

International Financial Reporting Standards

Presentation to Analysts & Investors
4 May 2005

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Kath Kyle

Investor Relations

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Standards currently in issue and adopted by the EU are subject to interpretations 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 IFRS financial reporting for the year ended 31 December 2005 and the half-year ended 30 June 2005 may be subject to change. The IFRS results are unaudited.



Agenda

- Transition to IFRS
- Standards with particular relevance to Centrica
- 2004 income statement and balance sheet
- 2005 opening balance sheet
- Summary financials restated
- 2005 dividends under IFRS
- Summary

- Q&As



We have adopted IFRS from 1 January 2005

- 2004 comparatives (excluding IAS 39 & IAS 32)
- Early adopted where practical
- IAS 39 & IAS 32 adopted from 1 January 2005
- 15 September 2005: 2005 interim results under IFRS

Phil Bentley
Group Finance Director

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Although IFRS changes some of our financial reporting it does not impact the underlying value drivers of our business

- Changed recognition of some assets and liabilities
- Consequent impact on timing of profit recognition
- Business strategy is unaffected
- Cash generation is unaffected & remains a key performance measure
- Rules-based approach requires care when interpreting conclusions



Changes arise from a number of standards, with four of particular relevance to Centrica

- | | |
|---------------------------|---|
| • IAS 39 | Energy sales & purchase contracts |
| • IAS 12 | Petroleum Revenue Tax |
| • IAS 17 / IFRIC 4 | Humber & Spalding tolling arrangements |
| • IAS 32 / IFRIC 2 | Consumers' Waterheater Income Fund |

- IAS 19 Pensions
- IFRS 3 Goodwill
- IFRS 2 Share schemes
- IAS 12 Other tax impacts
- IAS 38 Intangible assets
- IAS 10 Dividend recognition

IFRS requires us to make changes to the way we account for certain types of transactions

Type of transaction	UK GAAP	IFRS
Proprietary trading (Accord & N.America)	MTM	MTM – no change
Physical commodity sales & purchases	Accrual accounted	<ul style="list-style-type: none">a) Own use designation: accrual accounting (no change)b) Hedging – MTM with unrealised movements to the hedge reservec) Trading – MTM with unrealised movements taken through the income statement

Many of our physical commodity purchases and sales qualify as own use under IAS 39

Principle	Accounting treatment	Application to Centrica
Own use	Accrual	Purchase contracts used purely to supply own customers or meet demand in our equity power stations.
Net settlement	MTM (Trading)	Contracts used for supply/demand balancing
Written options	MTM (Trading)	Contracts allow buyer flexibility when delivered to an active trading hub
Similarity	MTM (Trading)	Cannot have contracts with similar terms in both own use and trading
	MTM (Hedge)	Cash flow hedge of future purchase requirements to meet customer demand

The marked to market value of contracts will change in line with future movements in commodity prices

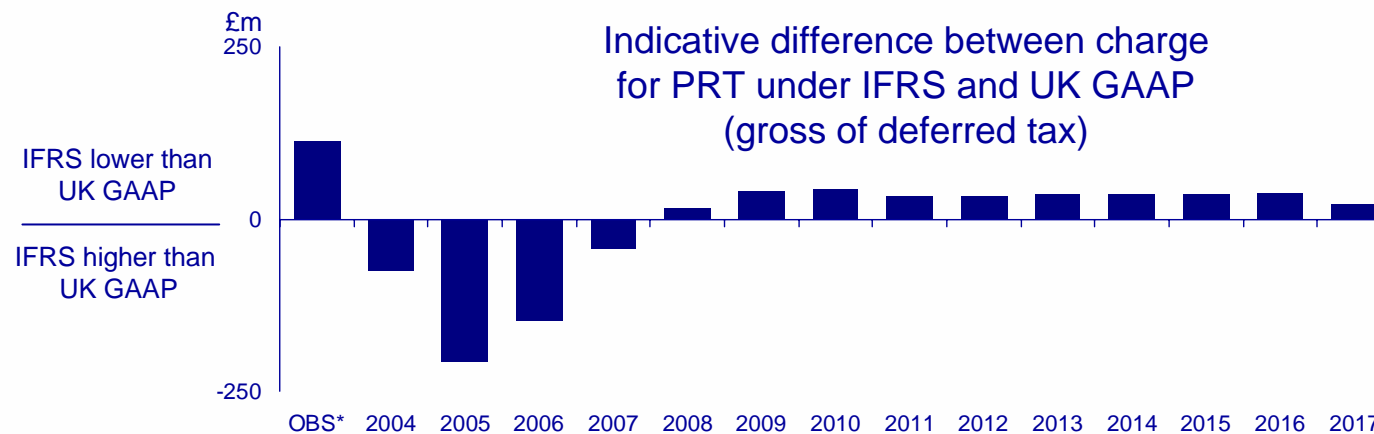
Commodity price move	Estimated ⁽¹⁾ UK Energy ⁽²⁾ annualised MTM move ⁽³⁾
Gas: increase by 1p/therm	+ £1 million
Oil: increase by \$1/bbl	- £1 million
Power: increase by £1/MWh	+ £11 million

Notes

- 1) Estimated impact is based on current contracts and is pre-tax.
- 2) UK Energy excludes Accord but includes residential & business energy, Centrica Energy and Centrica Storage.
- 3) Does not include own use contracts or hedging contracts.

