

Centrica plc
Preliminary Results
for the year ended 31 December 1997
(Unaudited)

SUMMARY

	Year ended 31 December 1997	Year ended 31 December 1996
Turnover	£7,842m	£8,125m
Operating profit/(loss) before exceptional charges	£175m	£(57)m
Profit/(loss) before exceptionals	£44m	£(203)m
Cash flow before financing and exceptionals	£877m	£(2)m
Profit/(loss) per share	(17.9)p	(24.1)p
Underlying profit/(loss) per share	1.0p	(4.6)p

Continuing improvement in customer service
Marketing and price initiatives implemented
'Take or Pay' contracts now manageable
New product launches in Electricity and Insurance
Strong cash generation
Cost reductions achieved

Commenting on the results, Chairman Sir Michael Perry said:

"Good progress has been made in our first year as a new company. Operating costs have come down, our gas contracts are now manageable, working capital levels have been reduced, and most importantly our customer service levels have improved".

CHAIRMAN'S STATEMENT

This has been an important year for Centrica plc. Demerged from British Gas plc on 17 February 1997, the new company faced a number of major challenges.

I am pleased to report good progress has been made in meeting these challenges.

Our first priority has been the improvement of customer service systems and performance. Throughout the year we exceeded our regulated standards in the important areas of correspondence handling and telephone response. The annual level of complaints to the Gas Consumers Council was 28 per cent below that in 1996, and the level at December 1997 was the lowest for two years.

We have responded positively to the significant competitive threat we face in the gas market through a combination of pricing initiatives, marketing campaigns and first class service. Specifically, our announcement of substantial price cuts from January and our offer of electricity at 15 per cent below the average prices prevailing in November 1997, have been well received by our customers.

We have made good progress in the year to reduce the exposure to our legacy gas contracts. We are now satisfied they are in a manageable state against long term market prices.

The operational performance improved in each of our businesses in 1997, notably in Trading and Services. The Energy Centres performance was, however, disappointing and further steps have been taken to remove operational inefficiencies and improve customer focus.

On the back of our success with the Goldfish credit card, new product launches in electricity and home insurance have been delivered in 1997. This supports our objective to be the first choice supplier of energy and services to homes and businesses.

Our financial performance was characterised by improvements in operating profit before exceptionals from a loss of £57 million in 1996 to a profit of £175 million in 1997, and strong cash flow generation before exceptionals from an outflow of £2 million in 1996 to an inflow of £877 million in 1997.

In line with the policy declared at demerger, no dividend has been recommended. At the end of 1998, once competition is established nationwide, we will be in a better position to review our dividend policy.

There is no doubt that the challenges we face in 1998 are no less significant than those tackled last year. With the arrival of competition nationally in the gas market and the belated start of competition in the electricity market, we are positioning ourselves as the customer's first choice in our markets.

Sir Michael Perry, CBE

Chairman

26

February

1998

CHIEF EXECUTIVE'S REVIEW

Group Results - Full Year

Turnover at £7,842 million was £283 million lower than in 1996. The adverse effect of weather, year on year, was £462 million with 1997 being substantially warmer than average and 1996 being colder. The consolidation of our Accord subsidiary from March 1997 added £459 million to turnover.

Operating profit before exceptional charges at £175 million, was £232 million better than 1996. This improvement reflected substantial reductions in operating costs, the firming of gas prices in the commercial/industrial sector and the benefit of lower deferred petroleum revenue tax charges resulting from the adjustment of our internal prices on the South Morecambe gas field. The impact of warmer weather had an adverse effect year on year of £105 million as a result of lower consumption and therefore, lower margins.

Exceptional charges before tax of £835 million (1996; £822 million) comprised £192 million of Windfall Tax, £608 million (1996; £705 million) in relation to gas contract re-negotiations and long term sales agreements, and £35 million (1996; £117 million) on restructuring costs.

The tax charge of £168 million primarily relates to the ring fenced offshore gas production activities. It was £67 million less than in the previous year mainly due to higher deferred tax charges offset by group relief in 1996, which arose as a consequence of the demerger.

