Centrica plc
Interim Results
for the 6 months ended 30 June 1998
(unaudited)

SUMMARY

	6 months ended 30 June 1998	6 months ended 30 June 1997	*Year ended 31 December 1997*
Turnover	**£4,125m**	£4,222m	*£7,842m*
Operating profit before exceptionals	**£110m**	£89m	*£175m*
Earnings before exceptionals	**£86m**	£36m	*£44m*
Cash flow before financing and exceptionals	**£667m**	£588m	*£877m*
Earnings/(loss) per share	**1.2p**	(4.9)p	*(17.9)p*
Earnings per share before exceptionals	**2.0p**	0.8p	*1.0p*

- **Strong growth in underlying earnings**
- **Substantial cash generation**
- **British Gas Services in profit**
- **Domestic gas market share retention encouraging**
- **Well positioned for electricity competition**

Commenting on the results, Chairman Sir Michael Perry said:

"The Group has continued to make good progress in the first half of 1998. Our performance in the gas market has been pleasing and we have made an excellent start in winning electricity customers. Our financial performance has improved, despite the mild winter and the additional costs we have incurred with the introduction of competition into the energy market. Importantly, our customer service performance has continued to improve."

CHAIRMAN'S STATEMENT

Over the last six months we have seen the balance of the gas market opened up to competition and the developments in the electricity industry as it prepares itself to meet the same challenge.

Against this backdrop I am pleased to report continuing progress in all the key areas.

Removing the causes for complaint by our customers has resulted in further improvements in customer satisfaction. Overall levels of complaints to the Gas Consumers Council have continued to drop and the numbers recorded in the first half of this year are the lowest since 1994.

Despite the intense competition, we have to date retained 85% of our customer base in the gas market. More importantly in areas where competition has been established for some time the rate of loss has fallen substantially.

We now have 440,000 signed contracts to supply domestic customers with electricity and we expect to exceed our previous year end target of 500,000 by the end of September.

Our operating profit before exceptionals at £110 million was 24% above the first half of 1997. Earnings before exceptionals at £86 million were up £50 million over the same period last year, mainly as a result of further improvements in the performance of our Services business. We also benefited from the reduced tax charges on South Morecambe gas production, which resulted from the tax price agreed in December last year. Cash flow before financing and exceptional items was strong in the first half at £667 million.

In Energy Supply, after allowing for the effects of the warm winter, we have maintained profitability, despite increases in marketing expenditure and the cost of entering the electricity market. Our Services business recorded a profit of £3 million in the first half, compared to a loss of £30 million in the six months to 30 June 1997 (and a loss of £119 million in the six months to 30 June 1996). Against the backdrop of a weaker retail market, the effect of the steps we have taken to enhance operational performance in our Retail division is beginning to come through.

In 1996 and 1997 we renegotiated a number of Take or Pay gas contracts, bringing the exposure to a manageable position against current long-term market prices. We concluded further transactions during the first half of 1998 at an exceptional cost of £27 million.

In line with the policy declared at demerger, no interim dividend has been recommended. We will judge the full effect of nation-wide competition in the gas market at the end of this year, at which time the Board will review the opportunities for a distribution to shareholders.

Sir Michael Perry, CBE
Chairman
10 September 1998

CHIEF EXECUTIVE'S REVIEW

Group Results - Half Year

Turnover at £4,125 million was £97 million lower in the first half of 1998, than in the first half of 1997. The effect of competition in the domestic market reduced the volume of gas sold and therefore turnover by £180 million. The impact of domestic price reductions announced in January accounted for a further £200 million fall. This was partially offset by the increase in Accord's turnover which was included for a full six months in the first half of 1998, compared to the period March to June in 1997, and increased business in Services.

Operating profit before exceptional charges, at £110 million, was £21 million better than the performance achieved in the first half of 1997. The current period has benefited from the substantial improvement in performance from the Services business and from reduced deferred petroleum revenue tax charges on the South Morecambe gas field. As reported at our AGM, the impact of the warm first quarter of 1998 had reduced profits compared with the same period in 1997. However, the unseasonally cold second quarter has enabled us to recover some of the earlier shortfall. Overall, first half profits have been reduced by an estimated £59 million in 1998 and £49 million in 1997.