PRT liabilities are accounted for as taxes, changing the timing of recognition

- PRT moves from cost of sales to tax
- Cash payments & calculation of lifetime charges unchanged
- Charge was previously based on Life of Field approach with all estimated future liabilities charged at an even rate per therm produced
- Under IFRS the annual charge closely reflects accounting profit in the year
- Net impact over the life of the field is zero



* Opening balance sheet benefit to reflect prior years' PRT charges (higher under UK GAAP than IFRS)



IFRS requires our dedicated gas-to-power tolling arrangements be brought onto the balance sheet

- Under IFRS, the power tolling arrangements with Humber & Spalding are finance leases
- The fixed assets and the corresponding lease liabilities are capitalised at fair value
- Net benefit to operating profit & earnings, neutral on cash
- No change in underlying commercial arrangements or future decisions



Minority interests in the Consumers' Waterheater Income Fund can no longer be reported as non-equity minority interests

- Centrica holds a 19.9% interest in the fund
- Under UK GAAP (FRS 5) we fully consolidated the fund - no change under IFRS
- Units in the fund have redemption rights to the fund
 - Redemption rights exist for technical reasons
 - No redemption liability for Centrica
 - No redemptions have been made to date or are expected
- Under IAS 32, units with redemption rights must be treated as debt, irrespective of their non-recourse nature or low probability of redemption

Alisdair Cameron

Director of Financial Control

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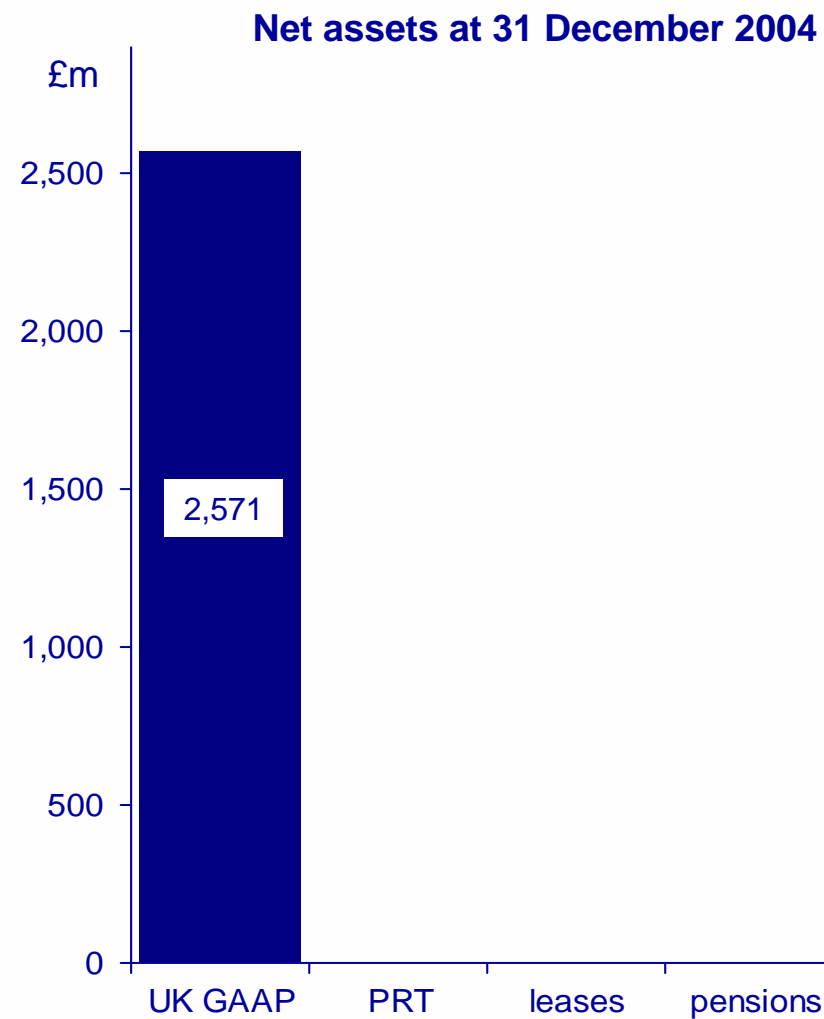
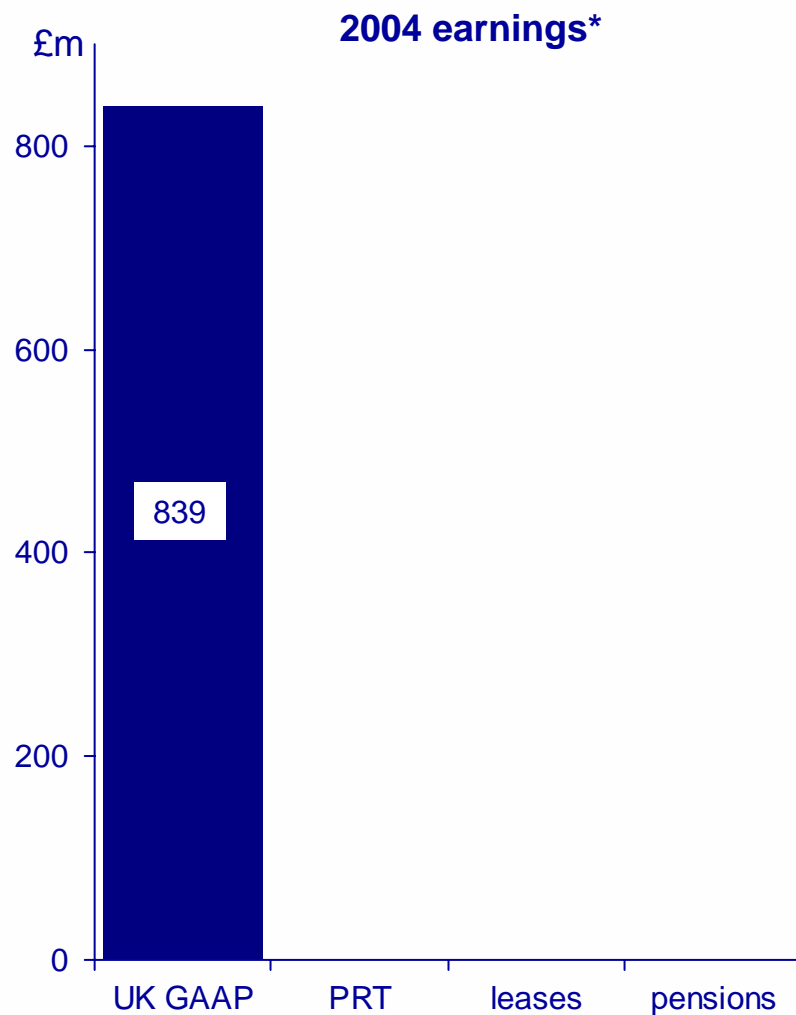
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A number of the new standards affect Centrica's reported results

