Centrica plc

Preliminary Results

For the year ended 31 December 2003

Disclaimer

This presentation does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Centrica shares.

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

Chairman

Sir Michael Perry GBE

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Chief Executive

Sir Roy Gardner

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Results in brief

Year ended 31 December 2003, £m	2003	+/-	% Δ
Turnover (excluding Accord)	11,713	▲	17%
Operating profit*	1,058	▲	14%
Earnings*	714	▲	12%
Earnings (post goodwill & excep)	500	▲	5%
Final dividend per share	3.7p	▲	42%
Total dividend per share	5.4p	▲	35%

* Before goodwill amortisation & exceptional charges

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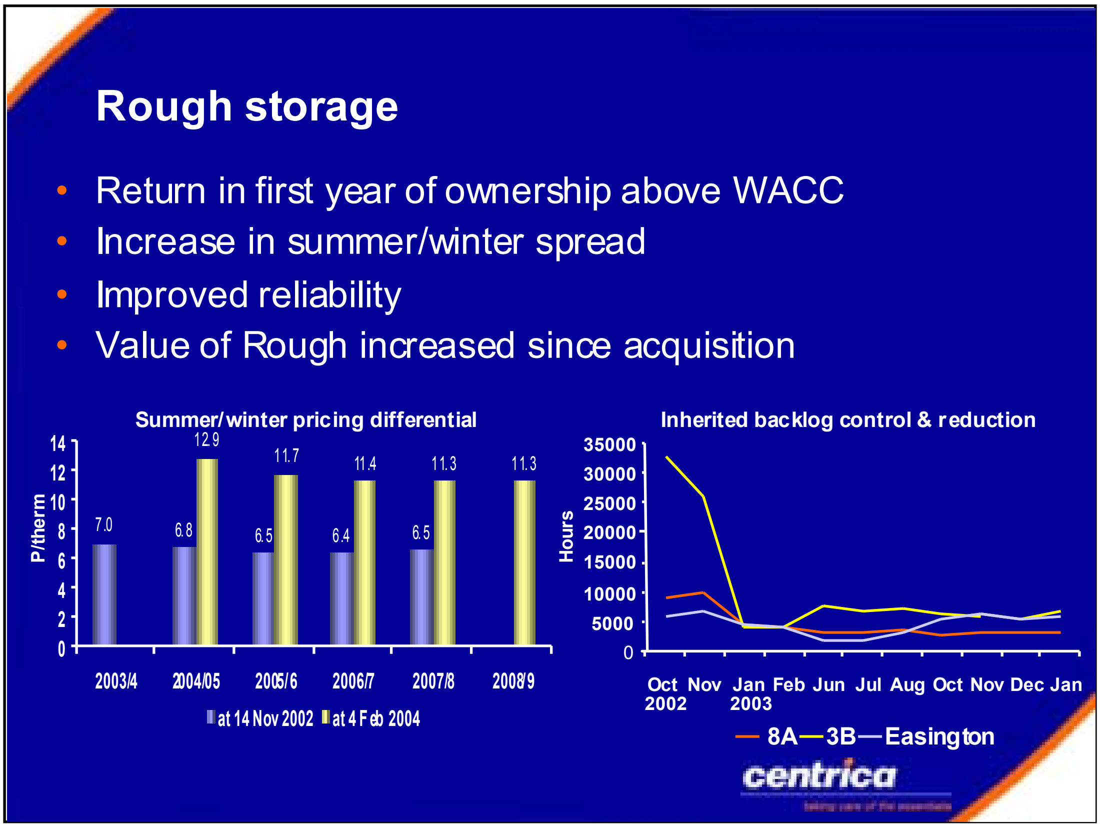
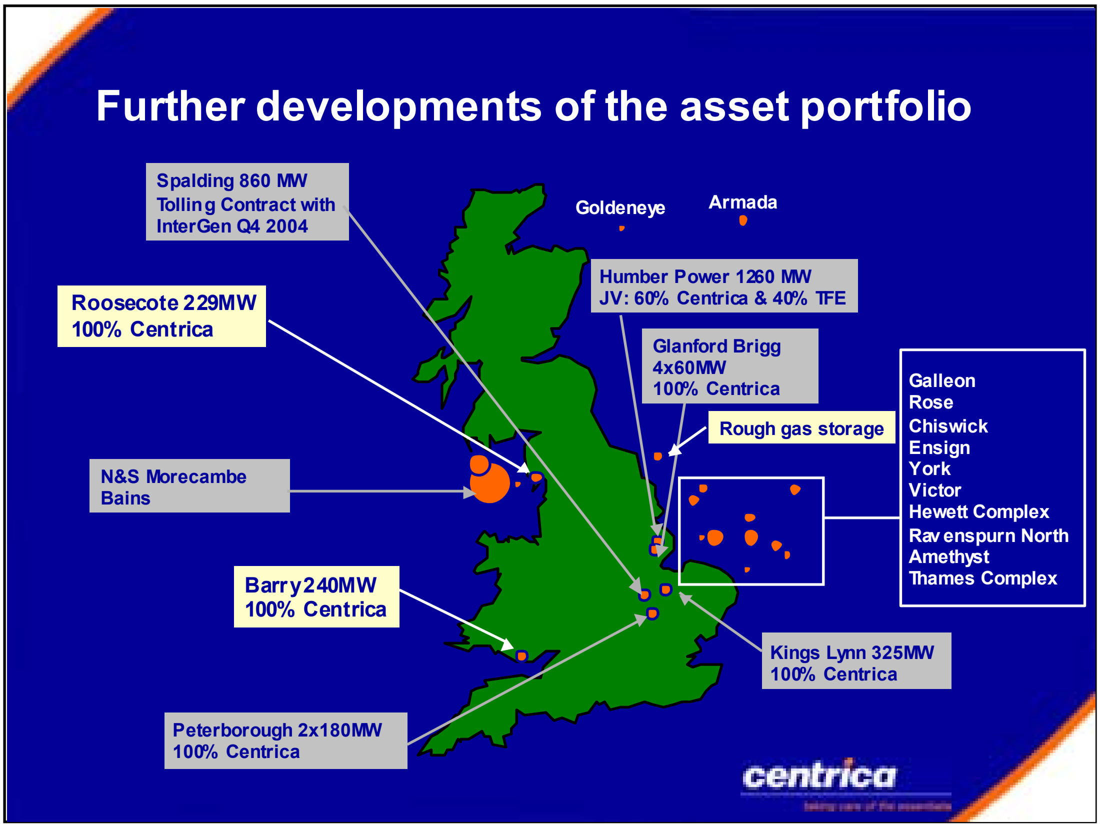
- Another very good set of results, delivered against a challenging background.
- Turnover, excluding Accord Trading, up by 17% on 2002.
- Doubled operating profit in 3 years to over £1 billion.
- Another year of double digit earnings growth.
- Final dividend 3.7p per share, up 42% on 2002.

