Centrica plc

International Financial Reporting Standards

Restatement and seminar

Centrica plc has adopted International Financial Reporting Standards with effect from 1 January 2005 and, on 15 September 2005, will report its results for the six month period ending 30 June 2005 on an IFRS basis.

The Group has today issued the following statement which presents and explains the unaudited consolidated results of the Centrica Group restated from UK GAAP onto an IFRS basis for the year ended 31 December 2004, the six months ended 30 June 2004 and the balance sheet as at 1 January 2004. This does not include the impact of IAS 39 and IAS 32 on Centrica's energy contracts. The Group has taken the IFRS 1 exemption and will apply this standard prospectively from 1 January 2005. Accordingly a reconciliation of the Group's IFRS balance sheet from 31 December 2004 to 1 January 2005 is presented with this statement.

At 9.30am today the Group will hold an IFRS seminar for analysts and institutional investors. The presentation slides and a live audio webcast will be available from that time on Centrica's website at www.centrica.co.uk/investors. An archived webcast and full transcript, including questions and answers, will be available by the end of the week.

Disclaimers:

This statement does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Centrica shares. It may contain 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.

Standards currently in issue and adopted by the EU are subject to interpretation issued from time to time by the International Financial Reporting Interpretations Committee (IFRIC). Further standards may be issued by the IASB that will be adopted for financial years beginning on or after 1 January 2005. Additionally, IFRS is currently being applied in the United Kingdom and in a large number of countries simultaneously for the first time. Furthermore, due to a number of new and revised Standards included within the body of Standards that comprise IFRS, there is not yet significant established practice on which to draw in forming decisions regarding the interpretation and application. Accordingly, practice is continuing to evolve. At this preliminary stage, therefore, the full financial effect of reporting under IFRS as it will be applied and reported on in the Company's first IFRS financial statements for the year ended 31 December 2005 may be subject to change. The IFRS results are unaudited.

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Transition to International Financial Reporting Standards- Overview

The transition to International Financial Reporting Standards (IFRS) represents a significant change to our accounting policies. The purpose of this document is to provide details of the impact of that change prior to the release of our interim financial statements for the six months ending 30 June 2005.

In understanding the changes, it is important to note that IFRS has no impact on our business strategy, nor on the cash flows generated by the business and it does not change the underlying drivers of value of Centrica's business model.

The main accounting changes introduced by IFRS relate to the recognition of assets and liabilities on our balance sheet:

- changing the basis of calculating the provisions for future Petroleum Revenue Tax (PRT) and other deferred income taxes;
- bringing additional assets and liabilities onto our balance sheet including the pension deficit and certain tolling arrangements;
- marking to market some of our energy contracts; and
- reclassifying the minority interest in the Consumers' Waterheater Income Fund to debt.

By changing the balance sheet recognition of these items, the timing of charges and credits to the income statement also changes, notably for PRT. The requirement to mark to market more of our commodity transactions requires the initial recognition of unrealised profits and losses and introduces volatility in the Group's reported profits. In addition, pension accounting comes more closely into line with the previously disclosed FRS 17 results.

- For 2004, these changes improve basic earnings per share by 5.0 p per share to 38.0 p and reduce adjusted* earnings per share by 1.9 p per share to 18.1p compared to the UK GAAP position.

- Net assets at 1 January 2005 following the adoption of IAS 32 and IAS 39 reduce by £606 million to £1,965 million.

- Net cash at 1 January 2005 of £296 million under UK GAAP excluding non-recourse debt on the Consumers' Waterheater Income Fund moves to net debt of £513 million under IFRS from the inclusion of tolling arrangements as finance leases. Non-recourse debt increases from £217 million under UK GAAP to £461 million under IFRS.

Phil Bentley, Group Finance Director **4 May 2005**

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

Centrica plc

Transition to International Financial Reporting Standards

Introduction

Centrica plc and its subsidiaries (together the Group) currently prepares consolidated financial statements under UK Generally Accepted Accounting Principles (UK GAAP).

IFRS[1] will apply for the first time in the Group's financial statements for the year ending 31 December 2005. Accordingly, the Group's financial results for the six month period ending 30 June 2005 will also be presented under IFRS. The transition date for adoption of IFRS by the Group has been determined, in accordance with IFRS 1, First Time Adoption of International Financial Reporting Standards, as 1 January 2004.

This statement presents and explains how the Group's financial performance for the year ended 31 December 2004 and its financial position at that date under IFRS differs from that reported under UK GAAP. It includes on an IFRS basis:

- The Group's 'opening' consolidated balance sheet as at 1 January 2004, the Group's transition date to IFRS.
- The Group's summary income statement and cash flow statement for the six month period ended 30 June 2004 and consolidated balance sheet as at that date.
- The Group's summary income statement and cash flow statement for the 12 months ended 31 December 2004 and the consolidated balance sheet at that date.

In addition, the consolidated balance sheet as at 1 January 2005 is also attached in Appendix 8 to incorporate the requirements of IAS 32 and IAS 39 both of which have been adopted at that date.

Reconciliations providing additional detail on the quantum and nature of the differences between UK GAAP and IFRS are provided in Appendices 1-8.

Basis of preparation

Standards currently in issue and adopted by the EU are subject to interpretation issued from time to time by the International Financial Reporting Interpretations Committee (IFRIC). Further standards may be issued by the IASB that will be adopted for financial years beginning on or after 1 January 2005. Additionally, IFRS is currently being applied in the United Kingdom and in a large number of countries simultaneously for the first time. Furthermore, due to a number of new and revised Standards included within the body of Standards that comprise IFRS, there is not yet significant established practice on which to draw in forming decisions regarding its interpretation and application. Accordingly, practice is continuing to evolve. At this preliminary stage, therefore, the full financial effect of reporting under IFRS as it will be applied and reported on in the Company's first IFRS financial statements for the year ended 31 December 2005 may be subject to change.

[1] References to IFRS throughout this document refer to the application of International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations issued by the International Accounting Standards Board (IASB) and its committees.

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Transition to International Financial Reporting Standards

The IFRS financial information presented in this document is unaudited. It may be subject to change and therefore should not be considered definitive. It has been prepared on the basis of all IFRSs applicable to the Group published by 31 March 2005. These include standards and interpretations endorsed by the European Commission (EC) and those awaiting formal endorsement.

In preparing the restated financial information, the Group has early adopted:

- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations;
- IFRIC 4, Determining Whether an Arrangement Contains a Lease;
- The amendment to IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures; and
- IFRS 6, Exploration for and Evaluation of Mineral Resources.

The rules for first-time adoption of IFRS are set out in IFRS 1, First Time Adoption of International Financial Reporting Standards. IFRS 1 states that a company should use the same accounting policies in its opening IFRS balance sheet and throughout all periods presented in its first IFRS financial statements. The Standard requires these policies to comply with IFRSs effective at the reporting date of the first published financial statements (31 December 2005) under IFRS.

IFRS 1 allows exemptions from the application of certain IFRSs to assist companies with the transition process. Centrica has taken the following key exemptions:

- Financial Instruments: The Group has elected to adopt IAS 32, Financial Instruments: Disclosure and Presentation and IAS 39, Financial Instruments: Recognition and Measurement from 1 January 2005 with no restatement of comparative information. As a result, the information related to financial instruments in this restatement and the comparative information in the 2005 financial statements will be presented on the existing UK GAAP basis. A reconciliation between the closing 2004 balance sheet and opening 2005 balance sheet is presented in Appendix 8;
- Business combinations: The Group has elected not to restate business combinations prior to the transition date;
- Employee Benefits: All cumulative actuarial gains and losses have been recognised in reserves at the transition date. This is to maintain consistency with the prospective Group policy, whereby all actuarial gains and losses will be recognised directly in reserves via the Statement of Recognised Income and Expense;

- Cumulative translation differences: The Group has elected to reset the foreign currency translation reserve to zero at the transition date. Any gains and losses on subsequent disposals of foreign operations will exclude translation differences arising prior to the transition date; and

- Share-based payment: The Group has applied IFRS 2, Share-based Payment, to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

Analysis of key impacts for 2004

1 PRT

Changes to the calculation of the PRT charge under IFRS do not affect the amount of PRT paid for production or the timing of cash paid to HM Collector of Taxes. However, it does change the calculation of the deferred liability and therefore the timing of charges to the income statement.

Under UK GAAP there is no definitive guidance on the accounting treatment of PRT. Centrica's approach under UK GAAP has been to treat the tax as a cost of sale (within gross margin) calculated on a unit of production basis, spread over the life of the field. IFRS also lacks specific guidance on PRT, although the definitions of an income tax in IAS 12, Income Taxes have led management to judge that PRT should be treated consistently with other taxes. This treatment also changes the basis of calculation of the charge, because IAS 12 requires the calculation of the deferred PRT charge on a temporary difference basis. The overall PRT charge for 2004 increases by £48 million net of deferred corporation tax, and results in the reclassification within the income statement of £209 million of PRT costs from cost of sales into the tax charge. This improves gross margins, but adversely affects the effective tax rate and earnings.

2 Leases

Unlike UK GAAP, IFRS contains specific guidance which sets out whether or not an arrangement contains a lease (IFRIC 4). Adoption of IFRIC 4 is not mandatory until 1 January 2006 but Centrica has, as permitted, adopted it at the transition date, in order to aid comparability. Certain third party power tolling arrangements have been assessed to be leases in line with IFRIC 4. Accordingly the arrangements have been assessed against the criteria of IAS 17, Leases, to determine whether the leases are operating or financing in nature.