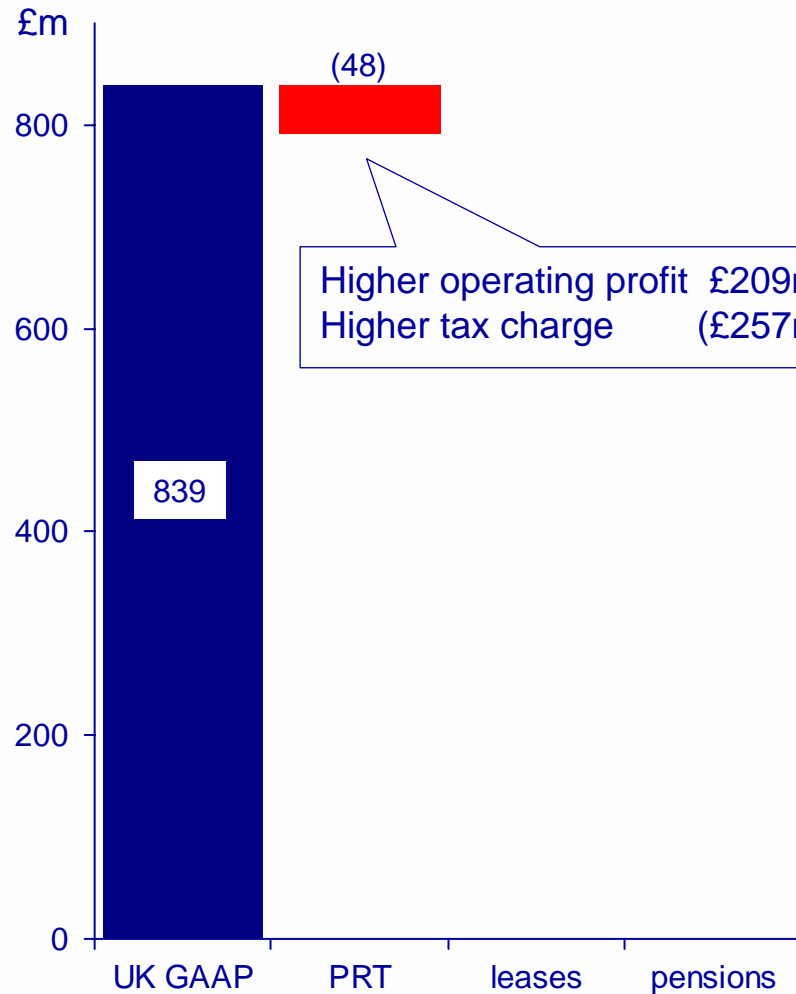
- IAS 39 Energy sales & purchase contracts
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Under UK GAAP our 2004 earnings* were £839m and net assets at 31 December 2004 were £2,571m

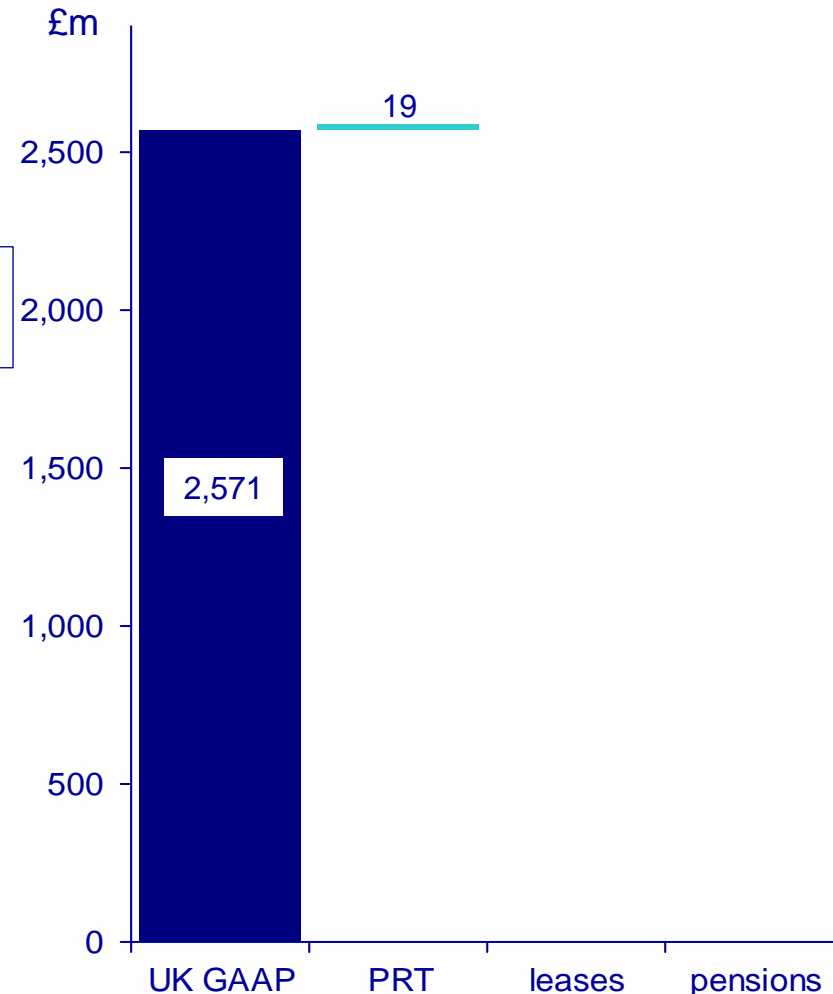


* pre-exceptionals & goodwill

The change to the calculation of deferred PRT takes £48m off earnings in 2004 and has a small impact on net assets

