Centrica plc

Interim Results

For the 6 months ending 30th June 2003

Disclaimer

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Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

Chief Executive

Sir Roy Gardner

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taking care of the essentials

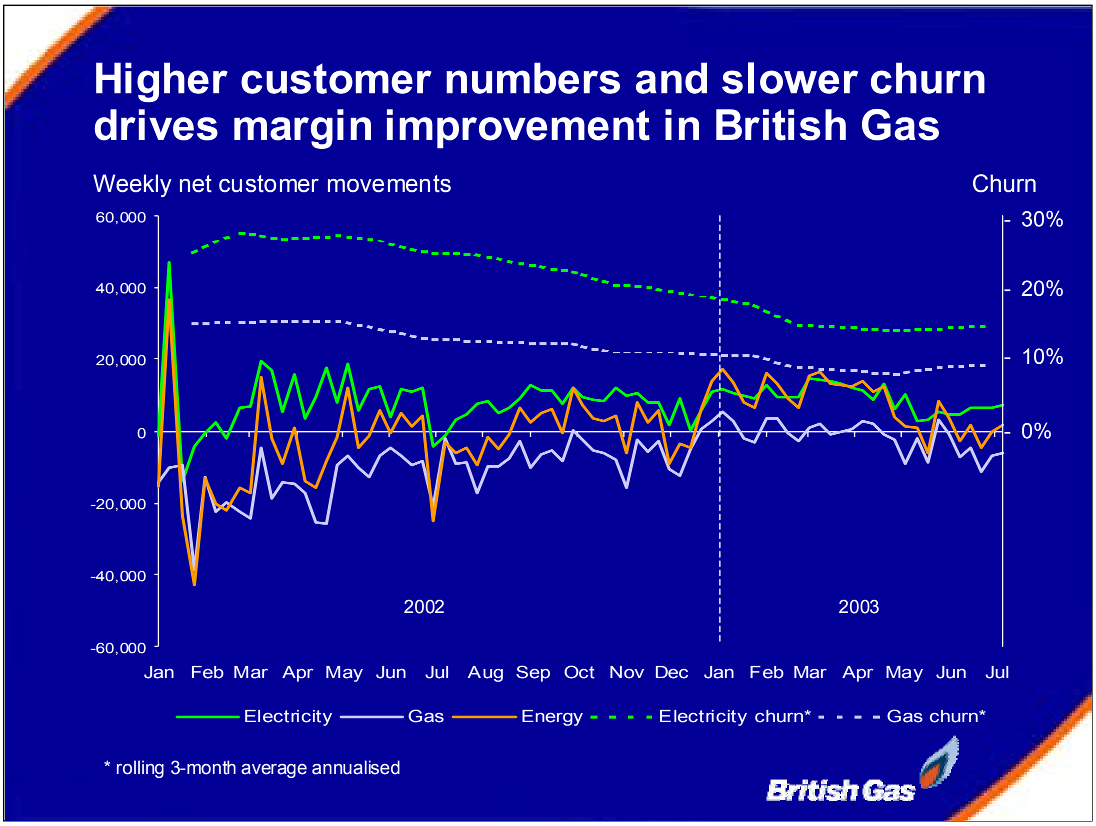
Results in brief

Six months ended 30 June, £m	2003	% change
Turnover (excluding Accord)	6,224	20%
Operating profit*	694	11%
Earnings*	479	11%
Earnings (post excp & goodwill)	390	12%
Interim dividend per share	1.7p	21%