The Humber and Spalding tolling arrangements have been assessed to be finance leases under IFRS due to the contractual terms and operating interests the Group has in the assets. The assets and finance lease creditor balances have been recognised based on the fair values of the lease arrangements as determined at the inception date of the leases. At 31 December 2004 fixed assets with a net book value of £722 million have been recognised, together with £798 million of finance lease liabilities, of which £13 million has been classified as repayable in under one year. In the income statement, £82 million

previously treated as a cost of sale under UK GAAP has been treated as interest payable, to reflect the interest element of the lease payments. In addition, £21 million has been recognised in operating costs in respect of depreciation of the fixed assets. In the cash flow statement, compared to UK GAAP, operating cash flow has increased by £78 million and net cash out flow from financing activities has increased by a similar amount.

In addition to the Humber tolling agreement, the Group has an equity interest in Humber Power Limited, which continues to be accounted for as a joint venture. IFRS permits a choice in accounting for joint ventures which meet the definition of jointly controlled entities (JCE). This choice is between equity accounting (a single line reflecting our share in each of the balance sheet and income statement of the JCE) or proportionate consolidation (showing our share of each category of asset and liability, income and expense of the JCE). The Group has adopted equity accounting for jointly controlled entities. The impact on accounting for the Humber JCE after the change in accounting for the inherent leases at 31 December 2004 is an increase in profits of £26 million and a £88 million increase to our investments in joint ventures.

The net impact of these changes is to increase earnings in 2004 by £4 million and increase net assets by £12 million at 31 December 2004. There is no impact on net cash flow nor on the underlying commercial arrangements.

3 Pension liabilities and assets

Under UK GAAP, the Group measures pension commitments and other related benefits in accordance with SSAP 24, Accounting for Pension Costs. Additional disclosures are required by FRS 17, Retirement Benefits. IFRS requires retirement and other benefits to be accounted for in line with IAS 19, Employee Benefits. The impact of IAS 19 is similar to that of FRS 17, except that the opening deficit is slightly higher as assets are valued at a bid price rather than a middle market valuation.

Unlike FRS 17, IAS 19 requires the deficit to be shown gross under long term liabilities rather than net of deferred tax. We will continue the UK GAAP practice of recognising a deferred tax asset but we will report it separately within non-current deferred tax assets. IAS 19 includes an option allowing actuarial gains and losses to be held on the balance sheet and released to the income statement over a period of time, rather than immediately to reserves. Centrica has elected not to adopt this approach and will instead be recognising actuarial gains and losses directly through reserves, reported in the Statement of Recognised Income and Expense.

The impact of the adoption of IAS 19 is to recognise an additional net pension liability compared to SSAP 24, of £775 million at 1 January 2004 (bringing the total pension liability to £796 million, net of an associated deferred tax asset of £342 million). This includes £60 million for the additional requirement to create a liability for future administrative expenses and death in service benefits. During the year the Group disposed of the AA, including its related pension deficit and other related retirement benefits, which at 30 September amounted to £185 million, net of an associated deferred tax asset of £80 million. As at 31 December 2004, the Group’s deficit amounted to £494 million, net of an associated deferred tax asset of £211 million. The pension charge for the year increased by £58 million before tax, compared to the increase from SSAP24 to FRS 17 of £71 million

disclosed in our 2004 annual report and accounts, primarily because £16 million relating to redundancies were already included within our exceptional restructuring cost.

4 Employee share schemes

IFRS 2, Share Based Payment, introduces several changes to the way that employee share schemes are accounted for.

UK GAAP excluded Revenue approved 'save as you earn' schemes from its scope, removing any related charges from the profit and loss account. IFRS 2 has no such scope exclusions and requires its application to all grants of equity instruments after 7 November 2002 that were unvested as at 1 January 2005. First time adopters are not required to apply the standard to grants of equity instruments before 7 November 2002 and Centrica has not done so.

The second area of difference relates to the methodology for calculating the charge. Under UK GAAP the charge was based on the difference between the market price of the share on the grant date, and the exercise price to be paid by the employee ("intrinsic value"). IFRS 2 requires the fair value of the award to be calculated and charged.

On an annualised basis, these changes are likely to reduce earnings by approximately £10 million per annum, net of deferred tax, compared to UK GAAP. For 2004, the impact is less because of the transition exemption, at £1 million net of deferred tax.

5 Intangible assets

A wider range of intangible assets are recognised under IFRS, particularly in respect of business combinations. Under both IFRS and UK GAAP, an intangible asset is an identifiable non-monetary asset without physical substance. Under IAS 38, Intangible Assets, an asset is identifiable when it is separable (that is, capable of being sold separately from the entity) or arises from contractual or other legal rights (regardless of whether those rights are separable), whilst under UK GAAP (FRS 10) the assets must be capable of separate disposal without disposing of the related business.

Where intangibles are identified in business combinations this has the impact of reducing goodwill (which is not amortised under IFRS) and recognising other types of intangible assets, which are amortised over their estimated useful lives. The Group recognised £87 million of intangibles relating to acquisitions in the second half of 2004, principally £57 million for an indefinite life brand arising from the Dyno acquisition and £20 million in respect of consents for a power station and a windfarm development.

Under UK GAAP, all capitalised computer software is included within tangible fixed assets on the balance sheet. Under IFRS, only computer software that is integral to a related item of hardware should be included as property, plant and equipment. All other computer software should be recorded as an intangible asset. Accordingly, £349 million has been reclassified from property, plant and equipment to intangible assets at the transition date. The associated depreciation is reclassified as amortisation of intangibles in the income statement but there is no net impact on earnings or operating profit as a result of this reclassification. In addition, £39 million of renewable obligation certificates classified

within trade and other debtors under UK GAAP have been reclassified as intangibles at the transition date. Amounts capitalised under UK GAAP have been expensed on transition to IFRS, resulting in a reduction to opening net assets of £5 million.

6 Goodwill

IFRS 3, Business Combinations prohibits the amortisation of goodwill and instead requires an annual impairment review in accordance with IAS 36 Impairment of Assets. Therefore the goodwill amortisation charge under UK GAAP of £123 million for the 12 months ended 31 December 2004 has been reversed in the IFRS restated results. Assessments for impairment of goodwill were conducted at the transition date and none were identified. An assessment was also performed during 2004 on an IFRS basis, which led to an impairment of £4 million as a result of the additional goodwill recognised from the deferred tax liability arising on acquisitions (see paragraph 8 below).

7 Dividend payments

IAS 10, Events after the Balance Sheet Date, requires that dividends declared after the balance sheet date should not be recognised as a liability at the balance sheet date as the liability does not represent a present obligation as defined by IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Instead, dividends will be recognised in the period in which they are declared and approved. This has the effect of increasing the opening net assets at 1 January 2004 by £157 million. The results for 2004 restated under IFRS include the 2003 final dividend of £157 million, the 2004 interim dividend of £108 million and the special dividend of £1,050 million. The 2004 final dividend of £230 million will be reflected during the first half of 2005.

Other impacts

There are a number of less significant impacts of IFRS transition as follows:

8 Income taxes

Under UK GAAP, deferred tax is provided on timing differences, whereas IAS 12, Income Taxes requires provision to be made for temporary differences between carrying values and the related tax base of assets and liabilities (excluding goodwill), except under certain specific circumstances. As a result deferred tax needs to be recognised under IFRS in a number of areas where no deferred tax was required under UK GAAP. These are as follows:

- Deferred tax is recognised on temporary differences arising on acquisitions of businesses, where the recognition of assets or liabilities acquired at fair value differs to their tax base. The Group has recognised an additional deferred tax liability on acquisitions made during 2004 of £33 million, with a corresponding asset recognised within goodwill. Goodwill is tested for impairment annually, and at 31 December 2004, an impairment of £4 million has been recognised on goodwill arising in this way. Deferred tax arising on acquisitions prior to 1 January 2004 of £54 million has been recognised as an adjustment to opening reserves.

- Under UK GAAP a deferred tax provision is made for tax which would arise on the remittance of the retained earnings of overseas subsidiaries, joint ventures and associated undertakings only to the extent that dividends have been accrued as receivable. IAS 12 requires the recognition of deferred tax on the retained earnings of subsidiaries, joint ventures and associates whose distribution is not within the control of the Group and which is likely within the foreseeable future, whether or not dividends have been accrued. The Group recognised a liability of £7 million in the opening balance sheet, and an additional £2 million during the course of 2004.

9 Non-current Assets Held for Sale and Discontinued Operations

The Group has early adopted IFRS 5, Non-current Assets and Discontinued Operations. This requires the restatement of the results of the AA to be included, post tax and interest, within discontinued operations, along with the associated profit on disposal. At 30 June 2004, assets of £1,806 million and liabilities of £752 million of the AA have been reclassified as current items held for disposal in the Group's balance sheet. The pre-tax profit on disposal reported under UK GAAP at £727 million has been restated under IFRS to £911 million, the increase principally arising from the recognition of higher AA pension liabilities under IAS 19 compared to SSAP 24 and the reclassification of a tax credit of £13 million.

10 Presentation of Financial Statements

The requirements of IAS 1, Presentation of Financial Statements, differ from UK GAAP. This restated financial information has been presented in a summary format consistent with the requirements of IFRS for the face of the balance sheet, income statement and cash flow statement.