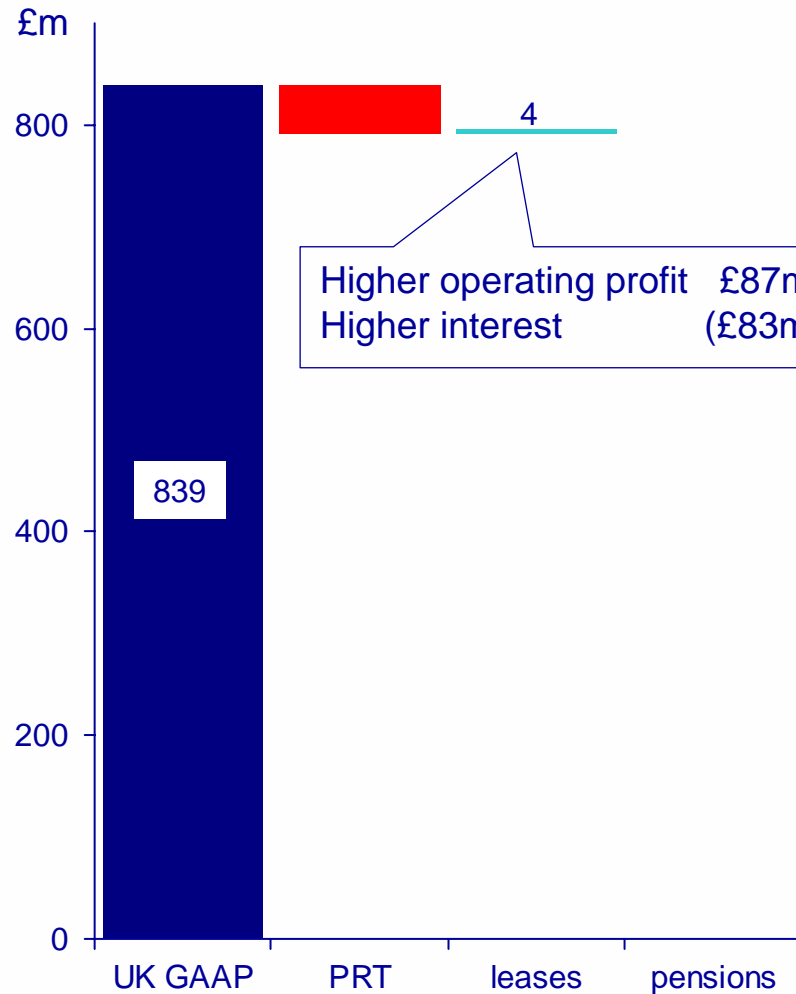


2004 earnings
(pre-exceptionals & goodwill)

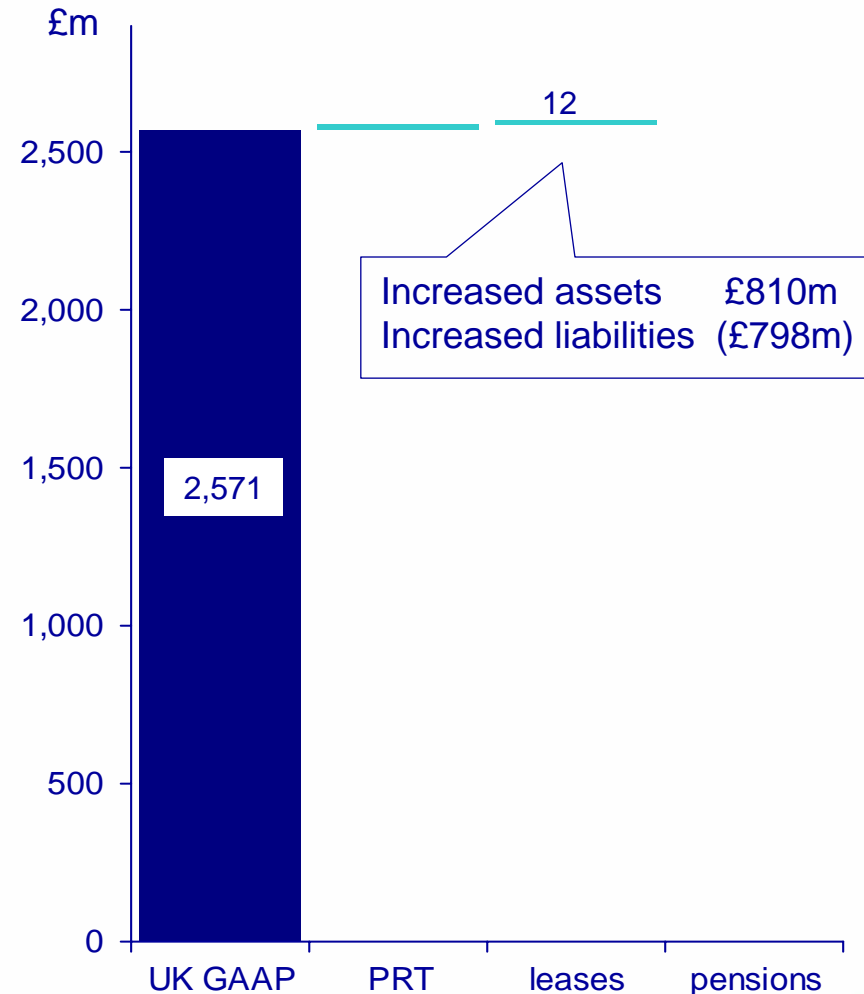


Net assets at 31 December 2004

Bringing Humber & Spalding onto the balance sheet has a small net impact on earnings and the balance sheet

