Centrica plc

Preliminary results for the year ended 31 December 2006

Financial overview:

- Turnover^ up 22% at £16.5bn
- Operating profit*^ down by 5% to £1,442m
- Earnings*^ up 8% to £715m due to lower Group tax rate
- Exceptional charge of £331m
- Adjusted basic earnings per share up 7% to 19.4p
- Recommended final dividend of 8.0p/share, full year dividend of 11.15p/share, up 6%

Operating overview:

- Solid Group performance in a volatile market place
- British Gas Residential returned to profit* in the second half, but lost 1,029,000 customer accounts
- British Gas Residential announced plans to reduce customer prices by 17% in gas and 11% in electricity effective in March 2007
- British Gas Business turnover up 53% - operating profits* up 13%
- British Gas Services improved customer service levels through the year
- Rough field restored to full operation - Centrica Storage operating profits* up 48%
- North American turnover up 15% to £4.1bn - operating profits* up 21%
- Exceptional charge taken for systems write-down and restructuring

"Financially the business performed well in a difficult year. While good progress is being made there is further work to be done to improve the British Gas service levels, reduce our cost base and develop our services, energy efficiency and international businesses."

Sam Laidlaw, Chief Executive

Statutory results:

The statutory results include exceptional items and certain re-measurements which are explained in the Group financial summary and disclosed in note 3.

- Operating profit^ £180m, after net exceptional charges of £331m and net charges relating to certain re-measurements of £931m (2005: Operating profit of £1,957m after net exceptional charges of £11m and net credits relating to certain re-measurements of £455m).
- Loss from continuing and discontinued operations of £155m, after net exceptional charges from continuing operations of £331m, net charges relating to certain re-measurements of £931m, interest credits of £37m and associated tax credits of £363m (2005: Earnings of £1,012m, after net exceptional charges from continuing operations of £11m, exceptional credits from discontinued operations of £34m, net credits relating to certain re-measurements of £455m, and associated tax charge of £138m).
- Basic loss per ordinary share 4.3p (2005: Basic earnings per ordinary share 27.4p).

* including joint ventures and associates net of interest and taxation, and before exceptional items and certain re-measurements
^ from continuing operations

Chairman's Statement

Performance review

We achieved good underlying financial performance despite the particularly challenging circumstances which prevailed throughout the year.

In the winter of 2005/06 gas shortages in the UK and increasing world-wide demand for energy drove wholesale prices to record levels necessitating price increases to many of our customers. The management team worked hard to minimise the effect of these increases by containing operating costs and developing innovative products designed to protect customers and preserve loyalty in increasingly competitive markets.

Regrettably, despite these actions, we lost 1 million residential energy accounts during the year. British Gas Residential returned to profit* by the end of the year which, together with continued good delivery in gas production, strong growth in North America and the lower tax charge, enabled the Group overall to deliver sound earnings* growth.

The high commodity prices in the first half of the year held up the price of assets and the Board continued to exercise financial discipline and invest only in additional sources of supply where returns met our rigorous financial hurdles.

In the latter part of the year, there was a fundamental change in the UK energy market. New gas supply pipelines from Norway and Holland, whose construction was made possible by long-term contracts entered into by British Gas, came on stream at a time when the country was experiencing the warmest autumn since records began. This change in the balance of supply and demand, combined with a fall in global oil prices, reversed previous wholesale gas price trends. This enabled British Gas to announce price reductions from March 2007 when a portion of the more expensive gas supplies to which we are already committed will be exhausted. Looking forward, it is our intention to strike a fair balance between lower prices and sustainable profits* in order to reward both our customers and shareholders.

Returns to shareholders

The Board is proposing a final dividend of 8.0 pence (2005: 7.4 pence) for payment in June 2007 bringing our full-year dividend to 11.15 pence (2005: 10.5 pence). This represents a 6% year-on-year increase, in line with our policy and commitment to real growth in the ordinary dividend. As we become more confident in the sustainability of more benign market conditions, we will be able to consider the reinstatement of our share buyback programme should surplus funds permit.

Board changes

Sir Roy Gardner retired at the end of June. We are grateful to him for his material contribution and commitment, having led Centrica through a decade of considerable change.

In July, Sam Laidlaw was appointed Chief Executive of the Company bringing with him considerable experience in managing and developing large scale international energy businesses. Since taking up the appointment he has made real progress in developing the long-term vision for the Group and in sharpening the immediate focus on improving the current performance and efficiency of the organisation.

Mark Clare left the Company in the summer to take up an appointment outside the industry, having made an important contribution to the Group both as Finance Director and, more recently, Managing Director of British Gas Residential. Patricia Mann OBE retired from the Group after nine years valuable service on the Board and her role of Senior Non-executive Director was assumed by Mary Francis CBE. Sadly Patricia died later in the year having bravely fought a long-term illness.

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

Phil Bentley who has ably served as Finance Director and Managing Director, Europe will move to the role of Managing Director, British Gas following the appointment of Nick Luff as Group Finance Director. Nick brings with him significant commercial experience. Jake Ulrich has taken on responsibility for the continental European operations.

At the beginning of the year we established a main Board committee to lead our corporate responsibility strategy. This is chaired by Mary Francis CBE and includes the managing directors of each business unit.

I am confident that this new team will bring renewed vigour and commitment to the successful development of Centrica in the years ahead.

Our employees

Our employees worked particularly hard throughout 2006 as they responded to the unusually demanding environment. External pressures arising from turbulence in the energy market were magnified by the degree of change in systems, working practices, organisation and management within the Company and I thank them all for their loyalty, hard work and dedication. The upstream team once again made a material contribution to our financial performance and demonstrated their absolute professionalism in both the operation of our offshore facilities and the rapid recovery of our Rough storage platform following a fire earlier in the year.

Tragically the risks of working offshore were again made evident when six people, four of them Centrica employees, were killed in a helicopter accident in Morecambe Bay at Christmas with a seventh person still missing, presumed dead. Our thoughts and deepest sympathies are with their families and our thanks go to all the employees who continue to help fulfil the UK's energy needs under arduous and challenging conditions.

The future

We are entering 2007 under new leadership but with continued commitment to the twin goals of customer service and shareholder value creation. Lower wholesale energy prices have provided us with the opportunity to reduce retail prices and we expect the completion of new systems to help to address the service levels. We will also continue our search for cost-effective supply sources to rebalance our market exposure and sharpen our competitive edge.

Our investment programme will be driven by value and our cost structure will be the focus of continued stringent appraisal. Innovation will be key to our marketing effort and the application of our skills and service network to meet the growing consumer demand for energy efficiency will be at the heart of our endeavours. I look forward to 2007 with confidence in both our business model and the management team.

Roger Carr

Chairman 22 February 2007

Earnings and operating profit numbers are stated, throughout the commentary, before exceptional items and certain re-measurements where applicable – see note 1 for definitions. The Directors believe this measure assists with better understanding the underlying performance of the Group. The equivalent amounts after exceptional items and certain re-measurements are reflected in note 2 and are reconciled at Group level in the Group Income Statement. Certain re-measurements and exceptional items are described 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 12 months ended 31 December 2006. All references to 'the prior-period', 'the prior-year', '2005' and 'last year' mean the 12 months ended 31 December 2005 unless otherwise specified.

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Chief Executive's Review

Overview of 2006

Against a backdrop of unprecedented volatility Centrica produced a solid set of financial results. During the year the UK experienced large fluctuations in wholesale gas costs, particularly in the first quarter when cold weather and fear of shortages pushed the wholesale gas price to 250 pence per therm (p/therm). The six main energy suppliers struggled to keep up with this rate of rise in commodity costs and implemented 13 separate tariff increases during the first 10 months of the year. Supply fears subsided in the second half of the year as good progress was made with the construction of the Langeled and BBL pipelines, both of which were underpinned by British Gas contracts, and wholesale gas prices started to fall.

The high wholesale prices in the first half of the year materially impacted the supply businesses. British Gas Residential made a significant loss* in the first six months of the year and stubbornly high forward wholesale prices forced us to follow other suppliers in increasing retail prices for a second time in September. The quantity and magnitude of tariff increases across all suppliers hit consumer sentiment and resulted in high levels of customer switching. Despite continuing to launch innovative products, including the very successful 'Fix and Fall' offering, British Gas lost 1,029,000 energy accounts during the year. The tariff increase in September returned the business to profit* in the second half of the year. Once the outlook for wholesale prices became clearer British Gas took the lead in announcing a price reduction to residential customers of 17% in gas and 11% in electricity, effective from 12 March 2007.

British Gas Business delivered further customer growth and record profits* despite the extremely challenging commodity environment in the first half of the year.

British Gas Services suffered a difficult start to the year due to the exceptionally cold weather driving higher call outs. However the business finished the year strongly as the changes we made to systems, management and processes improved both operational and service measures.

Operationally the gas production business performed well but production volumes were restricted by maintenance work during an extended summer outage at the South Morecambe field and management's decision not to produce from the field for a large portion of the second half as a result of falling wholesale prices and weak demand due to the unusually warm weather. This fall in prices at the end of the year greatly improved the ongoing position of the industrial and commercial legacy contracts which were significantly loss–making* overall during the year.

Centrica Storage had a challenging year. In February 2006 a catastrophic failure and fire at the Rough storage field halted operations. However an exceptional effort by the team delivered reliable injection in time to refill the field before the start of the winter production season enabling the asset to deliver another strong financial result.

In North America, Direct Energy had another year of record figures with turnover up 15% primarily due to strong growth in business markets and Texas. The Texas operation performed particularly well, providing a large portion of the 21% overall increase in North American profit*. This was due particularly to improved results in both the organic business, as it gained scale, and the incumbent business, as the competitive market structure, combined with our effective procurement, enabled us to implement proactive discounted price offerings to customers. Despite this strong overall growth, as part of a continual review of the efficiency of the business, decisive action was taken to reduce costs. This resulted in 450 job losses during the year, 9% of the total, primarily in Canada and in US home services.

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The European business made considerable progress as, overall, it moved firmly into profit*. However the ongoing negotiations between major companies in France, Spain and Holland provided evidence of continued support within European Union member states for consolidation and the formation of national champions ahead of the existence of full competition.

The year ended on a tragic note with a helicopter accident in the Morecambe Bay area which claimed the lives of six people, four of them long-standing and highly committed Centrica employees with a seventh person still missing, presumed dead. Our thoughts are with all of their families and friends. Centrica regards safety as a top priority, and is committed to providing a healthy and safe environment for employees and the communities which it touches. We have a range of appropriate controls in place and these are subject to regular review by the Board.

Business outlook

Since taking over from Sir Roy Gardner as the Chief Executive of Centrica in July of 2006, I have spent a large part of my first six months assessing the strengths and weaknesses of the business and the priorities going forward. My initial observations are that the core businesses remain strong and we are in an enviable position in most of our chosen markets, with good growth being achieved internationally, particularly in North America. In addition, after a difficult few years, the wholesale pricing environment is starting to improve. However it is clear that the returns in our residential business in the UK have been low and that we have proven to be overly exposed to the rapidly rising wholesale cost of the commodities which we supply to our customers. We have also suffered dual running costs and delivered less than satisfactory customer service as we have moved to a new billing platform in British Gas, the efficacy and robustness of which is still in the proving stage.

We will now seek to build on our strengths, remove the weaknesses and overcome the challenges. To do this I have set out some clear priorities for the Company:

- Transform British Gas
- Sharpen up the organisation and reduce costs
- Reduce risk through increased integration
- Build on our multiple growth platforms

We made some progress on this agenda during the second half of the year. The price increase in British Gas Residential announced in July was followed later in the year by a softening in wholesale gas and power prices; this has returned this business to profit* and allowed us to be the first company to offer customers a price reduction, announced in February. We also launched our Essentials Tariff to provide protection to our most vulnerable customers. The service levels in our British Gas Services business have shown a significant improvement and our attention is now firmly focussed on service levels in the residential business.

