex-dividend date for 2002 final dividend	30 April 2003
Record date for 2002 final dividend	2 May 2003
Annual general meeting, International Convention Centre, Birmingham	12 May 2003
Final dividend payment date	18 June 2003
2003 interim results announced	31 July 2003
Interim dividend payment date	12 November 2003

Centrica shareholder helpline

Centrica's shareholder register is maintained on our behalf by Lloyds TSB Registrars who are responsible for making dividend payments and updating the register, including details of changes to shareholders' addresses and purchases or sales of Centrica shares. If you have a question about your shareholding in Centrica, you should contact:

Centrica shareholder helpline: 0870 600 3985

Text phone: 0870 600 3950

Write to: Lloyds TSB Registrars

The Causeway, Worthing,
West Sussex BN99 6DA

Frequent shareholder enquiries

If you change your address

Please notify Lloyds TSB Registrars, in writing. If shares are held in joint names, the notification must be signed by the first named shareholder. The form is also available to download from our website.

If you change your name

Please notify Lloyds TSB Registrars in writing and enclose a copy of your marriage certificate or change of name deed as evidence.

Lost Centrica share certificate

If your share certificate is lost or stolen, you should call the Centrica shareholder helpline immediately. A letter of indemnity will be sent to you to sign. Lloyds TSB Registrars will charge for this service.

Duplicate shareholder accounts

Shareholders who receive more than one copy of Centrica communications may have shares registered inadvertently in at least two accounts. This happens when the registration details of separate transactions differ slightly. If you wish to combine your accounts, call the Centrica shareholder helpline to request an account combination form. The form is also available to download from our website.

Buying and selling shares in the UK

If you wish to trade in Centrica shares, you will need to use a stockbroker or High Street bank which trades on the London Stock Exchange. There are many telephone and online services available. If you are selling, you will need to present your share certificate at the time of sale.

Transferring Centrica shares

Transferring shares to someone else requires the completion of a stock transfer form. This form, and details of the procedure you need to follow, are available from the Centrica shareholder helpline. Stamp duty is not normally payable if the transfer is to a relative or if there is no money being paid in exchange for the shares.

Direct dividend payments

The two dividends each year (see Financial calendar) can be paid automatically into your bank or building society account. This service has a number of benefits:

- there is no risk 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 the tax year in March, in time for your self-assessment tax return.

Arranging your dividend payment in this way also helps Centrica improve its efficiency by reducing postage and cheque clearance costs. If you wish to register for this service, call the Centrica shareholder helpline to request a direct dividend payment form. The form is also available to download from our website.

The Centrica website

The Centrica website at www.centrica.com provides news and details of the company's activities, plus information on the share price and links to our brand sites.

The investor information section of the website contains up-to-date information for shareholders including the company's latest results and key dates such as dividend payment dates. It also holds details such as past dividend payment dates and amounts, and a comprehensive share price information section. Visit www.centrica.com/investors.

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 meetings become available. Shareholders are also able to complete and return voting papers for the company's AGM electronically. Registration is free and easy to complete. All that is required for registration is the shareholder reference number which is shown on your tax vouchers and share certificates. Once you are registered, you may also look up a range of information including the number of Centrica shares you hold, the registered name and address details and information held for dividend payment instructions.

Share price information

The Centrica share price, and historical details, may be viewed on our website. Shareholders can find share prices listed in most national newspapers. Ceefax and Teletext pages also display share prices that are updated regularly throughout the trading day. For an accurate buying or selling price, you should contact a stockbroker or High Street bank.

ShareGift

ShareGift is a charity share donation scheme for shareholders administered by the Orr Mackintosh Foundation. It is especially for those who may wish to dispose of a small parcel of shares whose value makes it uneconomic to sell on a commission basis. Further information can be obtained at www.sharegift.org or from the Centrica shareholder helpline.

Useful historical information

Demerger

Centrica plc traded on the London Stock Exchange for the first time on 17 February 1997, the date of demerger from British Gas plc. Shares were acquired in Centrica on the basis of one Centrica share for every British Gas plc share held at demerger. Shares in Centrica, acquired at demerger, are treated as having a base cost for Capital Gains Tax purposes (calculated in accordance with taxation legislation) of 64.25 pence each.

Share capital consolidation

On 10 May 1999, the ordinary share capital of Centrica was consolidated on the basis of nine new ordinary shares of 5 $\frac{1}{4}$ pence for every ten ordinary shares of 5 pence held on 7 May 1999. The consolidation was linked to the payment of a special dividend of 12 pence per share on 23 June 1999.