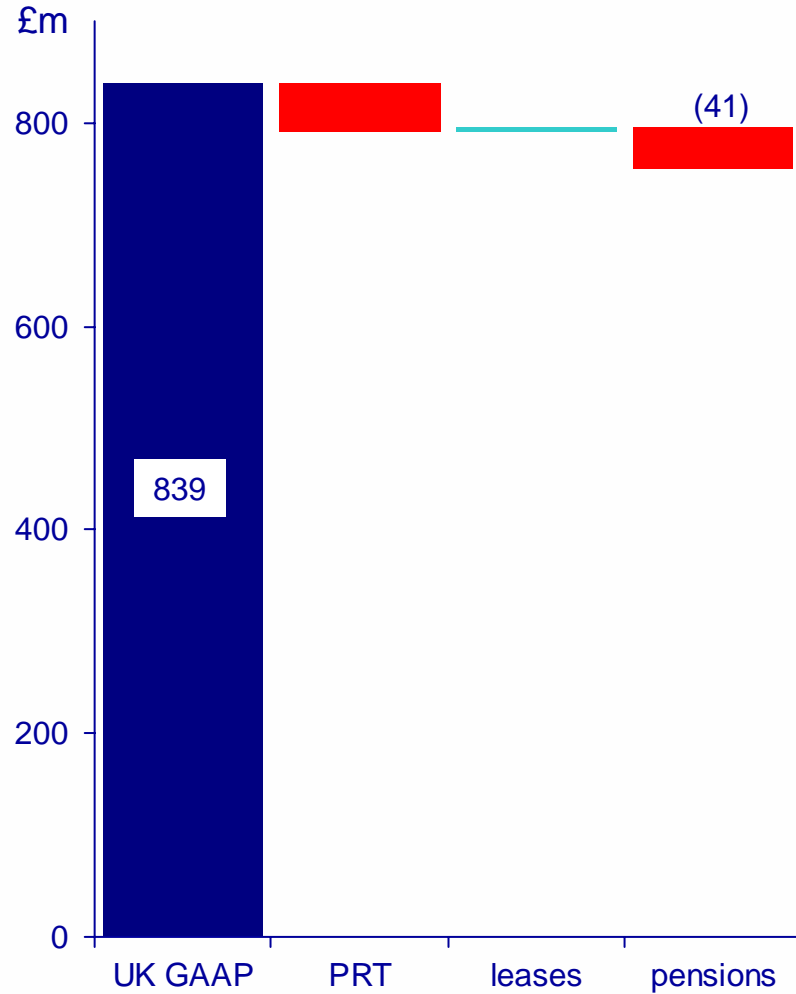


**2004 earnings
(pre-exceptionals & goodwill)**

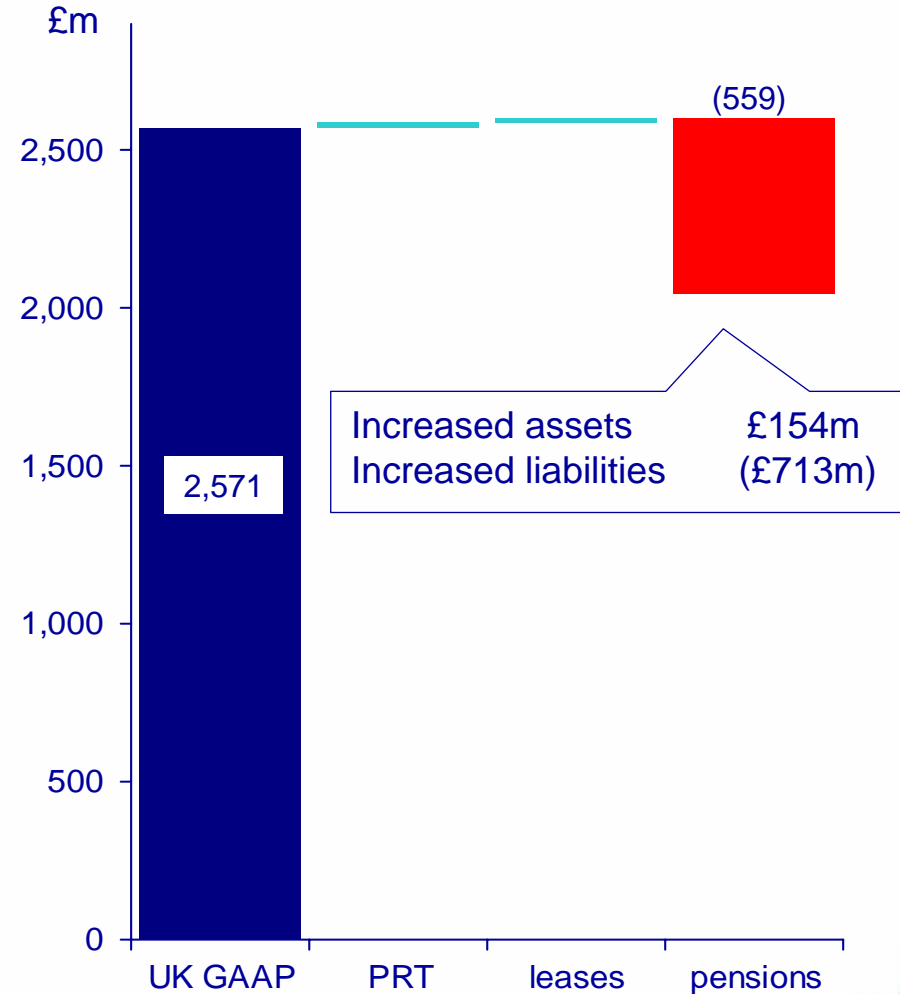


Net assets at 31 December 2004

**We have previously accounted for pensions under SSAP 24.
Moving to IAS 19 is in line with previous FRS 17 disclosures**