We carried out an initial review of the costs and processes in our business. As a result we took an exceptional non-cash charge of £196 million which reflects the write-down of our IT systems. We also took an exceptional cash charge of £87 million for the initial restructure of parts of the corporate centre, British Gas Residential and British Gas Services resulting in around 1,550 job losses. Together these charges reduce ongoing costs with around £50 million saved in 2007.

Our progress to date leaves me optimistic for 2007. We will continue to review the structure of our business and put in place internal operational metrics which will identify and drive further efficiencies. British Gas Residential is on track to return to a more sustainable operating

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margin* and to arrest the decline in customer numbers assisted by the price reduction, improving customer service and ongoing innovation in our product offerings.

We are also focusing firmly on the priority of reducing the exposure to short-term movements in the wholesale gas price. We continue to expect this to be achieved through a mixture of upstream asset acquisitions and contractual arrangements. We will leverage Centrica's unique market position on both sides of the Atlantic to secure liquefied natural gas for our customers and offer security of demand for producers.

In Centrica Energy we expect gas production levels to be broadly flat on 2006. We renegotiated the terms of the inter-company sales contracts on the South and North Morecambe gas fields, with the agreement of HM Revenue and Customs, to establish a direct link to month-ahead gas prices. We will also commission the Maria, Thurne and Davy East fields. The industrial and commercial contracts are forecast to become profitable* as a result of lower wholesale prices.

We expect to see further growth in British Gas Business which is also benefiting from the fall in wholesale prices and is retaining strong customer renewal and loyalty levels. In British Gas Services we expect the investment we have made in new systems, management and processes to deliver significantly improved financial performance in 2007. In North America we expect to continue to grow both revenue and profit*, with further load growth in business markets focussed primarily in the North Eastern United States and increased profit* contribution from our energy wholesale and trading activities.

Further expansion in continental Europe remains an important element of our growth plans. However while welcoming the conclusions of the European Commission's Energy Review, that market mechanisms need to be put in place to encourage greater competition, we remain cautious about the potential for making further material inroads in the short term.

The recent publication of the Stern report was significant in the development of climate change policy in the UK. Climate change is probably the most significant environmental issue facing current and future generations. Accordingly, there is clear evidence that slowing or stabilising global warming is taking on greater importance for governments, companies and consumers alike. While Centrica already has the lowest carbon intensity profile of the major UK power suppliers we will continue to expand our investments in the area of renewable energy and promote the use of energy efficient technology by consumers. We will also capitalise on our unique expertise and capability to deliver energy efficiency advice, services and products to both our business and residential customers.

I expect 2007 to be an important year in Centrica's development. Although some of our priorities will take longer to deliver fully, I anticipate making real progress during this year and delivering a step up in the performance of the business.

Sam Laidlaw

Chief Executive 22 February 2007

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Group Financial Summary

Group turnover from continuing operations was up 22% at £16.5 billion (2005: £13.4 billion). The increase was driven primarily by organic growth in the North American business markets and the residential business in Texas and price increases in British Gas Residential and British Gas Business.

Group operating profit* from continuing operations was down 5% at £1,442 million (2005: £1,513 million), with the strong growth in Centrica Storage and North America being more than offset by reduced profits* in gas production on lower volumes. The results include £20 million non-recurring profit* relating to the valuation of the Group's pension schemes due to the effect of new pension legislation, introduced by the Finance Act from April 2006, upon the increased estimate of future amounts of pension commuted for a lump sum.

Group earnings* on a continuing basis were up by 8% to £715 million (2005: £661 million). The lower operating profits* were more than offset by the reduction in the group tax rate to 43% (2005: 52%) due to the lower contribution from high tax rate upstream gas production. The statutory loss for the year was £155 million. The reconciling items between Group earnings* and the statutory loss are exceptional items and certain re-measurements that are explained below.

Group operating cashflow before working capital adjustments was up from £1,936 million to £1,965 million but after working capital adjustments, operational interest, tax, exceptional charge and discontinued items was down 36% at £737 million (2005: £1,144 million) primarily due to the working capital investment required by significant movements in the wholesale prices. The net cash outflow from investing activities increased to £720 million (2005: £529 million), 36% higher than last year due to the receipt in 2005 of £184 million of disposal proceeds relating to the sale of British Gas Connections and Onetel. The net cash outflow from financing activities increased to £597 million (2005: £335 million), an increase of 78% on 2005, due mainly to a net increase in debt of £623 million in 2005, partially offset by the suspension of the share repurchase programme, announced in February 2006, resulting in a reduction in year-on-year cash outflow of £365 million.

The Group's net recourse debt level at 31 December 2006 was £1,527 million (2005: £1,060 million). This was up on 2005 due primarily to the increased working capital requirement. This debt includes £808 million of finance lease commitments on the Humber and Spalding power stations. Net interest payable was £183 million (2005: £145 million) and was covered seven times by operating profit* (2005: ten times).

Net assets decreased by 33% to £1,642 million (2005: £2,442 million). This is primarily due to the movement in our derivative financial instruments which are marked-to-market, from an asset of £0.6 billion at the end of 2005 to a liability of £1.2 billion at the end of 2006. This resulted in a charge of £931 million (including joint ventures) arising on the net mark-to-market movement on our energy procurement activities recognised as certain re-measurements in the Income Statement, and a charge to reserves of £939 million, where certain contracts have achieved hedge accounting under IAS 39. After the related deferred tax credits, these movements account for a total reduction in net assets of £1.2 billion. Exceptional charges account for a further decrease in net assets of £238 million after tax. These are partially offset by a post-tax actuarial gain on our pension liability of £332 million.

Exceptionals

There is a pre-tax exceptional charge for the year of £331 million (post tax £238 million). There are three elements. Firstly, there is a non-cash charge of £196 million relating to the write-down of systems assets following a review of existing and required future functionality within the more

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focussed Group. This will result in a reduction of £31 million in the 2007 amortisation charge. We also took an £87 million exceptional cash charge mainly relating to the streamlining of the British Gas Residential back-office, the planned closure of the British Gas headquarters building at Stockley Park, a restructuring of the British Gas Services team and a further streamlining of the Group corporate structure including the outsourcing of parts of finance and HR, resulting in around 1,550 job losses. This will deliver benefits of £20 million in 2007 and approximately £39 million in 2008. Finally there is an exceptional cash cost of £48 million relating to the Rough incident in February. Tax credits of £93 million have been recognised in respect of these costs.

Certain re-measurements

In our business we enter into a portfolio of forward energy contracts which include buying substantial quantities of commodity to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair-valued under IAS 39. Fair valuing means that we apply the prevailing forward market prices to these contracts. The group has shown the fair value adjustments separately as certain re-measurements as they are unrealised and non-cash in nature. The profits* arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements.

The statutory results include charges to operating profit relating to these re-measurements of £931 million (2005: net credit of £455 million), primarily from marking-to-market some contracts relating to our energy procurement activities. As gas and power were delivered under these contracts, the net in-the-money mark-to-market positions were unwound generating a net charge to the Income Statement in the period of £287 million (2005: net credit of £140 million). As the forward prices reduced in 2006 the portfolio of contracts fair valued under IAS 39 reported a net loss on revaluation of £638 million (2005: credit of £298 million). The remaining £6 million (2005: credit of £17 million) reflects the proprietary trading positions relating to cross border capacity and storage contracts. The £37 million (2005: £nil) credit to interest income relates to the re-measurement of the publicly traded Units of The Consumers' Waterheater Income Fund.

British Gas Residential

This year saw commodity prices again reach record highs with demand weighted wholesale market gas and electricity up by 42% and 32% respectively on the previous year to 57.10p/therm and £47.13/MWh. This not only meant that the business made a loss* in the first half of the year but forced tariff increases across the industry.

These price increases resulted in an overall rise in customer churn. At the end of December we had 16.0 million energy accounts, a net loss of 1,029,000 accounts year-on-year. The effect of churn on our business was reduced by the launch of innovative product offerings, such as the 2009 fixed price product and Fix and Fall, which helped to maintain sales at around 60,000 per week.

Turnover increased by 18% to £7.1 billion (2005: £6.0 billion) due to price increases in March and September of 2006 and the full-year effect of the September 2005 price rise, partially offset by lower customer numbers and reduced consumption due mainly to an unseasonably warm autumn.

In the year we incurred a charge of £175 million (2005: £85 million) for our share of the imbalance costs of the national network. We believe that certain industry processes systematically disadvantage British Gas and we are working with the regulator to make sure that gas costs are more fairly allocated across the entire industry.

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Overall gross margin* increased by £59 million as the increase in turnover more than offset the higher commodity costs and the increase in transportation and distribution charges per customer.

Operating costs increased to £1,029 million (2005: £974 million) as underlying cost reductions were more than offset by training and backfilling costs associated with the migration of customers to the new billing system, increased bad debt costs and the cost of implementing two price rises during the year.

Operating profit* for the year increased by 6% to £95 million (2005: £90 million) as operating margins* recovered strongly in the second half.

We transferred 95% of our customer accounts onto our new billing system by the end of the year. We expect to have transferred all customers by the end of March 2007. The increase in calls around the times of the tariff increases, coupled with the ongoing system changes, meant that customer service levels dropped in the middle of the year. In the second half of the year we increased front-line staff by 800 to improve customer service.

We took a pre-tax exceptional cash charge of £36 million for restructuring the operation and the planned closure of the British Gas Residential headquarters building. These result in a benefit of £7 million in 2007 and around £16 million thereafter. We also took a pre-tax exceptional non-cash charge for systems write-down of £178 million, resulting in reduced amortisation charges, with around £28 million expected in 2007.

For the period ended 31 December	**FY 2006**	FY 2005	Δ%	**H2 2006**	H2 2005	Δ%
Customer numbers (period end):						
Residential gas ('000)	10,263	11,131	(8)	10,263	11,131	(8)
Residential electricity ('000)	5,759	5,920	(2.7)	5,759	5,920	(2.7)
Total ('000)	16,022	17,051	(6)	16,022	17,051	(6)
Estimated market share (%):						
Residential gas	49	54	(4.5)ppts	49	54	(4.5)ppts
Residential electricity	22	23	(0.8)ppts	22	23	(0.8)ppts
Average consumption:						
Residential gas (therms)	569	597	(4.7)	205	244	(16)
Residential electricity (kWh)	4,069	4,146	(1.9)	1,938	2,097	(8)
Weighted average sales price:						
Residential gas (p/therm)	78.66	61.16	29	90.06	66.43	36
Residential electricity (£/MWh)	95.63	75.36	27	100.04	78.80	27
Transportation & distribution costs (£m):						
Residential gas	1,110	1,146	(3.1)	472	528	(11)
Residential electricity	511	493	3.7	257	261	(1.5)
Total	1,621	1,639	(1.1)	729	789	(8)
Operating costs (£m):						
British Gas Residential	1,029	974	6	540	480	13
Turnover (£m):						
Residential gas	4,832	4,196	15	1,948	1,841	6
Residential electricity	2,280	1,836	24	1,126	972	16
Total	**7,112**	**6,032**	**18**	**3,074**	**2,813**	**9**
Operating profit/(loss) (£m)*						
British Gas Residential	**95**	**90**	**6**	**238**	(75)	**n/m**
Operating margin (%)						
British Gas Residential	1.3	1.5	(0.2)ppt	7.7	(2.7)	10.4ppt

British Gas Business

This year brought unprecedented highs in commodity prices with significant increases in input costs for both gas and electricity. Despite having to raise prices to customers, we increased

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

our total supply points by 2.5% to 932,000 (2005: 909,000) as increases in gross churn rates in our tariff book were more than offset by strong sales performance, continued SME contract renewal levels of over 95% and further improvements in corporate customer retention.

Turnover increased by 53% to £2.3 billion (2005: £1.5 billion) due to price rises, higher customer numbers and higher average consumption in both fuels as a result of winning a number of large corporate accounts.

Operating profit* was up 13% to £87 million (2005: £77 million) despite a significant loss* being made in the tariff book prior to the price increase in March. Profit* in the second half was markedly higher as tariff increases took effect and fourth quarter wholesale costs reduced, improving margins across the customer base.

