Centrica plc
Preliminary Results for the year ended 31 December 2003
(unaudited)

Financial Highlights:

- Turnover, including Accord trading, up 25% to £17,931m.
- 14% increase in operating profit* to £1,058m.
- Earnings* up 12% at £714m.
- Adjusted basic earnings per share 16.8p compared with 15.2p in 2002.
- Operating cash inflow £992m, compared with £717m in 2002.
- Full year dividend 5.4p per share, up 35% on 2002.

Operating Overview:

- Record group performance in a challenging year
- Operating profit* in North America more than double 2002 at £130 million
- Further investments made in power generation including renewables
- Strong growth in AA core business leading to 27% increase in operating profit*
- Acquisition of Rough received Competition Commission clearance; operating profit £40 million
- British Gas impacted by adverse combination of warm weather and high commodity costs
- Sale of Goldfish credit card and personal loan business completed

Statutory Results:

• Operating profit £897m (2002: £809m) • Earnings £500m (2002: £478m) • Basic earnings per share 11.8p (2002: 11.4p)

"The underlying strength of the Centrica model, with its unique balance of upstream and downstream positions, enabled us to deliver record profits despite adverse external factors."

-- Sir Roy Gardner, Chief Executive

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

CHAIRMAN'S STATEMENT

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, has 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 board of directors

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

The future

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

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

Sir Michael Perry GBE, Chairman **12 February 2004**

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 1 and are reconciled at group level in the group profit and loss account, with descriptions of the exceptional items in note 3. Adjusted earnings and adjusted basic earnings per share are reconciled to their statutory equivalents in note 7.

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.

CHIEF EXECUTIVE'S REVIEW

Overall the Group delivered 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, have 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. 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 the Centrica Energy Management Group 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.

Net interest, net debt and net assets

Net interest payable was £52 million (2002: £62 million) and was covered 20 times by operating profit* (2002: 15 times).

At the year end the group had net cash on the balance sheet (excluding the £216 million of non-recourse debt in respect of the Canadian water heaters and the Goldfish Bank facility in 2002) of £163 million versus net debt of £529 million at 31 December 2002. Net assets grew by 15% over 2002, from £2.4 billion to £2.8 billion due to retained earnings.

* including joint ventures and associates, before goodwill amortisation

Taxation

The taxation charge (excluding the effect of goodwill and non-operating exceptional items) of £282 million for 2003 represents an effective 28% rate on profits adjusted for goodwill amortisation and exceptional items (2002: £243 million, representing an effective rate of 28%).

The overall charge reflects the recognition of deferred tax assets during 2003 which were unrecognised at the last year-end, offset by higher tax rates for offshore gas production and in North America.

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 now 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 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.

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 while achieving 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 **12 February 2004**

SEGMENTAL BUSINESS COMMENTARY

British Gas Residential

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 customer relationship management infrastructure has now been rolled out to 9,700 staff, enabling them to have a single view of the customer giving them the ability to serve customers appropriately. 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).

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%). 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 on-line e-bills since the launch of paperless billing in May 2003.

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 costs. 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.

* including joint ventures and associates, before goodwill amortisation

	FY 2003	FY 2002	Δ%	H2 2003	H2 2002	Δ%
Customer numbers (period end) (000):						
Residential gas	12,590	12,839	(1.9%)	12,590	12,839	(1.9%)
Residential electricity	6,189	5,795	7%	6,189	5,795	7%
Estimated market share (%):						
Residential gas	62	64	(2 ppts)	62	64	(2 ppts)
Residential electricity	24	22	2 ppts	24	22	2 ppts
Average consumption:						
Residential gas (therms)	614	609	0.8%	260	262	(0.8%)
Residential electricity (kWh)	4,178	4,146	0.8%	2,138	2,089	2.3%
Weighted average sales price:						
Residential gas (p/therm)	47.57	47.01	1.2%	48.81	47.49	2.8%
Residential electricity (p/kWh)	6.19	6.03	2.7%	6.22	5.99	3.8%
Weighted average unit costs:						
Residential gas (WACOG, p/therm)	22.65	21.81	3.8%	23.46	21.24	10%
Residential electricity (WACOE, p/kWh)	2.46	2.47	(0.40%)	2.52	2.46	2.4%
Transportation & distribution (£m):						
Residential gas	1,305	1,256	3.9%	614	592	3.7%
Residential electricity	479	444	8%	253	213	18%
Total	**1,784**	**1,700**	**4.9%**	**867**	**805**	**8%**
Turnover (£m):						
Residential gas	3,742	3,805	(1.7%)	1,613	1,629	(1%)
Residential electricity	1,547	1,380	12%	808	706	14%
Total	**5,289**	**5,185**	**2.0%**	**2,421**	**2,335**	**3.7%**
Operating profit/(loss) (£m)						
Residential energy	136	218	(38%)	(33)	21	n/m
Operating margin (%)						
Residential energy	2.6	4.2	(1.6 ppts)	(1.4)	0.9	(2.3 ppts)
British Gas product holding**						
Average British Gas products per customer (period end):	1.62	1.53	6%	1.62	1.53	6%

** British Gas brand

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%. 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.

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.

