Centrica plc

International Financial Reporting Standards

4 May 2005

Introduction

Kath Kyle

Director of Investor Relations

I. Welcome

Good morning, ladies and gentlemen, and thank you for coming to our briefing on the restatement of our results under international financial reporting standards. Joining us today to present the restatement are Group Finance Director Phil Bentley and Alisdair Cameron, Group Director of Financial Control. Before we start, I would like to draw your attention to this slide. The disclaimers include the normal statements made with any release of financial information but, in particular, I would like to draw your attention to the final paragraph. IFRS is continuing to evolve as consistent interpretations of the standards are established, and these restated results will not be audited until they are released as the comparatives to our 2005 full-year results.

II. Agenda

Phil will give an overview of the impact of IFRS on our results, drawing attention to some standards that have a particular relevance to Centrica. Alisdair will set out the financial impact, along with details of the other more typical changes that IFRS brings. Phil will then summarise and provide an update on the 2005 dividend before we turn the meeting over to you for questions.

III. Rationale

You have in front of you a copy of the comprehensive statement, which we released to the Stock Exchange this morning, explaining the changes. The statement and this presentation are also on our website and, as always, we are webcasting the presentation. We are adopting IFRS for 2005 and have restated our 2004 results to provide comparative data. We have sought to adopt more recent standards and interpretations early, from 1 January 2004, to provide consistent data. The main exception to this, as for many companies, has been the decision not to early adopt IAS 32 and IAS 39, which deal with financial instruments. The uncertainty surrounding the interpretation of these standards made early adoption impractical, but we have provided data on their impact on our balance sheet at 1 January 2005. Our 2005 interim results, which will be released on 15 September, will be our first set of results reported under IFRS.

IFRS Principles

Phil Bentley

Group Finance Director

I. A Change in Accounting Rules

Good morning, everybody. I am impressed that so many people are here today, because IFRS is important to us at Centrica. From a high level perspective, the main changes under IFRS are the rules by which certain assets and liabilities should be recognised on the balance sheet. This, of course, changes the timing of those charges and credits to the income statement.

The first thing to say about IFRS is that these changes are changes in accounting definitions. We are not changing the way we manage the business on a day-to-day basis. There is no impact on our business strategy and, reassuringly, the cash flows generated by our business are unaltered, as are the underlying drivers of value in the Centrica model. The second point to say about IFRS is that the rules-based approach can lead to conclusions that are different from the economic reality of a transaction and which therefore require careful explanation.

II. Changes Significant to Centrica

1. Overview

I will focus on four particular changes:

- IAS 39 and the valuation of energy contracts.
- The timing differences for Petroleum Revenue Tax (PRT) charges.
- The balance sheet treatment of certain tolling arrangements.
- Following a very recent IFRIC interpretation, the accounting for the Consumers' Waterheater Income Fund.

2. IAS 39

a. Commodity contracts

IAS 39 has probably been debated more than any other standard. Under UK GAAP, our trading activity in Accord and North America was marked to market, and our procurement and sales contracts required to meet customer demand were accrual accounted. Life, in retrospect, was pretty simple. However, under IAS 39 most commodity contracts are considered to be derivative instruments and are required to be marked to market unless they are held for our own use. Mark-to market contracts are either those held for trading purposes or to hedge a future requirement –The standard sets restrictive definitions both for hedging and for own use. Own use contracts continue to be accrual accounted, as before, but hedge contracts are marked to market and unwind through the income statement on delivery, together with a corresponding reduction in matching asset or

liability. The unrealised gains and losses arising from the changes in market value go through a new and separate hedge reserve account. However, in essence, the net charge to the income statement of hedges continues to reflect the cost of the physical delivery of the contract, something similar to accrual accounting in the past.

What is different, though, is that the remaining traded contracts are not only marked to market, but here the unrealised movements are charged or credited directly to the income statement hence introducing an element of earnings volatility. Looking at our specific portfolio, many of our physical commodity contracts meet the own use exemption and will continue to be accrual accounted. However, there are some circumstances where the own use treatment is no longer permitted under the standard. 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 now known as net settling and here the contracts are treated as trading. Also, contracts, where our customers receive flexible volumes of gas at a hub from which they themselves can subsequently trade. These contacts, constitute written options under the standard and are also treated as trading.