Operating activities generated £1,028 million of cash before exceptional charges, up £985 million on 1996 as a result of improvements in underlying operating profit and reductions in working capital levels. The reductions in working capital resulted from improvements in the performance of our billing systems and improvements in cash management generally. Warmer weather also had a favourable impact on cash flow in 1997, as we received higher customer receipts from the colder last quarter of 1996, and our outgoings in the last quarter of 1997 for gas and transportation were lower.

Customer Service

Actions to improve our customer service systems and performance have continued into the second half. Our speed of handling customer communications remains above our regulated targets and quality improvement initiatives are gathering momentum. British Gas Trading won a UK Utility Award for its new A4 bill and we have seen a reduction in customer calls as a result of its introduction. Functions within both British Gas Trading and British Gas Services have been awarded ISO9002 quality accreditations in 1997, reflecting further external evidence of the progress being achieved.

Competition in the Energy Market

Competition in the domestic gas market was extended to 4.5 million homes by 31 December 1997. At that date over 80 per cent of the market open to competition had been retained as customers have recognised our value for money products, excellent service and unrivalled experience.

Our entry into the electricity market and our offer of significantly lower prices was well received by customers and consumer groups. We have made considerable investment in

systems and infrastructure to deliver the benefits of a competitive market. We are extremely disappointed by the delays and the failure to meet the timetable for competition introduction.

Our intention is single-mindedly to continue with our campaign to deliver substantial benefits to electricity customers as soon as we are permitted and we will continue to lobby for the earliest possible start date.

Gas Contract Re-negotiation

Centrica's inherited high priced gas contracts are now, as a result of re-negotiation, in a manageable state when measured against long term market prices. Exceptional charges borne to date of £1,174 million before tax, excluding provisions for ongoing contract losses, have enabled us to reduce our volume commitments by 26 billion therms and prices on a further 22 billion therms. We will continue to consider any further profitable opportunities to optimise our portfolio and are actively pursuing methods to reduce our exposure in future to changes in market prices.

As a result of reduction in volume commitments the Group's prepaid gas bank has reduced to £309 million from £511 million as at 31 December 1996.

Operating Costs

Operating costs of £1,036 million before exceptional charges were down by 13 per cent on 1996, much of which was attributed to lower employee costs. The average number of full time equivalent staff in 1997 was 21 per cent down on 1996.

PERFORMANCE BY BUSINESS

Energy Supply

Operating profit, before exceptional charges, for the year was £269 million, £64 million higher than in 1996. This improvement was achieved despite the margin impact of £105 million due to warmer weather, year on year.

In the domestic sector we made an operating profit of £10 million against £98 million profit in 1996. This was primarily as a result of the warmer weather, £103 million, and increases in gas costs not passed onto customers, offset in part by lower operating costs.

In the non domestic sector firmer selling prices led to a £59 million reduction in the operating loss to £307 million despite increases in gas costs. The 1997 performance included £16 million profit from Accord, covering the period from March, when it became a subsidiary.

The operating profits of North and South Morecambe at £566 million were £93 million higher in 1997 than in 1996, primarily as a result of the lower deferred petroleum revenue tax charge.

Services

Higher turnover, improved margins and lower operating costs all contributed to a substantially improved operating loss of £49 million against the 1996 loss of £196 million.

The loss in the second half reduced to £19 million against £30 million in the first half, reflecting the continuous improvements being made. The further restructuring announced last week will deliver additional savings in 1998.

We are rolling out nationally the provision of security systems installation and maintenance from our Services business and we are intending to extend our trials of domestic air conditioning.

Retail

The operating loss of £45 million from retail operations was £21 million better than in 1996. The improvement came mainly from operating cost reductions whilst turnover growth at 5 per cent was disappointing. Operational problems with delivery and installation resources depressed the fourth quarter turnover and margins, against the backdrop of a difficult period for retailing generally. The management team is being strengthened and the operational problems have been tackled.

Other Activities

The Goldfish credit card, a joint venture with HFC, has performed very well since launch, with over 650,000 cards now in use. In the 12 months to December 1997 it was the fastest growing credit card in the UK. We have announced a further move into financial services, with the launch of a new home insurance product in association with Privilege Insurance. The product is currently being test-marketed, prior to full launch in 1998. We have announced the launch of Goldfish Guide, a direct marketing tool which we believe will bring significant benefits to our customers as well as enhancing our loyalty offering. We have now brought our financial services businesses together into a single new division.