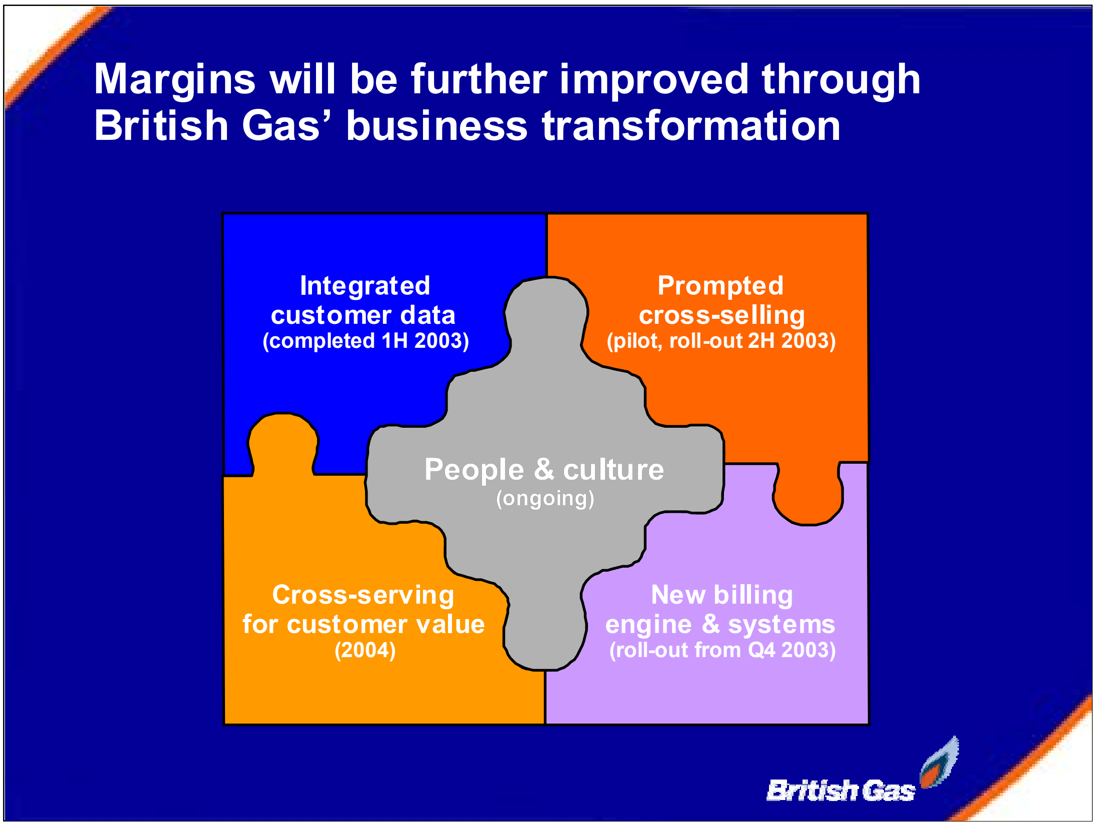
* Before exceptional charges & goodwill amortisation

- Another strong set of results.
- Turnover, excluding Accord trading, up by 20% on first half of 2002.
- Before exceptionals & goodwill, operating profit and earnings up by 11%.
- Board has declared interim dividend of 1.7p per share, up 21% on 2002.

- Chart shows the key challenges addressed and some of the decisions we've made at each stage of our strategic journey.
- Have created considerable shareholder value and a strong business platform.
- Focus now primarily on delivery of value from investments.
- Managing for value is built into decision making and management remuneration.



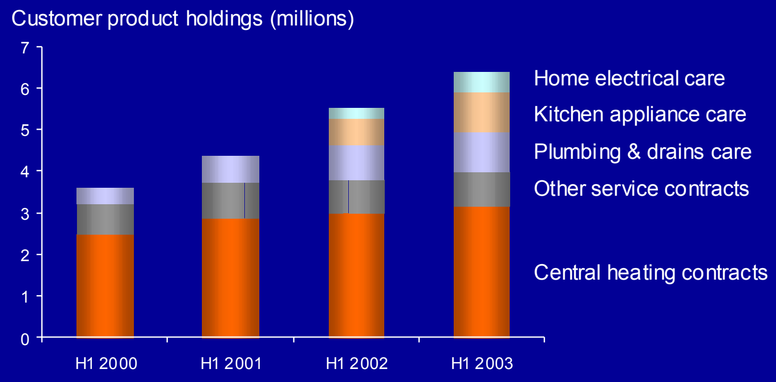
- Stripping out last year's one-off NTS credit, our underlying margins have strengthened.
- Customer numbers, churn and pricing are key drivers of margin improvement in British Gas.
- January to June, gained 170,000 energy accounts and grew energy market share to 41%.
- Net gas losses 3,000 per week more than offset by gains in electricity of around 10,000 a week.
- Churn trending down.



- Business transformation leads to further margin improvement through:
  - efficiency gains
  - enhanced customer service supporting premium price positioning
  - improved cross-selling capability
- Programme being de-risked through delivery in "releases":
  - integrated databases across British Gas
  - customer information and propensity models built into front-end scripting
  - replacement of old billing systems
  - integration of front and back office processes
  - underpinned by developing the people & the culture
- Spend to date £290m, including £44m year to date.
- Anticipated benefits of over £100m per annum with further potential upside & cross-selling & premium price positioning.

The home services business is growing strongly and is a key point of differentiation