During the year operating costs increased, driven by investments in a new billing system, rising absolute cost of debt on higher turnover and higher sales and marketing costs. We made progress on a customer service initiative that will create a single named point of contact for each customer and the deployment of new technology and processes which will rationalise our invoicing and collection systems.

For the period ended 31 December	FY 2006	FY 2005	Δ%	H2 2006	H2 2005	Δ%
Customer supply points (period end):						
Gas ('000)	400	394	1.5	400	394	1.5
Electricity ('000)	532	515	3.3	532	515	3.3
Total ('000)	932	909	2.5	932	909	2.5
Average consumption:						
Gas (therms)	3,990	3,492	14	1,702	1,517	12
Electricity (kWh)	29,844	27,512	8	15,230	14,178	7
Weighted average sales price:						
Gas (p/therm)	69.86	51.87	35	72.30	56.60	28
Electricity (£/MWh)	74.87	57.88	29	79.31	61.75	28
Transportation & distribution costs (£m):						
Gas	149	124	20	71	60	18
Electricity	261	217	20	137	113	21
Total	410	341	20	208	173	20
Turnover (£m):						
Gas	1,115	692	61	492	336	46
Electricity	1,188	818	45	642	449	43
Total	**2,303**	**1,510**	**53**	**1,134**	**785**	**44**
Operating profit (£m)*						
British Gas Business	**87**	**77**	**13**	**76**	**22**	**245**
Operating margin (%)						
British Gas Business	3.8	5.1	(1.3)ppt	6.7	2.8	3.9ppt

British Gas Services

During the year British Gas Services made significant progress on fixing operational issues that were highlighted in the first half when temperatures below the seasonal norm led to a record number of call outs. These call outs put additional pressure on operations and affected service levels. Operational performance improved considerably in the second half of the year as process and system changes were implemented. This resulted in a marked improvement in service levels in the latter part of the year. Most importantly we coped with the period covering the switch-on of central heating systems in the autumn, which results in high overall demand, without any significant issues with operations and customer service.

Turnover was up by 8% at £1.1 billion (2005: £1.0 billion) as the total number of product relationships increased by 4% over the prior year to just over seven million. The average price

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

of central heating care also increased reflecting initial structural changes to pricing based more accurately on the costs of servicing each customer. In addition the second half of the year saw a stronger performance in the central heating installation business with a 9% increase in installation volumes on the second half of last year, recovering much of the fall in the first half.

Operating profit* decreased by 8% to £102 million (2005: £111 million) due to the increased breakdown call outs and extra cost of parts required for the repairs in the first half of the year. The second half showed a year-on-year improvement of 12%.

During the year we significantly restructured operations to reduce cost and increase productivity, resulting in 390 job losses with an exceptional cash cost of £48 million. This will have a payback of just over three years. We also wrote-down certain unused functionality and capitalised development costs within the systems portfolio. This resulted in a pre-tax exceptional charge of £18 million.

For the period ended 31 December	**FY 2006**	FY 2005	Δ%	**H2 2006**	H2 2005	Δ%
Customer product holdings (period end):						
Central heating service contracts ('000)	4,392	4,337	1.3	4,392	4,337	1.3
Kitchen appliances care (no. of customers) ('000)	387	365	6	387	365	6
Plumbing and drains care ('000)	1,384	1,307	6	1,384	1,307	6
Home electrical care ('000)	986	860	15	986	860	15
Home security ('000)	22	25	(12)	22	25	(12)
Total holdings ('000)	7,171	6,894	4.0	7,171	6,894	4.0
Central heating installations ('000)	91	92	(1.1)	49	45	9
Turnover (£m)						
Central heating service contracts	519	478	9	265	252	5
Central heating installations	264	251	5	150	125	20
Other	321	295	9	168	151	11
Total	**1,104**	**1,024**	**8**	**583**	**528**	**10**
Engineering staff employed	8,676	8,348	3.9	8,676	8,348	3.9
Operating profit (£m)*						
British Gas Services	**102**	**111**	(8)	**58**	**52**	**12**
Operating margin (%)						
British Gas Services	9	11	(2)ppts	10	10	0ppts

Centrica Energy

Centrica Energy faced a challenging year and operating profits* were down 24% at £686 million (2005: £903 million) due to lower gas production levels and the forecast increased losses* in the industrial and wholesale segment.

For the year, market month ahead gas prices rose by 36% to 50.22p/therm (2005: 36.82p/therm) and electricity rose 30% to £45.84/MWh (2005: £35.27/MWh). The UK experienced huge fluctuations in wholesale gas costs, particularly in the early part of the year when cold weather and fear of shortages pushed the wholesale price per therm to 250 pence. Gas prices reduced substantially in the second half of the year due to the increased flow of gas through the newly constructed Langeled and BBL pipelines.

Gas production

Operating profit* was down 15% to £864 million (2005: £1,020 million) due to a 37% reduction in gas volumes partially offset by a 35% increase in selling price. The 51% reduction in Morecambe production volumes was due to management decisions to carry out remedial work on South Morecambe's cooler units during an extended summer maintenance period and our decision to switch off the field in response to low intraday gas prices especially in the fourth quarter of the year.

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

This was partially offset by a 16% increase in other production volumes mainly due to the full-year effect of our 2005 acquisition of the Kerr McGee fields and the acquisition of an increased share in the Statfjord field. These fields contributed to the 47% increase in oil and condensates production which reached 5.6 million barrels of oil equivalent (MBOE) (2005: 3.8 MBOE) with average selling prices of £34/BOE (2005: £29/BOE). The 36% increase in variable production costs is due to the increased proportion of volumes from the newer fields where depreciation levels are higher.

In addition to the £151 million acquisition of a 4.84% stake in the Statfjord field we invested £100 million in maintaining and developing our upstream portfolio of assets during the year. Of this, we invested an initial £21 million in the Statfjord depressurisation project to increase the level of gas reserves and spent £46 million on the development of Maria, Thurne and Davy East. These new fields together with the Statfjord project add 1,348 million therms (mmth) of gas reserves and 11.6 million BOE for a total cost of £186 million.

We also spent around £17 million on our focussed gas exploration programme in the UK as we farmed into four projects. We made a successful application under the 24th UK offshore licensing round for acreage around the Morecambe fields and opened an office in Stavanger to enable us to participate successfully in the Norwegian licensing round where we gained shares in four blocks in January 2007. We also have licence blocks in Egypt and Nigeria which we started to assess and have made an application under the Trinidad licensing round.

Industrial sales and wholesaling

The industrial sales and wholesaling segment made an operating loss* of £210 million (2005: £156 million loss*). Losses* from the legacy gas sales contracts remained broadly flat at £171 million (2005: £173 million loss*) as the increase in input commodity costs was offset by an increase in the weighted average sales price combined with a reduction in volumes. Volumes reduced as three contracts ended and the remaining customers chose to buy from the wholesale market when gas prices softened. This reporting segment includes certain operating costs of Centrica Energy; these increased to £66 million (2005: £34 million) as we continued to expand our upstream operations.

Electricity generation

We generated 10.5TWh of power (2005: 11.6TWh) from our 3.4GW fleet of gas-fired power stations in the period which was down on the prior year due to a number of extended outages in our fleet. Total fleet load factor was 41% (2005: 49%).

We started work at Langage, Devon to build an 885MW gas-fired plant on our consented site. The total investment is expected to be around £400 million and commercial operations are due to start during winter 2008/09. This will be the first power station to be built in the UK for five years. In November we announced the acquisition of 85% of Coastal Energy Limited who are seeking planning permission to build the UK's first Integrated Gas Combined Cycle (IGCC) power plant which would incorporate pre-combustion carbon capture technology, with the result of producing the lowest carbon emissions of any fossil fuel plant in the UK. We also acquired an interest in a company developing a carbon sequestration business.

Renewables

In March we produced the first green power from our 90MW joint venture Barrow offshore wind farm. In November, Airtricity started commissioning the 72MW Braes of Doune wind farm and subject to successful testing and handover from the construction contractor, we will acquire 50% of the equity from Airtricity for £42 million. The award of the main construction contracts for the two 90MW wind farms at Inner Dowsing and Lynn is almost complete. First power from this project is expected to be delivered in late 2008. We also submitted an application for

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

planning consent for the 250MW Round Two Lincs offshore wind farm. If successful, first power from the project could be delivered in 2010.

Energy procurement

In April 2006 we agreed an innovative coal-linked power purchase agreement with Drax for the supply of 600MW of baseload power over a 5¼-year period starting October 2007, indexed to international traded coal prices and including a fixed clean seasonal dark spread.

We also completed an innovative three-year winter super peak electricity generation tolling agreement with Rolls Royce Power Development to reduce Centrica's exposure to volatile short-term market prices during these periods. The contract commenced in October 2006, with a total capacity of 245MW from several small independent energy projects.

In the last quarter of the year two key pipeline projects, capable of meeting 40% of the UK demand, underpinned by British Gas purchase contracts, were commissioned. Langeled, underpinned by our 10 year 5.1BCM/year contract with Statoil, and BBL, underpinned by our 10 year 7.3BCM/year contract with Gasunie started to deliver significant amounts of gas to the UK.

For the period ended 31 December	FY 2006	FY 2005	Δ%	H2 2006	H2 2005	Δ%
Gas Production:						
Gas production volumes (mmth)						
Morecambe	1,207	2,445	(51)	270	816	(67)
Other	709	612	16	282	313	(10)
Total	1,916	3,057	(37)	552	1,129	(51)
Average gas sales price (p/therm)	53.1	39.4	35	55.5	49.4	12
Oil and condensate production volumes (MBOE)	5.6	3.8	47	2.8	2.0	40
Average oil and condensate sales price (£/BOE)	33.8	28.7	18	32.8	34.2	(4.1)
Turnover (£m)	1,291	1,365	(5)	360	659	(45)
External turnover (£m)	323	183	77	171	113	51
Operating costs (£m):						
Volume related production costs	293	215	36	142	107	33
Other production costs	139	130	7	63	72	(13)
Total	432	345	25	205	179	15
Operating profit (£m)*	864	1,020	(15)	160	480	(67)
Power stations						
Power generated (GWh)	10,541	11,641	(9)	6,123	6,423	(4.7)
Industrial & wholesale:						
External sales volumes (mmth)	2,667	3,081	(13)	1,135	1,467	(23)
Average sales price (p/therm)	31.3	24.8	26	32.3	26.4	22
Turnover (£m)	883	786	12	399	400	(0.3)
Operating profit / (loss) (£m)*	(210)	(156)	n/m	(78)	(136)	n/m
Accord						
Operating profit (£m)*	32	39	(18)	25	16	56
Centrica Energy operating profit (£m)*	**686**	**903**	(24)	**107**	**360**	(70)

Centrica Storage

The main focus for Centrica Storage in 2006 was the recovery of operations after the explosion and fire which caused significant damage to the main offshore platform of the Rough storage facility in February.

Despite extensive damage, it took only 16 weeks to recommission injection at the facility. In restoring full production capability the processes offshore were simplified to export wet gas rather than using offshore dehydration. The production facilities were returned to operation less than 32 weeks after the original incident. The force majeure notice was lifted on 20 November once final operational testing was complete.

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

The restoration project involved approximately 500,000 man hours and was completed without any health and safety lost-time incidents. The two employees hospitalised at the time of the incident have now recovered and are back working on the platform.

The cost of the repairs and payments made under the storage services contract resulted in an exceptional cash cost to the Group for the year of £48 million of which £24 million is recognised in the books of Centrica Storage.

Since recovery the reliability of the asset has been re-established. Both injection and production have experienced 99% availability, and the reservoir was filled by early November well in advance of the winter production season.

Operating profit* before the exceptional charge for the year was up 48% to £228 million (2005: £154 million). This was mainly due to a rise of 62% in the average SBU price to 56.5 pence (2005: 34.8p) and an increase in the realised price of space sales, partially offset by the 2005 sales of native gas of £20 million not being repeated in 2006.