	FY 2003	FY 2002	Δ%	H2 2003	H2 2002	Δ%
Customer product holdings (period end) (000):						
Central heating service contracts	3,250	3,093	5%	3,250	3,093	5%
Other central heating service contracts	837	849	(1.4%)	837	849	(1.4%)
Kitchen appliances care (no. of appliances)	1,109	871	27%	1,109	871	27%
Plumbing & drains care	1,084	905	20%	1,084	905	20%
Electrical care	598	367	63%	598	367	63%
Home security	28	28	-	28	28	-
Total holdings	**6,906**	**6,113**	**13%**	**6,906**	**6113**	**13%**
Central heating installations	86	102	(16%)	43	53	(19%)
Turnover (£m)						
Central heating service contracts	391	349	12%	201	178	13%
Central heating installations	228	260	(12%)	112	140	(20%)
Other	228	201	13%	123	104	18%
Total	**847**	**810**	**4.6%**	**436**	**422**	**3.3%**
Engineering staff employed	7,160	6,205	15%	7,160	6,205	15%
Operating profit (£m)*						
Home services	84	61	38%	43	39	10%
Operating margin (%)						
Home services	10	8	2 ppts	10	9	1 ppt

* including joint ventures and associates, before goodwill amortisation

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 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. 91% 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).

	FY 2003	FY 2002	Δ%	H2 2003	H2 2002	Δ%
Customer numbers (fixed line) (period end) (000)	376	367	2.5%	376	367	2.5%
Average minutes used per month (fixed line)	374	340	10%	392	336	17%
ARPU (fixed line) (£)	11.86	10.52	13%	12.49	10.55	18%
Turnover (£m)	56	52	8%	30	26	15%
Operating profit/(loss) (£m)						
British Gas Communications	(14)	(35)	60%	(4)	(9)	56%

Centrica Business Services

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.

	FY 2003	FY 2002	Δ%	H2 2003	H2 2002	Δ%
Customer supply points (period end) (000):						
Gas	370	383	(3.4%)	370	383	(3.4%)
Electricity	535	516	3.7%	535	516	3.7%
Total	**905**	**899**	**0.7%**	**905**	**899**	**0.7%**
Average consumption:						
Gas (therms)	3,124	3,276	(4.6%)	1,353	1,402	(3.5%)
Electricity (kWh)	25,700	23,785	8%	13,436	12,638	6%
Weighted average sales price:						
Gas (p/therm)	37.75	36.72	2.8%	38.11	36.22	5%
Electricity (p/kWh)	4.84	4.79	1.0%	4.77	4.74	0.6%
Weighted average unit costs:						
Gas (WACOG, p/therm)	21.56	20.71	4.1%	21.88	19.47	12%
Electricity (WACOE, p/kWh)	2.29	2.25	1.8%	2.28	2.20	3.6%
Transportation & Distribution (£m):						
Gas	130	126	3.2%	63	62	1.6%
Electricity	221	170	30%	119	99	20%
Total	**351**	**296**	**19%**	**182**	**161**	**13%**
Turnover (£m):						
Gas	455	457	(0.4%)	202	191	6%
Electricity	670	514	30%	348	306	14%
Total	**1,125**	**971**	**16%**	**550**	**497**	**11%**
Operating profit (£m)*	51	65	(22%)	8	25	(68%)
Operating margin (%)	4.5	7	(2.5 ppts)	1.5	5	(3.5 ppts)

* including joint ventures and associates, before goodwill amortisation

CEMG

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

Gas production

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

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

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

	FY 2003	FY 2002	Δ%	H2 2003	H2 2002	Δ%
Gas production:						
Production volumes (m therms)						
Morecambe	3,429	3,639	(6%)	1,350	1,509	(11%)
Other	457	417	10%	199	203	(2%)
Total	**3,886**	**4,056**	**(4.2%)**	**1,549**	**1,712**	**(10%)**
Average sales price (p/therm)	22.4	21.5	4.2%	23.8	19.9	20%
Turnover (£m)	919	932	(1.4%)	391	367	7%
External turnover (£m)	54	74	(27%)	24	33	(27%)
Operating costs (£m):						
Royalties	(3)	67	n/m	(3)	24	n/m
Petroleum revenue tax	128	76	68%	60	29	107%
Volume related production costs	213	237	(10%)	88	106	(17%)
Other production costs	101	105	(3.8%)	48	51	(6%)
Total	**439**	**485**	**(9%)**	**193**	**210**	**(8%)**
Operating profit (£m)	480	447	7%	198	157	26%
Power stations						
Power generated (GWh)	8,668	7,662	13%	4,947	4,239	17%
Industrial & wholesale:						
Sales volumes (m therms)	6,093	5,694	7%	2,502	2,970	(16%)
Average sales price (p/therm)	20.5	19.8	3.5%	21.2	19.4	9%
Turnover (£m)	809	784	3%	349	383	(9%)
Operating profit (£m)	64	72	(11%)	2	41	(95%)
Accord						
Traded volumes (physical)						
Gas (m therms)	24,546	20,399	20%	11,456	10,686	7%
Electricity (TWh)	139	95	46%	69	58	19%
Turnover (£m)	6,218	4,304	44%	3,097	2,353	32%
Operating profit (£m)	17	-	n/m	4	(15)	n/m
CEMG operating profit (£m)	561	519	8%	204	183	11%

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 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

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. 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 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.