We are continuing to develop joint ventures to enhance the efficiency and cost-effectiveness of our 'back office' facilities. Existing ventures with Group 4, covering meter reading (AccuRead) and with Amdahl, covering software (AG Solutions) are delivering improved services to our customers and contributing to the Group's profitability.

Outlook

The reduction in our exposure to onerous long term gas contracts, the introduction of new products and services, continued reduction of operating costs and, most importantly, improved customer service, have all been essential elements in preparation for domestic competition in both gas and electricity in 1998. We believe that our combination of lower gas prices, cheaper electricity, and a growing range of services and loyalty based products, will ensure that customers see British Gas as being their first choice energy supplier.

Roy Gardner
Chief

Executive

Summary Group Profit and Loss Account for the year ended 31 December 1997

	Notes	Year ended 31 December 1997			Year ended 31 December 1996		
		Underlying business performance	Exceptional charges	Results for the period	Underlying business performance	Exceptional charges and demerger tax adjustments	Results for the period
		£m	£m	£m	£m	£m	£m
Turnover							
- continuing operations		7,383	-	7,383	8,125	-	8,125
- acquisition	3.00	459.00	-	459.00	-	-	-
	2.00	7,842	-	7,842	8,125	-	8,125
Cost of sales	5.00	(6,631)	(608)	(7,239)	(6,996)	(705)	(7,701)
Gross profit / (loss)		1,211	(608)	603.00	1,129	(705)	424.00
Operating costs		(1,036)	(227)	(1,263)	(1,186)	(117)	(1,303)
Operating profit / (loss)							
- continuing operations		159	(835)	(676)	(57)	(822)	(879)
- acquisition	3	16.00	-	16.00	-	-	-
	2,4	175.00	(835)	(660)	(57)	(822)	(879)
Profit on sale of tangible fixed assets - continuing operations		-	-	-	2	-	2
Profit / (loss) on ordinary activities		175	(835)	(660)	(55)	(822)	(877)
Net interest receivable		39.00	-	39.00	39	-	39.00
Share of profits less losses of associated undertakings		(2)	-	(2)	13	-	13
Profit / (loss) on ordinary activities before taxation		212	(835)	(623)	(3)	(822)	(825)
Tax on profit / (loss) on ordinary activities	6	(168)	-	(168)	(200)	(35)	(235)
Profit / (loss) for the financial year		44	(835)	(791)	(203)	(857)	(1,060)
Earnings / (loss) per ordinary share		1.0p	(18.9)p	(17.9)p	(4.6)p	(19.5)p	(24.1)p

There were no recognised gains or losses in the financial year other than those shown above.

Summary Group Balance Sheet

	As at 31 December 1997 £m	As at 31 December 1996 £m
Fixed assets	1,742	1,879
Stock	168.00	121.00
Debtors due within one year	1,952	2,408
Debtors due after more than one year	165.00	304.00
Cash and investments	74.00	29.00
Creditors due within one year	(1,462)	(1,455)
Net current assets	897.00	1,407
Total assets less current liabilities	2,639	3,286
Creditors due after more than one year	(93)	(33)
Provision for liabilities and charges	(1,235)	(1,066)
Centrica plc shareholders' funds	1,311	2,187

Movements in Shareholders' Funds

	Year ended 31 December 1997 £m
Shareholders' funds at 1 January 1997	2,187
Loss for the year	(791)
Goodwill arising on change in investment in Accord Energy Limited	(85)
Shareholders' funds at 31 December 1997	1,311

Represented by:

Capital and reserves	
Share capital	222.00
Merger reserve	467.00
Profit and loss account	622.00
Shareholders' funds at 31 December 1997	1,311