For the period ended 31 December	FY 2006	FY 2005	Δ%	H2 2006	H2 2005	Δ%
Average SBU price (calendar year) (pence)	56.5	34.8	62	65.6	37.8	74
Turnover (£m)						
Standard SBUs	254	159	60	147	87	69
Extra space	30	19	58	17	13	31
Native gas sales	0	20	(100)	0	20	(100)
Gas sales	58	30	93	33	15	120
Other	16	25	(36)	10	12	(17)
Total	**358**	**253**	**42**	**207**	**147**	**41**
External turnover (£m)	294	195	51	168	109	54
Cost of gas (£m)	58	35	66	30	17	76
Operating profit (£m)*	228	154	48	135	97	39

Centrica North America

Our North American business has continued its strong growth. Overall turnover grew by 15% to £4.1 billion (2005: £3.6 billion) driven primarily by the continued growth in business markets and the organic residential business in Texas. Operating profit* grew by 21% to £223 million (2005: £185 million) primarily due to higher profits* in Texas and the home services business with adverse exchange rate movements in the second half negating the positive impact in the first six months.

Despite this strong overall growth, as part of a continual review of the efficiency of the business, decisive action was taken to reduce costs. This resulted in 450 job losses, 9% of the total, during the year, primarily in Canada and in US home services.

Canada residential and small commercial energy

Turnover decreased by 7% to £1,425 million (2005: £1,533 million) with increases in the deregulated business being more than offset by reductions in the regulated Alberta business. Operating profit* reduced by 11% to £42 million (2005: £47 million) as a result of the removal of the business protection plan rebate (BPPR) in Ontario, partially offset by increased profits* from equity gas production and a significant reduction in employee numbers.

Our Alberta business moved into profit* for the first time, although the competitive market is growing slowly. Here the regulated business has experienced a net customer decline to date of only 8%. We now have around 95,000 competitive customer accounts on-supply. Recognising the need for greater incentives on power procurement, we have agreed a package with the regulator that now enables us to earn a return on the regulated electricity supply business.

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

Texas residential and small commercial energy

Turnover grew by 18% to £1,120 million (2005: £953 million). This was largely driven by growth in our organic customer base in areas of Texas outside our incumbent territory. In April we acquired approximately 100,000 customers from Entergy. In July, as part of a wider agreement with the Public Utility Commission we implemented a 5% discount to our residential customers in CPL/WTU which effectively removed those customers from Price-to-Beat (PtB), and then reduced prices by a further 6% at the start of 2007. The growth in scale of the organic business, allied with effective procurement across both businesses, including the positive impact of the three power stations, increased operating profit* by 63% to £117 million (2005: £72 million).

In February we acquired the Paris power station in northern Texas and we completed three new wind power purchasing agreements, which together with the one signed in 2005, increased our total contractual wind power capacity to 643MW.

Other USA residential and small commercial energy

Turnover grew by 19% to £247 million (2005: £208 million) due to increased customer numbers and higher retail prices. We made encouraging progress in growing the customer base by 5%, with a strong performance in the New York market. This combination of rising prices and growing customer numbers was offset by expenditure on growth and lower consumption due to very warm weather at the end of 2006, resulting in a lower operating profit* of £12 million (2005: £16 million).

Home services

Home services performed well during the year with a 33% growth in operating profit* to £68 million (2005: £51 million) on a turnover increase of 3%. This was achieved primarily in Canada through increased margins on heating, ventilation and air conditioning sales and ongoing operational efficiencies. The US home services business remained stable despite the backdrop of a severe downturn in the US housing market.

In June we disposed of our remaining 19.9% holding in The Consumers' Waterheater Income Fund for £65 million, recording a one-off pre-tax gain of £7 million. Although we no longer have an equity share in the fund, we are still required to consolidate the full financial results of the fund owing to the continuing close contractual relationship.

Business markets

We continue to invest heavily in this sector and have seen significant growth with volumes sold in gas and electricity rising by 11% to 557mmth and 127% to 11.2TWh respectively. Turnover grew by 88% to £902 million (2005: £481 million).

During the year we successfully entered 12 new utility areas. The costs of doing this, together with loss of the BPPR rebate in Ontario, caused an increased operating loss* of £21 million (2005: operating loss* of £8 million). However, underlying gross margins* remain healthy. This segment includes a services business which has been loss-making* and a turn-around plan for the services business has already been executed.

Energy wholesale and trading

During 2006 we widened the remit of our existing wholesale and trading business to encompass taking future capacity in natural gas transportation and storage and wind power contracts, so as to exploit the expert resources already in place to support retail procurement across the US and Canada. We will continue to develop these activities in the future. This segment registered an operating profit* of £5 million (2005: £7 million).

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

For the period ended 31 December	FY 2006	FY 2005	Δ%	H2 2006	H2 2005	Δ%
Customer numbers (period end):						
Canada energy ('000)	2,090	2,118	(1.3)	2,090	2,118	(1.3)
Texas energy ('000)	948	897	6	948	897	6
Other USA energy ('000)	348	331	5	348	331	5
Home services ('000)	1,964	1,885	4.2	1,964	1,885	4.2
Volumes:						
Gas production (mmth)	304	308	(1.3)	155	153	1.3
Electricity generation (GWh)	4,450	3,212	39	2,192	1,770	24
Turnover (£m):						
Canada residential & small commercial energy	1,425	1,533	(7)	624	827	(25)
Texas residential & small commercial energy	1,120	953	18	578	543	6
Other USA residential & small commercial energy	247	208	19	103	97	6
Home services	371	360	3.1	184	197	(7)
Business markets	902	481	88	506	282	79
Energy wholesale and trading	32	17	88	14	6	133
Total	**4,097**	**3,552**	**15**	**2,009**	**1,952**	**2.9**
Operating profit/(loss) (£m)*:						
Canada residential & small commercial energy	42	47	(11)	23	18	28
Texas residential & small commercial energy	117	72	63	53	47	13
Other USA residential & small commercial energy	12	16	(25)	(1)	7	n/m
Home services	68	51	33	33	30	10
Business markets	(21)	(8)	n/m	(9)	(7)	n/m
Energy wholesale and trading	5	7	(29)	3	3	0
Total	**223**	**185**	**21**	**102**	**98**	**4.1**
Operating margin (%)*						
Total North America	5.4	5.2	0.2ppt	5.1	5.0	0.1ppt

Europe

The industry continues to consolidate in Europe with evidence of support for national champions in France, Spain and the Netherlands. While we continue to review opportunities for developing our business in continental Europe, this remains a challenge in the current climate and we will be robust in only pursuing those opportunities which can deliver long-term shareholder value. During the year our European segment performed well, delivering a £7 million operating profit* (2005: operating loss* £9 million).

In Belgium we achieved full integration of all previous businesses that made up SPE and we now operate nationally under the Luminus brand. We transferred 500,000 Wallonian residential customers on 1 January 2007, opened a new call centre in Liège and we approved investments in open cycle gas turbine (OCGT) generation in Ghent and two wind farms.

In The Netherlands, we continued to grow our customer base through our Oxxio brand. To support future growth we signed a tolling agreement with Intergen for the output of a 400MW new build combined cycle gas turbine (CCGT) at Rijnmond which we expect to begin operations in 2009. We made significant progress on the development and installation of smart meters.

Our Luseo operation in Spain reduced its supply operations due to the adverse regulatory environment in Spain. However, it continued to develop energy management services to special regime (renewable) generators and exploited other profitable energy management activities.

We continued to grow our footprint in Europe by creating a German subsidiary, Centrica Energie GmbH, based in Dusseldorf and recruited key staff. This is in response to positive developments in the legal and regulatory framework for competition in German energy markets. We are positioned to begin selling energy to the commercial supply market in 2007.

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

Group Income Statement

Year ended 31 December	Notes	2006 Results for the year before exceptional items and certain re-measurements (i) £m	2006 Exceptional items and certain re-measurements (i) £m	2006 Results for the year £m	2005 Results for the year before exceptional items and certain re-measurements (i) £m	2005 Exceptional items and certain re-measurements (i) £m	2005 Results for the year £m
Continuing operations							
Group revenue	2	16,450	–	16,450	13,448	–	13,448
Cost of sales		(12,649)	–	(12,649)	(9,793)	–	(9,793)
Re-measurement of energy contracts [(i)]	2,3	–	(916)	(916)	–	456	456
Gross profit		3,801	(916)	2,885	3,655	456	4,111
Operating costs before exceptional items		(2,362)	–	(2,362)	(2,180)	–	(2,180)
Systems write-down	3	–	(196)	(196)	–	–	–
Business restructuring costs	3	–	(87)	(87)	–	(100)	(100)
Rough storage incident	3	–	(48)	(48)	–	–	–
Profit on disposal of British Gas Connections Limited	3	–	–	–	–	47	47
Contract renegotiation	3	–	–	–	–	42	42
Operating costs		(2,362)	(331)	(2,693)	(2,180)	(11)	(2,191)
Share of profits / (losses) in joint ventures and associates, net of interest and taxation [(i)]	2	3	(15)	(12)	38	(1)	37
Group operating profit	2	1,442	(1,262)	180	1,513	444	1,957
Interest income [(i)]	4	103	37	140	102	–	102
Interest expense	4	(286)	–	(286)	(247)	–	(247)
Net interest expense	4	(183)	37	(146)	(145)	–	(145)
Profit from continuing operations before taxation		1,259	(1,225)	34	1,368	444	1,812
Taxation on profit from continuing operations	5	(543)	363	(180)	(706)	(138)	(844)
Profit / (loss) from continuing operations after taxation		716	(862)	(146)	662	306	968
Profit from discontinued operations		–	–	–	11	–	11
(Loss) / gain on disposal of discontinued operations		(8)	–	(8)	–	34	34
Discontinued operations		(8)	–	(8)	11	34	45
Profit / (loss) for the year		708	(862)	(154)	673	340	1,013
Attributable to:							
Equity holders of the parent		707	(862)	(155)	672	340	1,012
Minority interests		1	–	1	1	–	1
		708	(862)	(154)	673	340	1,013
		Pence		Pence	Pence		Pence
(Loss) / earnings per ordinary share							
From continuing and discontinued operations:							
Basic	7			(4.3)			27.4
Adjusted basic	7	19.4			18.2		
Diluted	7			(4.3)			27.0
From continuing operations:							
Basic	7			(4.1)			26.2
Adjusted basic	7	19.6			17.9		
Diluted	7			(4.1)			25.8
Interim dividend paid per share	6			3.15			3.10
Final dividend proposed per share	6			8.00			7.40

(i) Certain re-measurements (note 1) included within operating profit comprise re-measurement arising on our energy procurement activities and re-measurement of proprietary trades in relation to cross-border transportation or capacity contracts. Certain re-measurements included within interest comprise re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund. All other re-measurement is included within results before exceptional items and certain re-measurements.