Exceptional charges before tax of £35 million (1997; £252 million) comprised £27 million (1997; £5 million) in relation to gas contract renegotiations and £8 million (1997; £nil) on Year 2000 computer system compliance preparations. In the first half of 1997, exceptional charges also included £192 million for Windfall Tax, £35 million of provisions against long-term contracts and £20 million of restructuring costs.

Net interest receivable was £18 million (1997; £14 million) and has been reduced by a notional £11 million charge (1997; £5 million) in connection with discounted long-term liabilities.

The tax charge of £39 million primarily related to the ring fenced offshore gas production activities. It was £28 million less than in the first half of 1997 mainly due to the benefit of the lower tax price on sales from our South Morecambe gas field and the reduction in the rate of corporation tax.

Operating activities generated £673 million of cash before exceptional payments, up £92 million on the first half of 1997, mainly due to further reductions in working capital levels. Cash flows are, however, highly seasonal and we expect substantial outflows in the second half of the year.

Customer Service

We are pleased with the further progress we have made in improving our standards of customer service, and are committed to a programme of continuous improvement in our service delivery. Additional quality accreditations have been achieved in our Services business in the first half and this will continue throughout the organisation.

The overall level of complaints to the Gas Consumers Council has continued to fall, despite the substantial increase in the number of problems experienced by customers with the process of changing supplier.

Competition in the Energy Market

Competition in the domestic gas market was gradually extended from 4.5 million homes at the beginning of the year to the full market of 19.5 million homes by 23 May 1998. Our overall market share as at 6 September 1998 was 85% (16.6 million homes). In areas where competition has been established for over a year our market share is 73%.

We welcome the opportunity at last to be able to compete in the domestic electricity market, which begins to open to competition next week. We have made a very promising start in respect of the number of contracts already signed. A further 1.5 million consumers have expressed interest in being supplied by us.

Gas Contract Renegotiation

At the end of 1997 we indicated that as a result of renegotiation, our portfolio of high priced gas contracts had been brought into a manageable position when measured against current long-term market prices. We also said that we would consider any further opportunities to optimise our portfolio, and in the first half of 1998 we concluded transactions at an exceptional cost of £27 million. We will continue to look at other suitable opportunities to improve our position in the second half.

Operating Costs

Operating costs at £514 million before exceptional charges were up by 5% on the first half of 1997, as anticipated, due to the additional costs incurred with the introduction of domestic competition in gas and our investment in electricity marketing and systems.

PERFORMANCE BY BUSINESS

Energy Supply

Operating profit for the period, before exceptional charges, was £129 million (1997; £137 million). After allowing for the impact of weather, the profit in the first half was similar to that in the first half of 1997, despite the loss of market share and the additional investment in electricity.

In the domestic sector we made an operating profit of £49 million, which was the same as in the first half of 1997. The price reductions introduced in January 1998 reflected the reduced gas and transportation costs anticipated in the year. Gas costs benefited from a reduction in the transfer price from our South Morecambe field, and from removal of the gas levy. Unit transportation charges from Transco were reduced on average by 13% from October 1997.

In the non-domestic sector the operating loss reduced by £52 million to £84 million due to firmer selling prices and reduced unit costs of gas and transportation. This sector also benefited from the higher Accord profits for the full six month period, which contributed £10 million to the improvement over last year.

The operating profits of the North and South Morecambe gas fields at £164 million were down by £60 million compared to the first half of 1997 due to a combination of reduced volumes as a result of the warm winter and because of the reduction in the unit transfer price to our gas trading business, partially offset by consequential reductions in petroleum revenue taxes (PRT). The charge for PRT of £16 million in the period was £37 million lower than the first half of 1997.

Services

Increased turnover and improved margins in all main product areas led to the achievement of a profit before exceptionals of £3 million for the first half compared to a loss of £30 million in the first half of 1997. Services grew their central heating market share by 3% in the period. Reductions in agency manpower and increases in productivity also contributed to the profitability improvement.

Sales of home security systems are going well and we are proceeding with expanding area coverage to include the South East and North West in the second half.