Additionally, the standard requires similar contracts to be treated consistently – for example, contracts that are similar to net settled contracts because they have standardised exchange accepted terms can no longer be treated as own use. However, such contracts can be treated as hedging when there is a strong match with future purchase requirements.

b. Trading account

At 1 January 2005, the mark to market on the trading account was a debit to reserves of £167 million. Net of a credit to the hedge reserve of £68 million, net assets are reduced by some £99 million. This total debit should reverse, mostly over the next two years, as some 85% of the value of the I&C contracts are fulfilled in that time.

c. Commodity prices

I noted before that the changes in the mark to market of trading contracts will be charged or credited to the income statement. In slide 7, we indicate the sensitivity on the income statement from changes in underlying commodity prices as a result of this new trading accounting treatment. This sensitivity is modelled assuming a uniform move in prices across the whole of the curve, although, in reality, winter prices can often move more than summer prices. In the short term, over the next couple of years, an increase in gas prices of 1p/therm would result in a reduced charge by £1 million before tax, and a $1/barrel increase in oil prices, because of oil price indexation in some sales and purchase contracts, creates an equal and opposite increase in mark-to-market charge.

Looking at power, because many of our traded contracts are in the money, an increase of £1/MWh will increase earnings by £11 million. These sensitivities are net of short-term, in the money contracts, and some slightly longer-term contracts that are out of the money. As contracts roll off, and assuming that any future contracts are at the money, the sensitivities would be £13 million for a 1p/therm increase in gas prices and plus £4 million for a £1/MWh increase in power prices. The net movement on marked to market will be separately disclosed in our accounts. I stress that these movements reflect changes in the forward curve over the full life of the contract and are not realised earnings impacts.

3. PRT Charges

Another accounting change of treatment relates to how PRT is recognised in the accounts. Previously, PRT was considered to be a direct cost of sales and was included in our gross margin. However, IFRS requires us to account for PRT as if it were another of our corporate taxes. This new methodology obviously does not change the cash PRT payable in each year and in aggregate over the life of the field. However, not only do we now have to move PRT below the EBIT line; the standard also requires a change in the way we charge PRT to the income statement. We used to calculate PRT on a unit of production basis, requiring a charge pro- rata'd for the annual production over the total life of field production, thus smoothing the charge from year to year. However, IFRS requires that the charge more closely reflects the profitability of the field in any one year. As you can see from the chart, we received an opening balance sheet benefit, having incurred higher PRT charge in the past compared to the new methodology. The charge then starts to increase in the next three years relative to the unit of production basis, driven, of course, by the higher prices in the forward market, reversing later as the curve and the production declines. I stress this is just a timing difference and there is no net impact over the life of the field.

4. Gas-to-power Tolling Arrangements

Let me turn also to our dedicated gas-to-power tolling arrangements at Humber and Spalding. Under UK GAAP, there was no balance sheet impact; we simply charged the gas that we put into the plant along with the tolling fees. However, IFRS requires these assets to be brought on balance sheet as finance leases. This treatment grosses up our balance sheet with some £800 million of assets, along with the corresponding lease liabilities. The impact on net assets and earnings is small. Again, I emphasise that under these IFRS accounting changes, there is no impact on cash payments, nor indeed on the commercial attractiveness of such tolling arrangements.

5. Consumers' Waterheater Income Fund

As a result of recent IFRIC guidance, the Consumers' Waterheater Income Fund produces an accounting treatment that requires careful explanation. You will recall that in the purchase of Enbridge Services, we inherited a portfolio of water heater assets, which we subsequently sold down into a separately quoted stock exchange investment trust. Centrica currently holds 20% interest in the fund, and under UK GAAP we consolidated the fund to reflect the sharing of risk and reward under our partnership arrangement, which does not change under IFRS. Indeed, under IFRS we would be required to consolidate the fund, even if we sold down all of our remaining holding. However, whereas the 80% held by third parties was accounted for as a minority interest under UK GAAP, under IFRS this is now treated as debt. It is an example of the rules-based approach to IFRS, irrespective of the economic reality.