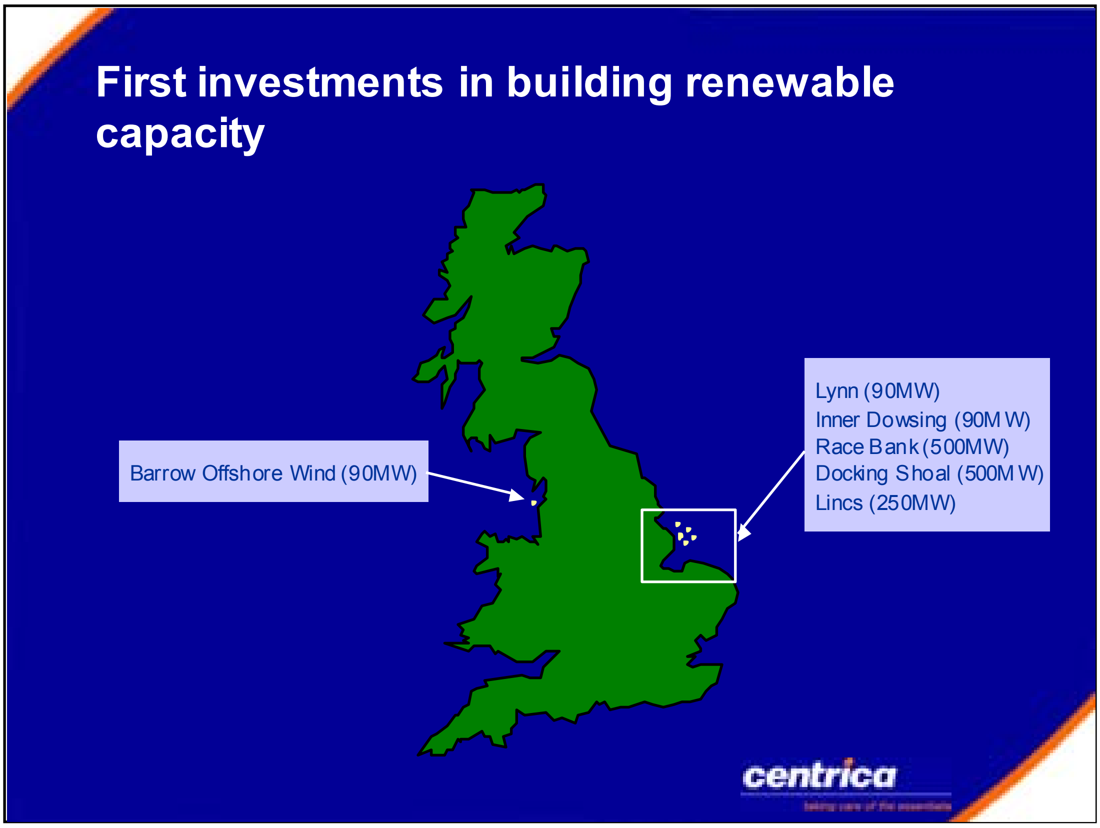
- Centrica's strategic development in 2003:
  - underpinned energy position with upstream acquisitions and activity
  - British Gas impacted by unusual combination of warm weather and increased commodity prices
  - strong performance from the AA and North America
  - exit from Goldfish
  - significant cash generated
  - step change in dividend.



- £40 million profit in first year of ownership; return in excess of WACC.
- Key value driver is sale of capacity; the value of capacity is linked to the summer / winter gas price spread which has been driven up by the market since acquisition.
- No legacy contract commitments beyond 1 May 2004; contracts for 2004/5 being sold at new prices.
- Inherited maintenance backlog substantially cleared.
- Incident in January was resolved quickly, demonstrating we have the technical expertise to manage the asset effectively.
- The value of Rough has increased since acquisition due to:
  - increased summer / winter spreads
  - improvements in reliability and efficiency



- With addition of Roosecote and Barry now have 6 gas fired power stations.
- We have around 2.2 GW of generation capacity and 2.3 tcf of gas reserves.
- Continuing to develop Morecambe whilst using its flexibility to respond to wholesale gas prices; expect production levels in 2004 to be little changed from 2003.
- Committed £100 million per annum to gas reserves to support our downstream businesses in the UK.
- Orwell and Statfjord deals signed in January 2004 for £60 million with an option for further development.
- Rose gas field now on stream and performing better than expectation.