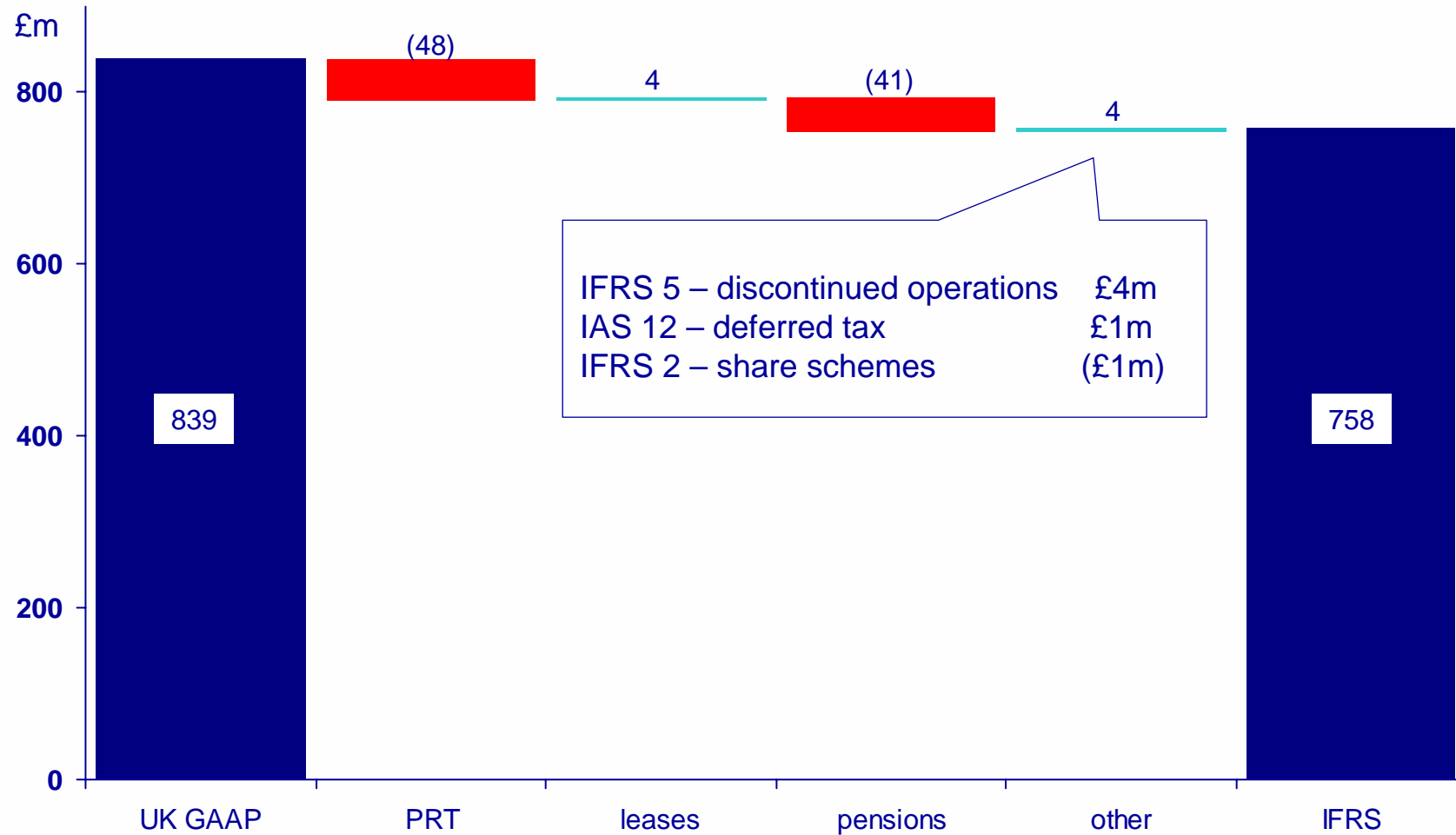


**2004 earnings
(pre-exceptionals & goodwill)**



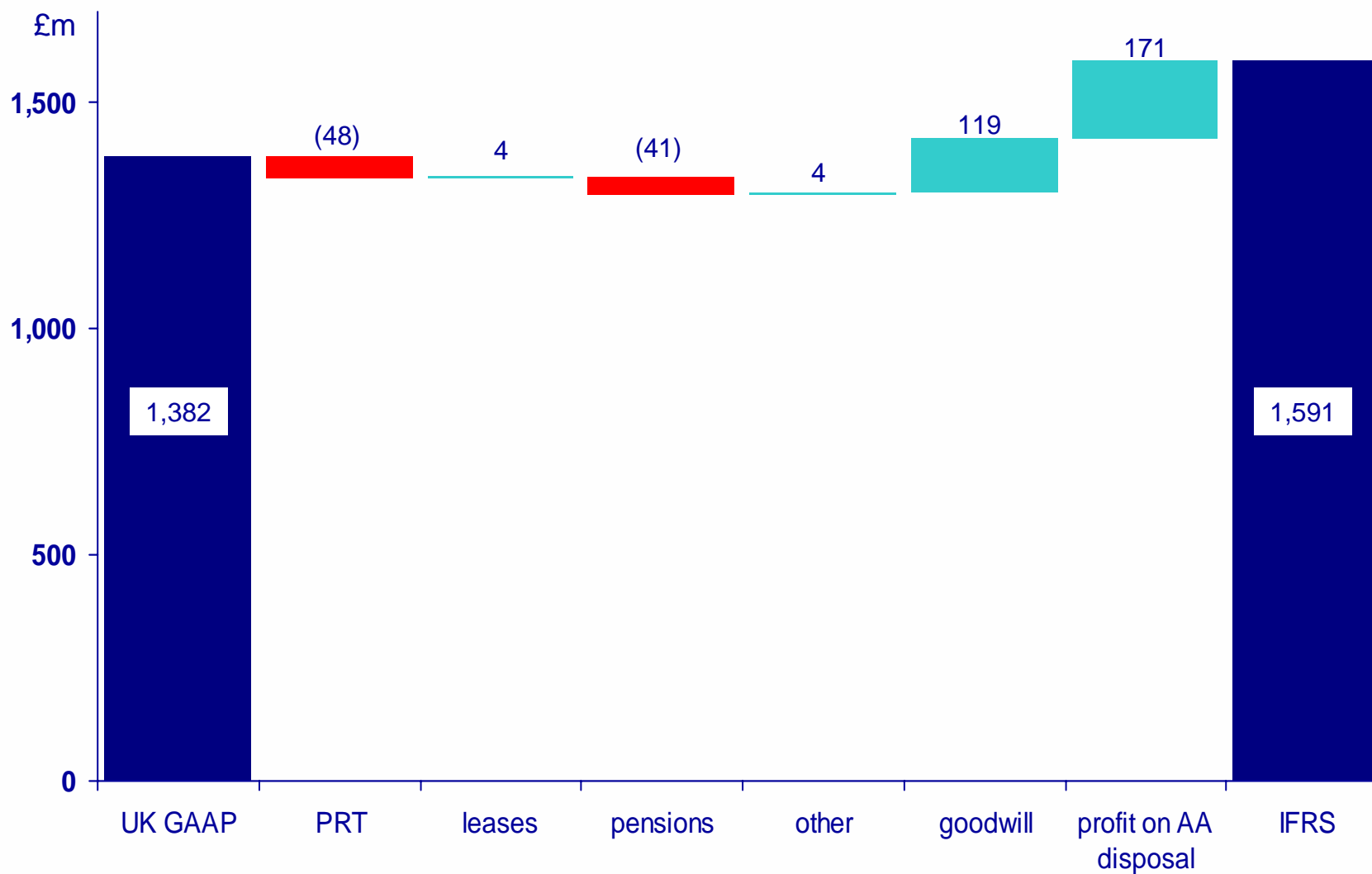
Net assets at 31 December 2004

The other impacts on 2004 earnings* are minor, giving an overall net impact of £81m (10%)