- 15% increase in customer product holdings

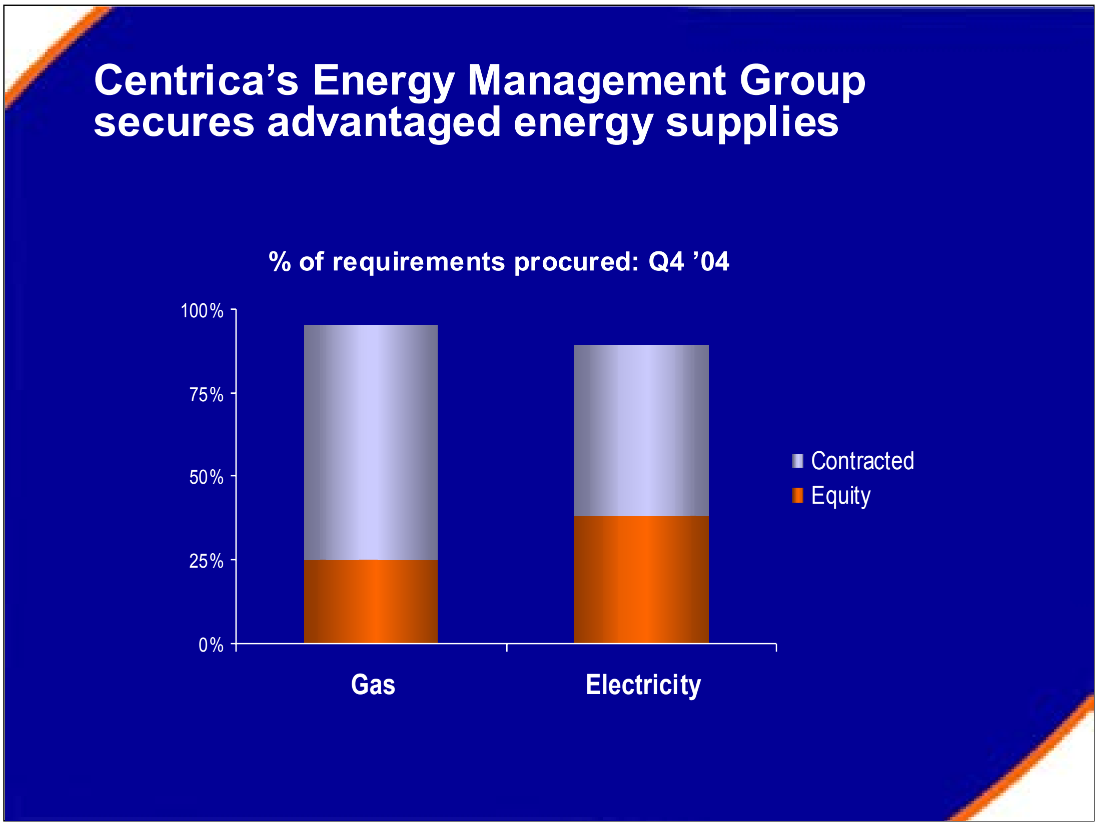


- 15% increase in engineering staff employed
- 86% increase in operating profit – to £41m