- Committed to £500 million investment over 5 years to build renewable generation capacity, principally wind power.
- Progress to date:
  - announced three projects: Barrow Offshore Wind, Inner Dowsing and Lynn
  - secured three Round 2 licences
- Development of all could involve investment of more than £500 million, depending on our share of the equity.
- Government's intention to extend the renewable obligation to 2015 increases the certainty of the economics of investment in renewables.

Draft national allocation plan on emissions trading

- Satisfactory allocation for our plants
- Set-aside pool of free allowances for new entrants
- Loss of future allowances for plants that close
- Restriction on banking allowances between phases 1 & 2
- Not structurally disadvantaged

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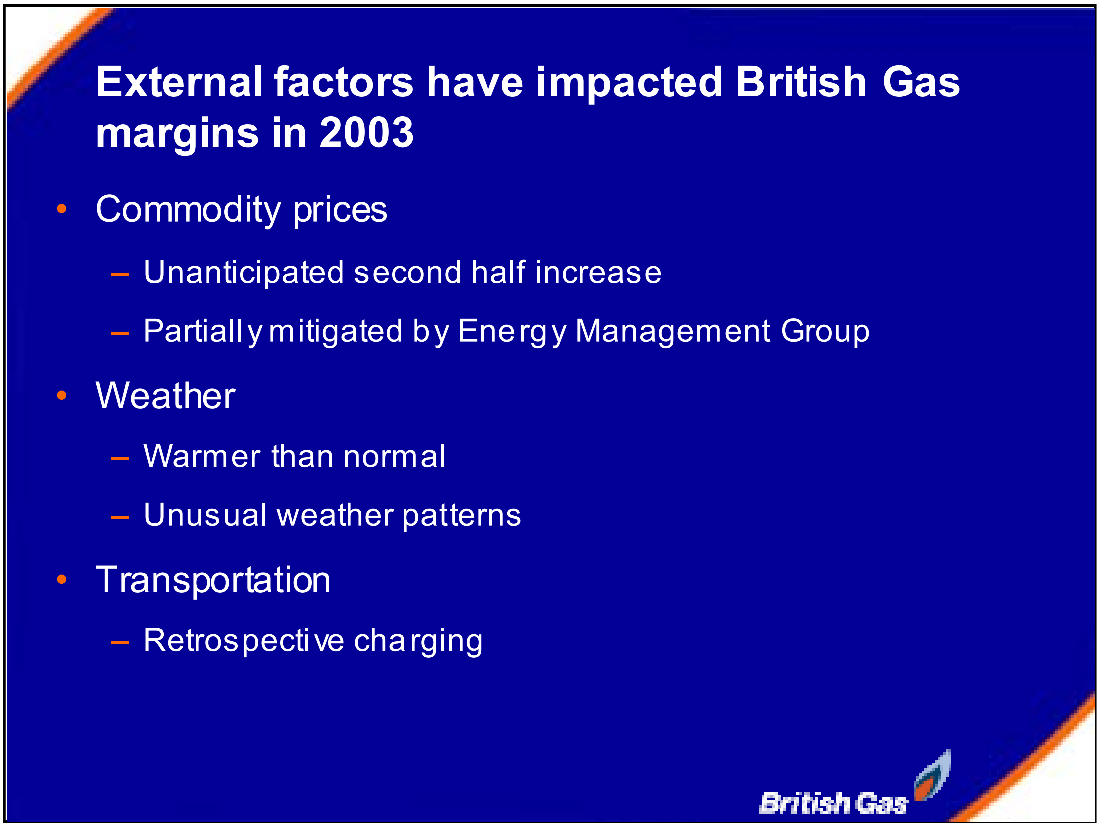
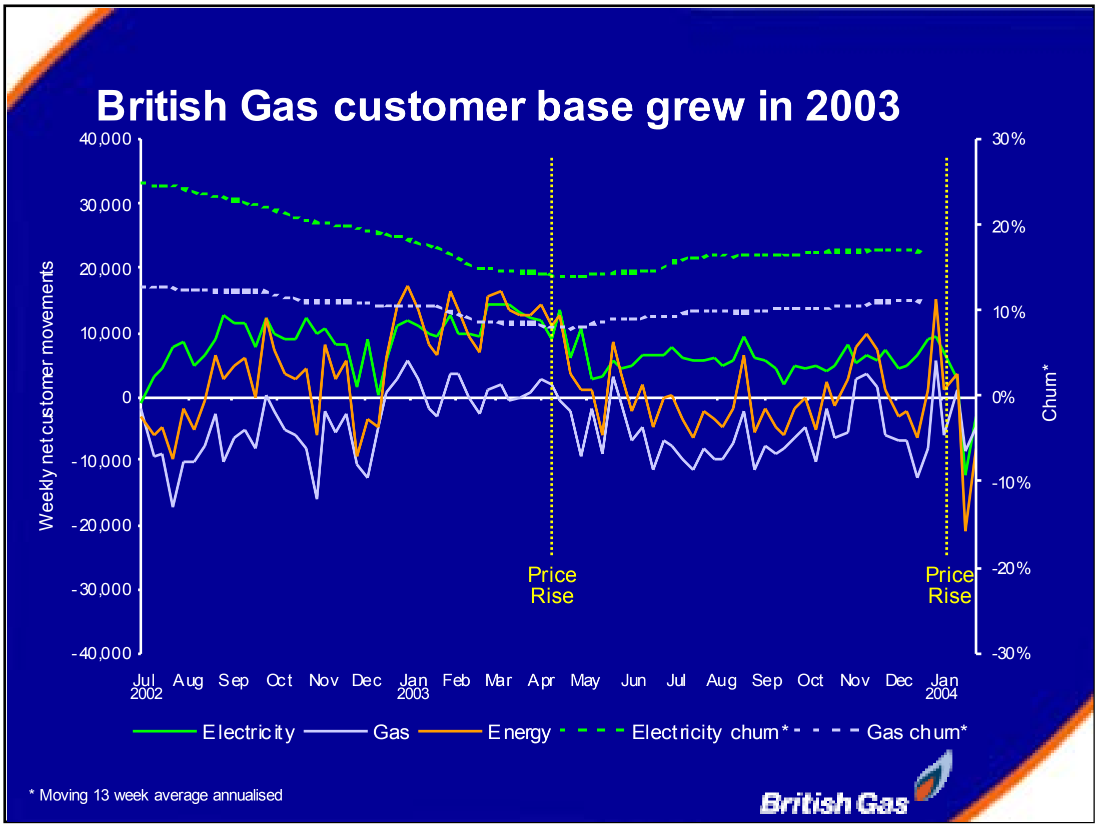
- Overall pleased with the outcome on the draft National Allocation Plan.
- Secured sufficient allowances to run our plans largely at 2002 levels without the need to buy allowances.
- The core principles give us confidence that we won't be structurally disadvantaged; for example,
  - the set-aside pool of free allowances for new entrants
    - -Restricts increase in wholesale prices
  - loss of future allowances for plants that close
    - -Increases security of supply
  - restriction on banking allowances between phases 1 and 2
    - -Minimises potential windfalls