In the income statement, the energy trading activities undertaken by our trading arm, Accord, and our North American proprietary trading business are presented on a net basis within revenue under IFRS. Both unrealised gains and losses on net open financial and physical positions and realised gains and losses on liquidated positions are included within revenue. This compares to the previous presentation under UK GAAP whereby liquidated sales were included within turnover, and liquidated purchases along with unrealised gains and losses on net open positions were included within cost of sales. The impact of this presentational change is to reduce group revenue and decrease group costs of sales for the 12 months to 31 December 2004 by £6.0 billion, but there is no net impact on earnings or operating profit.

In the 31 December 2004 balance sheet a number of items have been reclassified under IAS 1, most notably the current element of provisions of £151 million is now presented as a current liability.

In the cash flow statement, current asset investments with a maturity of less than 3 months are reported under IFRS as cash and cash equivalents rather than other financial assets. This has the effect of increasing reported cash and cash equivalents by £723 million at 1 January 2004 and £925 million at 31 December 2004.

Analysis of key impacts for 2005

Impact of IAS 32 and IAS 39

Centrica will adopt IAS 39 and IAS 32 from 1 January 2005. These standards set out the accounting rules surrounding the recognition, measurement, disclosure and presentation of financial instruments.

IAS 39 and Centrica's business model

IAS 39, Financial Instruments: Recognition and Measurement covers the treatment of financial instruments, which includes most commodity contracts. There is currently no such comprehensive UK accounting standard. The first time application of IAS 39 is complex. IAS 39 requires fair value accounting with limited exceptions, most notably in respect of 'own use' treatment. The definition of own use is very restrictive. Own use treatment places certain contracts outside the scope of the standard and such contracts continue to be recognised under the accrual method of accounting.

All derivatives must be recognised at fair value with changes in value recognised in the income statement unless cash flow hedge accounting is permissible. The portion of the gain or loss on the hedging instrument which is effective is recognised directly in reserves, while any ineffectiveness is recognised in the income statement. The gains or losses that are recognised directly in reserves are transferred to the income statement in the same period in which the highly probable forecast transaction which is being hedged affects the income statement.

Excluding our trading entities which fair value their trading positions with movements in fair value reflected in the income statement, our business model is to buy gas and power to meet the demand of our customers, or to meet demand in our equity power stations. Due to the unpredictability of demand and a limit to the flexibility inherent in our long term contract portfolio, we use the wholesale market to optimise our portfolio on a daily basis.

Many of our physical commodity contracts meet the own use exemption and will continue to be accrual accounted. However, circumstances where the own use treatment is not permitted under the standard include, most notably:

- contracts where we use inherent optionality to take advantage of pricing opportunities, for example the ability to take volume in excess of variable demand and sell it into the market. This is known as net settling and the contracts are treated as trading; and
- variable volume contracts where our customers receive gas at a hub from which they themselves can subsequently trade. These contracts constitute written options under the standard and are also treated as trading.

In addition, the standard requires contracts with similar terms to be treated consistently. It is therefore not permitted to treat contracts that are similar to net settled contracts, for example because they have standardised, exchange-accepted terms, as own use. However, such contracts can be designated as hedging future requirements.

The fair value amounts recognised in the balance sheet for trading and hedging contracts unwind over time through the income statement. As a consequence, over the lifetime of a contract, the net charge or credit to the income statement will be the same as under UK GAAP, but the timing of those entries will be different which will result in volatility in earnings.

The overall financial impact of this approach (net of the associated deferred tax impact of £44 million) has been to reduce opening net assets at 1 January 2005 by £99 million, comprising £167 million charged to the profit and loss reserve and £68 million credited to the hedging reserve. The impact on 1 January 2005 balance sheet is shown in Appendix 8. In future external reporting, the impact of the fair value adjustments will be disclosed separately in the statutory accounts to assist understanding.

Impact of IAS 32 – The Consumers' Waterheater Income Fund

Centrica holds a 19.9% interest in the Consumers' Waterheater Income Fund. The Fund is fully consolidated under both UK GAAP and IFRS to reflect our partnership agreements. The minority interest of 80.1% was accounted for as non-equity minority interests under UK GAAP. This categorisation does not exist under IFRS and such an interest must be designated as either debt or equity.

Units of the Fund are traded on the Toronto Stock Exchange and held by third parties. These units contain redemption rights, which provide the holder of the units with the right to put the units back to the Fund. These are a common feature of such funds in Canada. There have been no redemptions of the units to date and future redemption is considered very unlikely because the terms and conditions of redemption are unfavourable. IAS 32 requires units with such redemption rights to be recorded as debt. This is irrespective of the likelihood of redemption occurring. Further, IAS 32 requires that the amount recorded as debt reflects the value of the redemption obligation. This value is based on the price at which these units trade on the Toronto Stock Exchange.

At 1 January 2005 the value of this debt is £244 million. The impact of implementing IAS 32 at this date is a reclassification of the non-equity minority interest of £164 million to financial liabilities and a charge to the profit and loss reserve at 1 January 2005 of £80 million. Future changes in the value of the debt liability will be charged or credited to interest in the income statement.

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Transition to International Financial Reporting Standards

Summary Group Income Statement
Year ended 31 December 2004

	Notes	**Restated under IFRS (unaudited)**		Previously reported under UK GAAP	
		Results before exceptional* items £m	**Results for the year £m**	Results before goodwill amortisation and exceptional items £m	Results for the year £m
Group revenue		**11,641**	**11,641**	18,303	18,303
Cost of sales		**(8,107)**	**(8,107)**	(14,712)	(14,712)
Gross profit		**3,534**	**3,534**	3,591	3,591
Operating costs before goodwill amortisation and exceptional items		**(2,225)**	**(2,225)**	(2,432)	(2,432)
Goodwill amortisation			**-**		(117)
Exceptional items*			**(104)**		(104)
Operating costs after goodwill amortisation and exceptional items		**(2,225)**	**(2,329)**	(2,432)	(2,653)
Share of profits less losses in joint ventures and associates, net of interest and taxation		**56**	**56**	68	62
Group operating profit from continuing operations / Group operating profit		**1,365**	**1,261**	1,227	1,000
Interest payable		**(186)**	**(186)**	(101)	(101)
Interest receivable		**82**	**82**	82	82
Net interest payable		**(104)**	**(104)**	(19)	(19)
Profit before taxation		**1,261**	**1,157**	1,208	981
Taxation		**(546)**	**(520)**	(349)	(306)
Profit after taxation from continuing operations / profit after taxation		**715**	**637**	859	675
Results from discontinued operations during the year		**63**	**63**	-	-
Gain on disposal of discontinued operation			**911**		727
Discontinued operations		**63**	**974**	-	727
Profit for the period		**778**	**1,611**	859	1,402
Attributable to:					
Equity holders of the parent		**758**	**1,591**	839	1,382
Minority interests (equity and non-equity)		**20**	**20**	20	20
		778	**1,611**	859	1,402
Dividends			**(1,314)**		(1,387)
Transfer to / (from) reserves			**277**		(5)
Earnings per ordinary share from continuing and discontinued operations	1				
Basic			**38.0p**		33.0p
Diluted			**37.4p**		32.5p
Adjusted Basic		**18.1p**		20.0p	
Earnings per ordinary share from continuing operations	1				
Basic			**14.7p**		
Diluted			**14.5p**		
Adjusted Basic		**16.6p**			

*Exceptional items were previously reported as such, and the summary group income statement has been presented in a format which facilitates comparison with the format previously used for UK GAAP reporting.

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Transition to International Financial Reporting Standards

Group Balance Sheet
31 December 2004

	Restated under IFRS (unaudited) £m	Previously reported under UK GAAP £m
Non-current assets		
Goodwill	**1,049**	1,006
Other intangible assets	**518**	-
Property, plant and equipment	**3,169**	2,832
Investments in joint ventures and associates	**206**	112
Deferred tax assets	**311**	36
Trade and other receivables	**68**	151
Other financial assets	**37**	-
	5,358	4,137
Current assets		
Inventories	**165**	158
Current tax assets	**5**	21
Trade and other receivables	**3,050**	3,128
Other financial assets	**204**	1,166
Cash and cash equivalents	**966**	41
	4,390	4,514
Current liabilities		
Trade and other payables	**(3,292)**	(3,506)
Bank overdrafts and loans	**(487)**	(468)
Current tax liabilities	**(305)**	(279)
Provisions	**(151)**	-
	(4,235)	(4,253)
Non-current liabilities		
Trade and other payables	**(94)**	(93)
Bank loans and other borrowings	**(1,445)**	(660)
Deferred tax liabilities	**(524)**	(486)
Retirement benefit obligation	**(705)**	-
Provisions	**(437)**	(588)
	(3,205)	(1,827)
Net assets	**2,308**	2,571
Issued capital and reserves		
Called up share capital	**233**	233
Share premium account	**575**	575
Merger reserve	**467**	467
Capital redemption reserve	**5**	5
Other reserves	**809**	1,072
Shareholders' equity	**2,089**	2,352
Minority interests (equity and non-equity)	**219**	219
Total minority interests and shareholders' equity	**2,308**	2,571