Shareholder benefits

A series of updated benefits on selected products and services from across the group has recently been introduced. Our major brands British Gas, Scottish Gas, The AA, Goldfish and One.Tel are all featured in these offers.

To request a brochure, please call the Centrica shareholder helpline or visit the shareholder benefits page of our website. If you have not previously registered, you will be asked to give your shareholder reference number in order to participate.

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 flat rate fee, shareholders can have their dividends automatically converted from Sterling and paid into their bank account, normally within five working days of the dividend payment date. For further details, please contact the Centrica shareholder helpline on +44 (0)121 415 7061.

American Depositary Receipts

Centrica has an American Depositary Receipt (ADR) programme. The ADRs, each of which is equivalent to 10 ordinary Centrica shares, trade under the symbol CNTCY. For enquiries, please contact:

ADR Depository
The Bank of New York
Investor Relations
PO Box 11258, Church Street Station
New York, NY 10286-1258

email: shareowner-svcs@bankofny.com
or via www.stockbny.com

Telephone: 1 888 BNY ADRs in the US or 00 1 601 312 5315
from outside the US.

www.adrbny.com

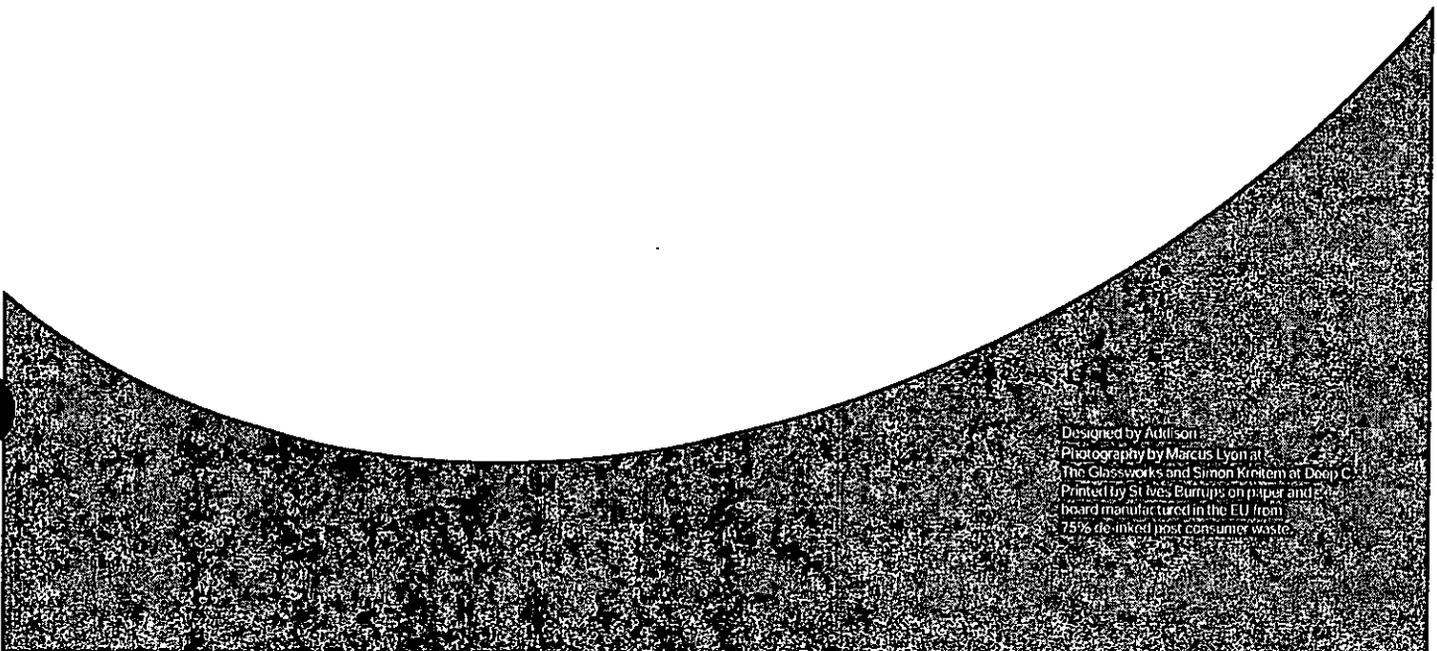
Analysis of shareholders at 31 December 2002