- Overall in 2003 our upstream business;
  - delivered 16% increase in operating profit
  - contributed to Centrica's strategic development



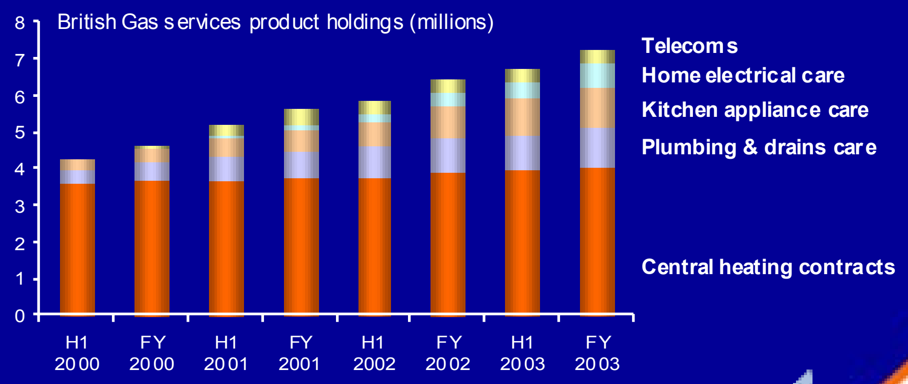
- British Gas financial performance was impacted by a difficult combination of external factors;
  - greater than anticipated increases in wholesale commodity prices
  - unseasonably warm weather
  - Transco prior-year under-recoveries built into October 2003 pricing



- Overall grew energy customer base by 145,000 compared with previous year loss of 200,000.
- Still signing up new and returning gas customers as well as growing the electricity base.
- Too early to gauge customer reaction to 2004 price rise.
- £30 million year on year reduction in acquisition costs.
- Improved sales conversion rates due to better targeting.
- Further increase in average product holdings per customer.

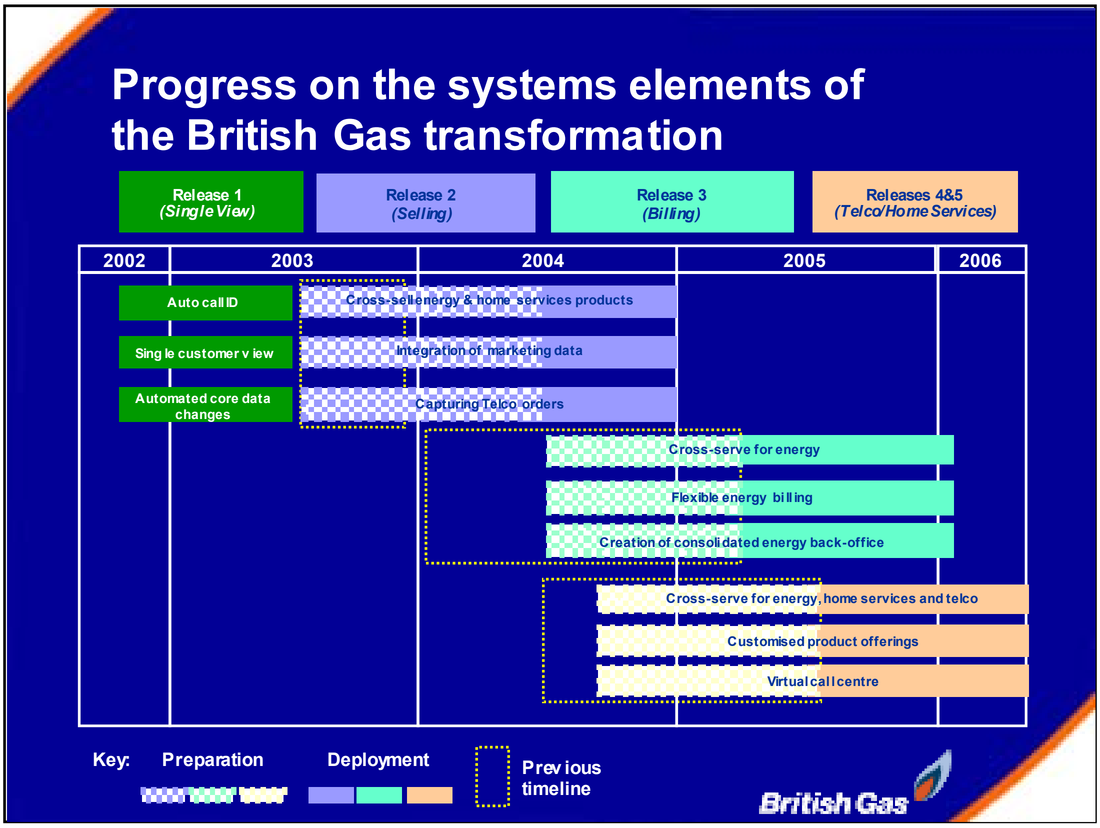
Continued growth in other British Gas services

