Interim Results 1999
Notes

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Results in Brief

	Half Year 1999	*Half Year 1998*
Sales	**£3,887m**	£4,125m
Operating profit pre-exceptionals	**£279m**	£114m
Earnings pre-exceptionals	**£243m**	£88m
Operating cash flow pre-exceptionals	**£901m**	£673m
Dividend per share	**1p**	-
Employees (FTE)	**16,396**	15,353

Actions taken over the past two years are now starting to take effect, substantially improving financial performance. Sales were lower than 98 due to gas market share reductions. Operating profit was up substantially due to reduced gas costs, and higher production from Morecambe - though most profit is generated in the first half due to the weighting of energy sales.

Operating cash flow was £901m before paying £530m special dividend. Interim dividend of 1p will be paid. Still intending to pay dividend of 2.5p for the full year 1999.

Employee numbers are set to fall by 2,500 in second half.

1999 Half Year Achievements

- Strong financial performance
- Recommended offer for AA
- Growth in electricity customers
- Gas customer retention
- Home service business growth
- Retail closure
- First interim dividend declared

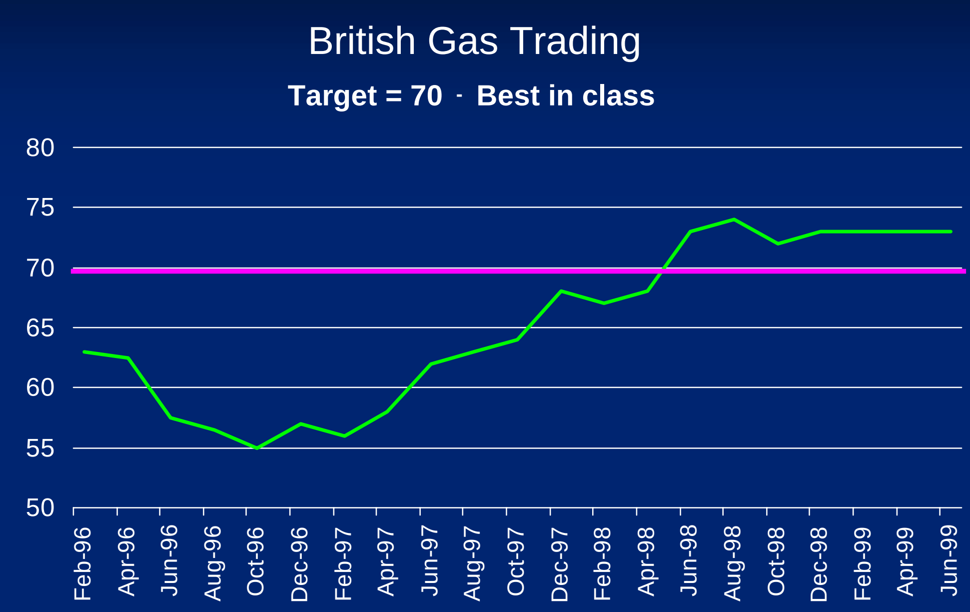
As well as strong financial performance, the offer for the AA was launched.

Nearly 2m customers have now signed up to receive electricity.