Centrica plc

Transition to International Financial Reporting Standards

Group Cash Flow Statement
Year ended 31 December 2004

	Restated under IFRS (unaudited) £m	Previously reported under UK GAAP £m
Net cash flow from continuing operating activities	**1,170**	1,016
Net cash flow from discontinued operating activities	**99**	99
Net cash flow from operating activities	**1,269**	1,115
Cash flows from investing activities		
Purchase of interests in subsidiary undertakings, net of cash and cash equivalents acquired	**(590)**	(590)
Disposal of interests in subsidiary undertakings, net of cash and cash equivalents disposed	**1,404**	1,589
Purchase of intangible assets	**(182)**	-
Disposal of intangible assets	**41**	-
Purchase of property, plant and equipment	**(276)**	(349)
Disposal of property, plant and equipment	**20**	22
Dividends received from joint ventures and associates	**28**	28
Investment in joint ventures and associates	**(25)**	(25)
Interest received	**66**	-
Net sale / (purchase) of current asset investments	**11**	(377)
Net cash flows from investing activities	**497**	298
Cash flows from financing activities		
Net issue / (buy back) of ordinary share capital	**(181)**	(181)
Interest received	**-**	86
Interest paid in respect of finance leases	**(88)**	(5)
Other interest paid	**(61)**	(75)
Net interest (paid) / received	**(149)**	6
Increase in debt	**65**	57
Decrease in debt	**(42)**	(39)
Net increase in debt	**23**	18
Realised net foreign exchange gain	**51**	51
Equity dividends paid	**(1,314)**	(1,314)
Distribution to non-equity minority shareholders	**(18)**	(18)
Net cash flows from financing activities	**(1,588)**	(1,438)
Net increase / (decrease) in cash and cash equivalents	**178**	(25)
Exchange rate translation differences on cash and cash equivalents	**(2)**	(1)
Cash and cash equivalents as at 1 January 2004 (i)	**705**	(18)
Cash and cash equivalents as at 31 December 2004 (i)	**881**	(44)

(i) Cash and cash equivalents are stated net of overdrafts of £85m (1 January 2004: £52m)

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Transition to International Financial Reporting Standards

Notes

1 Earnings per share
Year ended 31 December 2004

A) Continuing and discontinued operations	**Re-stated under IFRS (unaudited)**		Previously reported under UK GAAP	
	Earnings £m	**EPS Pence**	Earnings £m	EPS Pence
Earnings – basic	**1,591**	**38.0**	1,382	33.0
Exceptional items after tax and minority interests	**(833)**	**(19.9)**	(662)	(15.8)
Goodwill amortisation net of tax credit	**-**	**-**	119	2.8
Earnings – adjusted basic*	**758**	**18.1**	839	20.0
Earnings – diluted	**1,591**	**37.4**	1,382	32.5
Weighted average number of shares (million) used in the calculation of basic and adjusted basic EPS	**4,184**		4,184	
Weighted average number of shares (million) used in the calculation of diluted EPS	**4,251**		4,251	

B) Continuing operations	**Re-stated under IFRS (unaudited)**	
	Earnings £m	**EPS Pence**
Earnings – basic	**617**	**14.7**
Exceptional items after tax and minority interests	**78**	**1.9**
Earnings – adjusted basic*	**695**	**16.6**
Earnings – diluted	**617**	**14.5**
Weighted average number of shares (million) used in the calculation of basic and adjusted basic EPS	**4,184**	
Weighted average number of shares (million) used in the calculation of diluted EPS	**4,251**	

*Adjusted basic earnings per share has been presented to facilitate comparison with the measure previously used for UK GAAP reporting

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Transition to International Financial Reporting Standards

Summary Group Income Statement
6 months ended 30 June 2004

	Notes	**Restated under IFRS (unaudited)**		Previously reported under UK GAAP	
		Results before exceptional* items £m	**Results for the period £m**	Results before goodwill amortisation and exceptional items £m	Results for the period £m
Group revenue		**5,829**	**5,829**	9,220	9,220
Cost of sales		**(4,015)**	**(4,015)**	(7,316)	(7,316)
Gross profit		**1,814**	**1,814**	1,904	1,904
Operating costs before goodwill amortisation and exceptional items		**(1,025)**	**(1,025)**	(1,177)	(1,177)
Goodwill amortisation			**-**		(62)
Exceptional items*			**(98)**		(98)
Operating costs after goodwill and exceptional items		**(1,025)**	**(1,123)**	(1,177)	(1,337)
Share of profits less losses in joint ventures and associates net of interest and taxation		**27**	**27**	36	33
Group operating profit from continuing operations / Group operating profit		**816**	**718**	763	600
Interest payable		**(96)**	**(96)**	(55)	(55)
Interest receivable		**37**	**37**	37	37
Net interest payable		**(59)**	**(59)**	(18)	(18)
Profit before taxation		**757**	**659**	745	582
Taxation		**(327)**	**(301)**	(216)	(190)
Profit after taxation from continuing operations / profit after taxation		**430**	**358**	529	392
Discontinued operations		**38**	**38**	-	-
Profit for the period		**468**	**396**	529	392
Attributable to:					
Equity holders of the parent		**459**	**387**	520	383
Minority interests (equity and non-equity)		**9**	**9**	9	9
		468	**396**	529	392
Dividends			**(158)**		(108)
Transfer to reserves			**229**		275
Earnings per ordinary share from continuing and discontinued operations	2				
Basic			**9.1p**		9.0p
Diluted			**8.9p**		8.8p
Adjusted Basic		**10.8p**		12.2p	
Earnings per ordinary share from continuing operations	2				
Basic			**8.2p**		
Diluted			**8.1p**		
Adjusted Basic		**9.9p**			

*Exceptional items were previously reported as such, and the summary group income statement has been presented in a format which facilitates comparison with the format previously used for UK GAAP reporting.

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Transition to International Financial Reporting Standards

Group Balance Sheet
30 June 2004

	Restated under IFRS (unaudited) £m	Previously reported under UK GAAP £m
Non-current assets		
Goodwill	**853**	1,564
Other intangible assets	**442**	-
Property, plant and equipment	**2,719**	2,899
Investments in joint ventures and associates	**171**	106
Deferred tax assets	**249**	8
Trade and other receivables	**63**	86
Other financial assets	**21**	-
	4,518	4,663
Current assets		
Inventories	**114**	121
Current tax assets	**-**	3
Trade and other receivables	**1,850**	2,556
Other financial assets	**134**	1,139
Cash and cash equivalents	**811**	19
Assets for sale included in disposal groups	**1,806**	-
	4,715	3,838
Current liabilities		
Trade and other payables	**(2,447)**	(3,011)
Current tax liabilities	**(540)**	(509)
Bank overdrafts and loans	**(188)**	(185)
Provisions	**(106)**	-
Liabilities included in disposal groups	**(752)**	**-**
	(4,033)	(3,705)
Non-current liabilities		
Trade and other payables	**(105)**	(101)
Deferred tax liabilities	**(305)**	(312)
Bank loans and other borrowings	**(1,117)**	(789)
Retirement benefit obligation	**(762)**	(5)
Provisions	**(462)**	(573)
	(2,751)	(1,780)
Net assets	**2,449**	3,016
Issued capital and reserves		
Called up share capital	**237**	237
Share premium account	**557**	557
Merger reserve	**467**	467
Profit and loss account	**978**	1,545
Shareholders' equity	**2,239**	2,806
Minority interests (equity and non-equity)	**210**	210
Total minority interests and shareholders' equity	**2,449**	3,016

Centrica plc

Transition to International Financial Reporting Standards

Group Cash Flow Statement
6 months ended 30 June 2004

	Restated under IFRS (unaudited) £m	Previously reported under UK GAAP £m
Net cash flow from continuing operating activities	**661**	553
Net cash flow from discontinued operating activities	**81**	81
Net cash flow from operating activities	**742**	634
Cash flows from investing activities		
Purchase of interests in subsidiary undertakings, net of cash and cash equivalents acquired	**(170)**	(170)
Disposal of interests in subsidiary undertakings, net of cash and cash equivalents disposed	**3**	3
Purchase of intangible assets	**(94)**	-
Disposal of intangible assets	**2**	-
Purchase of property, plant and equipment	**(107)**	(137)
Disposal of property, plant and equipment	**9**	10
Dividends received from joint ventures and associates	**6**	6
Interest received	**18**	-
Net sale / (purchase) of current asset investments	**99**	(149)
Net cash flows from investing activities	**(234)**	(437)
Cash flows from financing activities		
Issue of ordinary share capital	**7**	7
Interest received	**-**	30
Interest paid in respect of finance leases	**(42)**	(3)
Other interest paid	**(19)**	(23)
Net interest (paid) / received	**(61)**	4
Increase in debt	**47**	45
Decrease in debt	**(96)**	(96)
Net decrease in debt	**(49)**	(51)
Realised net foreign exchange gain	**36**	36
Equity dividends paid	**(158)**	(158)
Distribution to non-equity minority shareholders	**(8)**	(8)
Net cash flows from financing activities	**(233)**	(170)
Net increase in cash and cash equivalents	**275**	27
Exchange rate translation differences on cash and cash equivalents	**(2)**	-
Cash and cash equivalents as at 1 January 2004 (i)	**705**	(18)
Cash and cash equivalents as at 30 June 2004 (i)	**978**	9

(i) Cash and cash equivalents are stated net of overdrafts of £10m (1 January 2004: £52m)

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Transition to International Financial Reporting Standards

Notes

2 Earnings per share
6 months ended 30 June 2004

A) Continuing and discontinued operations	**Re-stated under IFRS (unaudited)**		Previously reported under UK GAAP	
	Earnings £m	**EPS Pence**	Earnings £m	EPS Pence
Earnings – basic	**387**	**9.1**	383	9.0
Exceptional items after tax and minority interests	**72**	**1.7**	72	1.7
Goodwill amortisation net of tax credit	**-**	**-**	65	1.5
Earnings – adjusted basic*	**459**	**10.8**	520	12.2
Earnings – diluted	**387**	**8.9**	383	8.8
Weighted average number of shares (million) used in the calculation of basic and adjusted basic EPS	**4,246**		4,246	
Weighted average number of shares (million) used in the calculation of diluted EPS	**4,332**		4,332	