- Average customer product holding* increased 6% to 1.62
- 5% increase in turnover
- 169% increase in operating profit

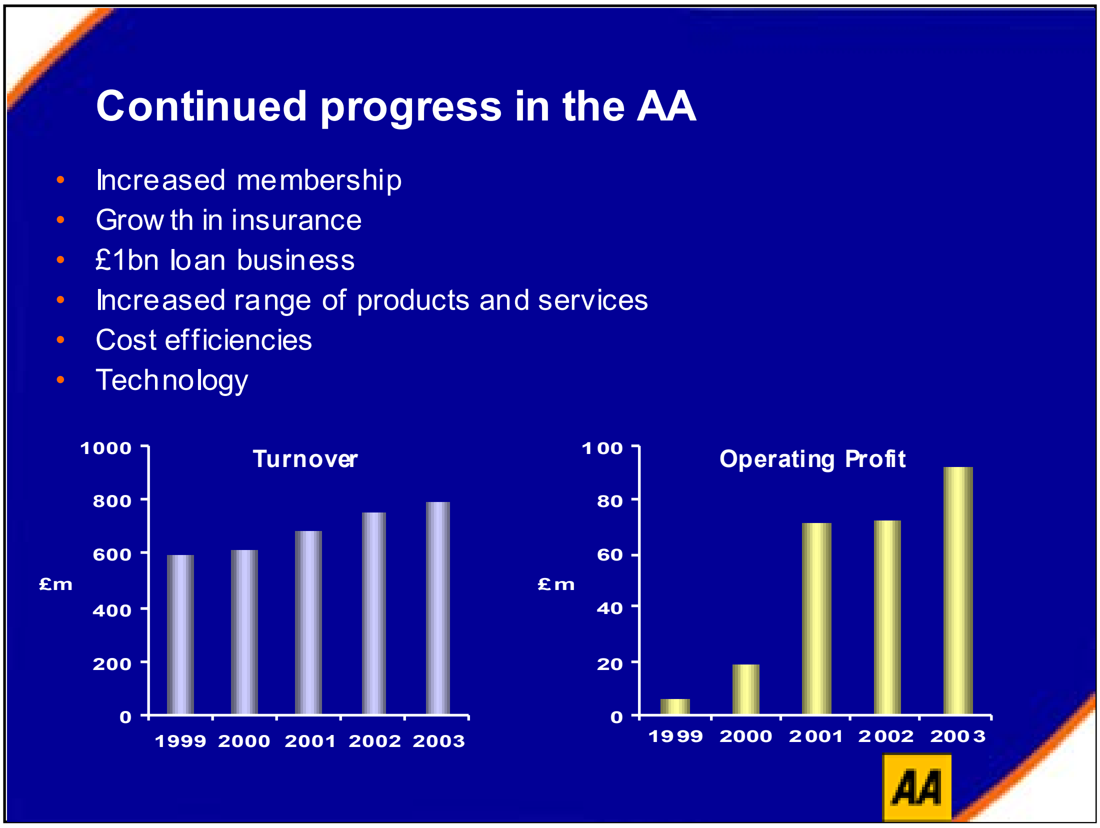


*British Gas brand

- For home services, including the British Gas telecoms offering, we increased product holdings, grew turnover and more than doubled operating profit.
- 10% operating margin in the home services products.
- More than halved previous losses in British Gas Communications.
  - Broke even in the second half across British Gas Communications and One.Tel combined
- Telecoms is an integral part of the home services proposition, with a positive impact on customer retention.
- Home services remains a key differentiator from our competitors.
- Investing to ensure we can realise the growth potential of this business;
  - £32 million in 2003 for engineer training
  - investment in 2004 on the infrastructure for engineer deployment



- Transferred costs from other British Gas budgets into the programme. For example, property costs, staff back-filling, post-commissioning running costs.
- Incremental home services functionality specified.
- Including transfers and additional scope, spend now expected to be £400 million.
- Release 1 complete – single view of customer.
- Have extended the testing phase for Release 2 (the cross-selling engine) to ensure system integrity and avoid putting customer service at risk; full roll-out of Release 2 will commence in Q3 2004.
- Release 3 (the billing engine) will be tested in the second half of 2004, with roll-out completing in early 2006.
- Nine months behind the original timeline
- Financial cost of the delay not material.
- Making good progress on other elements of the wider transformation programme.
- Still on track to deliver the total programme benefits and 8% margin in 2005.