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. 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 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.

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.

* including joint ventures and associates, before goodwill amortisation

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.

	FY 2003	FY 2002	Δ%	H2 2003	H2 2002	Δ%
Roadside Services:						
Customer numbers (period end) (000)	13,522	12,975	4.2%	13,522	12,975	4.2%
Customer renewal rate (%)	85	85	-	85	85	-
Average transaction value (£)	36	34	6%	36	34	6%
Roadside patrols employed	3,479	3,651	(4.7%)	3,479	3,651	(4.7%)
Personal Finance:						
Insurance customers (000):						
Motor	952	959	(0.7%)	952	959	(0.7%)
Home	693	664	4.4%	693	664	4.4%
Overall renewal rate (%)	82	78	4 ppts	82	77	5 ppts
Average annual premium (£)	257	261	(1.5%)	256	259	(1.2%)
Motor & Home Insurance Commissions (£m)	94	93	1.1%	48	49	(2.0%)
Loans (fixed term) book size (£m)	1,043	661	58%	1,043	661	58%
Lending share of JV operating profit (£m)	19	17	12%	10	9	11%
No. of fixed term personal loans (000)	160	123	30%	160	123	30%
AA Service Centres:						
Site numbers	127	129	(1.6%)	127	129	(1.6%)
Average turnover per site (£000)	356	320	11%	166	156	6%
Turnover (£m):						
AA Roadside Services	492	476	3.4%	249	243	2.5%
AA Personal Finance	186	172	8%	101	89	13%
Other AA Services	119	112	6%	58	59	(1.7%)
Total	**797**	**760**	**4.9%**	**408**	**391**	**4.3%**
Operating profit/(loss) (£m)*:						
AA Roadside Services	61	54	13%	35	30	17%
AA Personal Finance	50	47	6%	27	24	13%
Other AA Services	(18)	(28)	36%	(8)	(17)	53%
Total	**93**	**73**	**27%**	**54**	**37**	**46%**
Operating margin (%)						
Total AA	12	10	2 ppts	13	9	4 ppts
AA product holding						
Average AA products per customer (period end)	1.31	1.23	7%	1.31	1.23	7%

One.Tel

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. 37% of the fixed line customer base is now on CPS tariffs with the average revenue per user 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.

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. 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.

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 trial in 2003, in January 2004 we announced the setting-up of a call centre in Bangalore, which will lower One.Tel's cost base.

* including joint ventures and associates, before goodwill amortisation

Customer numbers (period end) (000):	FY 2003	FY 2002	Δ%	H2 2003	H2 2002	Δ%
Fixed line	793	746	6%	793	746	6%
Mobile	73	36	103%	73	36	103%
Other services	218	180	21%	218	180	21%
Total (30 day tolling)	**1,084**	**962**	**13%**	**1,084**	**962**	**13%**
Average minutes used per month (fixed line)	345	284	21%	373	286	30%
ARPU (fixed line) (£)	16.18	16.20	(0.1%)	16.72	16.01	4.4%
ARPU (mobile) (£)	14.44	12.77	13%	15.11	12.77	18%
Average products per customer (period end)	1.29	1.21	7%	1.29	1.21	7%
Turnover (£m)	178	153	16%	94	78	21%
Operating profit/(loss) (£m)*	4	2	100%	4	(3)	n/m
Operating margin (%)	2.2	1.3	0.9 ppts	4.3	(3.8)	8.1 ppts

Centrica North America

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.

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. 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.

* including joint ventures and associates, before goodwill amortisation

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 & 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 area will be a 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 FRS5.

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 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*.

	FY 2003	**FY 2002**	**Δ%**	**H2 2003**	**H2 2002**	**Δ%**
Customer numbers (period end):						
Residential and small commercial gas (000)	1,116	1,339	(17%)	1,116	1,339	(17%)
Residential and small commercial electricity (000)	1,318	1,416	(7%)	1,318	1,416	(7%)
Home & business services (000)	1,690	1,627	3.9%	1,690	1,627	3.9%
Average consumption:						
Residential and small commercial gas (therms)	1,340	1,138	18%	427	537	(21%)
Residential and small commercial electricity (kWh)	16,630	10,666	56%	8,071	8,579	(6%)
Gas production:						
Gas production volumes (m therms)	362	380	(4.7%)	180	184	(2.2%)
Average sales price (p/therm)	19.3	20.1	(4%)	18.7	19.1	(2.1%)
Turnover (£m):						
Residential and small commercial gas	531	486	9%	184	189	(2.6%)
Residential and small commercial electricity	1,144	189	505%	570	158	261%
Home & business services	193	159	21%	99	120	(18%)
Gas production & energy trading (including I&C)	501	284	76%	241	152	59%
Total	**2,369**	**1,118**	**112%**	**1,094**	**619**	**77%**
Operating profit/(loss) (£m)*:						
Residential and small commercial gas	1	16	(94%)	(11)	(5)	(120%)
Residential and small commercial electricity	87	(10)	n/m	47	10	370%
Home & business services	29	23	26%	19	17	12%
Gas production & energy trading (including I&C)	13	34	(62%)	2	16	(88%)
Total	**130**	**63**	**106%**	**57**	**38**	**50%**
Operating margin (%)						
Total North America	5	6	(1 ppt)	5	6	(1 ppt)

* including joint ventures and associates, before goodwill amortisation

Europe

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.