B) Continuing operations	**Re-stated under IFRS (unaudited)**	
	Earnings £m	**EPS Pence**
Earnings – basic	**349**	**8.2**
Exceptional items after tax and minority interests	**72**	**1.7**
Earnings – adjusted basic*	**421**	**9.9**
Earnings – diluted	**349**	**8.1**
Weighted average number of shares (million) used in the calculation of basic and adjusted basic EPS	**4,246**	
Weighted average number of shares (million) used in the calculation of diluted EPS	**4,332**	

*Adjusted basic earnings per share has been presented to facilitate comparison with the measure previously used for UK GAAP reporting

Centrica plc: Transition to International Financial Reporting Standards

Appendix 1: Reconciliation of the Group Income Statement from UK GAAP to IFRS for the year ended 31 December 2004

Group Income Statement Year ended 31 December 2004	Previously reported under UK GAAP £m	IFRS adjustments IAS12 – Income taxes: PRT accounting £m	IAS 17 / IFRIC 4 Leases £m	IAS19 Retirement benefits £m	IFRS2 Share schemes £m	IFRS3 Business combinations £m	IAS 10 Events after the balance sheet date: record dividend in period paid £m	Other IAS12 impacts £m	IFRS 5 Discontinued operations £m	IAS1 Presentation of financial statements £m	Restated under IFRS (unaudited) £m
Group revenue	**18,303**								(637)	(6,025)	**11,641**
Cost of sales	**(14,712)**	209	82						289	6,025	**(8,107)**
Gross profit	**3,591**	209	82						(348)	-	**3,534**
Operating costs before goodwill amortisation and exceptional items	**(2,432)**		(21)	(50)	(2)			(4)	284		**(2,225)**
Goodwill amortisation	**(117)**					117					**-**
Exceptional items	**(104)**										**(104)**
Share of profits less losses in joint ventures and associates, net of interest and taxation	**62**		26			6			(12)	(26)	**56**
Group operating profit from continuing operations	**1,000**	209	87	(50)	(2)	123		(4)	(76)	(26)	**1,261**
Net interest payable	**(19)**		(83)	(8)					(7)	13	**(104)**
Profit before taxation	**981**	209	4	(58)	(2)	123		(4)	(83)	(13)	**1,157**
Taxation	**(306)**	(257)		17	1	(4)		5	11	13	**(520)**
Profit after taxation from continuing operations	**675**	(48)	4	(41)	(1)	119		1	(72)	-	**637**
Discontinued operations	**-**								63		**63**
Gain on disposal of discontinued operation	**727**			202	1	(37)		9	9		**911**
Profit for the period	**1,402**	(48)	4	161	-	82		10	-		**1,611**
Minority interests (equity and non-equity)	**(20)**										**(20)**
Dividends	**(1,387)**						73				**(1,314)**
Transfer (from) / to reserves	**(5)**	(48)	4	161	-	82	73	10	-		**277**

Centrica plc: Transition to International Financial Reporting Standards

Appendix 2: Reconciliation of the Group Balance Sheet from UK GAAP to IFRS as at 31 December 2004

Group Balance Sheet 31 December 2004	Previously reported under UK GAAP £m	IFRS adjustments: IAS12 – Income taxes: PRT accounting £m	IAS 17 / IFRIC 4 Leases £m	IAS19 Retirement benefits £m	IFRS 2 Share Based payments £m	IAS38 Intangible assets £m	IFRS 3 Business combinations £m	IAS 10 Events after the balance sheet date: record dividend in period paid £m	Other IAS12 impacts £m	Other £m	Restated under IFRS (unaudited) £m
Non-current assets											
Goodwill	**1,006**					(66)	80		29		**1,049**
Intangible assets	**-**					518					**518**
Property, plant and equipment	**2,832**		722			(385)					**3,169**
Investments in joint ventures and associates	**112**		88				6				**206**
Deferred tax assets	**36**	13		237	6		(1)		20		**311**
Trade and other receivables	**151**			(83)							**68**
Other financial assets	**-**									37	**37**
	4,137	13	810	154	6	67	85		49	37	**5,358**
Current assets											
Inventories	**158**									7	**165**
Current tax assets	**21**								(16)		**5**
Trade and other receivables	**3,128**					(71)				(7)	**3,050**
Other financial assets	**1,166**									(962)	**204**
Cash and cash equivalents	**41**									925	**966**
	4,514					(71)			(16)	(37)	**4,390**
Current liabilities											
Trade and other payables	**(3,506)**		6	(8)				230	(15)	1	**(3,292)**
Bank overdrafts and loans	**(468)**		(19)								**(487)**
Current tax liabilities	**(279)**								(26)		**(305)**
Provisions	**-**									(151)	**(151)**
	(4,253)		(13)	(8)				230	(41)	(150)	**(4,235)**
Non-current liabilities											
Trade and other payables	**(93)**									(1)	**(94)**
Bank loans and other borrowings	**(660)**		(785)								**(1,445)**
Deferred tax liabilities	**(486)**	6				(1)	(3)		(40)		**(524)**
Retirement benefit obligation	**-**			(705)							**(705)**
Provisions	**(588)**									151	**(437)**
	(1,827)	6	(785)	(705)		(1)	(3)		(40)	150	**(3,205)**
Net assets	**2,571**	19	12	(559)	6	(5)	82	230	(48)	-	**2,308**
Shareholders' equity	**2,352**	19	12	(559)	6	(5)	82	230	(48)	-	**2,089**
Minority interests (equity and non-equity)	**219**										**219**
Total minority interests and shareholders' equity	**2,571**	19	12	(559)	6	(5)	82	230	(48)	-	**2,308**

Centrica plc: Transition to International Financial Reporting Standards

Appendix 3: Reconciliation of the Group Cash Flow statement from UK GAAP to IFRS for the year ended 31 December 2004

Group Cash Flow Statement Year ended 31 December 2004	Previously reported under UK GAAP £m	IFRS adjustments IAS 17 / IFRIC 4 Leases £m	IAS 38 Intangible assets £m	IAS 7 Cash flows £m	Restated under IFRS (unaudited) £m
Net cash flow from continuing operating activities	**1,016**	78	70	6	**1,170**
Net cash flow from discontinued operating activities	**99**				**99**
Net cash flow from operating activities	**1,115**	78	70	6	**1,269**
Cash flows from investing activities					
Purchase of interests in subsidiary undertakings, net of cash and cash equivalents acquired	**(590)**				**(590)**
Disposal of interests in subsidiary undertakings, net of cash and cash equivalents disposed	**1,589**			(185)	**1,404**
Purchase of intangible fixed assets	**-**		(182)		**(182)**
Disposal of intangible fixed assets	**-**		41		**41**
Purchase of property, plant and equipment	**(349)**		73		**(276)**
Disposal of property, plant and equipment	**22**		(2)		**20**
Dividends received from joint ventures and associates	**28**				**28**
Investments in joint ventures and associates	**(25)**				**(25)**
Interest received	**-**			66	**66**
Net purchase / (sale) of current asset investments	**(377)**			388	**11**
Net cash flows from investing activities	**298**		(70)	269	**497**
Cash flows from financing activities					
Net issue / (buy back) of ordinary share capital	**(181)**				**(181)**
Interest received	**86**			(86)	**-**
Interest paid in respect of finance leases	**(5)**	(83)			**(88)**
Other interest paid	**(75)**			14	**(61)**
Net increase / (decrease) in debt	**18**	5			**23**
Realised net foreign exchange gain	**51**				**51**
Equity dividends paid	**(1,314)**				**(1,314)**
Distribution to non-equity minority shareholders	**(18)**				**(18)**
Net cash flows from financing activities	**(1,438)**	(78)	-	(72)	**(1,588)**
Net increase in cash and cash equivalents	**(25)**	-	-	203	**178**
Exchange rate translation differences on cash and cash equivalents	**(1)**			(1)	**(2)**
Cash and cash equivalents as at 1 January 2004	**(18)**	-	-	723	**705**
Cash and cash equivalents as at 31 December 2004	**(44)**	-	-	925	**881**

Centrica plc: Transition to International Financial Reporting Standards

Appendix 4: Reconciliation of the Group Income Statement from UK GAAP to IFRS for the six months ended 30 June 2004

Group Income statement Six months ended 30 June 2004	Previously reported under UK GAAP £m	IFRS adjustments IAS12 – Income taxes: PRT accounting £m	IAS 17 / IFRIC 4 Leases £m	IAS19 Retirement benefits £m	IFRS2 Share schemes £m	IFRS 3 Business combinations £m	IAS 10 Events after the balance sheet date: record dividend in period paid £m	Other IAS12 impacts £m	IFRS 5 discontinued operations £m	IAS1 Presentation of financial statements £m	Restated under IFRS (unaudited) £m
Group revenue	**9,220**								(420)	(2,971)	**5,829**
Cost of sales	**(7,316)**	102	36						192	2,971	**(4,015)**
Gross profit	**1,904**	102	36						(228)	-	**1,814**
Operating costs before goodwill amortisation and exceptional items	**(1,177)**		(6)	(26)	(3)				187		**(1,025)**
Goodwill amortisation	**(62)**					62					**-**
Exceptional items	**(98)**										**(98)**
Share of profits less losses in joint ventures and associates, net of interest and taxation	**33**		12			3			(7)	(14)	**27**
Group operating profit from continuing operations	**600**	102	42	(26)	(3)	65			(48)	(14)	**718**
Net interest payable	**(18)**		(38)	(6)					(4)	7	**(59)**
Profit before taxation	**582**	102	4	(32)	(3)	65			(52)	(7)	**659**
Taxation	**(190)**	(129)		9				(12)	14	7	**(301)**
Profit after taxation from continuing operations	**392**	(27)	4	(23)	(3)	65		(12)	(38)	-	**358**
Discontinued operations									38		**38**
Gain on disposal of discontinued operation											
Profit for the period	**392**	(27)	4	(23)	(3)	65		(12)	-	-	**396**
Minority interests (equity and non-equity)	**(9)**										**(9)**
Dividends	**(108)**						(50)				**(158)**
Transfer to reserves	**275**	(27)	4	(23)	(3)	65	(50)	(12)	-	-	**229**