Although the fund units are freely traded on the Toronto Stock Exchange, holders do have redemption rights to put the units back to the fund, but not to Centrica, and typically at a material discount to their market value. These are common features of such funds in Canada. There have been no redemptions of the units to date back to the fund and, given the discount terms, future redemption to the fund is considered very unlikely. Nevertheless, the very existence of the redemption rights, even though they are non-recourse to Centrica, makes these units debt under IFRS. Another twist is that the debt is valued based on the price at which the fund's units trade, and as at 1 January 2005, this adds a total £244 million to our reported debt levels.

These are the specific material changes under Centrica's reported results, which need careful interpretation and understanding to separate out the true economic reality of the underlying activities. I will now hand over to Alisdair, our Director of Financial Control, to take you through the financial impact of these, and other changes, to our results, then I will sum up the overall impact at the end.

The Financial Impact of IFRS

Alisdair Cameron

Director of Financial Control

I. Preamble

Good morning. I will now take you through the main changes to our results, covering the matters that Phil has described and the impact of a number of other standards. These may cover more familiar ground, as they apply to many companies in similar ways. We have taken as our starting point our previously reported results under UK GAAP; in particular, earnings for 2004, adjusted for exceptional items and the amortisation of goodwill, of £839 million and net assets at the end of 2004 of £2571 million.

II. Specific Changes

1. PRT Adjustment

Phil has explained that by changing the way we provide for PRT, IFRS also requires us to change the timing of the charges to the income statement. On transition to IFRS, £67 million net of tax previously charged PRT has been credited back. For 2004, we replace a charge against cost of sales of £209 million with a tax charge of £257 million, reducing earnings by £48 million. The impact on net assets is small – an increase of £19 million – which is the difference between the reversal on the opening balance sheet and the higher charge in 2004.

Based on current fields and current curves, we estimate that the 2005 charge will be some £125 million higher under IFRS. That delta significantly reduces in 2006 and 2007, and from 2008 we would estimate it to reverse so that, from that point, earnings will be higher under IFRS than they would have been under UK GAAP. Obviously, over the life of the field there is no impact.

2. Tolling Arrangements

You also heard that we are accounting for the Humber and Spalding tolling arrangements as finance leases. As you would expect, the impact on earnings – an increase of £4 million – and on net assets – an increase of £12 million – is small and simply reflects timing differences between the depreciation of the fixed assets, the repayment of the lease creditors and the knock-on impact on the value of the investment in the Humber Power joint venture. Within the income statement, £83 million of operating costs are re-categorised as interest charges. There is a similar grossing up

on the balance sheet, where we create £800 million of additional assets, primarily our interest in the lease arrangements and liabilities being the matching lease liabilities to finance these creditors.

3. Pensions

As in most UK companies, we accounted for pensions under SSAP 24, but we also disclosed results under FRS 17. IAS 19 is very similar to FRS 17, and the restated results are in line with the previous disclosures, reducing earnings for 2004 by £41 million and bringing the pensions deficit onto our balance sheet. At the end of 2004, net of deferred tax, the deficit was £494 million. The delta from UK GAAP is higher at £559 million because under SSAP 24 there was a prepayment from last year's special contribution, which also reverses.

4. Discontinued Operations, Deferred Tax and Share Schemes

In addition to those key points, there are minor changes to earnings from the way we now account for discontinued operations, deferred tax and share schemes. Under IFRS, the cost of all share schemes has to be charged to the income statement. Under UK GAAP, revenue-approved, save-as-you-earn schemes were exempt. In the future, this is likely to reduce earnings by £10 million per year. In the first year, the impact is much less because awards made before November 2002 are still exempt.