Retail

Turnover in our retailing business was marginally down compared to the first half of 1997, in difficult trading conditions, whilst the operating loss of £16 million was £2 million better. The management team was strengthened in the early part of 1998 to address the business fundamentals and ensure our product and service offer improves to meet customer requirements. Further actions and specific marketing initiatives are being taken and these are expected to improve performance in the second half.

Other

Our home insurance product, in association with Privilege Insurance, was launched on a trial basis in December. With 15,000 policies sold, it is our intention to market the product nationally later this year. In June we launched the Goldfish Guide, a direct marketing tool designed to bring significant benefits to consumers.

Associated undertakings

Our minority holdings in AccuRead (a venture with Group 4 to provide meter reading services) and AG Solutions (a venture with Amdahl to provide computer software services) both contributed positively to Group earnings during the period.

The Goldfish credit card is being marketed through our joint venture with HFC Bank. From its launch in September 1996 growth in the number of cards has been very strong and there are now in excess of 780,000 in issue. While the joint venture itself is not yet profitable, our investment has created a portfolio of significant value which has not been recognised in the accounts at this stage. More importantly our customers are benefiting from the conversion of points into money off home-related products and services provided by the Group.

Year 2000

We have detailed plans to deal with the risks associated with Year 2000 compliance and progress is monitored monthly by the Board.

We are proceeding with the work necessary to achieve compliance of our business critical systems, where they are at risk, and in most cases this will be achieved by the end of 1998. We are however dependant, in part, on our suppliers and we are working closely with them to ensure that they meet our timetable. We are also taking an active part in a cross utility interest group and in the Government body, Action 2000.

Our spend in addressing Year 2000 compliance in the first half of 1998 was £8 million and a further £5 million was committed as at 30 June 1998. This is in addition to the £3 million spent in 1997. As activity increases to ‘fix or replace’ specific systems, our expenditure levels are expected to increase considerably in the second half. Indications are that the cost of Year 2000 compliance will be within the estimate quoted at the time of our 1997 Annual Report, of £43 million for 1998 and £61 million in total.

Outlook

Our unit purchase cost of gas will reduce materially from October 1998 as a result of the renegotiations of onerous long-term gas contracts concluded over the last two years.

We are encouraged by the domestic gas market share we have retained and by our success in winning electricity customers. However, we recognise that the opening of the electricity market later this month will lead to increased competitive pressure.

Roy Gardner
Chief Executive
10 September 1998

Review Report by the Auditors to the Board of Directors of Centrica plc

We have reviewed the interim financial information for the six months ended 30 June 1998 set out on pages 8 to 13 which is the responsibility of, and has been approved by, the Directors. Our responsibility is to report on the results of our review.

Our review was carried out having regard to the Bulletin 'Review of Interim Financial Information', issued by the Auditing Practices Board. This review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied, and making enquiries of Group management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and verification of assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with Auditing Standards. Accordingly we do not express an audit opinion on the interim financial information.

On the basis of our review:

- in our opinion the interim financial information has been prepared using accounting policies consistent with those adopted by Centrica plc in its financial statements for the year ended 31 December 1997 other than where changes are necessary to implement the new accounting standard described in note 1; and

- we are not aware of any material modifications that should be made to the interim financial information as presented.