Summary Group Cash Flow Statement for the year ended 31 December 1997

	Note	Year ended 31 December 1997 £m	Year ended 31 December 1996 £m
Operating loss		(660)	(879)
Exceptional charges		835.00	822.00
Depreciation		211.00	226.00
Decrease / (increase) in working capital		575.00	(264)
Other non cash flow items		67.00	138.00
Cash inflow from operating activities before exceptional payments		1,028	43
Expenditure relating to exceptional charges:			
Restructuring	7.00	(93)	(389)
Windfall Tax	7.00	(96)	-
Contract re-negotiations	7.00	(464)	(516)
Net cash inflow / (outflow) from operating activities		375.00	(862)
Returns on investments and servicing of finance		45.00	42.00
Taxation		(112)	4.00
Capital expenditure and financial investments		(87)	(91)
Acquisition		3.00	-
Cash flow before financing	7.00	224.00	(907)
Net increase in money market investments		(44)	(1)
Net (reduction) / increase in short term debt / funding from BG plc		(178)	920.00
Net increase in cash		2.00	12.00
Opening cash		12	-
Closing cash		14.00	12.00

Reconciliation of Net Debt, Cash and Investments

	£m
Net debt at 1 January 1997:	
Net cash and investments	22
Funding balances with BG plc	(160)
Finance leases with BG plc	(40)
	(178)
Net increase in cash for the year	2.00
Net reduction in short term debt / funding from BG plc	178.00
Net increase in money market investments	44
New finance lease obligations	(5)
Net debt, cash and investments at 31 December 1997 (i)	41.00

(i) Comprises cash and money market investments of £74 million, less finance lease obligations of £29 million and short term loans of £4 million. No reconciliation of net debt is provided for 1996, as the Centrica businesses were fully financed by BG plc prior to demerger.

Notes

1 Basis of preparation

The unaudited financial information contained in this report does not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985, and includes information which has not yet been reported on by the Company's auditors.

The Group accounts have been prepared in accordance with the principles of merger accounting as set out in Financial Reporting Standard No. 6 'Acquisitions and Mergers', as if the Group was in existence throughout the year 1996 and up to the demerger of the Centrica businesses from BG plc (formerly British Gas plc) on 17 February 1997.

These results have been prepared using accounting policies consistent with those used in preparing the Listing Particulars for Centrica plc and the proforma results included in the 1996 Annual Report and Accounts of BG plc, except for the treatment of petroleum revenue tax which is now included within cost of sales whereas previously it was included within taxes. Deferred petroleum revenue tax charges were £25 million in the year ended 31 December 1997 and £125 million in the year ended 31 December 1996.

2 Segmental analysis for the year ended 31 December

	Turnover		Operating profit/(loss) before exceptional charges		Operating profit/(loss) after exceptional charges	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
Energy Supply	7,192	7,498	269.00	205.00	(339)	(523)
Services	467.00	452.00	(49)	(196)	(82)	(287)
Retail	183.00	175.00	(45)	(66)	(47)	(69)
Total from operations	7,842	8,125	175	(57)	(468)	(879)
Windfall Tax	-	-	-	-	(192)	-
	7,842	8,125	175.00	(57)	(660)	(879)

3 Change in investment in Accord Energy Limited (Accord)

In March 1997 terms were agreed with NGC Corporation for Centrica to acquire operational control of Accord. Goodwill arising of £85 million has been written off to reserves. Since then Accord has contributed £459 million to Group turnover and £16 million to operating profit. Accord's risk management skills are now being applied to Centrica's entire gas portfolio, while third party gas trading arrangements continue to form the major part of its business.

Notes - continued

4 Exceptional charges for the year ended 31 December

	1997	1996
	£m	£m
Windfall Tax	192.00	-
Gas contract re-negotiations	573.00	601.00
Long term sales provisions	35.00	104.00
Restructuring	35.00	117.00
	835.00	822.00

The one-off Windfall Tax of £192 million announced in the Government's July budget is not a tax on current profits and has thus been taken against operating costs, as an exceptional charge.

5 Cost of sales

As stated in note 1, petroleum revenue taxes are included in cost of sales. Agreement has been reached with the Oil Taxation Office on a revised valuation of production from the South Morecambe gas field for tax purposes. The valuation of gas will in future track market prices, rather than the higher 1986 price agreed when South Morecambe commenced gas production. It is effective from 1 January 1998.

This valuation is used to determine the amounts of royalties, petroleum revenue tax and corporation tax levied on the South Morecambe field's output. The revised valuation will affect future charges for royalties and corporation tax and has affected the provision for petroleum revenue tax from 1997 onwards.