III. The Bottom-line Impact

1. The Impact to 2004 Earnings

2004 earnings, adjusted for exceptional items and the amortisation of goodwill, reduce by £81 million, primarily due to the impact of PRT and pensions. However, it is important to note that statutory earnings actually increased by £209 million because of two additional adjustments. IFRS does not allow the amortisation of goodwill, so the previous charge, net of tax of £119 million, is reversed. Profit on the disposal of the AA actually increases by £171 million, representing the post-tax value transferred out of its pension deficit.

2. The Impact to Net Assets

Slide 18 sets out a similar summary of the impact of net assets at the end of 2004. The adjustments I have already been through for PRT, leases and, in particular, pensions reduced net assets by £528 million. The other main changes are the same adjustment reversing goodwill amortisation, which is £82 million because it is net of the AA. We create additional deferred tax liabilities of £48 million. Under IFRS, the basis of calculating deferred tax changes, but the main difference is that we are now required to record deferred tax on acquisitions and, in particular, tax on the difference between the fair value and the tax value of the net assets acquired. For acquisitions made before 2004, that is a charge to reserves as here, which will unwind over the lives of the assets, reducing future tax charges. For 2004 and subsequent acquisitions, additional goodwill is created.

IFRS requires dividends to be recorded in the year in which they are approved rather than declared, which increases net assets at the end of 2004 by the £230 million final dividend. Overall, net assets reduced by £263 million. In addition, we adopted IAS 32 and IAS 39 on 1 January 2005. Phil set out the principles on IAS 39 earlier. Marking to market contracts reduces net assets by £99 million, of which £79 million relates to the UK energy business. In addition, as you heard, net assets reduce

because we have recategorised the minority interest in the Waterheater Income Fund to debt and marked it to market. Restated net assets on 1 January become £1.965 billion.

3. Net Cash and Debt

At 1 January 2005, under UK GAAP we had net cash of £296 million, excluding the non-recourse debt on the balance sheet of the Consumers' Waterheater Income Fund. That reduces because we brought the Humber and Spalding tolling arrangements onto our balance sheet and we create the lease creditors of £804 million and with one other small change, that creates net debt, excluding Consumers' Waterheater Fund, of £513 million. The Fund debt also increases, because of the move of the minority interest, to £461 million, all non-recourse, which creates total net accounting debt of £974 million.

Summary

Phil Bentley

What does this mean for our numbers? IFRS improves our 2004 operating profit and statutory EPS but reduces our adjusted EPS, pre-amortisation of goodwill and exceptional items. Obviously, recognising the pensions deficit reduces shareholders' funds. The tolling arrangements and the recategorisation of the minority interest in the Waterheater Fund creates additional accounting debt, of which £461 million is non-recourse to Centrica. Again, I stress that we are under no obligation to support the liabilities of the Waterheater Fund and have no intention of doing so.

From a credit perspective, we have had dialogue with our ratings agencies and do not expect any change to our rating as a consequence of IFRS. On dividends, we are clearly going to have to adjust our policy of directly linking dividends to earnings, given the volatility created by IAS 32 and IAS 39. As you know, we committed to a 50% dividend payout ratio for 2005 under UK GAAP. Under IFRS, our 2005 dividend will honour that commitment, reflecting the increase in payout ratio and the changes in underlying earnings.

To summarise, IFRS does affect our reported results and does provide further transparency. We have to recognise some assets and liabilities differently, and this affects the timing of profit recognition. Where certain rules result in treatments that do not necessarily reflect the underlying economics of the transaction, careful interpretation is required. However, cash generation as a key performance measure is not affected by IFRS and will continue to be a core Centrica strength. In sum, the way we do business, the underlying drivers of value and the overall Centrica strategy should not be – and indeed, will not be – affected by IFRS. We will now turn the meeting over to questions.

Questions and Answers

Andrew Wright, UBS

Did you go through an exercise of calculating the fair value of the tolling contracts, or was it simply a question of matching the assets to the liabilities over the lifetime of the arrangements?

Phil Bentley

Effectively, the lease payments reflect the fair value, so there is a fair value element in the balance sheet adjustment.