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 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

Summary Group Profit and Loss Account
Year ended 31 December

	Notes	Before goodwill amortisation and exceptional charges 2003 £m	Results for the year 2003 £m	Before goodwill amortisation and exceptional charges 2002 £m	Results for the year 2002 £m
Turnover:					
Continuing operations (excluding Accord energy trading)		**11,612**	**11,612**	9,918	9,918
Accord energy trading		**6,218**	**6,218**	4,304	4,304
Continuing operations	1	**17,830**	**17,830**	14,222	14,222
Discontinued operations	1	**101**	**101**	123	123
Group turnover	1	**17,931**	**17,931**	14,345	14,345
Cost of sales	2	**(14,572)**	**(14,572)**	(11,358)	(11,358)
Gross profit		**3,359**	**3,359**	2,987	2,987
Operating costs before goodwill amortisation	2	**(2,367)**	**(2,367)**	(2,108)	(2,108)
Goodwill amortisation	3	**-**	**(155)**	-	(116)
Group operating profit		**992**	**837**	879	763
Share of profits less losses in joint ventures and associates – continuing operations		**66**	**60**	53	46
Operating profit including joint ventures and associates:					
Continuing operations	1	**1,085**	**935**	972	863
Discontinued operations	1	**(27)**	**(38)**	(40)	(54)
	1	**1,058**	**897**	932	809
Continuing operations:					
Loss on closure of business	3	**-**	**(16)**	-	-
Loss on disposal of business	3	**-**	**-**	-	(14)
Loss on disposal of fixed assets	3	**-**	**-**	-	(14)
Discontinued operations:					
Loss on disposal of business	3	**-**	**(51)**	-	-
	3	**-**	**(67)**	-	(28)
Net interest payable		**(52)**	**(52)**	(62)	(62)
Profit before taxation		**1,006**	**778**	870	719
Taxation	5	**(282)**	**(266)**	(243)	(250)
Profit after taxation		**724**	**512**	627	469
Minority interest (equity and non-equity)		**(10)**	**(12)**	9	9
Profit after taxation and minority interest		**714**	**500**	636	478
Dividends	6		**(229)**		(172)
Retained profit for the year			**271**		306
Dividend per ordinary share	6		**5.4p**		4.0p
Earnings per ordinary share					
Basic	7		**11.8p**		11.4p
Diluted	7		**11.6p**		11.3p
Adjusted Basic	7	**16.8p**		15.2p	

Summary Group Balance Sheet
31 December

	Notes	2003 £m	2002 £m
Fixed assets			
Intangible assets		**1,614**	1,813
Tangible assets		**2,730**	2,763
Investments (including joint ventures)	8	**114**	102
		4,458	4,678
Stocks		**173**	180
Debtors (amounts falling due within one year)		**2,921**	2,692
Debtors (amounts falling due after more than one year)		**117**	134
Cash and current asset investments		**1,026**	348
Borrowings (amounts falling due within one year)		**(298)**	(289)
Creditors (amounts falling due within one year)		**(3,698)**	(3,249)
		241	(184)
Goldfish Bank debtors (amounts falling due within one year)		**-**	781
Goldfish Bank debtors (amounts falling due after more than one year)		**-**	11
Goldfish Bank borrowings (amounts falling due within one year)		**-**	(430)
Goldfish Bank customer deposits (amounts falling due within one year)		**-**	(286)
		-	76
Net current assets/(liabilities)		**241**	(108)
Total assets less current liabilities		**4,699**	4,570
Borrowings due after more than one year		**(781)**	(784)
Creditors due after more than one year		**(104)**	(122)
Provisions for liabilities and charges		**(1,060)**	(1,262)
Net assets		**2,754**	2,402
Shareholders' funds		**2,537**	2,248
Minority interests (equity and non equity)		**217**	154
Capital employed		**2,754**	2,402
Movements in shareholders' funds			
Shareholders' funds at 1 January		**2,248**	1,502
Profit attributable to the group		**500**	478
Dividends		**(229)**	(172)
Issue of shares net of reserves movement on employee share schemes		**13**	444
Shares to be issued under long term incentive scheme		**9**	4
Exchange translation differences		**(4)**	(8)
Shareholders' funds at 31 December		**2,537**	2,248

Statement of Total Recognised Gains and Losses
Year ended 31 December

	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

Summary Group Cash Flow Statement
Year ended 31 December

	Notes	2003 £m	2002 £m
Cash inflow from continuing operating activities	9	**1,293**	722
Cash outflow from discontinued operating activities (i)	9	**(301)**	(5)
Cash inflow from operating activities	9	**992**	717
Dividends received from joint ventures and associates		**28**	57
Returns on investments and servicing of finance	10	**(15)**	(25)
Taxation paid		**(181)**	(192)
Capital expenditure and financial investment	11	**(282)**	(402)
Disposals and acquisitions	12	**292**	(935)
Equity dividends paid		**(182)**	(138)
Cash inflow/(outflow) before use of liquid resources and financing		**652**	(918)
Management of liquid resources		**(669)**	134
Financing	13	**(13)**	747
Net decrease in 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 debt, net of cash and current asset investments