Centrica plc: Transition to International Financial Reporting Standards

Appendix 5: Reconciliation of the Group Balance Sheet from UK GAAP to IFRS as at 30 June 2004

Group Balance Sheet 30 June 2004	Previously reported under UK GAAP £m	IFRS adjustments: IAS12 – Income taxes: PRT accounting £m	IAS 17 / IFRIC 4 Leases £m	IAS19 Retirement benefits £m	IFRS 2 Share based payments £m	IAS38 Intangible assets £m	IFRS3 Business combinations £m	IAS 10 Events after the balance sheet date £m	Other IAS12 impacts £m	IFRS 5 discontinued operations £m	Other £m	Restated under IFRS (unaudited) £m
Non-current assets												
Goodwill	**1,564**						62		6	(779)		**853**
Intangible assets	**-**					470				(28)		**442**
Property, plant and equipment	**2,899**		269			(373)				(76)		**2,719**
Investments in joint ventures and associates	**106**		74				3			(12)		**171**
Deferred tax assets	**8**	15		296	11				4	(85)		**249**
Trade and other receivables	**86**									(25)	2	**63**
Other financial assets	**-**									(1)	22	**21**
	4,663	15	343	296	11	97	65	-	10	(1,006)	24	**4,518**
Current assets												
Inventories	**121**									(7)		**114**
Current tax assets	**3**								(3)			**-**
Trade and other receivables	**2,556**					(102)				(602)	(2)	**1,850**
Other financial assets	**1,139**									(14)	(991)	**134**
Cash and cash equivalents	**19**									(177)	969	**811**
Assets held for sale and included in disposal groups	**-**									1,806		**1,806**
	3,838	-	-	-	-	(102)	-	-	(3)	1,006	(24)	**4,715**
Current liabilities												
Trade and other payables	**(3,011)**		3	(8)				107	(25)	483	4	**(2,447)**
Bank overdrafts and loans	**(185)**		(3)									**(188)**
Current tax liabilities	**(509)**			9					(40)			**(540)**
Provisions	**-**									5	(111)	**(106)**
Liabilities included in disposal groups	**-**									(752)		**(752)**
	(3,705)	-		1	-	-	-	107	(65)	(264)	(107)	**(4,033)**
Non-current liabilities												
Trade and other payables	**(101)**										(4)	**(105)**
Bank loans and other borrowings	**(789)**		(328)									**(1,117)**
Deferred tax liabilities	**(312)**	26							(19)			**(305)**
Retirement benefit obligation	**(5)**			(1,021)						264		**(762)**
Provisions	**(573)**										111	**(462)**
	(1,780)	26	(328)	(1,021)		-	-	-	(19)	264	107	**(2,751)**
Net assets	**3,016**	41	15	(724)	11	(5)	65	107	(77)	-	-	**2,449**
Shareholders' equity	**2,806**	41	15	(724)	11	(5)	65	107	(77)	-	-	**2,239**
Minority interests (equity and non-equity)	**210**											**210**
Total minority interests and shareholders' equity	**3,016**	41	15	(724)	11	(5)	65	107	(77)	-	-	**2,449**

Centrica plc: Transition to International Financial Reporting Standards

Appendix 6: Reconciliation of the Group Cash Flow Statement from UK GAAP to IFRS for the 6 months ended 30 June 2004

Group Cash Flow Statement 6 months ended 30 June 2004	Previously reported under UK GAAP £m	IFRS adjustments IAS 17 / IFRIC 4 Leases £m	IAS 38 Intangible assets £m	IAS 7 Cash flows £m	Restated under IFRS (unaudited) £m
Net cash flow from continuing operating activities	**553**	37	63	8	**661**
Net cash flow from discontinued operating activities	**81**				**81**
Net cash flow from operating activities	**634**	37	63	8	**742**
Cash flows from investing activities					
Purchase of interests in subsidiary undertakings, net of cash acquired	**(170)**				**(170)**
Disposal of interests in subsidiary undertakings, net of cash disposed	**3**				**3**
Purchase of intangible fixed assets	**-**		(94)		**(94)**
Disposal of intangible fixed assets	**-**		2		**2**
Purchase of property, plant and equipment	**(137)**		30		**(107)**
Disposal of property, plant and equipment	**10**		(1)		**9**
Dividends received from joint ventures and associates	**6**				**6**
Interest received	**-**			18	**18**
Net sale/(purchase) of current asset investments	**(149)**			248	**99**
Net cash flows from investing activities	**(437)**		(63)	266	**(234)**
Cash flows from financing activities					
Issue of ordinary share capital	**7**				**7**
Interest received	**30**			(30)	**-**
Interest paid in respect of finance leases	**(3)**	(39)			**(42)**
Other interest paid	**(23)**			4	**(19)**
Net decrease in debt	**(51)**	2			**(49)**
Realised net foreign exchange gain	**36**				**36**
Equity dividends paid	**(158)**				**(158)**
Distribution to non-equity minority shareholders	**(8)**				**(8)**
Net cash flows from financing activities	**(170)**	(37)	-	(26)	**(233)**
Net increase in cash and cash equivalents	**27**	-	-	248	**275**
Exchange rate translation differences on cash and cash equivalents	**-**			(2)	**(2)**
Cash and cash equivalents as at 1 January 2004	**(18)**	-	-	723	**705**
Cash and cash equivalents as at 30 June 2004	**9**	-	-	969	**978**

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Appendix 7: Reconciliation of the Group Balance Sheet from UK GAAP to IFRS as at 1 January 2004

			IFRS adjustments									
Group Balance Sheet 1 January 2004	**Previously reported under UK GAAP £m**	**UK GAAP prior year adj for UITF 38 £m**	**IAS12 – Income taxes: PRT accounting £m**	**IAS 17 / IFRIC 4 Leases £m**	**IAS19 Retirement benefits £m**	**IFRS 2 Share based payments £m**	**IAS38 Intangible assets £m**	**IFRS 3 Business combinations £m**	**IAS 10 Events after the balance sheet date: record dividend in period paid £m**	**Other IAS12 impacts £m**	**Other £m**	**Restated under IFRS (unaudited) £m**
Non-current assets												
Goodwill	**1,614**											**1,614**
Intangible assets	**-**						388					**388**
Property, plant and equipment	**2,730**			273			(354)					**2,649**
Investments in joint ventures and associates	**94**			61								**155**
Deferred tax assets	**25**		9		333	6				33		**406**
Trade and other receivables	**92**											**92**
Other financial assets	**20**	(17)									22	**25**
	4,575	(17)	9	334	333	6	34			33	22	**5,329**
Current assets												
Inventories	**173**											**173**
Current tax assets	**31**									(31)		**-**
Trade and other receivables	**2,890**						(39)					**2,851**
Other financial assets	**992**										(745)	**247**
Cash and cash equivalents	**34**										723	**757**
	4,120						(39)			(31)	(22)	**4,028**
Current liabilities												
Trade and other payables	**(3,469)**			3	(8)				157	(23)		**(3,340)**
Bank overdrafts and loans	**(298)**			(3)								**(301)**
Current tax liabilities	**(229)**									(30)		**(259)**
Provisions	**-**										(23)	**(23)**
	(3,996)			-	(8)				157	(53)	(23)	**(3,923)**
Non-current liabilities												
Trade and other payables	**(104)**											**(104)**
Bank loans and other borrowings	**(781)**			(326)								**(1,107)**
Deferred tax liabilities	**(541)**		59							(10)		**(492)**
Retirement benefit obligation	**(30)**				(1,108)							**(1,138)**
Provisions	**(489)**										23	**(466)**
	(1,945)		59	(326)	(1,108)					(10)	23	**(3,307)**
Net assets	**2,754**	(17)	68	8	(783)	6	(5)	-	157	(61)	-	**2,127**
Shareholders' equity	**2,537**	(17)	68	8	(783)	6	(5)	-	157	(61)	-	**1,910**
Minority interests (equity and non-equity)	**217**											**217**
Total minority interests and shareholders' equity	**2,754**	(17)	68	8	(783)	6	(5)	-	157	(61)	-	**2,127**

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Appendix 8: Reconciliation of the Group IFRS Balance Sheet from 31 December 2004 to 1 January 2005