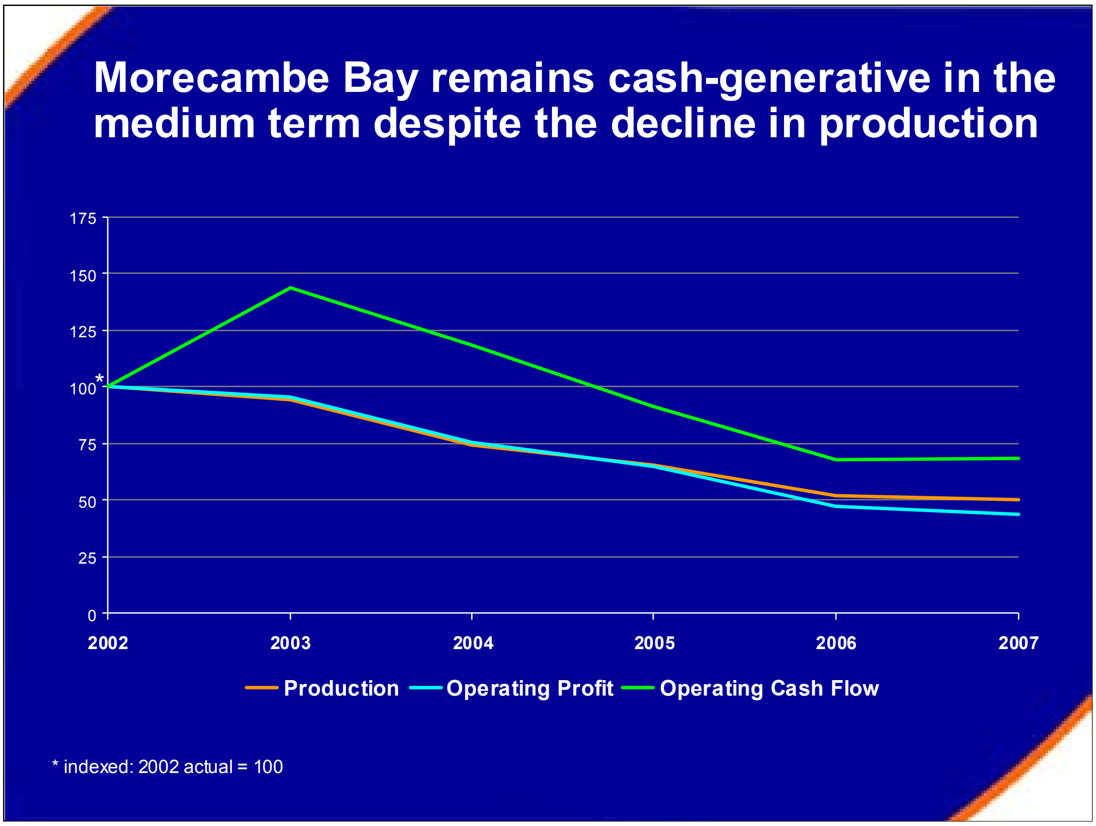
British Gas

- Home Services is point of differentiation against our competitors.
- Assists retention of energy customers through cross-sales of other products.
- Increasing range of products and 15% growth in customer product holdings over past year.
- Further potential exists in this market.
- Investing in skilled labour to ensure we can realise the potential
  - will grow engineering workforce to 10,000 by end-2006
  - training around 500 apprentices per annum

- Targeting 8% operating margin in British Gas by 2005, driven by:
  - reduced churn
  - the business transformation programme
  - customer service supporting premium price positioning
  - growth in home services



- Key role for Centrica Energy Management Group is to de-risk the downstream supply business.
- Aim to maintain a balanced portfolio to provide optionality in meeting our needs.
- Q4 '04
  - procured around 95% of our gas requirements
  - around 90% of our electricity requirements secured from our own equity and fixed price contracts



- On indicative basis, expect production and profit to decline by around 10% per annum - equivalent to around 3.5% of Group profits.
- Morecambe continues to be very cash-generative.
- Buying into other gas assets to replace Morecambe production - expect spending in region of £100m pa.

Renewable generation build as part of a balanced upstream portfolio

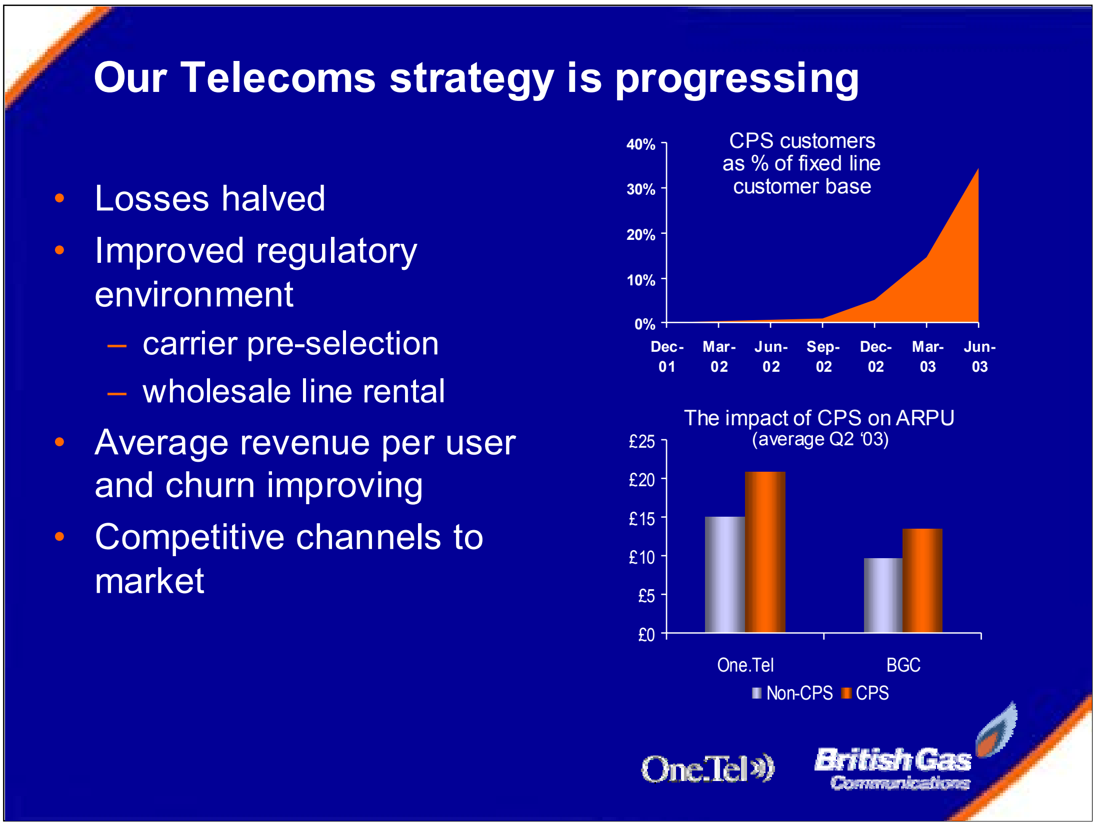
- Balanced supply portfolio including:
  - ROCs from bilateral contracts
  - ROCs from traded market
  - pay the buyout price
  - equity ownership
- Obligation for 2002/3 met through purchase of ROCs
- Up to £500m investment in generation over next 5 years
- Establish strategic partnerships