PricewaterhouseCoopers
Chartered Accountants

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10 September 1998

Summary Group Profit and Loss Account
for the 6 months ended 30 June 1998

	Notes	6 months ended 30 June **1998** **£m**	6 months ended 30 June 1997 £m	*Year ended 31 December 1997 £m*
Turnover	2	**4,125**	4,222	*7,842*
Cost of sales:				
- Underlying operations		**(3,501)**	(3,642)	*(6,631)*
- Exceptional charges		**(27)**	(40)	*(608)*
		(3,528)	(3,682)	*(7,239)*
Gross profit / (loss):				
- Underlying operations		**624**	580	*1,211*
- Exceptional charges		**(27)**	(40)	*(608)*
		597	540	*603*
Operating costs:				
- Underlying operations		**(514)**	(491)	*(1,036)*
- Exceptional charges		**(8)**	(212)	*(227)*
		(522)	(703)	*(1,263)*
Operating profit / (loss):				
- Underlying operations	2	**110**	89	*175*
- Exceptional charges	4	**(35)**	(252)	*(835)*
	2	**75**	(163)	*(660)*
Share of profits less losses of associated undertakings		**(3)**	-	*(2)*
Net interest receivable		**18**	14	*39*
Profit / (loss) on ordinary activities before taxation		**90**	(149)	*(623)*
Tax on profit / (loss) on ordinary activities	5	**(39)**	(67)	*(168)*
Profit / (loss) for the financial period		**51**	(216)	*(791)*
Earnings / (loss) per ordinary share:				
- Basic	6	**1.2p**	(4.9)p	*(17.9)p*
- Adjusted	6	**2.0p**	0.8p	*1.0p*

There were no recognised gains or losses other than those shown above and all results were derived from continuing operations.

Summary Group Balance Sheet

	As at 30 June 1998 £m	As at 30 June 1997 £m	*As at 31 December 1997 £m*
Fixed assets	**1,679**	1,785	*1,742*
Stock	**117**	110	*168*
Debtors due within one year	**1,278**	1,874	*1,952*
Debtors due after more than one year	**220**	305	*165*
Cash and investments	**694**	276	*74*
Creditors due within one year	**(1,261)**	(1,083)	*(1,462)*
Net current assets	**1,048**	1,482	*897*
Total assets less current liabilities	**2,727**	3,267	*2,639*
Creditors due after more than one year	**(98)**	(217)	*(93)*
Provision for liabilities and charges	**(1,266)**	(1,164)	*(1,235)*
Total assets less liabilities	**1,363**	1,886	*1,311*
Capital and reserves:			
Share capital	**222**	222	*222*
Share premium	**1**	-	-
Merger reserve	**467**	467	*467*
Profit and loss account	**673**	1,197	*622*
Shareholders' funds	**1,363**	1,886	*1,311*

Movements in Shareholders' Funds

	6 months ended 30 June 1998 £m	6 months ended 30 June 1997 £m	*Year ended 31 December 1997 £m*
Shareholders' funds at 1 January	**1,311**	2,187	*2,187*
Profit / (loss) for the period	**51**	(216)	*(791)*
Shares issued	**1**	-	-
Goodwill written-off	**-**	(85)	*(85)*
Shareholders' funds at period end	**1,363**	1,886	*1,311*

Summary Group Cash Flow Statement for the 6 months ended 30 June 1998

	Note	**6 months ended 30 June 1998**	6 months ended 30 June 1997 (as restated (i))	*Year ended 31 December 1997*
		£m	£m	*£m*
Operating profit / (loss)		**75**	(163)	*(660)*
Exceptional charges		**35**	252	*835*
Depreciation		**90**	112	*211*
Decrease in working capital		**438**	303	*575*
Other non cash flow items		**35**	77	*67*
Cash inflow from operating activities before exceptional payments		**673**	581	*1,028*
Expenditure relating to exceptional charges	7	**(51)**	(170)	(653)
Net cash inflow from operating activities		**622**	411	*375*
Returns on investments and servicing of finance		**22**	15	*45*
Taxation		**(2)**	-	*(112)*
Capital expenditure and financial investment		**(19)**	(25)	*(87)*
Acquisitions		**(7)**	17	*3*
Cash inflow before financing	7	**616**	418	*224*
Management of liquid resources		**(624)**	(231)	*(44)*
Financing		**(2)**	(169)	*(178)*
Net (decrease) / increase in cash		**(10)**	18	*2*
Opening cash		**14**	12	*12*
Closing cash		**4**	30	*14*

Reconciliation of Net Debt, Cash and Investments

	£m	£m	*£m*
Net debt, cash and investments at 1 January	**41**	(178)	*(178)*
Net (decrease) / increase in cash for the period	**(10)**	18	*2*
Net reduction in short-term debt (included in "Financing" above)	**3**	169	*178*
Net increase in money market investments	**624**	231	*44*
Debt on acquisition of Supergas Limited	**(6)**	-	-
New finance lease obligations	**(1)**	(3)	*(5)*
Net debt, cash and investments at period end (ii)	**651**	237	*41*

(i) Certain cash flows for the 6 months to 30 June 1997 have been restated from those first published in September 1997 to ensure a consistent presentation with the year ended 31 December 1997. The re-categorisation of cash flows has impacted working capital, returns on investments and servicing of finance, capital expenditure and financial investment and acquisitions. Cash inflows before financing, pre and post exceptional expenditure, are as previously published.