- Significant growth in turnover and operating profit since acquisition in 1999.
  - Increased membership from 9½ million to over 13½ million, including fleet membership.
  - Grown the insurance policy base.
  - Expanded the loans business; total book has grown by 58% and now exceeds £1 billion.
  - Extended the product range, creating scope for cross-selling.
  - Increased average products per customer (by 7% in 2003).
  - Taken out costs through productivity & efficiency initiatives, including innovative use of technology.
  - Reduced reliance on inefficient sales channels.
  - Developed theaa.com – low cost channel to market
- AA Service Centres still loss-making; stiff targets set for improvement in 2004.
- Overall profit in the AA in 2003 up by 27% on 2002.
- Continuing to invest in future growth.

- Profits doubled in 2003 to £130 million.
- Strategy remains to seek achievable scale positions in areas where there is a real prospect of adding value.
- Texas;
  - The businesses acquired from AEP in 2002 have made a significant contribution
  - Have been building an organic electricity business.
- Ontario;
  - Cross-selling energy and services
  - Value created from acquisition of Enbridge Services Inc.
- Alberta;
  - Regulatory clearances gained.
  - Working with ATCO to close the transaction.
- Future growth in financial performance will be less than delivered in 2003.
- Have a highly concentrated customer base in core markets and can grow value by;
  - deepening customer relationships
  - expanding our presence in the business sector
  - investing in power and gas assets

Exit from Goldfish

- Reduced strategic relevance
- Attractive offer from Lloyds TSB
  - premium of £112.5m (15% of average credit card receivables over 12 months)
- Book loss on disposal (after tax) of £43 million

- Exit from Goldfish was a key point in Centrica’s evolution in 2003.
- Strategic relevance had diminished.
- Attractive offer made by Lloyds TSB.

Cash & dividend

- Operating cash flow £1,293m
- Full year dividend 5.4 pence per share
  - 35% increase on 2002
  - 32% dividend payout ratio

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- Generated a significant amount of cash in 2003.
- Committed to increasing dividend payout ratio to 40%.
  - increase from 26% in 2002 to 32% in 2003
- Committed to a financial structure which maximises shareholder value

- In 2003;
  - we delivered good financial performance and record profits
  - invested in quality gas and power assets
  - underlying performance in British Gas was strong
  - delivered excellent results from North America
  - continued to grow the AA
- Our strategy remains to maximise long term value by;
  - deepening relationships with customers
  - underpinning our downstream business with upstream assets
  - improving efficiency by sharing best practice and processes
- Our strong platform will enable us to both grow our business and reward shareholders.
- In 2004 we expect;
  - continued top-line growth
  - further upstream asset investments
  - greater operational efficiencies
  - improved customer service underpinning our price positioning
  - another year of strong performance and cash generation
  - to further reward shareholders.

Group Finance Director

Phil Bentley

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Financial highlights

	FY 2003	+/-	Δ
Turnover (excl. Accord) (£m)	11,713	▲	17%
Operating profit (£m)	1,058	▲	14%
Operating margin*	9.0%	▼	(0.3ppt)
Interest cover	20 times	▲	5 times
Tax rate	28%	▶	-
Earnings (£m)	714	▲	12%

All figures before goodwill & exceptional charges

* Based on turnover excluding Accord

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- Demonstrated Centrica's financial strength in 2003; delivered record profits and generated over £800 million of free cash flow.
- Turnover excluding Accord was up 17% at £11.7 billion.
- Organic like for like turnover growth was 4%.
- Operating margins slightly below 2002, but still delivering 9% pretax margin.
- Interest payments covered 20 times by operating profit, compared to 15 times in 2002.
- Effective tax rate held at 28% despite 40% tax on UK gas production and in North America; expect to hold the rate below 30% for the next few years.
- Earnings have reached record levels.

Key financial drivers

- British Gas margins
- Upstream performance
- The AA
- North America

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Underlying British Gas energy margins