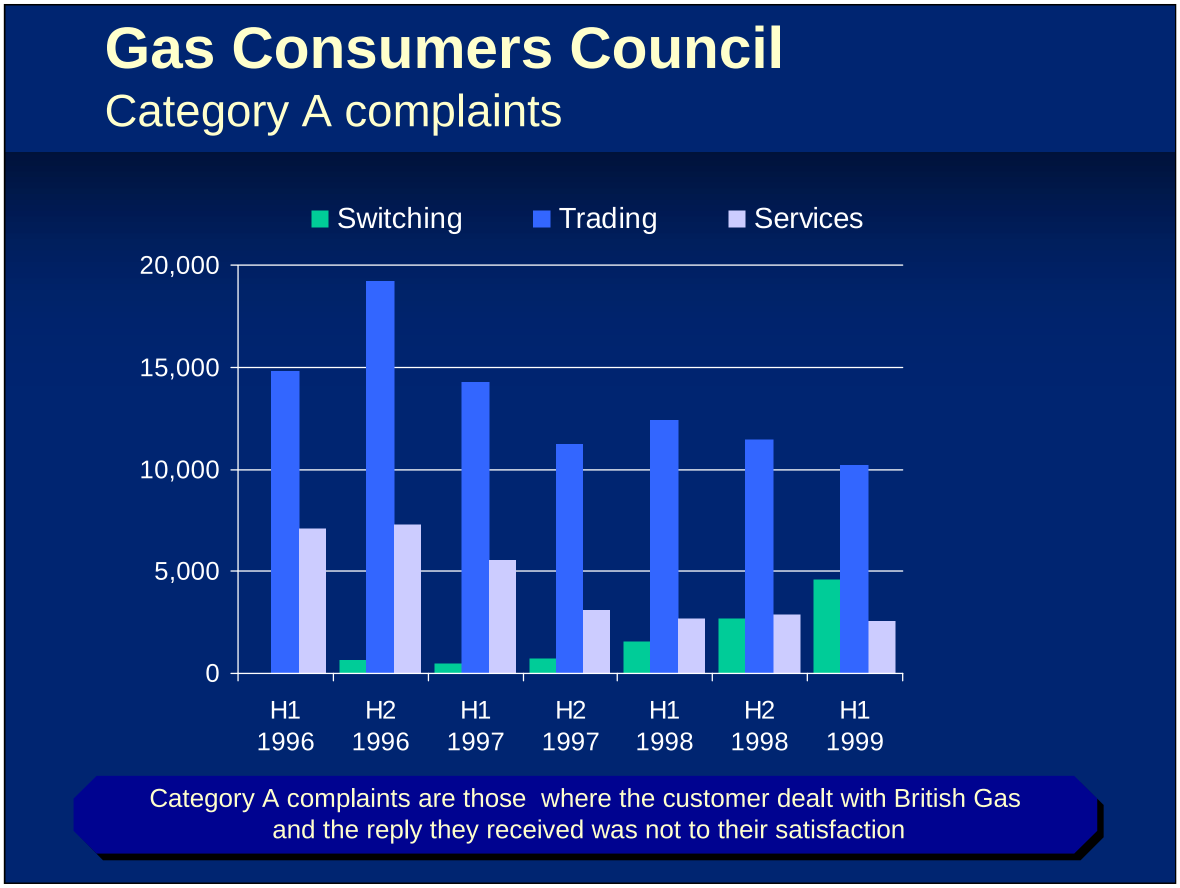
Gas market retention has been encouraging, and new products in Services are also contributing to growth.

A strategic review of Retail was undertaken, which resulted in the decision to close our shops.

Customer Satisfaction



We continue to be pleased with the level of customer satisfaction, but nevertheless actions are being taken to drive service to even higher levels. Initiatives include improving customer interfaces to provide one point of contact for all products and services, and development of the website to enhance options in the way customers communicate with us.