	2003 £m	2002 £m
Debt, net of cash and current asset investments at 1 January	**(1,155)**	(1,043)
Repayment of Goldfish Bank working capital facility	**430**	180
Net increase/(decrease) in liquid resources	**669**	(134)
Net decrease in cash	**(30)**	(37)
Net decrease/(increase) in other debt	**53**	(117)
Exchange adjustments	**(20)**	(4)
Debt, net of cash and current asset investments at 31 December (i)	**(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)

(i) Debt, net of cash and investments, comprised borrowings, bank loans and overdrafts of £1,010 million (2002: £1,397 million) and finance lease obligations of £69 million (2002: £106 million) less cash and current asset investments of £1,026 million (2002: £348 million). Cash and 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. These amounts were not readily available to be used for other purposes within the group.

Notes

1 Segmental analysis including share of profits and losses of joint ventures and associates

Year ended 31 December

	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
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
Centrica Business Services	**1,125**	971	**51**	65	**40**	59
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	**7,081**	5,162	**561**	519	**561**	519
Centrica Storage	**82**	9	**40**	1	**40**	1
The AA	**797**	760	**93**	73	**44**	23
One.Tel	**178**	153	**4**	2	**1**	(4)
Centrica North America	**2,369**	1,118	**130**	63	**50**	24
Other operations	**6**	2	**-**	5	**(6)**	(2)
Continuing operations	**17,830**	14,222	**1,085**	972	**935**	863
Discontinued operations:						
Goldfish Bank	**101**	123	**(27)**	(40)	**(38)**	(54)
	17,931	14,345	**1,058**	932	**897**	809

2 Costs (before goodwill amortisation)
Year ended 31 December

	2003 £m	2002 £m
Cost of sales:		
Continuing operations	**14,529**	11,299
Discontinued operations	**43**	59
	14,572	11,358
Operating Costs:		
Continuing operations	**2,282**	2,004
Discontinued operations	**85**	104
	2,367	2,108

3 Goodwill amortisation and exceptional charges
Year ended 31 December

	2003 £m	2002 £m
Goodwill amortisation:		
Continuing operations	**144**	102
Discontinued operations	**11**	14
	155	116
Goodwill amortisation within joint ventures and associates	**6**	7
	161	123
Non-operating exceptional charges:		
Continuing operations		
Loss on closure of business (i)	**16**	-
Loss on disposal of business	**-**	14
Loss on disposal of fixed assets	**-**	14
	16	28
Discontinued operations		
Loss on disposal of business (ii)	**51**	-
	67	28

3 Goodwill amortisation and exceptional charges (continued)
Year ended 31 December

(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) The loss on disposal of business relates to the sale of the group's interest in the Goldfish credit card and loan business 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 on which a tax credit of £10 million and a minority interest charge of £2 million have been recognised.

4 Earnings before goodwill amortisation and exceptional charges
Year ended 31 December

	2003 £m	2002 £m
Operating profit including joint ventures and associates	**897**	809
Add back goodwill amortisation (note 3)	**161**	123
Operating profit before goodwill amortisation	**1,058**	932
Net interest payable	**(52)**	(62)
Taxation on ordinary activities (before exceptional items)	**(282)**	(243)
Minority interest (before exceptional items)	**(10)**	9
Earnings before goodwill amortisation and exceptional charges	**714**	636

5 Taxation
Year ended 31 December

	2003 £m	2002 £m
Taxation charge before exceptional items	**282**	243
Tax on exceptional items	**(16)**	(2)
Exceptional deferred tax charge	**-**	9
	266	250

The tax credit arising on the exceptional items related to those costs identified as exceptional in note 3.

6 Dividends

A final dividend of 3.7 pence per share (2002: 2.6 pence paid June 2003) will be paid to shareholders in June 2004. An interim dividend of 1.7 pence per share was paid in November 2003 (2002: 1.4 pence per share).

7 Earnings per share

Year ended 31 December

	Earnings £m	**2003 EPS Pence**	Earnings £m	2002 EPS Pence
Earnings – basic	**500**	**11.8**	478	11.4
Goodwill amortisation and exceptional charges	**214**	**5.0**	158	3.8
Earnings – adjusted basic	**714**	**16.8**	636	15.2
Earnings – diluted	**500**	**11.6**	478	11.3
Average number of shares (million) used in the calculation of basic and adjusted basic EPS		**4,235**		4,181
Average number of shares (million) used in the calculation of diluted EPS		**4,296**		4,227

8 Fixed asset investments

31 December

	2003 £m	2002 £m
Joint ventures:		
Share of gross assets	**1,014**	810
Share of gross liabilities	**(920)**	(736)
Other investments	**20**	28
	114	102

The group's share of joint ventures principally comprised its interest in Humber Power Limited (electricity generation), Centrica Personal Finance Limited (AA and British Gas personal loans activities), AA Financial Services (AA credit card activities) and Luminus NV (energy supply).