Bobby Chada, Morgan Stanley

Approximately £89 million of the tolling arrangements drops out of operating costs and £83 million gets re-reflected, or switched into, interest costs. Will you show that as a benefit to the residential energy business or will you start to split the power stations out as a separate business line? Obviously, it would make margin progression very difficult to track.

Phil Bentley

It is a good question in terms of disclosing the underlying performance of the business. As Bobby says, you have a switch from what was a tolling charge down to an interest charge. I think we will have to look at the overall contribution that generation in isolation makes. As you know, other companies do not necessarily split out the contribution of their individual power stations, and our portfolio is actually a lot less significant a contributor to our earnings. I cannot promise that we will split it out, but obviously we will look at the materiality. The other side will be the interest line where we will want to break out the components of that interest charge because it will significantly increase as a consequence.

Just a general point of our bond rules in terms of covenants, we do not have any interest cover or asset turn-related covenants in our bond documents, and we have a very weak covenant in our undrawn facilities of two times interest cover of EBITDA, which would mean we would have to get up to approximately £700 million of interest. We are actually looking to take that final covenant out of our undrawn facilities as we move to renegotiate, simply because we have some volatility in that interest charge to come.

Bobby Chada

My understanding is that transfer price between the power stations and the supply business is not reflective of market prices but is a cost-based transfer price. Is that correct? Obviously, that is a big difference between you and other companies.

Phil Bentley

The issue there is what price would we have paid for peak had we not produced it ourselves. In essence, the total P&L cost of the power stations are now embedded in the downstream results. I think it is always a debate of somewhat spurious accuracy as to what you would have paid for

something in a market segment of peak that is very, very illiquid. I think it will be quite difficult to get that number at a true arm's length.

Philip Green, Merrill Lynch

On slide 22 and the dividend, when you were looking back at the UK GAAP profitability, we are looking at the £839 million, which is translated into £758 million. Are you saying in bullet one that the payout ratio as applied would increase to compensate for that drop from £839 million to £758 million, meaning you are left harmless?

Phil Bentley

Yes.

Philip Green

Beyond that, if there are indeed earnings increases or decreases from 2004 to 2005, that would be the other side of the adjustment?

Phil Bentley

We are honouring our commitment in terms of cash payments that we would have made under the old UK GAAP rules. To clarify the point about earnings, we also would want to strip out if there are some unusually volatile impacts of IAS 32 and IAS 39, which are obviously on an unrealised basis. We would want to get to the true underlying movement to apply the earnings impact.

Philip Green

On slide 21 and net debt, we have seen this a lot with some of our European utilities. When one looks particularly at brokers and their sum of the parts evaluation, you add up the stack of EVs, get to a total EV and deduct the net debt; or, in your case, add on the net cash. Are you saying that if one is mimicking that exercise, should one be deducting £974 million of debt from that EV stack on the assumption that some of these items would already be taken care of in people's thoughts about the power station valuations and so on?

Phil Bentley

If you split out that £974 million being the £513 million and the £461 million, the £461 million is in fact non-recourse, and there is no corresponding asset on our balance sheet for these water heaters other than the interest we have in the 20%. We would say that is not correct to deduct that £461 million. The £513 million playing the £296 million is, in essence, the power stations of the tolling of Spalding and Humber. Depending on the sum of the parts, if you have that in the assets in the sum of the parts, you are right to deduct it. If you only had in our assets the power stations we had bought, you would not need to make that deduction.

Michael Ridley, Citigroup Credit Research

Is there any way you will change the way you account for your gas purchase contracts, perhaps those that are yet to come on line – Ormen Lange and that kind of thing? Do you look at them as

contingent liabilities, or are you happy you have break clauses in them? Do you stop them being debt-like?

Phil Bentley

On Ormen Lange. Clearly, we have not identified it. Given it is priced at NVP, it will be resetting to the market today, so it will not create a mark-to-market delta against any forward curve because it is at the money. I am certain there would not be any, but I do not know if we have looked at it specifically.