- Strategy for renewables is consistent with rest of upstream strategy - building a balanced portfolio.
- For the first year (2002/2003) obligation fully met through purchase of renewable obligation certificates (ROCs).
- Technology and economics of renewable generation have become more attractive.
- Will commit up to £500m over next 5 years in building renewable capacity.
- Will establish strategic partnerships
  - de-risk investment
  - maximise capacity
  - maximise return on capital employed

We are making solid progress in the AA and Centrica Business Services

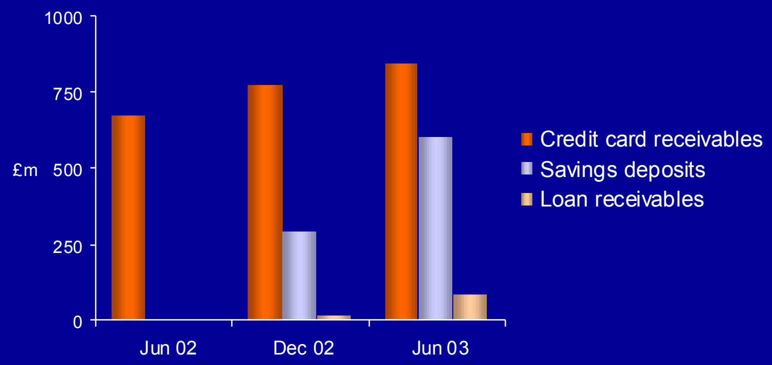
- Increased operating profit
  - AA up 8%
  - Centrica Business Services up 8%
- Good indications on drivers of future value growth
  - cross-selling
  - driving out cost-efficiencies

- AA and Centrica Business Services are making solid progress.
- Good indications on drivers of future value growth. For example:
  - cross-selling
  - driving out cost efficiencies



- Losses halved.
- Starting to see improvement in the regulatory environment.
- Signing up all new customers onto Carrier Pre-Selection and migrating existing customers.
- Starting to see benefits in reduced churn and increased ARPU.
- Wholesale Line Rental will benefit customers but the economics currently look neutral.
- Competitive channels to market:
  - British Gas Communications - selling telecoms as part of a home services package
  - One.Tel - selling an integrated telecoms product
  - Centrica Business Services - targeted at the small business market
- On track to get to breakeven by the end of 2004.

We have achieved growth in Goldfish but cash breakeven by end-Q4 is an ambitious target



- Path to profitability
  - continue momentum on loans
  - sustain credit insurance penetration
  - increase income from new and existing card base
  - deliver benefits from loyalty programme changes
  - continue tight control of costs

Goldfish™

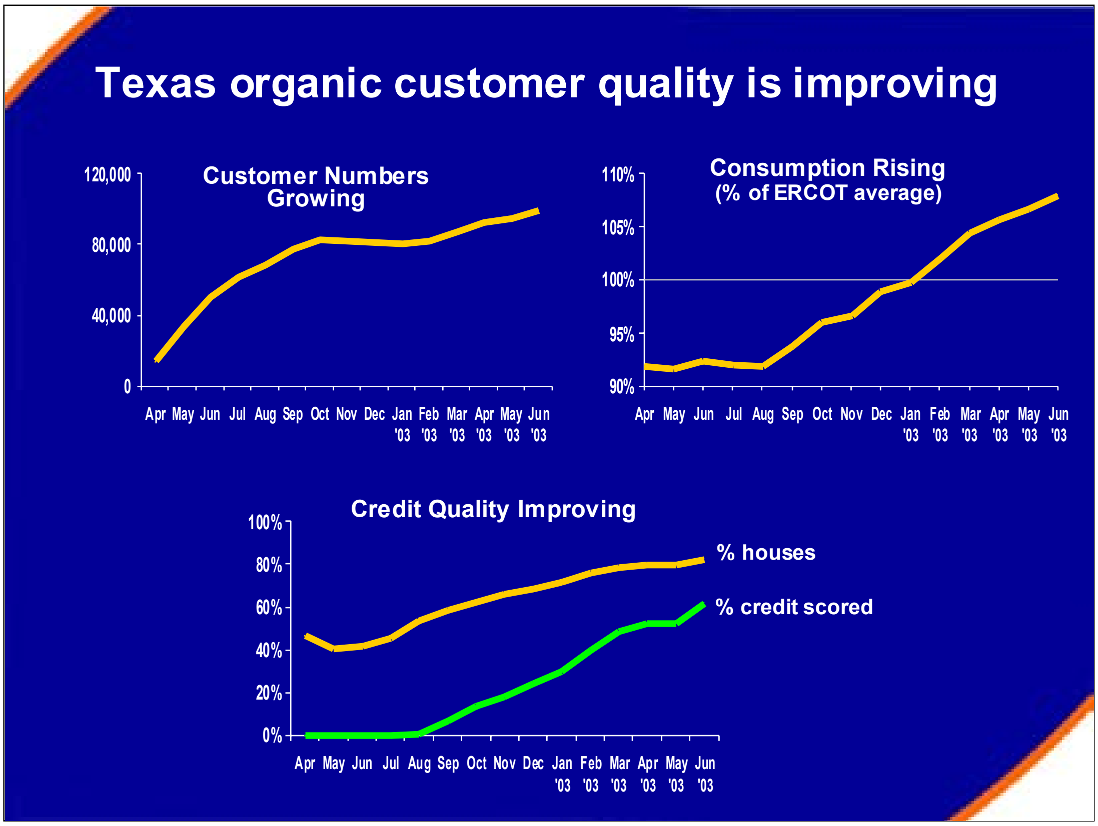
- Strong fundamentals in Goldfish:
  - growth across main products
  - average credit card acquisition costs 20% lower than in 2002
  - good performance of loans and savings
- But financial performance remains disappointing, largely due to higher operating costs.
- Plans in place to address the drivers towards profitability.
- Target of cash breakeven by end Q4 still stands.
- Decision will be made by year-end.