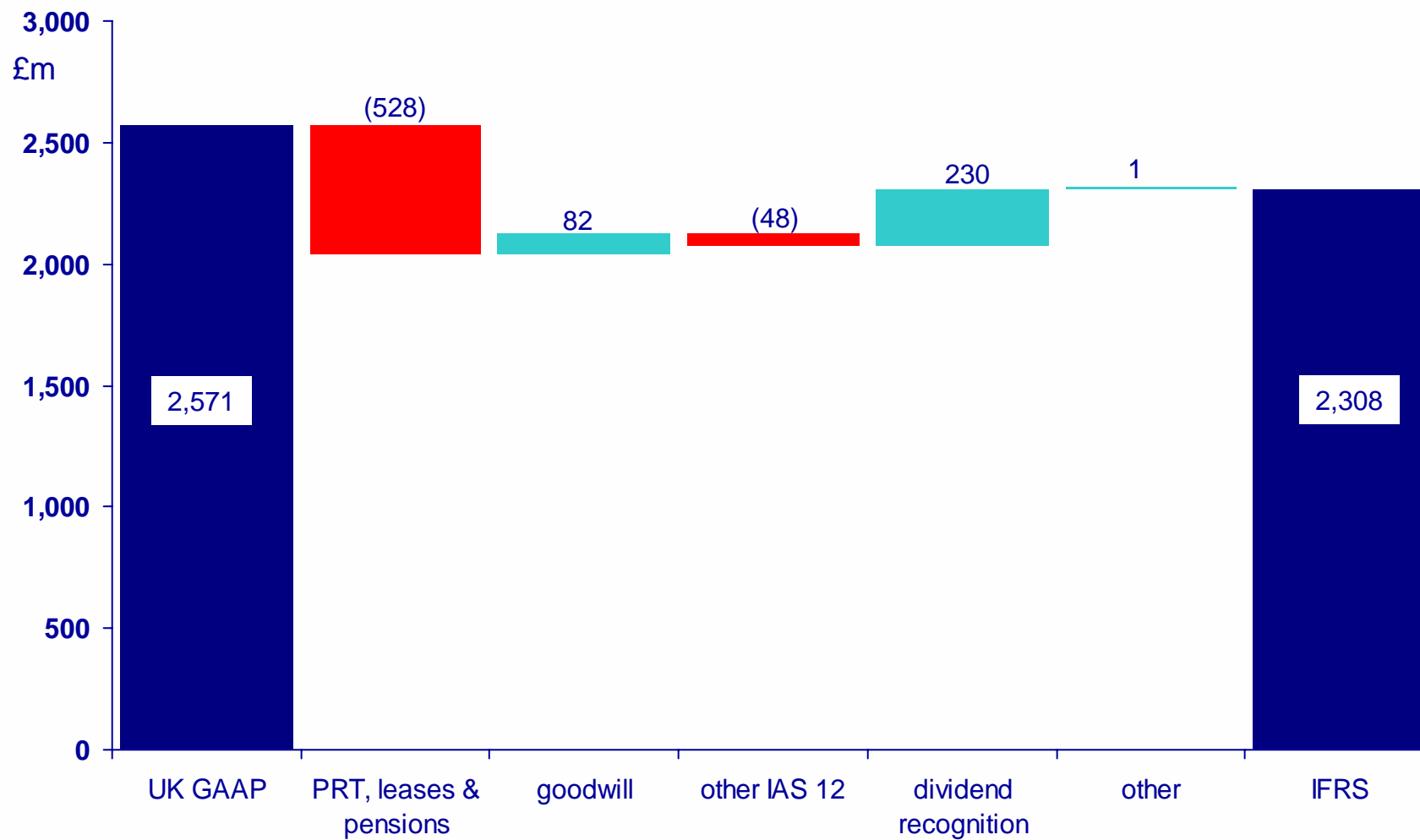
* pre-exceptionals & goodwill

Statutory earnings* increase due to the reversal of previously amortised goodwill and higher IFRS profit on the AA disposal