Group Balance Sheet

31 December	Notes	2006 £m	2005 £m
Non-current assets			
Goodwill		1,055	1,170
Other intangible assets		422	569
Property, plant and equipment		3,679	3,670
Interests in joint ventures and associates		220	223
Deferred tax assets		226	296
Trade and other receivables		16	25
Financial assets:			
Derivative financial instruments	8	17	231
Other financial assets		37	45
		5,672	6,229
Current assets			
Inventories		270	196
Current tax assets		98	–
Trade and other receivables		3,590	3,421
Financial assets:			
Derivative financial instruments	8	760	2,159
Other financial assets		49	46
Cash and cash equivalents	9	640	1,239
		5,407	7,061
Total assets		11,079	13,290
Current liabilities			
Trade and other payables		(3,291)	(3,541)
Current tax liabilities		(180)	(269)
Financial liabilities:			
Bank overdrafts and loans	10	(181)	(655)
Derivative financial instruments	8	(1,737)	(1,787)
Provisions for other liabilities and charges		(130)	(143)
		(5,519)	(6,395)
Net current (liabilities) / assets		(112)	666
Non-current liabilities			
Trade and other payables		(55)	(102)
Financial liabilities:			
Bank loans and other borrowings	10	(2,555)	(2,267)
Derivative financial instruments	8	(220)	(52)
Deferred tax liabilities		(241)	(743)
Retirement benefit obligation	13	(296)	(807)
Provisions for other liabilities and charges		(551)	(482)
		(3,918)	(4,453)
Net assets		1,642	2,442
Equity			
Called up share capital	11	226	224
Share premium account	11	657	595
Merger reserve	11	467	467
Capital redemption reserve	11	16	15
Other reserves	11	219	1,085
Shareholders' equity	11	1,585	2,386
Minority interests in equity	11	57	56
Total minority interests and shareholders' equity	11	1,642	2,442

Group Statement of Recognised Income and Expense

Year ended 31 December	Notes	2006 £m	2005 £m
(Loss) / profit for the year		(154)	1,013
Gains on revaluation of acquired assets		–	14
Gains on revaluation of available-for-sale investments		–	2
(Losses) / gains on cash flow hedges	11	(645)	408
Exchange differences on translation of foreign operations	11	(23)	13
Actuarial gains / (losses) on defined benefit pension schemes	13	475	(126)
Tax on items taken directly to equity	11	73	(109)
Net (expense) / income recognised directly in equity		(120)	202
Transferred to income and expense on cash flow hedges	11	(294)	(74)
Tax on items transferred from equity	11	96	25
Transfers		(198)	(49)
Total recognised income and expense for the year		(472)	1,166
Change in accounting policy: adoption of IAS 39 and IAS 32		–	(343)
Total recognised income and expense recognised since last report		(472)	823
Total income and expense recognised in the year is attributable to:			
Equity holders of the parent		(473)	1,165
Minority interests		1	1
		(472)	1,166

Group Cash Flow Statement

Year ended 31 December	Notes	2006 £m	2005 £m
Operating cash flows before movements in working capital	12	1,965	1,936
Increase in inventories		(83)	(22)
Increase in receivables		(260)	(269)
(Decrease) / increase in payables		(149)	299
Cash generated from continuing operations		1,473	1,944
Interest received		13	16
Interest paid		(9)	(13)
Tax paid		(627)	(768)
Payments relating to exceptional charges		(113)	(48)
Net cash flow from continuing operating activities	12	737	1,131
Net cash flow from discontinued operating activities	12	–	13
Net cash flow from operating activities	12	737	1,144
Purchase of interests in subsidiary undertakings and businesses net of cash and cash equivalents acquired		(97)	(130)
Disposal of interests in subsidiary undertakings and businesses net of cash and cash equivalents disposed		(6)	184
Purchase of intangible assets		(144)	(160)
Disposal of intangible assets		13	36
Purchase of property, plant and equipment		(537)	(593)
Disposal of property, plant and equipment		18	13
Dividends received from joint ventures and associates		–	16
Investments in joint ventures and associates		(16)	(122)
Disposal of interests in associates and other investments		4	11
Interest received		40	70
Net sale of other financial assets		5	146
Net cash flow from investing activities	12	(720)	(529)
Re-purchase of ordinary share capital		(23)	(388)
Issue of ordinary share capital		56	17
Interest paid in respect of finance leases		(43)	(95)
Other interest paid		(151)	(66)
Distribution to unit holders of The Consumers' Waterheater Income Fund		(27)	(20)
Interest paid		(221)	(181)
Cash inflow from additional debt		897	799
Cash outflow from payment of capital element of finance leases		(21)	(50)
Cash outflow from repayment of other debt		(880)	(126)
Net cash flow from (decrease) / increase in debt		(4)	623
Realised net foreign exchange loss on cash settlement of derivative contracts		(21)	(66)
Equity dividends paid		(384)	(340)
Net cash flow from financing activities	12	(597)	(335)
Net (decrease) / increase in cash and cash equivalents		(580)	280
Cash and cash equivalents at 1 January [i]		1,177	885
Effect of foreign exchange rate changes		(5)	12
Cash and cash equivalents at 31 December [i]	9	592	1,177

(i) Cash and cash equivalents are stated net of overdrafts of £48 million (2005: £62 million).

1 Basis of preparation

The preliminary results for the year ended 31 December 2006 have been extracted from audited accounts which have not yet been delivered to the Registrar of Companies. The financial information set out in this announcement does not constitute statutory accounts for the year ended 31 December 2006 or 31 December 2005. The financial information for the year ended 31 December 2005 is derived from the statutory accounts for that year. The report of the auditors on the statutory accounts for the year ended 31 December 2006 was unqualified and did not contain a statement under Section 237 of the Companies Act 1985.

The Group's Income Statement and segmental note separately identifies the effects of re-measurement of certain financial instruments, and items which are exceptional, in order to provide readers with a clear and consistent presentation of the Group's underlying performance, as described below.

Certain re-measurements

As part of its energy procurement activities the Group enters into a range of commodity contracts designed to achieve security of energy supply. These contracts comprise both purchases and sales and cover a wide range of volumes, prices and timescales. The majority of the underlying supply comes from high-volume long-term contracts which are complemented by shorter-term arrangements. These short-term contracts are entered into for the purpose of balancing energy supplies and customer demand and to optimise the price paid by the Group. Short-term demand can vary significantly as a result of factors such as weather, power generation profiles and short-term movements in market prices.

Many of the energy procurement contracts are held for the purpose of receipt or delivery of commodities in accordance with the Group's purchase, sale or usage requirements and are therefore out of scope of IAS 39. However, a number of contracts are considered to be derivative financial instruments and are required to be fair valued under IAS 39, primarily because their terms include the ability to trade elements of the contracted volumes on a net-settled basis.

The Group has shown the fair value adjustments arising on these contracts separately in the certain re-measurements column. This is because the intention of management is, subject to short-term demand balancing, to use these energy supplies to meet customer demand. Accordingly management believe the ultimate net charge to cost of sales will be consistent with the price of energy agreed in these contracts and that the fair value adjustments will reverse as the energy is supplied over the life of the contract. This makes the fair value re-measurements very different in nature from costs arising from the physical delivery of energy in the period.

At the balance sheet date the fair value represents the difference between the prices agreed in the respective contracts and the actual or anticipated market price of acquiring the same amount of energy on the open market. The movement in the fair value taken to certain re-measurements in the Income Statement represents the unwind of the contracted volume delivered or consumed during the period, combined with the change in fair value of future contracted energy as a result of movements in forward energy prices during the year.

These adjustments represent the significant majority of the items included in certain re-measurements. In addition to these however the Group has identified a number of comparable contractual arrangements where the difference between the price which the Group expects to pay or receive under a contract and the market price is required to be fair valued by IAS 39. These additional items relate to cross-border transportation or transmission capacity, storage capacity and contracts relating to the sale of energy bi-products on which economic value has been created, which is not wholly recognised under the requirements of IAS 39. For these arrangements the related fair value adjustments are also included under certain re-measurements.

These arrangements are managed separately from proprietary energy trading activities where trades are entered into speculatively for the purpose of making profits in their own right. These proprietary trades are included in the results before certain re-measurements.

Certain re-measurements included within interest comprise re-measurements of the publicly traded units of The Consumers' Waterheater Income Fund.

Exceptional items

As permitted by IAS 1 'Presentation of Financial Statements', certain items are presented separately as exceptional, where they are material to the result for the period and are of a non-recurring nature. Items which may be considered material and non-recurring in nature include disposals of businesses, business restructuring, the renegotiation of significant contracts and asset write-downs. We intend to follow such a presentation on a consistent basis in future periods. Items are considered material if their omission or misstatement could, in the opinion of the Directors, individually or collectively, affect the true and fair presentation of the Financial Statements.

2 Segmental analysis

(a) Revenue	2006 Gross segment revenue £m	2006 Less inter-segment revenue (i) £m	2006 Group revenue £m	2005 (restated) Gross segment revenue £m	2005 (restated) Less inter-segment revenue (i) £m	2005 (restated) Group revenue £m
Continuing operations:						
British Gas Residential	7,112	–	7,112	6,032	–	6,032
British Gas Business	2,303	–	2,303	1,510	–	1,510
British Gas Services	1,104	–	1,104	1,024	–	1,024
Industrial sales and wholesaling	1,035	(152)	883	871	(85)	786
Gas production	1,291	(968)	323	1,365	(1,182)	183
Accord energy trading (ii)	39	–	39	42	–	42
Centrica Energy	2,365	(1,120)	1,245	2,278	(1,267)	1,011
Centrica Storage	358	(64)	294	253	(58)	195
North American Energy and Related Services	4,097	–	4,097	3,552	–	3,552
European Energy	295	–	295	119	–	119
Other operations	–	–	–	5	–	5
	17,634	(1,184)	16,450	14,773	(1,325)	13,448
Discontinued operations:						
Onetel	–	–	–	344	(2)	342
	–	–	–	344	(2)	342

(i) Accord energy trading carries out certain sales transactions on behalf of the Group's Industrial sales and wholesaling segment. The Group considers that it is not reflective of the trading relationship between the segments to present these transactions as inter-segment revenue within the Industrial sales and wholesaling segment. The comparative information has been restated accordingly. The effect of the restatement is to reduce gross segment revenue and inter-segment revenue for Industrial sales and wholesaling by £589 million for the year ended 31 December 2005. There is no effect on Group revenue or segment operating profit.

(ii) The revenue presented for Accord energy trading comprises net gains and losses (both realised and unrealised/fair value changes) from trading in physical and financial energy contracts. Included within its net gains and losses is £18 million arising on fees charged to other Group segments (2005: £8 million). It is not representative of the transactions to present this amount within inter-segment revenue because the result is stated net within revenue.

(b) Operating profit	Operating profit/(loss) before exceptional items and certain re-measurements year ended 31 December		Exceptional items (note 3) year ended 31 December		Certain re-measurements (note 3) year ended 31 December		Operating profit/(loss) after exceptional items and certain re-measurements year ended 31 December	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Continuing operations:								
British Gas Residential	95	90	(214)	(14)	(724)	584	(843)	660
British Gas Business	87	77	–	(1)	(408)	167	(321)	243
British Gas Services	102	111	(66)	(15)	–	–	36	96
Industrial sales and wholesaling	(210)	(156)	–	42	440	(424)	230	(538)
Gas production	864	1,020	–	–	32	(28)	896	992
Accord energy trading	32	39	–	–	6	17	38	56
Centrica Energy	686	903	–	42	478	(435)	1,164	510
Centrica Storage	228	154	(24)	–	2	1	206	155
North American Energy and Related Services	223	185	–	–	(264)	138	(41)	323
European Energy	7	(9)	–	–	(15)	–	(8)	(9)
Other operations	14	2	(27)	(23)	–	–	(13)	(21)
	1,442	1,513	(331)	(11)	(931)	455	180	1,957
Discontinued operations:								
The AA	–	–	–	39	–	–	–	39
Onetel	(11)	12	–	(5)	–	–	(11)	7
	(11)	12	–	34	–	–	(11)	46

(c) Included within operating profit

	Share of results of joint ventures and associates, net of interest and taxation year ended 31 December		Depreciation of property, plant and equipment year ended 31 December		Amortisation of intangibles year ended 31 December	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Continuing operations:						
British Gas Residential	–	2	17	16	35	48
British Gas Business	–	–	1	5	14	1
British Gas Services	–	–	13	16	–	4
Industrial sales and wholesaling	–	29	95	81	1	–
Gas production	–	–	252	193	–	–
Accord energy trading	–	–	–	–	–	–
Centrica Energy	–	29	347	274	1	–
Centrica Storage	–	–	23	19	–	1
North American Energy and Related Services	–	–	87	76	10	13
European Energy	(12)	6	1	–	10	9
Other operations	–	–	17	–	3	–
	(12)	37	506	406	73	76
Discontinued operations:						
Onetel	–	–	–	6	–	1
	–	–	–	6	–	1

3 Exceptional items and certain re-measurements

(a) Exceptional items	**2006 £m**	2005 £m
Exceptional items recognised in continuing operations		
Systems write-down (i)	(196)	–
Business restructuring costs (ii),(iii)	(87)	(100)
Rough storage incident (iv)	(48)	–
Profit on disposal of British Gas Connections Limited	–	47
Contract renegotiation (v)	–	42
Total exceptional items recognised in continuing operations	(331)	(11)
Exceptional items recognised in discontinued operations		
Adjustment to profit on disposal of the AA	–	39
Loss on disposal of Onetel	–	(5)
Total exceptional items recognised in discontinued operations	–	34

(i) The Group has written down certain of its recent major systems developments following a review of their existing and required future functionality. The cost comprises write-downs in British Gas Residential (£178 million) and British Gas Services (£18 million). A tax credit of £59 million was recognised in respect of these costs.