Focus in North America is leading to improved performance

- Good progress in Texas
- Cross-selling in Ontario
- Value from water heater public offering
- Alberta acquisition expected to complete Q4 ’03
- Future customer acquisitions
- Upstream asset acquisitions

Direct Energy. energy america

- Primary focus in North America is on integrating the businesses acquired and delivering improved financial performance.
- Good progress in first half.
- Significant increase in operating profit largely reflecting contribution from Texas acquisitions.
- Increased prices 17% in Texas in March. Maintained margins despite higher input costs.



- Successfully increased quality of organic customer base.
- Customer numbers, consumption, churn and credit quality are all improving.

Focus in North America is leading to improved performance

- Good progress in Texas
- Cross-selling in Ontario
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- Alberta acquisition expected to complete Q4 ’03
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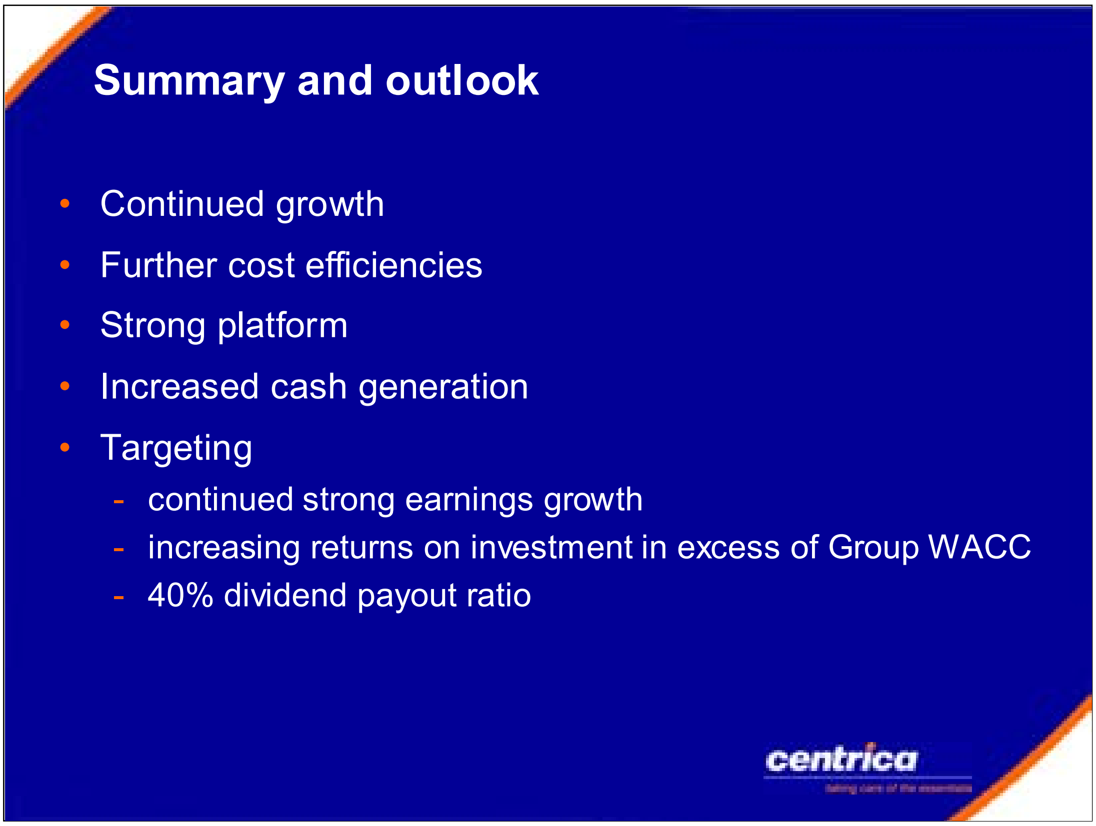
Direct Energy. energy america