Share of joint ventures' assets and liabilities
31 December 2003

	Humber Power Limited £m	Centrica Personal Finance Limited £m	AA Financial Services £m	Luminus NV £m	Other £m	**Total £m**
Share of gross assets	314	519	40	126	15	**1,014**
Share of gross liabilities	(292)	(516)	(40)	(66)	(6)	**(920)**
	22	3	-	60	9	**94**
Net debt included in share of gross assets and share of gross liabilities	(236)	(506)	(39)	(5)	(2)	**(788)**

9 Reconciliation of group operating profit to operating cash flow
Year ended 31 December

	2003 **£m**	2002 £m
Continuing operations		
Group operating profit	**875**	817
Add back:		
Goodwill amortisation	**144**	102
Depreciation and impairment	**394**	382
Shares issued to fund share incentive plan	**2**	-
Amortisation of investments	**5**	7
Profit on sale of investments	**(8)**	(12)
Profit on sale of fixed assets	**(3)**	(6)
Provisions	**(150)**	(177)
Decrease/(increase) in working capital	**34**	(375)
Operating cash flow before exceptional payments:		
Continuing operations	**1,293**	738
Payments relating to exceptional charges	**-**	(16)
Cash inflow from continuing operations after exceptional payments	**1,293**	722
Discontinued operations		
Operating loss	**(38)**	(54)
Add back:		
Goodwill amortisation	**11**	14
Depreciation and impairment	**11**	8
Provisions	**(3)**	16
(Increase)/decrease in working capital	**(282)**	11
Cash outflow from discontinued operations	**(301)**	(5)
Cash inflow from operating activities after exceptional payments	**992**	717

10 Returns on investments and servicing of finance

Year ended 31 December

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

11 Capital expenditure and financial investment

Year ended 31 December

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

12 Disposals and acquisitions

Year ended 31 December

	2003 £m	2002 £m
Acquisitions:		
Subsidiary undertakings and businesses	**(77)**	(1,107)
Joint ventures and associates	**(10)**	(4)
Deferred consideration	**(30)**	(70)
Total cash payments	**(117)**	(1,181)
Cash acquired	**-**	222
Overdraft acquired	**-**	(30)
Disposals:		
Receipt on disposal of Goldfish credit card and loan business	**1,095**	-
Repayment of Goldfish Bank working capital facility	**(701)**	-
Proceeds from other disposals	**15**	54
	292	(935)

13 Financing

Year ended 31 December

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

14 Pensions

These statements have been prepared under SSAP 24. The group's main pension schemes are subject to independent actuarial valuations for SSAP 24 purposes at least every three years. The date of the most recent actuarial valuation was 31 March 2001. The total pension and other retirement benefit costs arising in the year and the reconciliation to the balance sheet provision were as follows:

	2003 £m	2002 £m
Pension and other retirement benefits provision at 1 January	**75**	116
Profit and loss charge (net of amortisation of surplus £21m; 2002: £21m)	**79**	68
Acquisition of surplus in year	**-**	(2)
Employer contributions paid	**(124)**	(107)
Pension and other retirement benefits provision at 31 December	**30**	75

Set out below is indicative information on changes in net assets which would arise from valuation of the pension scheme assets and liabilities in accordance with FRS 17.

The major assumptions used for the actuarial valuation were:

	2003 %	2002 %
Rate of increase in employee earnings	**4.25**	4.3
Rate of increase in pensions in payment	**2.75**	2.3
Discount rate	**5.5**	5.75
Inflation	**2.75**	2.3

14 Pensions (continued)

On this basis, the market value of the assets in the schemes and the present value of the liabilities in the schemes were:

	2003 £m	2002 £m
Total fair value of assets	**2,359**	1,882
Present value of schemes' liabilities	**(3,430)**	(2,713)
Deficit in the schemes	**(1,071)**	(831)
Related deferred tax asset	**321**	249
Net pension liability	**(750)**	(582)

Under SSAP24 the group balance sheet includes a provision of £30 million at 31 December 2003 (2002: £75 million). Had FRS17 been implemented in full at that date, the net assets of the group would have been reduced by £720 million (2002: £507 million).

Had FRS17 been implemented in full for the year, the charge for pension costs in the profit and loss account would have increased by £71 million (2002: £47 million) compared with that under SSAP24 as set out below:

	FRS 17 2003 £m	**SSAP 24 2003 £m**	**Increase 2003 £m**
Amount charged to operating profit	138	79	59
Amount charged to interest	12	-	12
Charge to profit and loss account	150	79	71

15 Basis of preparation

The preliminary results for the year ended 31 December 2003 are unaudited. The financial information set out in this announcement does not constitute the company's statutory accounts for the year ended 31 December 2003 or 31 December 2002. The financial information for the year ended 31 December 2002 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under either Section 237 (2) or Section 237 (3) of the Companies Act 1985. The audit report on the statutory accounts for the year ended 31 December 2003 has not yet been signed. These accounts will be finalised and delivered to the Registrar of Companies in due course.