(ii) Business restructuring costs comprise £67 million from staff reductions at the corporate centre (£3 million), British Gas Residential (£16 million), and British Gas Services (£48 million), and £20 million relating to the closure of the head office of British Gas Residential. A tax credit of £20 million was recognised in respect of these costs.

(iii) Business restructuring costs in 2005 comprised £100 million resulting from staff reductions at the corporate centre (£23 million), British Gas Residential (£43 million), British Gas Services (£15 million), British Gas Business (£1 million) and £18 million relating to changes to the property portfolio. A tax credit of £23 million was recognised in respect of these costs.

(iv) Centrica Storage operations at Rough suffered a major interruption caused by a fire in February 2006. Our investment in new emergency shutdown systems and prompt management action mitigated the damage to ensure no loss of life. Following a full assessment of the work needed to restore operations, the costs of the incident have resulted in an exceptional charge before taxation of £48 million (of which £24 million is recognised within Other operations). A tax credit of £14 million has been recognised in respect of the charge.

(v) The profit in 2005 arose on the renegotiation of certain long-term take-or-pay contracts during the period.

(b) Certain re-measurements (note 1)	2006 £m	2005 £m
Certain re-measurement recognised in relation to energy contracts (iv)		
Net (losses) / gains arising on delivery of contracts (i)	(287)	140
Net (losses) / gains arising on market price movements and new contracts (ii)	(623)	299
Net (losses) / gains arising on proprietary trades in relation to cross-border transportation or capacity contracts (iii)	(6)	17
Net re-measurement of energy contracts included within gross profit	(916)	456
Net losses arising on re-measurement of joint ventures' energy contracts (v)	(15)	(1)
Net re-measurement included within Group operating profit	(931)	455
Gains arising on re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund (iv), (v) (note 4)	37	–
Total certain re-measurements	(894)	455

(i) As energy is delivered or consumed from previously contracted positions, the related fair value recognised in the opening balance sheet (representing the difference between forward energy prices at the opening balance sheet date, and the contract price of energy to be delivered) is charged or credited to the Income Statement.
(ii) Represents fair value (losses) / gains arising from the change in fair value of future contracted sales and purchase contracts as a result of changes in forward energy prices between reporting dates (or date of inception and the reporting date, where later).
(iii) Comprises movements in fair value arising on proprietary trades in relation to cross-border transportation or storage capacity, on which economic value has been created which is not wholly accounted for under the provisions of IAS 39.
(iv) A tax credit of £284 million has been recognised in respect of re-measurement of energy contracts. A tax charge of £14 million has been recognised in respect of re-measurement of the units of The Consumers' Waterheater Income Fund.
(v) Certain re-measurements included within Group operating profit also include the Group's share of the certain re-measurements relating to the energy procurement activities of joint ventures. Certain re-measurements included within interest comprise re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund. All other re-measurement is included within results before exceptional items and certain re-measurements.

4 Net interest

	2006			2005		
	Interest expense £m	Interest income £m	Total £m	Interest expense £m	Interest income £m	Total £m
Cost of servicing net debt (excluding non-recourse debt)						
Interest income	–	38	38	–	60	60
Interest expense on bank loans and overdrafts	(175)	–	(175)	(87)	–	(87)
Interest expense on finance leases (including tolling agreements)	(47)	–	(47)	(97)	–	(97)
Fair value (losses) / gains on hedges	(1)	3	2	(5)	5	–
Fair value (losses) / gains on other derivatives	(8)	25	17	(11)	25	14
	(231)	66	(165)	(200)	90	(110)
Interest arising on non-recourse debt						
Interest expense on non-recourse debt	(13)	–	(13)	(11)	–	(11)
Distributions to unit holders of The Consumers' Waterheater Income Fund	(27)	–	(27)	(20)	–	(20)
Fair value gains arising on Units of The Consumers' Waterheater Income Fund	–	37	37	–	–	–
	(40)	37	(3)	(31)	–	(31)
Other interest						
Notional interest arising on discounted items	(15)	26	11	(14)	–	(14)
Interest on supplier early payment arrangements	–	11	11	–	12	12
Interest on customer finance arrangements	–	–	–	(2)	–	(2)
	(15)	37	22	(16)	12	(4)
Interest (expense) / income	(286)	140	(146)	(247)	102	(145)

5 Taxation

Analysis of tax charge for the year	2006 £m	2005 £m
The tax charge comprises:		
Current tax		
UK corporation tax	199	368
UK petroleum revenue tax	234	400
Tax on exceptional items and certain re-measurements (i), (ii), (iii), (iv), (vi)	(20)	(23)
Foreign tax	51	22
Adjustments in respect of prior years	(25)	(62)
Total current tax	439	705
Deferred tax		
Current year	79	10
Prior year	10	(22)
Change in UK tax rate(v)	9	–
Tax on exceptional items and certain re-measurements (i), (ii), (iii), (iv), (vi)	(343)	161
UK petroleum revenue tax	(7)	(27)
Foreign deferred tax	(7)	17
Total deferred tax	(259)	139
Total tax on profit from continuing operations	180	844

(i) The tax credit arising on the systems write-down in 2006 was £59 million (note 3 (a) (i)).
(ii) The tax credit arising on the business restructuring costs in 2006 was £20 million (note 3 (a) (ii)).
(iii) The tax credit arising on costs related to the Rough storage incident was £14 million (note 3 (a) (iv)).
(iv) The tax credit arising on certain re-measurements was £284 million. The tax charge relating to gains arising on re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund was £14 million (note 3 (b) (iv)).
(v) The effect of the increase of 10% to the UK supplementary charge from 1 January 2006 on the relevant temporary differences at 31 December 2005 was £9 million.
(vi) In 2005 tax credits relating to exceptional items amounted to £11 million and the tax charge relating to certain re-measurements amounted to £149 million.

6 Dividends

	2006 £m	2005 £m
Prior year final dividend of 7.4p (2005: 6.1p) per ordinary share (paid on 14 June 2006)	269	220
Interim dividend of 3.15p (2005: 3.1p) per ordinary share (paid on 15 November 2006)	115	120
	384	340

The Directors propose a final dividend of 8.0 pence per share (totalling £293 million) for the year ended 31 December 2006. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 14 May 2007. These Financial Statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2007.

7 Earnings per ordinary share

Basic earnings per ordinary share has been calculated by dividing the loss attributable to equity holders of the parent Company for the year of £155 million (2005: earnings of £1,012 million) by the weighted average number of ordinary shares in issue during the year of 3,643 million (2005: 3,688 million). 2005 excluded 3 million ordinary shares, being the weighted average number of the Company's own shares held in the employee share trust which were treated as treasury shares.

The Directors believe that the presentation of an adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for certain re-measurements and exceptional items assists with understanding the underlying performance of the Group. The reconciliation of basic to adjusted basic earnings per ordinary share is as follows:

	2006		2005	
(a) Continuing and discontinued operations	£m	Pence per ordinary share	£m	Pence per ordinary share
(Loss) / earnings – basic	(155)	(4.3)	1,012	27.4
Net exceptional items after tax (note 3)	238	6.6	(34)	(0.9)
Certain re-measurement gains and losses after tax (note 3)	624	17.1	(306)	(8.3)
Earnings – adjusted basic	707	19.4	672	18.2
(Loss) / earnings – diluted	(155)	(4.3)	1,012	27.0

(b) Continuing operations	2006 £m	2006 Pence per ordinary share	2005 £m	2005 Pence per ordinary share
(Loss) / earnings – basic	(147)	(4.1)	967	26.2
Net exceptional items after tax (note 3)	238	6.6	–	–
Certain re-measurement gains and losses after tax (note 3)	624	17.1	(306)	(8.3)
Earnings – adjusted basic	715	19.6	661	17.9
(Loss) / earnings – diluted	(147)	(4.1)	967	25.8

(c) Discontinued operations	2006 £m	2006 Pence per ordinary share	2005 £m	2005 Pence per ordinary share
(Loss) / earnings – basic	(8)	(0.2)	45	1.2
(Loss) / earnings – diluted	(8)	(0.2)	45	1.2

Certain re-measurements (note 1) included within operating profit comprise re-measurement arising on our energy procurement activities and re-measurement of proprietary trades in relation to cross-border transportation or capacity contracts. Certain re-measurements included within interest comprise re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund. All other re-measurement is included within results before exceptional items and certain re-measurements.

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 2006 or 2005, but the weighted average number of shares used as the denominator is adjusted for potentially dilutive ordinary shares. In 2006, no outstanding awards or options are considered to be potentially dilutive, because they would decrease the loss per share.

	2006 million shares	2005 million shares
Weighted average number of shares used in the calculation of basic earnings per ordinary share	3,643	3,688
Weighted average number of shares used in the calculation of diluted earnings per ordinary share	3,643	3,751

8 Derivative financial instruments

The Group enters into derivative financial instruments to reduce exposure to fluctuations in commodity prices, interest rates and foreign exchange rates, which arise in the normal course of business. The Group also enters into derivative financial instruments for trading purposes. Detailed disclosures explaining the nature of the risks that the Group is exposed to, and the financial instruments entered into by the Group, are provided in the Annual Report and Accounts for the years ended 31 December 2005 and 2006. There has been no significant change to the nature of the Group's derivative contracts which have been accounted for in accordance with IAS 39 in the year ended 31 December 2006. The fair values recorded in the Group Balance Sheet only concern those contracts entered into which are within the scope of IAS 39 and should not be construed as a measure of the Group's exposure to cash flow risk resulting from changes in commodity prices.