- Bill 210 restricts ability to grow residential electricity customer base in Ontario.
- Growth potential in Ontario continues through:
  - enhanced cross-selling within existing customer base
  - selling into the business market
- Realised around £350m from selling down the water heater assets acquired with our acquisition of Enbridge Services Inc. - fully retain customer relationships.
- Acquisition of the ATCO customers in Alberta is going through the regulatory processes:
  - necessary legislation enacted
  - energy marketing licence granted
  - will start to sign up customers in Q4
  - expect acquisition to complete by end of the year
  - 80% of the gas market - scope for cross-selling electricity & services
- Returns from North America already in excess of Group WACC.
- Still interested in acquiring customer blocks - may involve working closely with regulators & asset operators.
- Upstream acquisitions of up to £350m over 5 years.



- Well positioned to continue to grow the business.
- Plans to drive out further cost efficiencies.
- Strong strategic platform gives options.
- Cash generation will increase, enabling us to reward shareholders alongside continuing to grow the business.
- Targeting:
  - continued strong earnings growth
  - increasing returns on investment even further in excess of Group WACC
  - progressing towards 40% dividend payout ratio

Group Finance Director

Phil Bentley

Financial highlights

Six months ended 30 June 2003, £m	**2003**	**2002**	**Δ%**
Turnover (excl. Accord)	6,224	5,184	20%
Operating profit	694	627	11%
Operating margin	*11%*	*12%*	*(1 ppt)*
Interest	29	29	-
Tax	186	168	11%
Earnings	479	431	11%
Net margin	*8%*	*8%*	-

All figures before exceptional charges & goodwill

- Acquisitions added over £700m to turnover.
- Organic like-for-like turnover growth at 5%.
- Operating margin reduced due to NTS one-off in 2002.
- Interest payments were covered 31 times by operating profit (including joint ventures and associates) before exceptionals and goodwill.
- Effective tax rate held at 28% despite 40% rate on UK gas production - expect to hold the tax rate below 30% for the next 3 years.
- Earnings in the first half are now at record levels.

Operating Profit Analysis
(including JV's & Associates, pre exceptionals & goodwill amortisation)

Six months ended 30 June 2003, £m	2003	2002	Δ
British Gas Residential	200	193	4%
Centrica Business Services	43	40	8%
Centrica Energy Management Group	373	336	11%
AA	39	36	8%
North America	73	25	192%
One.Tel	0	5	(100%)
Goldfish	(30)	(17)	(82%)
Other Activities	(4)	9	(144%)
Total continuing operations	694	627	11%

- Most businesses are up year-on-year with particularly strong underlying growth in the contribution from British Gas, EMG and North America.

British Gas Residential

Operating profit: causal track

	£m	£m
Six months ended 30 June 2002		193
NTS rebate in 2002	(54)	
Higher pricing	16	
Weather	(12)	
Lower churn	17	
Higher Opex/Lower T&D/Lower commodity	5	
Home services growth	19	
Lower telecoms losses	16	
		7
Six months ended 30 June 2003		200

- Strategy remains growing the top line through increased cross selling while driving out cost efficiencies.
- Stripping out the 2002 NTS credit operating margins increased by 180 basis points to 6%.
- Confident on 8% margin target by 2005.
- The second half will have full six month benefit from the price rise in April.
- The warm weather meant a shortfall against budget at a gross margin level of £40m.
- Churn is down year-on-year by 10 points in electricity and 5 points in gas - this will lead to further savings on a full year basis.
- Increased costs of dual running of systems and increasing Energy Efficiency Commitment spending were offset by lower transportation and distribution tariffs.
- Home Services first half operating profit was £41m, up 86% against turnover growth of only 6%.
- British Gas Communications losses fell by £16m to £10m.

CEMG

Operating profit: causal track

	£m	£m
Six months ended 30 June 2002		336
Lower gas selling prices	(27)	
Abolition of Royalties (net of PRT shield)	21	
Higher I&W profits	32	
Rough Storage	16	
Other	(5)	
		37
Six months ended 30 June 2003		373

- Strategy is to build an advantaged commodity position.
- Production volume has been flat against last year.
- Selling prices softer.
- Abolition of royalties.
- Weather volatility helped the Industrial & Wholesaling business - profitable sales in the wholesale market due to lower consumption downstream (giving excess supplies) and our ability to lift from the Take or Pay contracts.
- I&W profits are expected to be lower in the second half, continuing into 2004.
- Rough storage contribution was boosted by higher storage prices driven by rising summer/winter pricing differentials.