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 1 and are reconciled at group level in the group profit and loss account, with descriptions of the exceptional items in note 3. Adjusted earnings and adjusted basic earnings per share are reconciled to their statutory equivalents in note 7.

16 Comparative figures

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

Debtor balances relating to energy derivatives held for trading in 2002 of £94 million have been reclassified from creditors to debtors.

Summary Group Profit and Loss Account
Six months ended 31 December

	Notes	**Before goodwill amortisation and exceptional charges 2003 £m**	**Results for the period 2003 £m**	Before goodwill amortisation and exceptional charges 2002 £m	Results for the period 2002 £m
Turnover:					
Continuing operations (excluding Accord energy trading)		**5,451**	**5,451**	4,793	4,793
Accord energy trading		**3,097**	**3,097**	2,353	2,353
Continuing operations	a	**8,548**	**8,548**	7,146	7,146
Discontinued operations	a	**38**	**38**	64	64
Group turnover	a	**8,586**	**8,586**	7,210	7,210
Cost of sales	b	**(7,075)**	**(7,075)**	(5,815)	(5,815)
Gross profit		**1,511**	**1,511**	1,395	1,395
Operating costs before goodwill amortisation	b	**(1,186)**	**(1,186)**	(1,115)	(1,115)
Goodwill amortisation	c	**-**	**(70)**	-	(63)
Group operating profit		**325**	**255**	280	217
Share of profits less losses in joint ventures and associates – continuing operations		**39**	**37**	25	21
Operating profit including joint ventures and associates:					
Continuing operations	a	**361**	**293**	328	268
Discontinued operations	a	**3**	**(1)**	(23)	(30)
	a	**364**	**292**	305	238
Continuing operations:					
Loss on closure of business	c	**-**	**(16)**	-	-
Loss on disposal of business	c	**-**	**-**	-	(14)
Loss on disposal of fixed assets	c	**-**	**-**	-	(14)
Discontinued operations:					
Loss on a disposal of business	c	**-**	**(51)**	-	-
	c	**-**	**(67)**	-	(28)
Net interest payable		**(23)**	**(23)**	(33)	(33)
Profit before taxation		**341**	**202**	272	177
Taxation		**(96)**	**(80)**	(75)	(57)
Profit after taxation		**245**	**122**	197	120
Minority interest (equity and non equity)		**(10)**	**(12)**	8	8
Profit after taxation and minority interest		**235**	**110**	205	128
Dividends			**(156)**		(110)
Retained profit for the period			**(46)**		18
Earnings per ordinary share					
Basic	e		**2.6p**		3.0p
Diluted	e		**2.5p**		3.0p
Adjusted Basic	e	**5.5p**		4.8p	

Statement of Total Recognised Gains and Losses
Six months ended 31 December

	2003 £m	2002 £m
Profit for the period	**110**	128
Exchange translation differences	**(4)**	(8)
Total recognised gains and losses for the period	**106**	120

Summary Group Cash Flow Statement
Six months ended 31 December

	Notes	**2003 £m**	2002 £m
Cash inflow from continuing operating activities	f	**539**	426
Cash outflow from discontinued operating activities	f	**(277)**	(39)
Cash inflow from operating activities	f	**262**	387
Dividends received from joint ventures and associates		**25**	44
Returns on investments and servicing of finance	g	**(15)**	(16)
Taxation paid		**(114)**	(134)
Capital expenditure and financial investment	h	**(190)**	(248)
Disposals and acquisitions	i	**358**	(424)
Equity dividends paid		**(72)**	(59)
Cash inflow/(outflow) before use of liquid resources and financing		**254**	(450)
Management of liquid resources		**(258)**	65
Financing	j	**(47)**	465
Net (decrease)/increase in cash		**(51)**	80

Reconciliation of debt, net of cash and current asset investments

	2003 £m	2002 £m
Debt, net of cash and current asset investments at 1 July	**(553)**	(1,081)
Repayment of Goldfish Bank working capital facility	**234**	186
Net increase/(decrease) in liquid resources	**258**	(65)
Net (decrease)/increase in cash	**(51)**	80
Net decrease/(increase) in other debt	**54**	(280)
Exchange adjustments	**5**	5
Debt, net of cash and current asset investments at 31 December	**(53)**	(1,155)

Notes

a Segmental analysis including share of profits and losses of joint ventures and associates

Six months ended 31 December

	Turnover		Operating profit/(loss) before goodwill amortisation		Operating profit/(loss) after goodwill amortisation	
	2003	2002	**2003**	2002	**2003**	2002
	£m	£m	**£m**	£m	**£m**	£m
Residential Energy	**2,421**	2,335	**(33)**	21	**(33)**	21
Home Services	**436**	422	**43**	39	**43**	39
British Gas Communications	**30**	26	**(4)**	(9)	**(4)**	(9)
British Gas Residential	**2,887**	2,783	**6**	51	**6**	51
Centrica Business Services	**550**	497	**8**	25	**1**	20
Industrial sales and wholesaling	**349**	383	**2**	41	**2**	41
Gas production	**24**	33	**198**	157	**198**	157
Accord energy trading	**3,097**	2,353	**4**	(15)	**4**	(15)
Centrica energy management group	**3,470**	2,769	**204**	183	**204**	183
Centrica Storage	**41**	9	**24**	1	**24**	1
The AA	**408**	391	**54**	37	**30**	13
One.Tel	**94**	78	**4**	(3)	**3**	(7)
Centrica North America	**1,094**	619	**57**	38	**23**	15
Other operations	**4**	-	**4**	(4)	**2**	(8)
Continuing operations	**8,548**	7,146	**361**	328	**293**	268
Discontinued operations:						
Goldfish Bank	**38**	64	**3**	(23)	**(1)**	(30)
	8,586	7,210	**364**	305	**292**	238

b Costs (before goodwill amortisation)