Distribution of shares by the type of shareholder	Holdings	Shares
Nominees and institutional investors	13,164	3,690,106,609
Individuals	1,237,668	562,749,805
Total	1,250,832	4,252,856,414

Size of shareholding	Number of holdings	Shares
1 - 500	948,162	235,077,877
501 - 1,000	198,428	136,561,533
1,001 - 5,000	95,686	163,119,619
5,001 - 10,000	5,051	34,965,321
10,001 - 50,000	1,902	37,839,904
50,001 - 100,000	350	25,249,965
100,001 - 1,000,000	852	294,018,102
1,000,001 and above	401	3,326,024,093
Total	1,250,832	4,252,856,414

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www.centrica.com

QUESTION 20
"Technical Fitness"

In providing service to its Pennsylvania electric customers, Direct Energy Services, LLC will draw on the technical ability of its affiliate personnel, who have industry leading experience in providing energy services in retail markets. The following is a brief description of officers directly responsible for operations.

POWER PROCUREMENT

Jay Hellums
Senior Vice President, U.S. Energy Procurement
jay.hellums@na.centrica.com
(713) 877-3642

As Senior Vice President, U.S. Energy Procurement and Trading, Jay is responsible for the gas and power procurement and trading activities supporting the company's U.S. markets.

Before joining Direct Energy, Jay was Managing Director and Head of European Operations at El Paso Merchant Energy Europe Limited in the United Kingdom, where he was in charge of the formation and management of gas and power trading and marketing operations.

Prior to joining El Paso, Jay held senior management positions with the Enron Corporation and Bankers Trust.

He received a BBA in Finance from the University of Houston and an MBA from Rice University in Houston, Texas.

Dennis Benevides
Vice President, Power
dennis.benevides@na.centrica.com
(713) 877-3643

Dennis is responsible for power procurement and scheduling activities. Prior to joining Direct Energy, he was a Vice President at Enron Energy Services where his responsibilities included U.S. retail power procurement.

During his 12- year tenure at Pacific Gas and Electric Company, Dennis served as Supervisor of Transmission Planning where his responsibilities included identification of bulk transmission system constraints and proposed system reinforcements to mitigate constraints.

He holds a B.Sc. in Electrical Engineering-Power from California Polytechnic University in San Luis Obispo, Calif., and an MBA - Finance from California State University in Hayward, California.

Juan Padron
Senior Analyst, Portfolio Management, Operations
juan.pardon@na.centrica.com
(713) 877-3657

Juan Padron joined Direct Energy in June 2003 into Portfolio Management and Structuring Group. He forms part of a team that is responsible for managing positions and MTM of the CPL/WTU power portfolio. Other roles at Direct Energy include pricing and structuring of power products in ERCOT and analysis of power markets outside of Texas.

Prior to working for Direct Energy, Juan traded wholesale power at UBS Warburg in the NYISO, PJM, and NEPOOL regions and was market-maker for NYISO real-time power market.

Juan held several positions at Enron's wholesale power trading desk. He also managed Enron Energy Services New York retail power portfolio.

Juan holds a BA in Economics and Spanish from the University of Houston in Texas.

REGULATORY

Jim Steffes
Vice President, US Regulatory Affairs
james.steffes@na.centrica.com
(203) 328-3556

Jim Steffes is responsible for federal and state Government Affairs for Centrica's United States business units. In this role Jim advocates for competitive choices for natural gas and electricity consumers and supports Centrica's business activities. In addition, in his role as Chief Compliance Officer, he is responsible for ensuring compliance with consumer protection laws and regulatory rules.

Jim previously worked with UBS Energy LLC in establishing its North American natural gas and power marketing activities. Before that, he coordinated Government Affairs activities for wholesale and retail energy businesses of Enron Corp.

Jim has a B.Sc. in foreign Services from Georgetown University and a MA in Public Policy from the John F. Kennedy School of Government at Harvard University.

OPERATIONS

Patty Walton
Manager, Operations
patty.walton@na.centrica.com
(614) 734-8420

Patty has been in the energy industry for more than 14 years. She is responsible for developing and implementing Operations activities to serve commercial and industrial customers. She oversees the customer lifecycle from submissions, billing, receivables, collections, settlements, and renewals with a strong focus on relationship-building services.

Prior to joining Direct Energy, Patty was involved with RTO initiatives at Alliance Bridge Co, a company set up to manage the transmission lines of 10 electric utility companies in the Midwest. While at Exelon Energy, Enron Energy Services and Access Energy, she was on strategic teams opening more than 50 natural gas and electric deregulated markets throughout the United States. She has additional experience in mergers and acquisitions, agent and association management, performance measurements, development of corporate strategies and business plans, vendor management, and all aspects of systems development.