Centrica Business Services
Operating profit: causal track

	£m	£m
Six months ended 30 June 2002		40
NTS rebate in 2002	(6)	
Electricity Direct	6	
Lower commodity costs	6	
Higher Opex/Lower T&D	(3)	
		3
Six months ended 30 June 2003		43

- The strategy for Centrica Business Services is to widen the range of products to a critical mass of SME customers.
- Underlying operating margins (excluding NTS credit in 2002) are up at 7.5%.
- Focus on cost-efficiencies from Enron Direct and Electricity Direct acquisitions.
- Lower commodity costs enabled us to maintain margin in the face of competition.
- Lower T&D costs were more than offset by higher Opex from integration activity and the development of a new customer care/billing system.

AA
Operating profit: causal track

	£m	£m
Six months ended 30 June 2002		**36**
Increased road customer contribution	6	
Rationalisation costs	(4)	
Service centres - higher Opex	(5)	
Other AA businesses	6	
		3
Six months ended 30 June 2003		39

- AA operating margins are now over 10%.
- Roadside customer numbers passed 13 million. The £6m benefit from the personal members was partially offset by £4m of rationalisation costs - these will lead to higher profit growth in the second half.
- Continued growth in personal finance - loan book now exceeds £1 billion.
- Service Centres have required further Opex to raise the quality to the AA standard. Now need to see further sales growth in the second half.
- The £6m improvement from Other Businesses reflects the withdrawal from Golf England and an improved contribution for driving school and AA Ireland.

Goldfish
Operating profit:

Six months ended 30 June	2003 £m	2002 £m
Credit card gross contribution	29	30
Banking gross contribution	3	1
Bad & doubtful debts provision	(13)	(12)
Operating costs	(48)	(36)
Operating Loss	(30)	(17)

- Lower credit card contribution was driven by a fall in net interest margin caused by a reduction in headline APR, the introduction of zero percent balance transfers and lower revolve rates.
- Underlying product growth in loans and savings has been strong.
- Banking gross contribution is sub-scale.
- Operating costs rose due to brand and product development and higher call centre and processing costs.

North America
Operating profit: causal track

	£m	£m
Six months ended 30 June 2002		**25**
Acquisition of WTU / CP&L	44	
Texas organic growth	(11)	
Ontario Electricity	27	
Home Services	4	
Lower gas production prices	(7)	
Alberta market entry	(4)	
Other	(5)	
		48
Six months ended 30 June 2003		73

- Strategy is to build scale energy business, leverage customer service and brand building skills and energy procurement expertise.
- WTU/CPL businesses have performed beyond expectations with lower customer losses and higher gross margins due to the Price To Beat (PTB) refiling - still hold one more refiling option before the end of the year.
- Texas organic
  - operating losses £11m higher than 2002
  - customer numbers have increased by 23%, despite forcing churn of low value customers
- £27m improvement in Ontario electricity comes against a backdrop of the market being closed to further growth; this did give a benefit from reduced customer acquisition costs.
- Lower gas production profits were due to the expiry of some In-the-Money sales contracts, and costs in preparation for Alberta market entry.

H1 2003 cash flow drivers

£m		H1 2003		H1 2002
EBITDA		886		802
Adjustments:				
PRT P&L Charge	68		47	
PRT cash paid	(9)		(199)	
Corporation tax	(67)		(58)	
Other working capital	(212)		(307)	
		(220)		(517)
Post tax operating cash flow		666		285
Interest		0		(9)
Capex		(92)		(154)
Acquisitions		(66)		(511)
Free cash flow (before dividends)		508		(389)

- Cash flow has increased sharply as we begin to generate cash from our investments and pare back our capex and acquisition activity.
- Cash PRT was significantly lower due to reimbursements on account and the peak PRT payment period having passed. We expect full year PRT payments to be approximately £100m below 2002.
- £212m working capital outflow due to seasonal factors:
  - lower trade creditors
  - lower customer debtors
  - direct debit customers who tend to be in arrears at end June
- Much of the outflow will unwind in the second half and we expect to end the year with a net £100m outflow.
- Details of the capex and acquisitions can be seen in the Appendix slides.
- We expect to generate good cash flow over the next few years while raising our return on invested capital and allowing for selective growth and an increase in the dividend payout ratio.

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Appendices

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Gross capital expenditure

£m	H1 2003
British Gas Residential	47
Centrica Energy Management Group	25
AA	13
North America	22
Other	5
	112

Gross acquisitions

£m	H1 2003
Roosecote power station	25
AEP deferred consideration	26
North America	13
JVs and associates	9
Other	2
	75