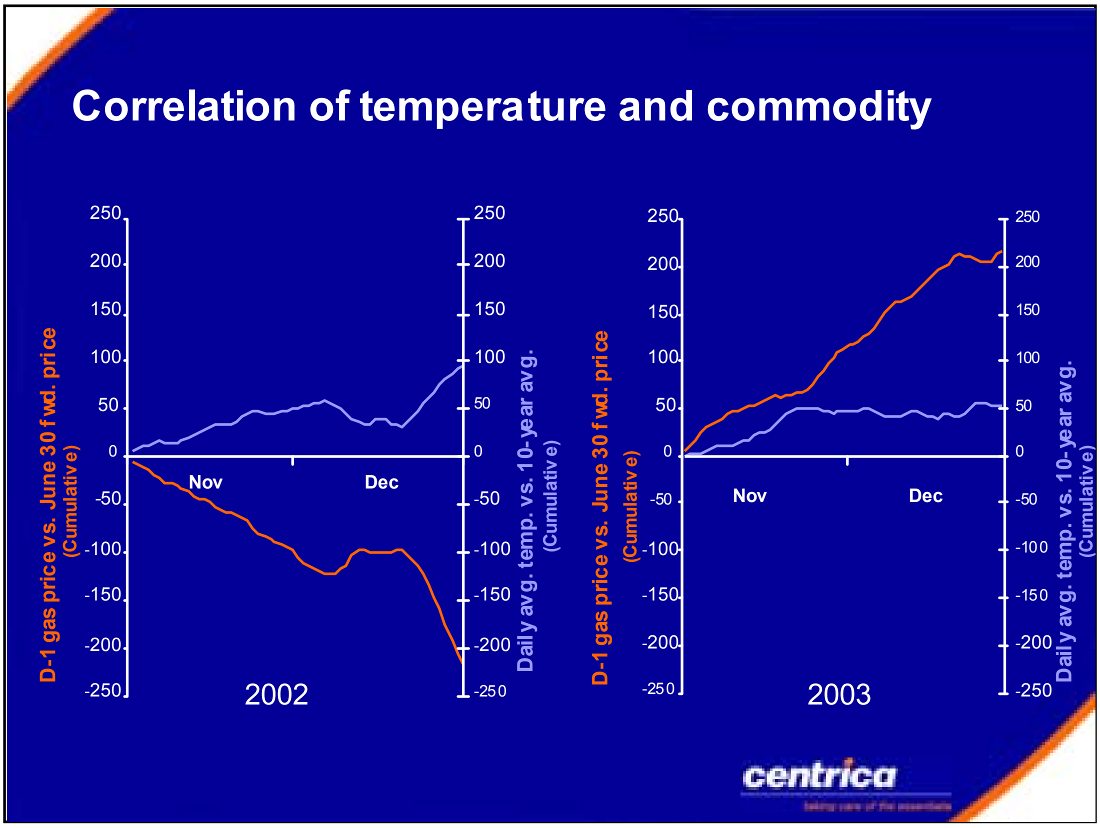
		Variable margin impact			
	2003	Weather	Transco	Commodity costs	'Normalised' margin
Turnover	5,289	167	-	-	5,456
Cost of goods	(4,248)	(86)	13	58	(4,263)
Gross profit	1,041	81	13	58	1,193
Operating margin (%/bps)	**2.6%**	**140bps**	**25bps**	**110bps**	**5.3%**

- Transformation spend 2003 adds 40bps
- 5.9% price rise in January 2004

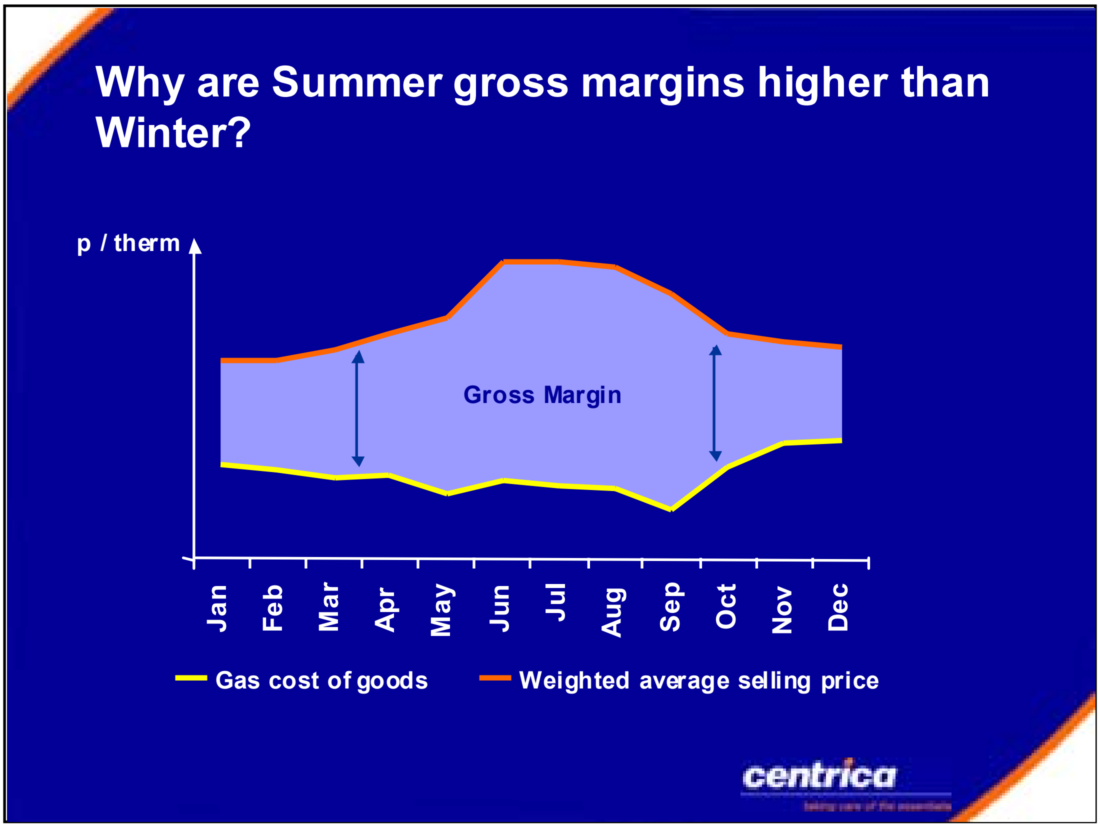
➔ Still targeting 8% margins by 2005

British Gas

- 2003 w as particularly challenging for British Gas w ith w armer w eather and higher commodity costs.
- Stripping out the one-off impacts:
  - A normal w eather pattern in the year w ould have added 140 basis points to margin.
  - The effect of Transco's recovery of prior year costs impacted margin by 25 basis points.
  - The higher than anticipated commodity price rise, particularly in the second half of the year, impacted margins by 110 basis points.
  - Adding back the external impacts w ould give an underlying British Gas margin of 5.3%
- In addition, expenditure on the transformation programme impacted margin by a further 40 basis points.
- The 5.9% price rise in January 2004 just reflects the forw ard curve.
- Still targeting 8% margin in British Gas in 2005



- Commodity costs and temperature were adverse in 2003 despite 2003, on average, being slightly colder than 2002.
- The charts illustrate the key winter heating season for 2002 and 2003 and shows the cumulative difference between actual and seasonal normal temperatures (the blue line) and the cumulative difference between the prompt gas price and the forward curve at 30 June (the orange line).
- In a “normal” year, for example 2002, warmer weather tends to lead to lower gas commodity prices.
- In 2003, despite the warmer than seasonal weather, the normal correlation broke down and prompt gas prices continued to rise above the forward curve.