Six months ended 31 December

	2003 £m	2002 £m
Cost of sales:		
Continuing operations	**7,061**	5,770
Discontinued operations	**14**	45
	7,075	5,815
Operating Costs:		
Continuing operations	**1,127**	1,073
Discontinued operations	**59**	42
	1,186	1,115

c Goodwill amortisation and exceptional charges

Six months ended 31 December

	2003 £m	2002 £m
Goodwill amortisation:		
Continuing operations	**66**	56
Discontinued operations	**4**	7
	70	63
Goodwill amortisation within joint ventures and associates	**2**	4
	72	67
Non-operating exceptional charges:		
Continuing operations		
Loss on closure of business	**16**	-
Loss on disposal of business	**-**	14
Loss on disposal of fixed assets	**-**	14
	16	28
Discontinued operations		
Loss on disposal of business	**51**	-
	67	28

d Earnings before goodwill amortisation and exceptional charges
Six months ended 31 December

	2003 £m	2002 £m
Operating profit including joint ventures and associates	**292**	238
Add back goodwill amortisation (note c)	**72**	67
Operating profit before goodwill amortisation	**364**	305
Net interest payable	**(23)**	(33)
Taxation on ordinary activities (before exceptional items)	**(96)**	(75)
Minority interest (before exceptional items)	**(10)**	8
Earnings before goodwill amortisation and exceptional charges	**235**	205

e Earnings per share
Six months ended 31 December

	Earnings £m	**2003 EPS Pence**	Earnings £m	2002 EPS Pence
Earnings – basic	**110**	**2.6**	128	3.0
Goodwill amortisation and exceptional charges	**125**	**2.9**	77	1.8
Earnings – adjusted basic	**235**	**5.5**	205	4.8
Earnings – diluted	**110**	**2.5**	128	3.0

f Reconciliation of group operating profit to operating cash flow
Six months ended 31 December

	2003 £m	2002 £m
Continuing operations		
Group operating profit	**256**	247
Add back:		
Goodwill amortisation	**66**	56
Depreciation and impairment	**182**	184
Shares issued to fund share incentive plan	**2**	-
Amortisation of investments	**1**	7
Profit on sale of fixed assets	**(3)**	(5)
Provisions	**(183)**	38
Decrease/(increase) in working capital	**218**	(101)
Cash inflow from continuing operations	**539**	426
Discontinued operations		
Operating loss	**(1)**	(30)
Add back:		
Goodwill amortisation	**4**	7
Depreciation and impairment	**4**	3
Provisions	**-**	16
Increase in working capital	**(284)**	(35)
Cash outflow from discontinued operations	**(277)**	(39)
Cash inflow from operating activities	**262**	387

g Returns on investments and servicing of finance
Six months ended 31 December

	2003 £m	2002 £m
Interest received	**34**	19
Interest paid	**(45)**	(28)
Interest element of finance lease rental payments	**(4)**	(7)
	(15)	(16)

h Capital expenditure and financial investment
Six months ended 31 December

	2003 £m	2002 £m
Purchase of tangible fixed assets	**(211)**	(290)
Sale of tangible fixed assets	**19**	27
Loans to joint ventures repaid	**2**	15
	(190)	(248)

i Disposals and acquisition
Six months ended 31 December

	2003 £m	2002 £m
Acquisitions:		
Subsidiary undertakings and businesses	**(37)**	(617)
Joint ventures and associates	**(1)**	(4)
Deferred consideration	**(4)**	(37)
Total cash payments	**(42)**	(658)
Cash acquired	**-**	222
Overdraft acquired	**-**	(30)
Disposals:		
Receipt on disposal of Goldfish credit card and loan business	**1,095**	-
Repayment of Goldfish Bank working capital facility	**(701)**	-
Proceeds from other disposals	**6**	42
	358	(424)

j Financing

Six months ended 31 December

	2003 £m	2002 £m
Commercial paper:		
Issued	**(32)**	-
Repaid	**-**	72
Capital element of finance lease rentals	**(19)**	(17)
Bonds issued	**(3)**	221
Realised net foreign exchange gain	**11**	57
Investment by equity and non-equity minority shareholders	**(4)**	123
Issue of ordinary share capital	**-**	9
	(47)	465

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Financial Calendar

Ex-dividend date for 2003 final dividend	28th April 2004
Record date for 2003 final dividend	30th April 2004
Annual General Meeting	10th May 2004
2003 final dividend payment date	16th June 2004
2004 interim results announcement	29th July 2004

Websites

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www.directenergy.com
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