Alisdair Cameron

I am not sure if we have looked at that one specifically. Overall, you have to look at the books as well as the individual contracts, because sometimes it is the individual contracts that drive the accounting treatment, and sometimes it is looking at comparing the supply and demand. However, I would not expect it to become a contingent liability in that sense.

Michael Ridley

Because you get gas supplied at UK wholesale prices?

Phil Bentley

It is at the market. The only reason for the mark to market is if you have contracted on a fixed price basis that is now different to today's forward curve. The Ormen Lange and the BBL are contracted at floating prices and are therefore at the money.

Michael Ridley

Am I right in thinking you have been working with International Power on an agreement to buy power indexed to coal prices? Will that come into your thinking?

Phil Bentley

To be clear, we have signed a coal PPA.

Alisdair Cameron

We are reviewing the treatment of that at the moment. There were two elements of possible indexation: one is the coal and the other, because coal is quoted in US dollars, is the foreign exchange. I think it is probable we will mark to market the foreign exchange element, but I am not clear about the whole agreement yet, as we are still working through that.

Martin Brough, Dresdner Kleinwort Wasserstein

What discount rates were used on the tolling agreements? Were there different discount rates for the fixed assets versus the financial liability? If interest rates change, will a change in the discount rate be used when restating the market value of that, essentially a finance lease? Will that cause volatility in the interest charge? I know it is not particularly material for you in terms of the group,

but as at 1 January, will you be doing a mark to market of any emissions trading carbon allowances you have? How would you determine the appropriate price to shove that onto your assets?

Phil Bentley

On the latter, yes, we would. As you know, at the moment it is pretty small because we were given an allocation that almost met fully what we needed. It is the delta that we would have to identify; it is a small tens at the most, 10-15 million.

Alisdair Cameron

The discount rate is really created arithmetically from working out the total value of the lease payments and working back to the fair value. That will not change. What you get is a disconnect in the timing of the way the asset you have then created and the finance lease creditor work through, but it is not going to be volatile in that sense.

Martin Brough

Would there be a change in the fair value of the debt as a result?

Alisdair Cameron

No. That will unwind as we repay it.

Tony Jenni, Royal Bank of Scotland

Are you going to recast in any way your views on levels of leverage and interest cover? It is confusing given the number of changes.

Phil Bentley

Clearly, the old measures, if you like, of times interest cover and gearing, are inappropriate. If you look at the way Moody's and S&P, our two ratings agencies, look at our numbers today, they already see through some of these changes that we are now bringing on the balance sheet. For example, they already include the Humber and Spalding in their calculations of debt. They already include the FRS 17 pensions deficit as part of their calculation of debt.

I think Moody's are going to come out with something today; we are hopeful that S&P will, as well, to confirm what they already know. The key measure for S&P is funds from operations as a percentage of total recourse debt, and for our rating, we would be comfortable down to around 40%. Today, based on these 2005 adjusted numbers, I think we are at 56%. Moody's looks at retained cash flow after dividends and at adjusted debt. Again, the ratio they would expect is above 20%; under this new methodology, we are currently at 37%. We consider ourselves to still have a significant amount of headroom, before we drop below those measures, in the order of approximately £1.5-2 billion.

Tony Jenni

Are those the guidelines for tracking?

Phil Bentley

We have to get people comfortable with the rating agencies' methodologies and we would be shifting to those types of targets.

Bobby Chada

When you talked about headroom of £1.5-2 billion, that is above and beyond the new IFRS debt position?

Phil Bentley

Correct.

Bobby Chada

On the dividend issue, I guess you cannot keep adjusting for UK GAAP versus IFRS when you think about the dividend in perpetuity. What do you do about that? Do you end up setting a different payout ratio, or changing that completely?

Phil Bentley

This is something the board has already discussed in terms of where we go with policy guidance beyond 2005. This is something the board is conscious of, and we will provide that guidance before we get into 2006.

Bobby Chada

You gave a very good feel in February at the results for what you expected industrial and wholesale contracts to look like over the next few years. We cannot split out the mark to market for those because it is bundled with other things. Can you give better colour on what you expect those to look like now?