- Gas cost of goods (commodity plus transportation) is lower in the summer than the winter.
- In summer, our weighted average selling price is higher due to our tariff structure.
- The combined effect is that margins are at their peak in the summer.
- Therefore the consumption lost due to weather in the summer would have been at higher margins.

Upstream (inc. Storage) operating profit

	£m Year Δ	£m
Year ended 31 December 2002		520
Lower Morecambe volumes	(30)	
Higher gas selling prices	19	
Higher PRT charge	(27)	
Abolition of Royalties (net of PRT shield)	49	
Higher Accord profits / other	31	
Rough	39	
Year ended 31 December 2003		**601**

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- Upstream profitability – counters downstream commodity impact.
- Upstream operating profit, including Storage, was up 16% at £601 million.
- Morecambe volumes were 6% lower, but partially offset by higher gas selling prices.
- Higher PRT charges from combination of higher prices and greater proportion of production from PRT paying fields.
- Net benefit from abolition of royalties.
- Good performance from Accord despite lower liquidity and fewer counterparties.
- Full year of Rough Storage, beating our own expectations.

AA operating profit

	FY 2003 £m	+/-	Δ%
Roadside	61	▲	13%
Personal finance	50	▲	6%
Service Centres / Other	(18)	▲	36%
Total	93	▲	27%

- **Operating cashflow** **£107m**
- **Return on invested capital*** **9.9%**

*(NOPAT + post-tax depreciation) / Undepreciated capital invested inc. all capex

- Operating profit rose 27% to £93 million.
- 13% increase in operating profit in roadside services; despite charging £6 million of rationalisation costs.
- 6% increase in operating profit in personal finance; increase in the fixed term loan book more than compensated for industry trends of falling motor insurance premia and flat travel insurance volumes.
- Disappointing performance in AA Service Centres.
- Cash generation increasing
- Post-tax ROIC in excess of WACC

North America operating profit

	FY 2003 £m	FY 2002 £m	+/-
Retail electricity	87	(10)	▲
Retail gas	1	16	▼
Production & trading	13	34	▼
Home & business	29	23	▲
Total	130	63	▲

- **Operating cashflow** **£207m**
- **Return on invested capital*** **9.2%**

*(NOPAT + post-tax depreciation) / Undepreciated capital invested inc. all capex

Direct Energy

- Achieved target of doubling operating profit.
- Retail electricity;
  - full year of Texas acquisition added £70 million
  - organic growth in Texas, with improved quality of the customer base
  - Ontario price capping reduced churn and saved c. £10 million in acquisition costs
- Retail gas;
  - impacted by costs of entry into Alberta
  - higher gas wholesale costs
  - regulatory restrictions in Ontario made it difficult to retain customers, although some recovery expected in 2004
- Production and trading;
  - expiry of some favourable contracts at end of 2002
  - decrease in our selling prices
  - higher royalties
- Home and business services;
  - full year effect of Enbridge Services acquisition
  - grown sales of core service products in Ontario
- Overall
  - cash flow higher than anticipated; £207 million
  - post-tax ROIC over 9%

2003 cash flow drivers (excluding Goldfish)

£m		2003		2002
EBITDA		1,409		1,290
Adjustments:				
PRT P&L charge	128		75	
PRT cash paid	(210)		(319)	
Corporation tax	(181)		(192)	
Other working capital	(6)		(267)	
		(269)		(703)
Post tax operating cash flow		1,140		587
Interest		(15)		(25)
Capex & acquisitions		(384)		(1337)
Free cash flow (before dividends)		741		(775)

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- Core Centrica strength is cash generation; 2003 particularly strong
- Stripping out Goldfish;
  - paid out less cash PRT
  - working capital requirements lower than anticipated due primarily to lower consumption in the second half
  - capex and acquisition spend materially down year on year but should be higher in 2004
- Strong cash position to support future investment.

Summary

- Increasing economic profit and ROIC*
- Investment for growth
- Dividend growth target
- Balance sheet: single A target
- Strong performance

*Group ROIC assumes £4bn invested capital was deemed to UK energy in 1997

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- Increased economic profit contribution.
- Post-tax ROIC now 12%.
- Our priority remains to fund growth, both organic and acquisitive.
- We are committed to achieving 40% payout ratio.
- Low gearing ratio acknowledged; committed to a balance sheet structure consistent with long-term single A credit rating.

- In conclusion, 2003 was a good year;
  - record operating profits
  - increased dividend
  - strong cash generation

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Appendices

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Net cash capital expenditure

£m	2003	2002
British Gas Residential	137	194
Centrica Energy Management Group	67	51
AA	35	61
North America	57	67
Goldfish	0	46
Other	27	30
Less disposals & loans repaid	(41)	(47)
Total	282	402

Net cash acquisitions

£m	2003
Roosecote power station	24
Barry power station	40
AEP deferred consideration	26
North America	12
JVs and associates	10
Other	5
Proceeds from disposals	(15)
Total	102
2002	935

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