9 Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank, in transit and in hand	29	21
Short-term deposits	611	1,218
Cash and cash equivalents	640	1,239

10 Bank overdrafts and loans

Amounts falling due:	2006 Current £m	2006 Non-current £m	2005 Current £m	2005 Non-current £m
(a) Businesses' recourse borrowings				
Bank overdrafts and loans	56	105	259	504
Other bank loans:				
Bonds	–	1,181	–	422
Commercial paper	100	–	377	–
Loan notes	–	3	–	–
Obligations under finance leases (including tolling arrangements)	25	783	19	809
	181	2,072	655	1,735
(b) Businesses' non-recourse borrowings				
Canadian dollar bonds	–	218	–	250
Units of The Consumers' Waterheater Income Fund	–	265	–	282
	181	2,555	655	2,267

11 Reserves

	Attributable to equity holders of the Company							
	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Other reserves £m	Total £m	Minority interest £m	Total equity £m
31 December 2005	224	595	467	15	1,085	2,386	56	2,442
Exchange differences on translation of foreign operations	–	–	–	–	(23)	(23)	–	(23)
Actuarial gains on defined benefit pension schemes	–	–	–	–	475	475	–	475
Cash flow hedges:								
Net fair value losses	–	–	–	–	(645)	(645)	–	(645)
Transfers to Income Statement	–	–	–	–	(294)	(294)	–	(294)
Tax on items taken directly to / from equity	–	–	–	–	169	169	–	169
	224	595	467	15	767	2,068	56	2,124
Loss for the year	–	–	–	–	(155)	(155)	1	(154)
Employee share option schemes:								
Share issue	3	62	–	–	–	65	–	65
Exercise of awards	–	–	–	–	(9)	(9)	–	(9)
Value of services provided	–	–	–	–	23	23	–	23
Repurchase of shares	(1)	–	–	1	(23)	(23)	–	(23)
Dividends	–	–	–	–	(384)	(384)	–	(384)
31 December 2006	226	657	467	16	219	1,585	57	1,642

12 Notes to the Group Cash Flow Statement

(a) Reconciliation of Group operating profit to net cash flow from operating activities	2006 £m	2005 £m
Continuing operations		
Group operating profit including share of result of joint ventures and associates	180	1,957
Less share of losses / (profits) of joint ventures and associates	12	(37)
Group operating profit before share of result of joint ventures and associates	192	1,920
Add back:		
Amortisation of intangible assets	73	76
Depreciation of property, plant and equipment	506	406
Systems write-down	196	–
Employee share scheme costs	23	17
Profit on sale of businesses	(3)	(53)
Profit on sale of property, plant and equipment, and other intangible assets	(17)	(17)
Movement in provisions	84	42
Re-measurement of energy contracts (i)	911	(455)
Operating cash flows before movements in working capital	1,965	1,936
Increase in inventories	(83)	(22)
Increase in receivables	(260)	(269)
(Decrease) / increase in payables	(149)	299
Cash generated from continuing operations	1,473	1,944
Income taxes paid	(311)	(320)
Petroleum revenue tax paid	(316)	(448)
Net interest received	4	3
Payments relating to exceptional charges	(113)	(48)
Net cash flow from continuing operating activities	737	1,131

(i) Includes net £5 million (2005: £nil) unrealised losses / (profits) arising from re-measurement of contracts, including those relating to proprietary trading and North American storage activities.

	2006 £m	2005 £m
Discontinued operations		
Operating profit before share of result of joint ventures and associates	–	12
Add back:		
Amortisation of intangible assets	–	1
Depreciation of property, plant and equipment	–	6
Employee share scheme costs	–	1
Movement in provisions	–	(4)
Operating cash flows before movements in working capital	–	16
Increase in receivables	–	(3)
Cash generated from discontinued operations	–	13
Net cash flow from discontinued operating activities	–	13
Net cash flow from operating activities	737	1,144

(b) Net cash flow from investing activities	2006 £m	2005 £m
Continuing operations	(717)	(520)
Discontinued operations	(3)	(9)
Net cash flow from investing activities	(720)	(529)

(c) Net cash flow from financing activities	2006 £m	2005 £m
Continuing operations	(597)	(356)
Discontinued operations	–	21
Net cash flow from financing activities	(597)	(335)

(d) Net debt	2006 £m	2005 £m
Non-current assets – other financial assets	37	45
Current assets – other financial assets	49	46
Current assets – cash and cash equivalents	640	1,239
Current liabilities – bank overdrafts and loans	(181)	(655)
Non-current liabilities – bank loans and other borrowings	(2,555)	(2,267)
Net debt including non-recourse borrowings	(2,010)	(1,592)
Less non-recourse borrowings (note 10)	483	532
Net debt excluding non-recourse borrowings	(1,527)	(1,060)

13 Pensions

Substantially all of the Group's UK employees at 31 December 2006 were members of one of the three main schemes: the Centrica Pension Scheme (formerly the Centrica Staff Pension Scheme), the Centrica Engineers' Pension Scheme and the Centrica Management Pension Scheme (the approved pension schemes). The Centrica Pension Scheme (final salary section) and the Centrica Management Pension Scheme (a final salary scheme) were closed to new members from 1 April 2003. The Centrica Pension Scheme has an open career average salary section. The Centrica Engineers' Pension Scheme (final salary section) was closed to new members from 1 April 2006, and a career average salary section was added to the scheme at that date. These schemes are defined benefit schemes, and are tax-approved funded arrangements. 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. The Group also has a commitment to provide certain pension and post retirement benefits to employees of Direct Energy Marketing Limited (Canada).

The latest full actuarial valuations were carried out at the following dates: the approved pension schemes at 31 March 2004, the Centrica Unapproved Pension Scheme at 6 April 2005 and the Direct Energy Marketing Limited pension plan at 14 June 2005. These have been updated to 31 December 2006 for the purposes of meeting the requirements of IAS 19. Investments have been valued, for this purpose, at market value. At 31 December 2006, all of the schemes reported deficits when valued for the purposes of IAS 19.

Major assumptions used for the actuarial valuation	31 December 2006 %	31 December 2005 %
Rate of increase in employee earnings	4.00	4.35
Rate of increase in pensions in payment and deferred pensions	3.00	2.85
Discount rate	5.00	4.85
Inflation assumption	3.00	2.85

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date have been based on a combination of standard actuarial mortality tables, scheme experience and other relevant data, and include a medium cohort allowance for future improvements in longevity, as published by the Institute of Actuaries. The assumptions are equivalent to future longevity for members in normal health approximately as follows:

	31 December 2006		31 December 2005	
Life expectancy at age 65 for a member:	Male years	Female years	Male years	Female years
Currently aged 65	20.2	21.7	18.8	22.7
Currently aged 45	21.3	22.9	20.6	24.5

At the most recent actuarial review of the schemes there were approximately 20,850 male (2005: 19,850) and 11,050 female (2005:11,050) members and beneficiaries.

The other demographic assumptions have been set having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the pension schemes.

Impact of changing material assumptions	Change in assumption	Indicative effect on scheme liabilities
Rate of increase in employee earnings	Increase / decrease by 0.25%	Increase / decrease by 2%
Rate of increase in pensions in payment and deferred pensions	Increase / decrease by 0.25%	Increase / decrease by 4%
Discount rate	Increase / decrease by 0.25%	Decrease / increase by 6%
Inflation assumption	Increase / decrease by 0.25%	Increase / decrease by 6%
Longevity assumption	Increase / decrease by 1 year	Increase / decrease by 2%

The market value and expected rate of return of the assets and the present value of the liabilities in the schemes at 31 December were:

31 December	Expected rate of return per annum 2006 %	Valuation 2006 £m	Expected rate of return per annum 2005 %	Valuation 2005 £m
UK equities	7.8	1,486	7.9	1,182
Non-UK equities	7.8	857	8.0	841
Fixed-interest bonds	5.3	312	4.7	241
Interest-linked bonds	4.3	213	4.1	150
Property	6.2	68	6.3	83
Cash and other assets	5.0	52	3.7	73
Total fair value of plan assets	7.2	2,988	7.3	2,570
Present value of defined benefit obligation		(3,284)		(3,390)
Net liability recognised in the Balance Sheet (i)		(296)		(820)
Associated deferred tax asset recognised in the Balance Sheet		89		249
Net pension liability		(207)		(571)

(i) £17 million of the liability relates to loss on curtailments included within exceptional restructuring costs arising in the year (2005: £13 million). In 2005, this amount was reflected in restructuring provisions within the Balance Sheet. In 2006 it has been included with the pension liability.

The overall expected rate of return on assets is a weighted average based on the actual plan assets held and the respective expected returns on separate asset classes. The return on separate asset classes were derived as follows: the expected rate of return on equities is based on the expected median return over a ten year period, as calculated by the independent company actuary. The median return over a longer period than ten years was not expected to be materially dissimilar. The expected rate of return on bonds was measured directly from actual market yields for UK gilts and corporate bond stocks. The rate above takes into account the actual mixture of UK gilts, UK corporate bonds and overseas bonds held at the balance sheet date. The expected rate of return on property takes into account both capital growth and allowance for expenses, rental growth and depreciation. The expected rate of return on cash is comparable to current bank interest rates.

Included within schemes' liabilities above are £27 million (2005: £32 million) relating to unfunded pension arrangements. Included within other non-current financial assets are £29 million (2005: £31 million) of money market investments, held by the Law Debenture Trust on behalf of the Company, as security in respect of the Centrica Unapproved Pension Scheme.

Analysis of the amount charged to operating profit	2006 £m	2005 £m
Current service cost	143	122
Plan amendment (i)	(20)	–
Loss on curtailment	18	14
Net charge to operating profit	141	136

(i) The schemes' rules were amended from 1 April 2006 to allow employees to commute a larger amount of their pension to a cash lump sum on retirement, in line with changes in the Finance Act. Accordingly, the assumptions made in calculating the Group's defined benefit pension liability have been revised, and a gain of £20 million has been recognised in Group operating profit before exceptional items and certain re-measurements. Future revisions to the assumption will be reflected within the Statement of Recognised Income and Expense.

Analysis of the amount (credited) / charged to notional interest	2006 £m	2005 £m
Expected return on pension scheme assets	(194)	(153)
Interest on pension scheme liabilities	168	150
Net credit to notional interest	(26)	(3)

Analysis of the actuarial gain / (loss) recognised in the Statement of Recognised Income and Expense	2006 £m	2005 £m
Actual return less expected return on pension scheme assets	95	307
Experience gains and losses arising on the schemes' liabilities	145	21
Changes in assumptions underlying the present value of the schemes' liabilities	235	(454)
Actuarial gain / (loss) to be recognised in the Statement of Recognised Income and Expense before adjustment for tax	475	(126)
Cumulative actuarial gains and losses recognised in reserves at 31 December	439	(36)

14 Events after the balance sheet date

The Directors propose a final dividend of 8.0 pence per share (totalling £293 million) for the year ended 31 December 2006. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 14 May 2007. These Financial Statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2007.

On 8 February 2007 the Group's subsidiary The Consumers' Waterheater Income Fund acquired the water heater rental business of Toronto Hydro Energy Services Inc for consideration of C$41 million (£18 million) in cash. Management considers it impracticable to disclose information about the fair value of the net assets acquired since the findings of the valuation exercise are not yet available.

In January 2007 the Group was awarded participation in four exploration licences located in the Norwegian Sea and Northern North Sea. The Group will have an operated interest in three licences, with non-operatorship in one block. In addition the Group has been awarded two exploration licences located in the East Irish Sea, adjacent to Centrica's Morecambe fields.

Group Income Statement for the six months ended 31 December

		2006			2005		
	Notes	Results for the period before exceptional items and certain re-measurements (i) £m	Exceptional items and certain re-measurements (i) £m	Results for the period £m	Results for the period before exceptional items and certain re-measurements (i) £m	Exceptional items and certain re-measurements (i) £m	Results for the period £m
Continuing operations							
Group revenue	15	7,722	–	7,722	6,832	–	6,832
Cost of sales		(5,801)	–	(5,801)	(5,175)	–	(5,175)
Re-measurement of energy contracts (i)	16	–	(423)	(423)	–	(20)	(20)
Gross profit		1,921	(423)	1,498	1,657	(20)	1,637
Operating costs before exceptional items		(1,174)	–	(1,174)	(1,127)	–	(1,127)
Systems write-down	16	–	(196)	(196)	–	–	–
Business restructuring costs	16	–	(87)	(87)	–	(100)	(100)
Rough storage incident	16	–	(6)	(6)	–	–	–
Operating costs		(1,174)	(289)	(1,463)	(1,127)	(100)	(1,227)
Share of profits / (losses) in joint ventures and associates, net of interest and taxation (i)		3	(15)	(12)	14	–	14
Group operating profit	15	750	(727)	23	544	(120)	424
Interest income (i)		33	3	36	55	–	55
Interest expense (i)		(93)	–	(93)	(125)	4	(121)
Net interest expense		(60)	3	(57)	(70)	4	(66)
Profit / (loss) from continuing operations before taxation		690	(724)	(34)	474	(116)	358
Taxation on profit from continuing operations		(252)	199	(53)	(260)	23	(237)
Profit / (loss) from continuing operations after taxation		438	(525)	(87)	214	(93)	121
Profit from discontinued operations		–	–	–	13	–	13
(Loss) / gain on disposal of discontinued operations		(8)	–	(8)	–	8	8
Discontinued operations		(8)	–	(8)	13	8	21
Profit / (loss) for the period		430	(525)	(95)	227	(85)	142
Attributable to:							
Equity holders of the parent		430	(525)	(95)	227	(85)	142
Minority interests		–	–	–	–	–	–
		430	(525)	(95)	227	(85)	142
(Loss) / earnings per ordinary share							
From continuing and discontinued operations:							
Basic	17			(2.6)			4.1
Adjusted basic	17	11.8			6.3		
Diluted	17			(2.6)			4.1

(i) Certain re-measurements (note 1) included within operating profit comprise re-measurement arising on our energy procurement activities and re-measurement of proprietary trades in relation to cross-border transportation or capacity contracts. Certain re-measurements included within interest comprise re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund. All other re-measurement is included within results before exceptional items and certain re-measurements.