Patty holds an Executive MBA from Fisher College of Business and a BA/JUR from the school of Journalism at the Ohio State University in Columbus, Ohio.

Business Plans

Energy America, LLC and Direct Energy Services, LLC have contracted such that Energy America, LLC will provide all electricity requirements of Direct Energy's customers. Energy America, LLC has received permission from FERC to sell wholesale energy, capacity and ancillary services at market based rates in Docket # ER02-1632-000 by letter order of the Office of Markets, Tariffs and Rates, dated May 29, 2002. In the United States, Energy America, LLC supplies energy to residential customers and businesses. In the United States affiliate^s of Energy America, LLC provide business and residential customers electricity in Texas and natural gas in the states of Michigan, Ohio, Massachusetts, Rhode Island, Connecticut and Pennsylvania. Energy America, LLC, Direct Energy Services, LLC and their affiliates are subsidiaries of Centrica plc. In total, U.S. Centrica affiliates serve more than 4 million retail energy customers in North America. The various Centrica affiliates serve nearly 1 million retail electricity customers. In addition, Centrica affiliates own two power stations with a combined installed capacity of approximately 1,000 megawatts.

Proposed Staffing and Employee Requirements:

Direct Energy Services, LLC continually reviews its staffing requirements to ensure that it has the proper staff in its employ to provide energy products and services in accordance with applicable requirements of Pennsylvania law. In addition Direct Energy Services, LLC has ongoing training for its staff to ensure that staff members are kept current in the operations and development of the power market.

APPENDIX B

**COMMONWEALTH OF
PENNSYLVANIA
PUBLIC UTILITY COMMISSION**

**TAX CERTIFICATION
STATEMENT**

A completed Tax Certification Statement must accompany all applications for new licenses, renewals or transfers. Failure to provide the requested information and/or any outstanding state income, corporation, and sales (including failure to file or register) will cause your application to be rejected. If additional space is needed, please use white 8 1/2" x 11" paper. Type or print all information requested.

1. CORPORATE OR APPLICANT NAME Direct Energy Services, LLC	2. BUSINESS PHONE NO. (203) 328-3540 CONTACT PERSON(S) FOR TAX ACCOUNTS: Sharon Rorwick- (416) 590-3888
--	---

3. TRADE/FICTITIOUS NAME (IF ANY)
 Direct Energy or Direct Energy Business Services

4. LICENSED ADDRESS (STREET, RURAL ROUTE, P.O. BOX NO.) (POST OFFICE) STATE (ZIP)
 263 Tresser Blvd., 8th Floor, Stamford, Ct 06901

5. TYPE OF ENTITY SOLE PROPRIETOR PARTNERSHIP CORPORATION

8. LIST OWNER(S), GENERAL PARTNERS, OR CORPORATE OFFICER(S)

NAME (PRINT)	SOCIAL SECURITY NUMBER (OPTIONAL)
See Attached List	
NAME (PRINT)	SOCIAL SECURITY NUMBER (OPTIONAL)
NAME (PRINT)	SOCIAL SECURITY NUMBER (OPTIONAL)
NAME (PRINT)	SOCIAL SECURITY NUMBER (OPTIONAL)
NAME (PRINT)	SOCIAL SECURITY NUMBER (OPTIONAL)
NAME (PRINT)	SOCIAL SECURITY NUMBER (OPTIONAL)

9. LIST THE FOLLOWING STATE TAX IDENTIFICATION NUMBERS. (ALL ITEMS: A, B, AND C MUST BE COMPLETED).

A. SALES TAX LICENSE (8 DIGITS) APPLICATION PENDING N/A [8 3] - [2 5 6 2 4] - [0] <input type="checkbox"/> <input type="checkbox"/>	C. CORPORATE BOX NUMBER (7 DIGITS) APPLICATION PENDING N/A [2 0 8 5] [6 4 2] <input type="checkbox"/> <input type="checkbox"/>
B. EMPLOYER ID (EIN) (9 DIGITS): APPLICATION PENDING N/A [2 0] - [1 3 4 0 0 6 4] <input type="checkbox"/> <input type="checkbox"/>	

10. Do you have PA employees either resident or non-resident? YES NO

11. Do you own any assets or have an office in PA? YES NO

NAME AND PHONE NUMBER OF PERSON(S) RESPONSIBLE FOR FILING TAX RETURNS Sharon Rorwick
 Sharon Rorwick Helen Kowalchuk