Group Opening Balance Sheet 1 January 2005	Restated under IFRS (unaudited) £m	IAS39 adjustments UK energy activity £m	IAS39 adjustments North America £m	IAS39 adjustments Other £m	IAS32 Consumers' Water Heater Income Fund £m	Restated for IAS39 and IAS32 (unaudited) £m
Non-current assets						
Goodwill	**1,049**					**1,049**
Intangible assets	**518**					**518**
Property, plant and equipment	**3,169**					**3,169**
Investments in joint ventures and associates	**206**			(14)		**192**
Deferred tax assets	**311**	34				**345**
Trade and other receivables	**68**	(24)				**44**
Derivative financial instruments	**-**	42	13			**55**
Other financial assets	**37**			1		**38**
	5,358	52	13	(13)		**5,410**
Current assets						
Inventories	**165**					**165**
Current tax assets	**5**					**5**
Trade and other receivables	**2,929**	(10)				**2,919**
Other financial assets	**204**					**204**
Derivative financial instruments	**121**	466	30	53		**670**
Cash and cash equivalents	**966**			3		**969**
	4,390	456	30	56		**4,932**
Current liabilities						
Trade and other payables	**(3,186)**	6				**(3,180)**
Derivative financial instruments	**(106)**	(660)	(54)	(47)		**(867)**
Bank overdrafts and loans	**(487)**			(1)		**(488)**
Current tax liabilities	**(305)**					**(305)**
Provisions	**(151)**					**(151)**
	(4,235)	(654)	(54)	(48)		**(4,991)**
Non-current liabilities						
Trade and other payables	**(94)**	5				**(89)**
Derivative financial instruments	**-**		(6)			**(6)**
Bank loans and other borrowings	**(1,445)**			(8)	(244)	**(1,697)**
Deferred tax liabilities	**(524)**		6	4		**(514)**
Retirement benefit obligation	**(705)**					**(705)**
Provisions	**(437)**	62				**(375)**
	(3,205)	67	-	(4)	(244)	**(3,386)**
Net assets	**2,308**	(79)	(11)	(9)	(244)	**1,965**
Shareholders' equity	**2,089**	(79)	(11)	(9)	(80)	**1,910**
Minority interests (equity and non-equity)	**219**				(164)	**55**
Total minority interests and shareholders' equity	**2,308**	(79)	(11)	(9)	(244)	**1,965**

Centrica plc: Transition to International Financial Reporting Standards

Appendix 9: Key accounting policies adopted for 2004

Principal accounting policies that will be published in Centrica Group's Financial Statements under International Financial Reporting Standards

The accounting policies set out below have been adopted to prepare the 2004 restated results. These will be the principal accounting policies used for Centrica's future financial statements prepared under IFRS. Revised policies to reflect the adoption of IAS 32 and IAS 39 from 1 January 2005 are also attached.

Basis of preparation

The consolidated financial statements have been prepared on an historical cost basis, except for financial instruments used in energy trading activities that have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgements and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of Financial Statements and the reported revenues and expenses during the reported period. Although these judgements and assumptions are based on management's best knowledge of the amount, events or actions, actual results could differ from these estimates.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and entities controlled by the Company (its subsidiaries) and incorporate the results of its share of jointly controlled entities and associates using the equity method of accounting.

Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary adjustments are made to the financial statements of subsidiaries, associates and jointly controlled entities to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

An associated undertaking (associate) is an entity in which the group has an equity interest and over which it has the ability to exercise significant influence. Investments in associates are carried at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in value in individual investments. The income statement reflects the Group's share of the results of operations after tax of the associate (the equity method).

A jointly controlled entity is a joint venture which involves the establishment of an entity to engage in economic activity, which the Group jointly controls with its fellow venturers. Investments in jointly controlled entities are carried at cost plus post-acquisition changes in the Group's share of net assets of the jointly controlled entity, less any impairment in value in individual investments. The income statement reflects the Group's share of the results of operations after tax of the jointly controlled entity (the equity method).

Certain of the Group's exploration and production activity is conducted through joint ventures where the venturers have a direct interest in, and jointly control the assets of the venture. The results, assets, liabilities and cash flows of these jointly controlled assets are included in the consolidated financial statements in proportion to the Group's interest.

Revenue

Revenue represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Energy supply: Revenue is recognised on the basis of energy supplied during the period. Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity is estimated using historical consumption patterns and is included in accrued energy income within debtors.

Energy trading: Revenue comprises net gains and losses (both realised and unrealised) from trading in physical and financial energy contracts.

Storage services: Storage capacity revenues are recognised evenly over the contract period, whilst commodity revenues for the injection and withdrawal of gas are recognised at the point of gas flowing into or out of the storage facilities.

Home services: Where the Group has an ongoing obligation to provide services, revenues are apportioned on a time basis and amounts billed in advance are treated as deferred income and excluded from current turnover. For one-off services, such as installations, revenue is recognised at the date of service provision.

Telecommunications: For subscription based services with recurring fees, revenue is recognised on a time basis over the period of service. For usage based services, revenue is recognised on the basis of services provided. Adjustments are made to defer the relevant portion of unearned amounts billed in advance or to accrue amounts unbilled for services provided at the end of each period.

Cost of sales

Energy supply includes the cost of gas and electricity produced and purchased, and related transportation, royalty costs and bought in materials and services. Home Services' cost of sales includes direct labour and related overheads on installation work, repairs and service contracts.

Employee share schemes

The Group has a number of employee share schemes under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of the number of instruments that will satisfy non-market vesting conditions.

Fair value is measured using methods appropriate to each of the different schemes as follows:

- LTIS – a Black-Scholes valuation augmented by a Monte Carlo simulation to predict the Total Shareholder Return performance;
- Sharesave –Black-Scholes;
- ESOS – Black-Scholes using an adjusted option life assumption to reflect the possibility of early exercise.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at closing rates of exchange. The results of overseas subsidiary undertakings, jointly controlled entities and associates are translated into sterling at average rates of exchange for the relevant period. Differences resulting from the re-translation of the opening net assets and the results are taken to the exchange differences reserve, a separate component of equity, and are reported in the statement of total recognised income and expense. Any differences arising from 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity. In the event of the disposal of an undertaking with assets and liabilities denominated in foreign currency, the cumulative translation difference from 1 January 2004 arising in the exchange differences reserve is charged or credited to the income statement on disposal.

Exchange differences on foreign currency borrowings, foreign currency swaps and forward exchange contracts used to hedge foreign currency net investments in overseas subsidiary undertakings, jointly controlled entities and associates are taken directly to reserves and are reported in the statement of recognised income and expense. All other exchange movements are recognised in the income statement.

Business combinations and goodwill

The Group has adopted the exemption allowed in IFRS 1 from re-stating business combinations which occurred before transition date (1 January 2004). Goodwill arising on the acquisition of a business acquired after 1 January 1998 and before 1 January 2004 is included in the balance sheet at original cost, less accumulated amortisation and any provisions for impairment as at 31 December 2003. Goodwill arising on such acquisitions is not amortised from the transition date but is subject to annual impairment testing or more frequently if events or circumstances indicate that goodwill may be impaired. Goodwill which arose prior to 1 January 1998 was written off directly to the profit and loss reserve. On the acquisition of a subsidiary undertaking (including unincorporated businesses), jointly controlled entity or associate, from the transition date, fair values are attributed to the acquired identifiable assets, liabilities and contingent liabilities. Goodwill, which represents the difference between the fair value of purchase consideration and the

acquired interest in the fair values of those net assets, is capitalised and is subject to annual impairment testing or more frequently if events or changes in circumstances indicate that goodwill may be impaired. Any negative goodwill is credited to the profit and loss account in the year of acquisition. If an undertaking is subsequently sold, the amount of goodwill carried on the balance sheet at the date of disposal, is charged to the income statement in the period of disposal as part of the gain or loss on disposal. Goodwill previously written off to the profit and loss reserve is not re-cycled to the income statement on disposal of the business.

Other intangible assets

Purchased intangible assets are capitalised on the balance sheet at fair value on acquisition and amortised over their useful economic lives, subject to reviews for impairment when events or changes of circumstances indicate that the carrying value may not be recoverable. Where an intangible asset has been determined to have an indefinite useful economic life, impairment testing is performed annually or more frequently if events or changes in circumstances indicate the carrying value is impaired.

For internally generated intangible assets, for example investments in customer relationship management software and other technology infrastructure, cost includes contractors' charges, materials, direct labour and directly attributable overheads. Capitalisation begins when expenditures for the asset are being incurred and activities that are necessary to prepare the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Amortisation commences at the point of commercial deployment.

Intangible assets are amortised on a straight-line basis at rates sufficient to write off the cost, less any estimated residual values of individual assets over their estimated useful lives. The amortisation period for the principal categories of intangible assets are as follows:

Application software	up to 10 years
Licenses	up to 20 years
Consents	up to 25 years
Identifiable acquired brand- Dyno	Indefinite

Residual values and useful lives are re-assessed annually and if necessary changes are accounted for prospectively.

Property, plant and equipment

Property, plant and equipment is included in the balance sheet at cost, less accumulated depreciation and any provisions for impairment.

Freehold land is not depreciated. Other property, plant and equipment, except exploration and production assets, are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives. The depreciation periods for the principal categories of assets are as follows:

Freehold and leasehold buildings	up to 50 years
Plant	5 to 20 years

Power stations	20 years
Equipment and vehicles	3 to 10 years
Storage	up to 28 years

Assets held under finance leases are depreciated over the shorter of the lease term or their useful economic life.

Residual values and useful lives are re-assessed annually and if necessary changes are accounted for prospectively.

Exploration, evaluation and production assets

Exploration and evaluation costs are capitalised using the successful efforts method. Acquisition costs related to exploration and evaluation activities are capitalised. Exploration wells are initially capitalised. If the prospects are subsequently determined to be unsuccessful on completion of evaluation, the associated costs are expensed in the period in which that determination is made.

All field development costs are capitalised as property, plant and equipment. Such costs relate to the acquisition and installation of production facilities and include development drilling costs, project-related engineering and other technical services costs. Property, plant and equipment, including rights and concessions, related to production activities are depreciated from the commencement of production in the fields concerned, using the unit of production method, based on all of the proven and probable reserves of those fields. Changes in these estimates are dealt with prospectively. The net carrying value of fields in production and development is compared on a field by field basis with the likely future net revenues to be derived from the remaining commercial reserves. An impairment loss is recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues. Exploration and production assets are reviewed annually for indicators of impairment.