Group Cash Flow Statement for the six months ended 31 December

	Notes	2006 £m	2005 £m
Operating cash flows before movements in working capital	18	1,018	752
Increase in inventories		(60)	(26)
Increase in receivables		(691)	(1,084)
Increase in payables		1,078	1,096
Cash generated from continuing operations		1,345	738
Interest received		6	5
Interest paid		(3)	(9)
Tax paid		(463)	(473)
Payments relating to exceptional charges		(52)	(11)
Net cash flow from continuing operating activities	18	833	250
Net cash flow from discontinued operating activities	18	–	16
Net cash flow from operating activities	18	833	266
Purchase of interests in subsidiary undertakings and businesses net of cash and cash equivalents acquired		(5)	(35)
Disposal of interests in subsidiary undertakings and businesses net of cash and cash equivalents disposed		(26)	84
Purchase of intangible assets		(94)	(90)
Disposal of intangible assets		13	26
Purchase of property, plant and equipment		(252)	(451)
Disposal of property, plant and equipment		–	14
Dividends received from joint ventures and associates		–	1
Investments in joint ventures and associates		(2)	(104)
Disposal of interests in associates and other investments		4	11
Interest received		23	48
Net sale / (purchase) of other financial assets		–	(16)
Net cash flow from investing activities	18	(339)	(512)
Re-purchase of ordinary share capital		–	(156)
Issue of ordinary share capital		14	1
Interest paid in respect of finance leases		(24)	(40)
Other interest paid		(47)	(50)
Distribution to unit holders of The Consumers' Waterheater Income Fund		(14)	(11)
Interest paid		(85)	(101)
Cash inflow from additional debt		489	638
Cash outflow from payment of capital element of finance leases		(8)	(23)
Cash outflow from repayment of other debt		(726)	(126)
Net cash flow from (decrease) / increase in debt		(245)	489
Realised net foreign exchange gain / (loss) on cash settlement of derivative contracts		21	(35)
Equity dividends paid		(115)	(120)
Net cash flow from financing activities	18	(410)	78
Net increase / (decrease) in cash and cash equivalents		84	(168)
Cash and cash equivalents at 1 July [i]		511	1,335
Effect of foreign exchange rate changes		(3)	10
Cash and cash equivalents at 31 December [i]		592	1,177

(i) Cash and cash equivalents are stated net of overdrafts of £48 million (2005: £62 million).

15 Segmental analysis for the six months ended 31 December

(a) Revenue	2006 Gross segment revenue £m	2006 Less inter-segment revenue (i) £m	2006 Group revenue £m	2005 (restated) Gross segment revenue £m	2005 (restated) Less inter-segment revenue (i) £m	2005 (restated) Group revenue £m
Continuing operations:						
British Gas Residential	3,074	–	3,074	2,813	–	2,813
British Gas Business	1,134	–	1,134	785	–	785
British Gas Services	583	–	583	528	–	528
Industrial sales and wholesaling	466	(67)	399	453	(53)	400
Gas production	360	(189)	171	659	(546)	113
Accord energy trading	30	–	30	21	–	21
Centrica Energy	856	(256)	600	1,133	(599)	534
Centrica Storage	207	(39)	168	147	(38)	109
North American Energy and Related Services	2,009	–	2,009	1,952	–	1,952
European Energy	154	–	154	106	–	106
Other operations	–	–	–	5	–	5
	8,017	(295)	7,722	7,469	(637)	6,832
Discontinued operations:						
Onetel	–	–	–	181	(1)	180
	–	–	–	181	(1)	180

(i) Accord energy trading carries out certain sales transactions on behalf of the Group's Industrial sales and wholesaling segment. The Group considers that it is not reflective of the trading relationship between the segments to present these transactions as inter-segment revenue within the Industrial sales and wholesaling segment. The comparative information has been restated accordingly. The effect of the restatement is to reduce gross segment revenue and inter-segment revenue for Industrial sales and wholesaling by £431 million for the six months ended 31 December 2005. There is no effect on Group revenue or segment operating profit.

(b) Operating profit	Operating profit/(loss) before exceptional items and certain re-measurements 2006 £m	2005 £m	Exceptional items 2006 £m	2005 £m	Certain re-measurements 2006 £m	2005 £m	Operating profit/(loss) after exceptional items and certain re-measurements 2006 £m	2005 £m
Continuing operations:								
British Gas Residential	238	(75)	(214)	(61)	(415)	124	(391)	(12)
British Gas Business	76	22	–	(1)	(282)	62	(206)	83
British Gas Services	58	52	(66)	(15)	–	–	(8)	37
Industrial sales and wholesaling	(78)	(136)	–	–	278	(272)	200	(408)
Gas production	160	480	–	–	18	(23)	178	457
Accord energy trading	25	16	–	–	9	40	34	56
Centrica Energy	107	360	–	–	305	(255)	412	105
Centrica Storage	135	97	–	–	2	(2)	137	95
North American Energy and Related Services	102	98	–	–	(33)	51	69	149
European Energy	11	(12)	–	–	(15)	–	(4)	(12)
Other operations	23	2	(9)	(23)	–	–	14	(21)
	750	544	(289)	(100)	(438)	(20)	23	424
Discontinued operations:								
The AA	–	–	–	12	–	–	–	12
Onetel	(11)	14	–	(4)	–	–	(11)	10
	(11)	14	–	8	–	–	(11)	22

16 Exceptional items and certain re-measurements for the six months ended 31 December 2006

(a) Exceptional items	2006 £m	2005 £m
Exceptional items recognised in continuing operations		
Systems write-down [(i)]	(196)	–
Business restructuring costs [(ii)]	(87)	(100)
Rough storage incident [(iii)]	(6)	–
Total exceptional items recognised in continuing operations	(289)	(100)
Exceptional items recognised in discontinued operations		
Adjustment to profit on disposal of the AA	–	13
Loss on disposal of Onetel	–	(5)
Total exceptional items recognised in discontinued operations	–	8

(i) The Group has written down certain of its recent major systems developments following a review of their existing and required future functionality. The cost comprises write-downs in British Gas Residential (£178 million) and British Gas Services (£18 million). A tax credit of £59 million was recognised in respect of these costs.

(ii) Business restructuring costs comprise £67 million from staff reductions at the corporate centre (£3 million), British Gas Residential (£16 million), and British Gas Services (£48 million), and £20 million relating to the closure of the head office of British Gas Residential. A tax credit of £20 million was recognised in respect of these costs. Business restructuring costs in 2005 comprised £100 million resulting from staff reductions at the corporate centre (£23 million), British Gas Residential (£43 million), British Gas Services (£15 million), British Gas Business (£1 million) and £18 million relating to changes to the property portfolio. A tax credit of £23 million was recognised in respect of these costs.

(iii) Centrica Storage operations at Rough suffered a major interruption caused by a fire in February 2006. Our investment in new emergency shutdown systems and prompt management action mitigated the damage to ensure no loss of life. Following a full assessment of the work needed to restore operations, the costs of the incident have resulted in an exceptional charge before taxation of £48 million, of which £6 million has arisen in the second half of the year. A tax credit of £14 million was recognised in respect of these costs, with £2 million arising in the second half of the year.

(b) Certain re-measurements (note 1)	2006 £m	2005 £m
Net (losses) / gains arising on delivery of contracts	(114)	57
Net (losses) / gains arising on market price movements and new contracts	(333)	(116)
Net (losses) / gains arising on proprietary trades in relation to cross-border transportation or capacity contracts	24	39
Net re-measurement of energy contracts included within gross profit	(423)	(20)
Net losses arising on re-measurement of joint ventures' energy contracts	(15)	–
Net re-measurement included within Group operating profit	(438)	(20)
Gains arising on re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund	3	4
Total certain re-measurements	(435)	(16)

17 Earnings per ordinary share for the six months ended 31 December

	2006		2005	
Continuing and discontinued operations	£m	Pence per ordinary share	£m	Pence per ordinary share
(Loss) / earnings – basic	(95)	(2.6)	142	4.1
Net exceptional items after tax	208	5.8	69	1.9
Certain re-measurement gains and losses after tax	317	8.6	16	0.3
Earnings – adjusted basic	430	11.8	227	6.3
(Loss) / earnings – diluted	(95)	(2.6)	142	4.1

18 Notes to the Group Cash Flow Statement for the six months ended 31 December

(a) Reconciliation of Group operating profit to net cash flow from operating activities	2006 £m	2005 £m
Continuing operations		
Group operating profit including share of result of joint ventures and associates	23	424
Less share of profits / (losses) of joint ventures and associates	12	(14)
Group operating profit before share of result of joint ventures and associates	35	410
Add back:		
Amortisation of intangible assets	47	51
Depreciation of property, plant and equipment	260	206
Systems write-down	196	–
Employee share scheme costs	12	8
Profit on sale of businesses	(4)	(6)
Profit on sale of property, plant and equipment, and other intangible assets	(7)	(17)
Movement in provisions	58	79
Re-measurement of energy contracts (i)	421	21
Operating cash flows before movements in working capital	1,018	752
Increase in inventories	(60)	(26)
Increase in receivables	(691)	(1,084)
Increase in payables	1,078	1,096
Cash generated from continuing operations	1,345	738
Income taxes paid	(192)	(181)
Petroleum revenue tax paid	(271)	(292)
Net interest received / (paid)	3	(4)
Payments relating to exceptional charges	(52)	(11)
Net cash flow from continuing operating activities	833	250

(i) Includes net £2 million unrealised losses / (profits) arising from re-measurement of contracts, including those relating to proprietary trading and North American storage activities.

	2006 £m	2005 £m
Discontinued operations		
Operating profit before share of result of joint ventures and associates	–	14
Add back:		
Depreciation of property, plant and equipment	–	2
Employee share scheme costs	–	1
Movement in provisions	–	(2)
Operating cash flows before movements in working capital	–	15
Increase in receivables	–	(1)
Increase in payables	–	2
Cash generated from discontinued operations	–	16
Net cash flow from discontinued operating activities	–	16
Net cash flow from operating activities	833	266

(b) Net cash flow from investing activities	2006 £m	2005 £m
Continuing operations	(336)	(495)
Discontinued operations	(3)	(17)
Net cash flow from investing activities	(339)	(512)

(c) Net cash flow from financing activities	2006 £m	2005 £m
Continuing operations	(410)	64
Discontinued operations	–	14
Net cash flow from financing activities	(410)	78

Disclaimers

This announcement does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Centrica shares or other securities.
This announcement contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Centrica plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements and forecasts.
Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

For further information

Centrica will hold its 2006 Preliminary Results presentation for analysts and institutional investors at 9.30am (GMT) on Thursday 22 February 2007. There will be a live webcast of the presentation and slides from 9.30am at www.centrica.com/investors.

The live broadcast of the presentation will be available by dialling in using the following numbers:

From the UK	0845 245 3471
From overseas	+44 1452 561 394

The call title is "2006 Preliminary Results Announcement" and the pass-code is 7492782.

An archived webcast and full transcript of the presentation and the question and answer session will be available on the website on Monday 26 February 2007.

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Financial Calendar

Ex-dividend date for 2006 final dividend	25 April 2007
Record date for 2006 final dividend	27 April 2007
Annual General Meeting	14 May 2007
2006 final dividend payment date	13 June 2007
Pre-close Trading Update	15 June 2007
2007 interim results announcement	2 August 2007

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