The dispute referred to on page 47 of Centrica's Listing Particulars concerning the determination of the tax price for periods to 31 December 1997 was successfully resolved without cost to the Group.

6 Taxation

The charge comprises mainly corporation tax on 'ring fenced' offshore gas production.

7 Cash flow before financing and exceptionals

	1997.00	1996.00
	£m	£m
Cash flow before financing	224.00	(907)
Add back exceptional payments:		
Restructuring	93.00	389.00
Windfall Tax	96.00	-
Contract re-negotiations	464.00	516.00
	877.00	(2)

Additional Information for the 6 months ended 31 December 1997

Summary Group Profit and Loss Account for the 6 months ended 31 December 1997

	Notes	6 months ended 31 December 1997		Results for the period	6 months ended 31 December 1996		Results for the period
		Underlying business performance	Exceptional charges		Underlying business performance	Exceptional charges and demerger tax adjustments	
		£m	£m	£m	£m	£m	£m
Turnover							
- continuing operations		3,282	-	3,282	3,605	-	3,605
- acquisition		338.00	-	338.00	-	-	-
	8.00	3,620	-	3,620	3,605	-	3,605
Cost of sales		(2,989)	(568)	(3,557)	(3,241)	(705)	(3,946)
Gross profit / (loss)		631.00	(568)	63.00	364.00	(705)	(341)
Operating costs		(545)	(15)	(560)	(600)	(117)	(717)
Operating profit / (loss)							
- continuing operations		74	(583)	(509)	(236)	(822)	(1,058)
- acquisition		12	-	12	-	-	-
	8,9	86.00	(583)	(497)	(236)	(822)	(1,058)
Loss on sale of tangible fixed assets - continuing operations		-	-	-	(1)	-	(1)
Profit / (loss) on ordinary activities		86	(583)	(497)	(237)	(822)	(1,059)
Net interest receivable		25.00	-	25.00	33	-	33.00
Share of profits less losses of associated undertakings		(2)	-	(2)	5	-	5
Profit / (loss) on ordinary activities before taxation		109	(583)	(474)	(199)	(822)	(1,021)
Tax on profit / (loss) on ordinary activities		(101)	-	(101)	(104)	118	14
Profit / (loss) for the financial period		8	(583)	(575)	(303)	(704)	(1,007)

Summary Group Cash Flow Statement for the 6 months ended 31 December 1997

	6 months ended 31 December 1997 £m	6 months ended 31 December 1996 £m
Operating loss	(497)	(1,058)
Exceptional charges	583.00	822.00
Depreciation	99.00	110.00
Decrease in working capital	272.00	188.00
Other non cash flow items	(10)	64.00
Cash inflow from operating activities before exceptional payments	447.00	126.00
Expenditure relating to exceptional charges:		
Restructuring	(8)	(239)
Windfall Tax	(96)	-
Contract re-negotiations	(379)	(516)
Net cash outflow from operating activities	(36)	(629)
Returns on investments and servicing of finance	30.00	36.00
Taxation	(112)	4.00
Capital expenditure and financial investments	(62)	(71)
Acquisition	(14)	-
Cash outflow before financing	(194)	(660)
Net reduction / (increase) in money market investments	187.00	(1)
Net (reduction) / increase in short term debt / funding from BG plc	(9)	652.00
Net reduction in cash	(16)	(9)
Opening cash	30.00	21.00
Closing cash	14.00	12.00

Notes - continued

8 Segmental analysis for the 6 months ended 31 December

	Turnover		Operating profit/(loss) before exceptional charges		Operating profit/(loss) after exceptional charges	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
Energy Supply	3,274	3,278	132.00	(133)	(436)	(861)
Services	245.00	232.00	(19)	(77)	(32)	(168)
Retail	101.00	95	(27)	(26)	(29)	(29)
	3,620	3,605	86.00	(236)	(497)	(1,058)

9 Exceptional charges for the 6 months ended 31 December

	1997 £m	1996 £m
Gas contract re-negotiations	568.00	601.00
Long term sales provisions	-	104.00
Restructuring	15.00	117.00
	583.00	822.00

Enquiries

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Financial Calendar

1997 Annual Report and Accounts published	End March 1998
Annual General Meeting	24 April 1998
1998 Interim results announcement	10 September 1998

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