PA SALES AND USE TAX EMPLOYER TAXES CORPORATE TAXES

PHONE (416) 590-3888 PHONE (416) 590-3332 PHONE (416) 590-3888

Telephone inquiries about this form may be directed to the Pennsylvania Department of Revenue at the following numbers: (717) 772-2673, TDD# (717) 772-2252 (Hearing Impaired Only)

DATE: February 3, 2005
SUBJECT: A-110164
TO: Bureau of Fixed Utility Services
FROM:  James J. McNulty, Secretary

DOCKETED
FEB 03 2005

Application of Direct Energy Services, LLC

Attached is a copy of the Application of Direct Energy Services, LLC, for approval to offer, render, furnish or supply electricity or electric generation services as a Broker/Marketer & Aggregator to the public in the Commonwealth of Pa.

This matter is assigned to your Bureau for appropriate action.

Attachment

cc: Law Bureau

jih

**DOCUMENT
FOLDER**

COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P. O. BOX 3265, HARRISBURG PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE
Secretary
717-787-8009
A-110164

February 3, 2005

WOLF BLOCK SCHORR & SOLIS-COHEN LLP
DAN CLEARFIELD, ESQUIRE
212 LOCUST STREET
SUITE 300
HARRISBURG PA 17101

Dear Mr. Clearfield:

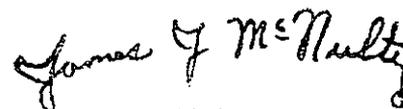
The Application and \$350.00 filing fee of Direct Energy Services, LLC received in this Office on February 2, 2005, for approval to supply electric generation services as a Broker/Marketer & Aggregator, is hereby acknowledged.

Pursuant to the Commission's Final Order, entered February 13, 1997, at M-00960890F0004, Notice of filing of this Application must be published in newspapers of general circulation covering each county in which you intend to provide service.

You have requested to do business in all of Pennsylvania. Attached is a list of newspapers in which you need to publish in order to meet the publication requirements.

This Application will not be considered complete until a notarized Certification of Publication, along with a photostatic copy of the notice, is filed with this Office.

Sincerely,



James J. McNulty
Secretary

DOCUMENT
FOLDER

DOCKETED
FEB 03 2005

JJM:jih

**ELECTRIC GENERATION SUPPLIER APPLICATIONS
LIST OF NEWSPAPERS FOR PUBLICATION**

Philadelphia Inquirer
400 North Broad Street
Philadelphia, PA 19130-4014
Telephone (215) 854-2000
Fax: (215) 854-5118
Advertising Vice President: Todd Brownout (215) 854-5441

Pittsburgh Post-Gazette
34 Boulevard of the Allies
Pittsburgh, PA 15222-1204
Telephone: (412) 263-1100
Fax: (412) 391-8452
Advertising Manager: Robert McCray - (412) 263-1252

The Patriot News
812 Market Street
Harrisburg, PA 17101-2808
Telephone: (717) 255-8100
Fax: (717) 255-8450
Advertising Director: James J. Stephanak

Morning News
205 West 12th
Erie, PA 16534-0001
Telephone: (814) 870-1600
Fax: (814) 870-1808
Advertising Manager: John Anderson

Scranton Times
149 Penn Avenue
Scranton, PA 18503-2022
Telephone: (717) 348-9100
Fax: (717) 348-9135
Advertising Manager: Steve Sauder (717) 348-9150

Williamsport Sun Gazette
252 West 4th Street
Williamsport, PA 17701-6102
Telephone: (717) 326-1551
Fax: (717) 323-0948
Advertising Manager: John Yahner

PENNSYLVANIA PUBLIC UTILITY COMMISSION

RECEIPT

The addressee named here has paid the PA P.U.C. for the following bill:

DATE: 2/3/2005
RECEIPT NO: 250181

DIRECT ENERGY SERVICES, LLC
1400-25 SHEPPARD AVE WEST
NORTH YORK ON M2N 6S6

IN RE: Electrical Generation fees for DIRECT ENERGY SERVICES, LLC

Docket Number A-110164..... \$350.00

REVENUE ACCOUNT: 001780-017601-107

CHECK NUMBER: 000291
CHECK AMOUNT: \$350.00

Stephen Reed
(for Department of Revenue)

DOCKETED
FEB 22 2005

**DOCUMENT
FOLDER**