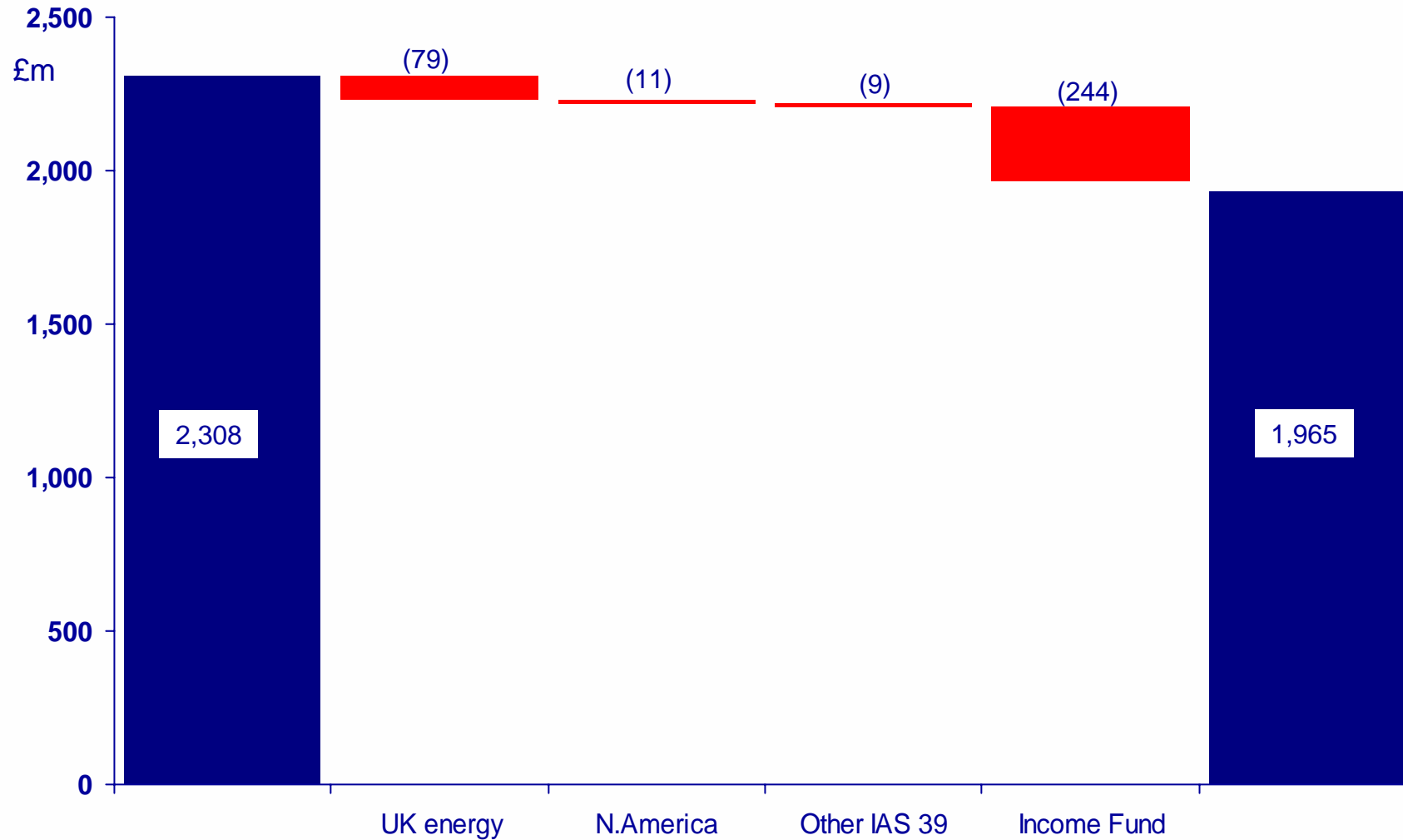


* post-exceptionals and goodwill

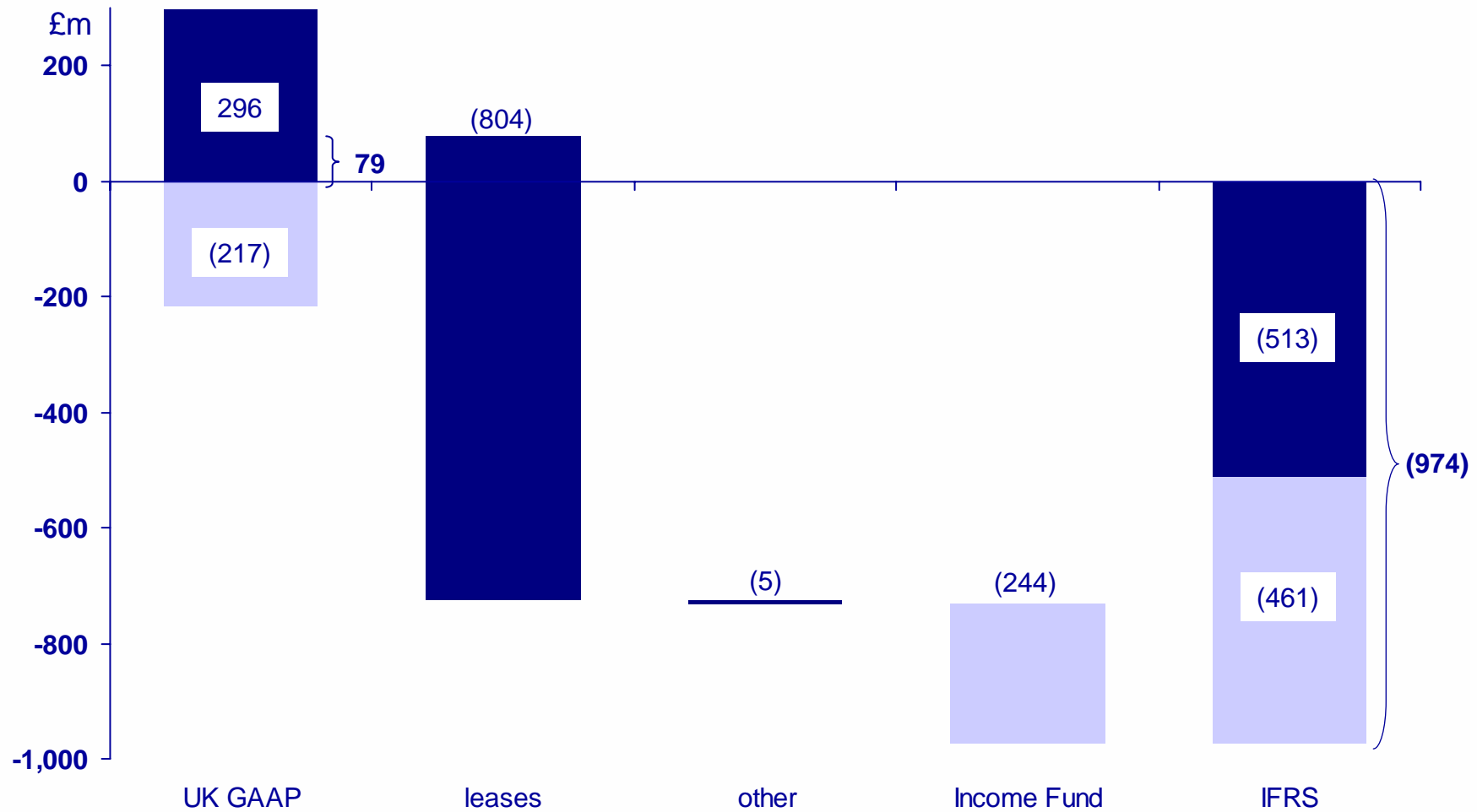
Net assets at 31 Dec 2004 reduce by £263m mainly as a result of pensions liabilities coming onto the balance sheet



We are adopting IAS 39 and IAS 32 from 1 January 2005 with an overall impact on net assets of £343m



At 1 January 2005 the inclusion of liabilities for Humber & Spalding and the Income Fund turns net cash into net debt



Consumers' Waterheater Income Fund debt

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Summary impact

	UK GAAP	IFRS	
Full year 2004 (exc. IAS39)			
Operating profit	£1,227m	£1,365m	▲
Statutory EPS	33.0p	38.0p	▲
Adjusted EPS	20.0p	18.1p	▼
At 1 Jan 05			
Shareholders' funds	£2,352m	£1,910m	▼
Net cash/(debt)	£79m	(£974m)	▼
- excluding Income Fund	£296m	(£513m)	
- Income Fund debt	(£217m)	(£461m)	



2005 dividend under IFRS

- Commitment to 50% dividend payout ratio made under UK GAAP
- 2005 dividend will honour that commitment based on a combination of:
 - increase in payout ratio
 - increase in earnings from 2004 to 2005
- Proposed 2005 dividend per share will be confirmed with our 2005 results



Summary

- IFRS changes some reporting treatments, with impact on:
 - Asset & liability recognition
 - Timing of profit recognition
- Cash generation unaffected
- No impact on business strategy or underlying economics

Questions & Answers

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