(ii) Net debt, cash and investments as at 30 June 1998 comprised cash and money market investments of £694 million, less bank overdrafts of £10 million and finance lease obligations of £33 million.

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.

These results have been prepared using accounting policies consistent with those used in preparing the Group's 1997 Annual Report and Accounts with the exception of goodwill arising on the acquisition of subsidiary and associated undertakings. In accordance with Financial Reporting Standard 10 "Goodwill and Intangible Assets", with effect from 1 January 1998 goodwill is capitalised on the balance sheet and amortised over its useful economic life. Previously, goodwill was written-off directly against reserves.

2 Segmental analysis for the 6 months ended 30 June

	Turnover		**Operating profit / (loss) before exceptional charges**		**Operating profit / (loss) after exceptional charges**	
	1998 £m	1997 £m	**1998 £m**	1997 £m	**1998 £m**	1997 £m
Energy Supply	**3,800**	3,918	**129**	137	**96**	97
Services	**245**	222	**3**	(30)	**1**	(50)
Retail	**80**	82	**(16)**	(18)	**(16)**	(18)
Other	**-**	-	**(6)**	-	**(6)**	-
Total from operations	**4,125**	4,222	**110**	89	**75**	29
Windfall Tax	**-**	-	**-**	-	**-**	(192)
	4,125	4,222	**110**	89	**75**	(163)

3 Acquisition

In March 1998 the Group acquired Supergas Limited (Supergas) for a consideration of £7.2 million. Goodwill arising of £9.6 million has been capitalised in the Group's balance sheet and will be amortised over 20 years. Supergas is a well established UK based retailer of liquefied petroleum gas with approximately 3% market share. We are in the process of integrating the activities of Supergas and British Gas LP Gas, which together have a market share of approximately 7%.

The turnover and operating profit of Supergas was not material to the Group during the period ended 30 June 1998.

4 Exceptional charges

	6 months ended 30 June 1998 £m	6 months ended 30 June 1997 £m	*Year ended 31 December 1997 £m*
Cost of sales:			
Gas contract renegotiations	**27**	5	*573*
Long-term sales provisions	**-**	35	*35*
Operating costs:			
Year 2000 costs	**8**	-	-
Restructuring	**-**	20	*35*
Windfall Tax	**-**	192	*192*
	35	252	*835*

Year 2000 costs represent bought-in services.

5 Taxation

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

6 Earnings per share

Basic and adjusted earnings per share (EPS) are calculated as follows:

	6 months ended 30 June 1998		6 months ended 30 June 1997		*Year ended 31 December 1997*	
	Earnings £m	**EPS pence**	Earnings £m	EPS pence	*Earnings £m*	*EPS pence*
Profit / (loss) after taxation	**51**	**1.2**	(216)	(4.9)	*(791)*	*(17.9)*
Add back exceptional charges	**35**	**0.8**	252	5.7	835	18.9
Earnings before exceptional charges	**86**	**2.0**	36	0.8	*44*	*1.0*
Average number of shares (million) used in calculation		**4,420**		4,419		*4,416*

7 Cash flow before financing and exceptionals

	6 months ended 30 June 1998	6 months ended 30 June 1997	*Year ended 31 December 1997*
	£m	£m	*£m*
Cash flow before financing	**616**	418	*224*
Add back exceptional payments:			
Gas contract renegotiations	**36**	85	*464*
Year 2000 expenditure	**8**	-	-
Restructuring	**7**	85	*93*
Windfall Tax	**-**	-	*96*
	667	588	*877*

Enquiries

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Financial Calendar

1998 Preliminary results announcement	24 February 1999
1998 Annual Report and Accounts published	End March 1999
Annual General Meeting	10 May 1999

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