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning:

- gas production facilities at the end of the producing lives of fields; and
- storage facilities and power stations at the end of the useful life of the facilities based on price levels and technology at the balance sheet date.

Changes in these estimates and changes to discount rates are dealt with prospectively. When this provision gives access to future economic benefits, a decommissioning asset is recognised. For gas production facilities and off-shore storage facilities the decommissioning asset is amortised using the unit of production method, based on proven and probable reserves. For power stations the decommissioning asset is amortised on a straight line basis over the useful life of the facility. The unwinding of the discount on the provision is included in the income statement within the net interest charge.

Leases

Assets held under finance leases are capitalised and included in property, plant and equipment at the lower of the present value of the minimum lease payments or the fair value of the leased asset as determined at the inception of the lease. The obligations

relating to finance leases, net of finance charges in respect of future periods, are included within bank loans and other borrowings, with the amount payable within 12 months included in bank overdrafts and loans within short term liabilities. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect the constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to the income statement on a straight-line basis.

Impairment of assets

Intangible assets with finite useful lives and property, plant and equipment are tested for impairments if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is conducted, the recoverable amount is assessed by reference to the higher of the net present value of expected future cash flows of the relevant cash generating unit and the fair value less cost to sell.

Goodwill and other intangible fixed assets with an indefinite useful life are tested for impairment at least annually.

If a cash generating unit is impaired, provision is made to reduce the carrying amount of the related assets to their estimated recoverable amount. Impairment losses are allocated firstly against goodwill, and secondly on a pro rata basis against intangible and other assets.

Where an impairment loss is recognised against an asset it may be reversed in future periods where there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised, except in respect of impairment of goodwill which may not be reversed in any circumstances.

Assets held for sale

When an asset or disposal group's carrying value will be recovered principally through a sale transaction rather than through continuing use it is classified as held for sale and stated at the lower of carrying value and fair value less costs to sell. No depreciation is charged in respect of non-current assets classified as held for sale.

Inventories

Inventories are valued on a first in, first out basis, at the lower of cost or estimated net realisable value after allowance for redundant and slow moving items.

Take-or-pay contracts

Where payments are made to external suppliers under take-or-pay obligations for gas not taken, they are treated as prepayments and included within other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are

subject to insignificant risk of changes in value and have an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Pensions and other post retirement benefits

The group operates a number of defined benefit retirement schemes. The amount recognised in the balance sheet in respect of liabilities represents the present value of the obligations offset by the fair value of plan assets.

The cost of providing retirement pensions and other benefits is charged to the income statement over the periods benefiting from employees' service. The group has adopted the exemption allowed in IFRS 1 to recognise all cumulative actuarial gains and losses at the transition date in reserves.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside of the income statement in retained earnings and presented in the statement of recognised income and expense.

Long term sales contracts

Provision is made for the net present cost, using a risk-free discount rate, of expected losses on onerous long-term sales contracts. The provision is based on the difference between the contracted sales price and the expected weighted average cost of gas.

Taxation

Current tax, including UK corporation tax, UK petroleum revenue tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantially enacted, by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill (if amortisation of goodwill is not deductible for tax purposes) or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the group's assets and liabilities and their tax base.

Deferred tax liabilities are offset against deferred tax assets within the same taxable entity or qualifying local tax group. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised.

Deferred tax is provided on temporary differences arising on subsidiaries, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected to fall from the manner in which the asset or liability is recovered or settled.

Financial Instruments (to 31 December 2004)

Interest-bearing loans, other financial assets and borrowings

All interest-bearing loans, other financial assets and borrowings are initially recognised at cost, being the fair value of the proceeds paid, or for borrowings received, net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Other financial assets are recognised at the lower of cost and net realisable value.

Derivative financial instruments

The Group uses a range of derivative instruments for both trading and to manage (hedge) exposures to financial risks, such as interest rate, foreign exchange and energy price risks arising in the normal course of business. The accounting treatment for these instruments is dependant on whether they are entered into for trading or non-trading (hedging) purposes. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Group in line with the Group's risk management policies. In addition, there must be a demonstrable link to an underlying transaction, pool of transactions, or specified future transaction or transactions. Specified future transactions must be reasonably certain to arise for the derivative to be accounted for as a hedge.

Derivative instruments are accounted for as follows:

Energy trading activities: The Group engages in swaps, futures, forwards and options in gas, electricity and weather for trading purposes. Financial and physical positions are marked to market using externally derived market prices. Marked to market gains and losses are recognised immediately in the income statement within revenue. The corresponding fair value debtors or creditors are included within the balance sheet.

Energy hedging activities: The Group engages in gas, electricity, oil and weather derivatives to hedge against price exposures arising within the energy procurement, supply and retail operations. The derivatives are matched to the specific exposures which they are designed to reduce, with gains and losses recognised in the income statement in the same period as the income and expenses of the underlying hedged transactions.

Treasury hedging activities: The Group uses interest rate swaps, forward rate agreements, foreign currency swaps and forward exchange contracts to manage the exposures to interest rates arising on underlying debt and cash positions, or probable future commitments and foreign exchange risks arising on foreign currency assets and

borrowings, foreign currency forecasted transactions and the retranslation of overseas net investments. All instruments are used for hedging purposes in line with the Group's risk management policies.

Amounts payable or receivable in respect of interest rate swaps and forward rate agreements are recognised as adjustments to the net interest charge over the term of the contracts.

Currency swap agreements and forward exchange contracts are retranslated at the rates ruling in the agreements and contracts. Resulting gains or losses are offset against foreign exchange gains or losses on the related borrowings or, where the instrument is used to hedge a committed future transaction, are deferred until the transaction occurs. Where used to hedge overseas net investments, gains or losses are recorded in the statement of total recognised income and expense, with interest recorded in the income statement.

Where derivatives used to manage interest rate risk or to hedge other anticipated cash flows are terminated before the underlying debt matures or the hedged transaction occurs, the resulting gain or loss is recognised on a basis that matches the timing and accounting treatment of the underlying debt or hedged transaction. When an anticipated transaction is no longer likely to occur or finance debt is terminated before maturity, any deferred gain or loss that has arisen on the related derivative is recognised in the income statement, together with any gain or loss on the terminated item.

Key accounting policies under IAS 32 and IAS 39

The following are the key accounting policies adopted in the preparation of the restated 2005 opening balance sheet to reflect the adoption of IAS32 and 39.

Financial Instruments

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at fair value plus transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method, except when they are the hedged item in an effective fair value hedge relationship where the carrying value is adjusted to reflect the fair value movements associated with the hedged risks and the fair value movements are recognised in the income statement. Amortised cost is calculated by taking into account any issue costs, and any discount or premium.

Units issued by The Consumers' Waterheater Income Fund

Units issued by The Consumers' Waterheater Income Fund which contain redemption rights providing unit holders with the right to redeem units back to the Fund for cash or another financial asset are treated as a financial liability and recorded at the present value of the redemption amount. Gains and losses related to changes in the carrying value of the financial liability are recognised in net interest within the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are initially recognised at fair value and re-measured to fair value at each reporting period end. Gains or losses on re-measuring available-for-sale financial assets are recognised as a separate component of equity until the financial asset is sold, collected, or otherwise disposed of, or until the financial asset is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Derivative financial instruments

The Group routinely enters into sale and purchase transactions for physical gas, power and oil. The majority of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the physical position in accordance with the Group's expected sale, purchase or usage requirements. Such contracts qualify for the own use treatment and are not within the scope of IAS 39.

Certain physical gas, power and oil purchase and sales contracts are within the scope of IAS 39 because they net settle or contain written options. Such contracts are accounted for as trading derivatives under IAS 39 and are recognised in the balance sheet at fair value with changes in fair value recognised in the income statement.

The Group uses a range of derivatives for both trading and to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price risks, arising in the normal course of business.

The accounting treatment for derivatives is dependent on whether they are entered into for trading or hedging purposes. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Group in line with the Group's risk management policies and is in accordance with established guidelines, which require that the hedging relationship is documented at its inception, ensure that the derivative is highly effective in achieving its objective, and require that its effectiveness can be reliably measured. The Group also holds derivatives which are not designated as hedges and derivatives that are held for trading.

All derivatives are recognised at fair value and are re-measured to fair value each reporting period. Recognition of the gain or loss that result from changes in fair value depends on the purpose for issuing or holding the derivative. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the profit or loss. Gains and losses arising on derivatives entered into for speculative energy trading are presented on a net basis within revenue.

For the purpose of hedge accounting, hedges are classified as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations.

Fair value hedges: A derivative is classified as a fair value hedge when it hedges the exposure to changes in the fair value of a recognised asset or liability. Any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

Cash flow hedges: A derivative is classified as a cash flow hedge when it hedges exposures to variability in cash flows that is either attributable to a particular risk associated with a recognised asset, liability or a highly probable forecast transaction. The portion of the gain or loss on the hedging instrument, which is effective is recognised directly in equity while any ineffectiveness is recognised in profit or loss. The gains or losses that are recognised directly in equity are transferred to profit or loss in the same period in which the highly probable forecast transaction affects profit and loss, for example when the future sale of physical gas or physical power actually occurs.

Net investment hedges: Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity, any gain or loss on the ineffective portion of the hedge is recognised in profit or loss. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the highly probable forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in profit or loss.