Phil Bentley

Since February, the curve has moved again. Looking at prices, winter 2005 was at 57.5 yesterday, so it has moved since that balance sheet date. Those I&C contracts are effectively now in that mark to market in trading, so they have now switched from being own use and accrual accounted into trading. Any subsequent moves will go through the P&L on those contracts, offset by whatever is delivered in the period. As I said, over the next couple of years, a lot of the value of those contracts plays out, and so you will see a slightly bizarre situation whereby having now marked to market at the end of 2004 / 1 January 2005, through the delivery, we would actually start to see a credit going through the P&L as we reduce that overall balance from balance sheet point to balance sheet point. I'm not going to give the number out because we have to use a set of curves for our forward market valuation, which does not include our own WACOG built up from past procurement contracts. The mark to market is assuming you have to go and buy all the gas for those contracts at the forward curve, whereas actually we already have contracts we will slot in with our own WACOG to furnish those contracts. Obviously, as I said, the P&L effect will have gone up slightly from the guidance we gave at the February results.

Philip Green

To extend that, you have been very helpful in giving us a steer for 2005 on the PRT; it is obviously a fairly big element that we have to absorb in the earnings. You have made mention of this particular point, but looking at slide 16 – where £839 million goes to £758 million as a start of a turn, if you like, for 2004 – and the reconciliation going forward, are there other areas we should be looking at? If we roll the clock forward, looking at the wedges in between and thinking, what will PRT do in 2005? You told us about the £125 million and the other items like leases, pensions, and others. Is there anything you can say to give us a feel for the overall materiality of the volatility there for 2005, based on those same elements and how they roll forward?

Phil Bentley

We have given guidance on the PRT impact in 2005, which is on page 8. You can see that materially relative to 2004 charge after deferred tax, which was approximately £48 million. So it will be more than that.

Philip Green

It is really the other elements.

Phil Bentley

I do not see a major change or step up in pensions. We no longer have the AA in our books, but I think it is of a similar order.

Alisdair Cameron

Certainly, we would not expect Humber and Spalding to change particularly, going forward.

Martin Brough

Although you do not amortise goodwill under IFRS, there is still quite a lot of goodwill there. For an ongoing business, you would not necessarily assume that it is deteriorating in any way, but if you have a finite life asset like gas production in Canada, and if there is goodwill associated with that, how do you deal with that as the gas field disappears?

Alisdair Cameron

It depends on the nature of the underlying business. You have to subject goodwill to impairment tests over time. If you have any reason to think it is impaired, and if it is a depleting asset like a gas field, then clearly that goodwill will be written off over the life of the field, whereas in other businesses with a longer life, downstream businesses, that would not necessarily be the case.

Phil Bentley

We got rid of a lot of the goodwill with the AA transaction. The single largest goodwill that we now have is Direct Energy in the US, which is £260 million; the services business we bought in the States, which is £163 million; and Texas, which is £174 million. As we said, there is no reason to

believe that those customer-entity type deals will require a goodwill write off, but obviously there will be a fair value test every year. That is how you will adjust, if there is any adjustment, on fair value. As long as we are growing the business, clearly we don't foresee that happening.

Bobby Chada

The statement went into detail about the treatment of the spend on CRM systems and how that will change. I think instead of being classed as fixed assets, it will be classed as intangible assets. Does that mean the depreciation charge on those assets will now drop away and there will be an impairment test, or will they be depreciated as normal?

Alisdair Cameron

They will continue to be written off over the life of the assets.

Phil Bentley

To be clear, that single reclassification does not just include the CRM, the British Gas Transformation; it is all of the software in the group.

Iain Turner, Deutsche Bank

If you think about the two power stations you have under tolling contracts, the spark spread is probably worse now than when you signed the tolling contracts. Does that mean you have had to take some sort of impairment charge when you brought them on the balance sheet?

Phil Bentley

There is no impairment charge. On that note, thank you for your time and attention.

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