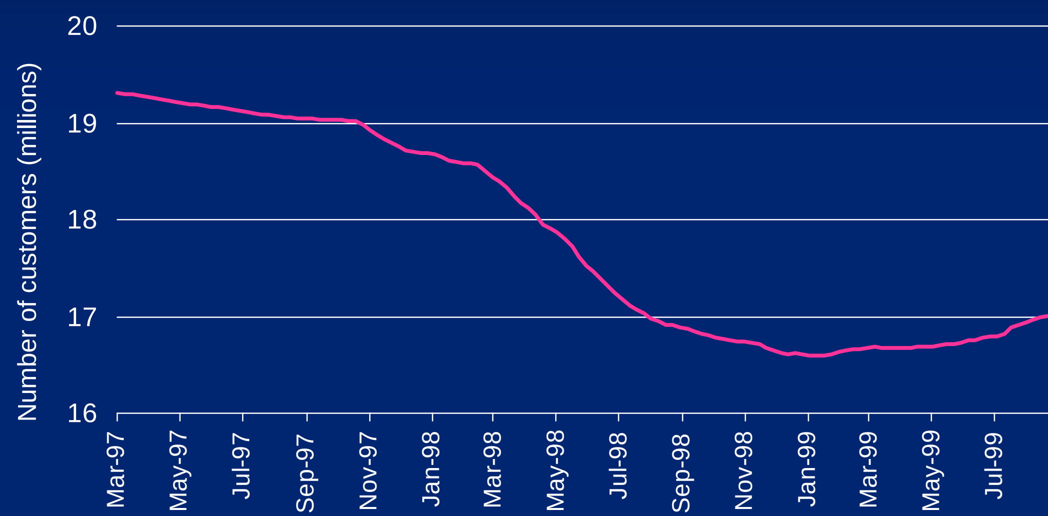


Excluding complaints about the process for changing supplier, complaints to the GCC about both British Gas Trading and the whole Group fell by 17% compared to the same period last year.

If switching complaints are included, total complaints about British Gas increased by 2%. Complaints about Services fell by 6% on the same period last year.

Energy Supply

Total Gas & Electricity Customers



The rate of loss of gas customers has decreased and market share is now 76%.

On electricity, Centrica is now larger than 9 of the REC's in terms of number of households under contract - with nearly 2m, the target is 2.5 million by the end of this year, and 4 million by the end of 2000. This would make Centrica the largest supplier of domestic electricity.

Since January 1999, the total number of gas and electricity accounts has been steadily increasing and is now over 17 million. Gas losses are currently averaging 34,000 per week, offset by 19,000 'winbacks' and new customers. Electricity gains are currently averaging 37,000 per week.

The I&C market benefited from lower gas and transportation costs - and was very close to break even.

Morecambe production was up by 50%. This is the last year before PRT is levied. The take or pay bank is forecast to increase by 300 million therms this year - as planned.

Earlier this month TotalFina's LPG business was acquired making LP Gas the 3rd largest LPG company in the UK with a 10% market share.

Trading at Zeebrugge has presented opportunities, we have traded over 300 million therms for 1999.

On electricity sourcing, a number of commercial arrangements are in place to give an underlying level of cover. Further opportunities will be evaluated as they arise, including the opportunity to buy into or build gas fired power stations. The Regulator's electricity distribution and supply business separation proposals are welcomed, and the action in tackling the generation sector. However, more action is needed to address price spikes in the electricity pool to ensure consumers do not suffer.

Central heating sales were 8% ahead of the same period last year, and the system cover contracts base also grew. Profitability improved and sales grew by 15%. New products have made an excellent start. Services now have over 100,000 plumbing cover contracts in place. The two trial areas have sold 30,000 kitchen appliance cover contracts, and this service is due to roll out nationally later this month.

Sales of home security systems are encouraging, and 90% of customers have taken the remote monitoring service.

An extended range of appliances is being offered, through catalogues and the Internet, with home heating consultants available to visit customers.

Services have been awarded ISO 9001 - one of only 30 companies world wide to achieve company wide accreditation.

Financial Services

- Continued strong performance from credit card
  - Growth in cards in issue
  - Significant increase in receivable book
- Goldfish telephone service
- Good growth from home insurance
  - Levels of policy sales well ahead of 1998
  - Change in partner to AXA
- Rationalisation and new product opportunities with AA and financial services

The Goldfish card leads the market both in usage and transaction value, and has a receivable book of £550 million.

In June, a telephone service was launched, offering savings of 30% on BT standard call rates, with 13,000 subscribers in the first 8 weeks.

A travel service introduced in January has also been successful with 3,500 bookings and £5m turnover.

On home insurance, the partner was recently changed to AXA. Currently over 1,000 policies are being sold per week.

With the AA, the product range will be extended into areas such as car leasing and personal savings.

AA Transaction Update

- Timetable for completion
  - SGM 16 September
  - Payment to eligible members by 15 October
- Integration plans being developed

If the AA deal proceeds, completion is expected around 24 September and payment to eligible members processed by 15 October.

Integration teams covering the business units and Head Office functions have developed plans for combining areas to bring synergies.

It is believed the AA brand can be extended into other motoring services, and provide a platform for growth in financial services - utilising the brand strength.

So far, AA's financial performance for 1999 has been ahead of expectations, and further cost reductions have been implemented. There will be some restructuring charges in the second half with the major balance to follow in 2000.

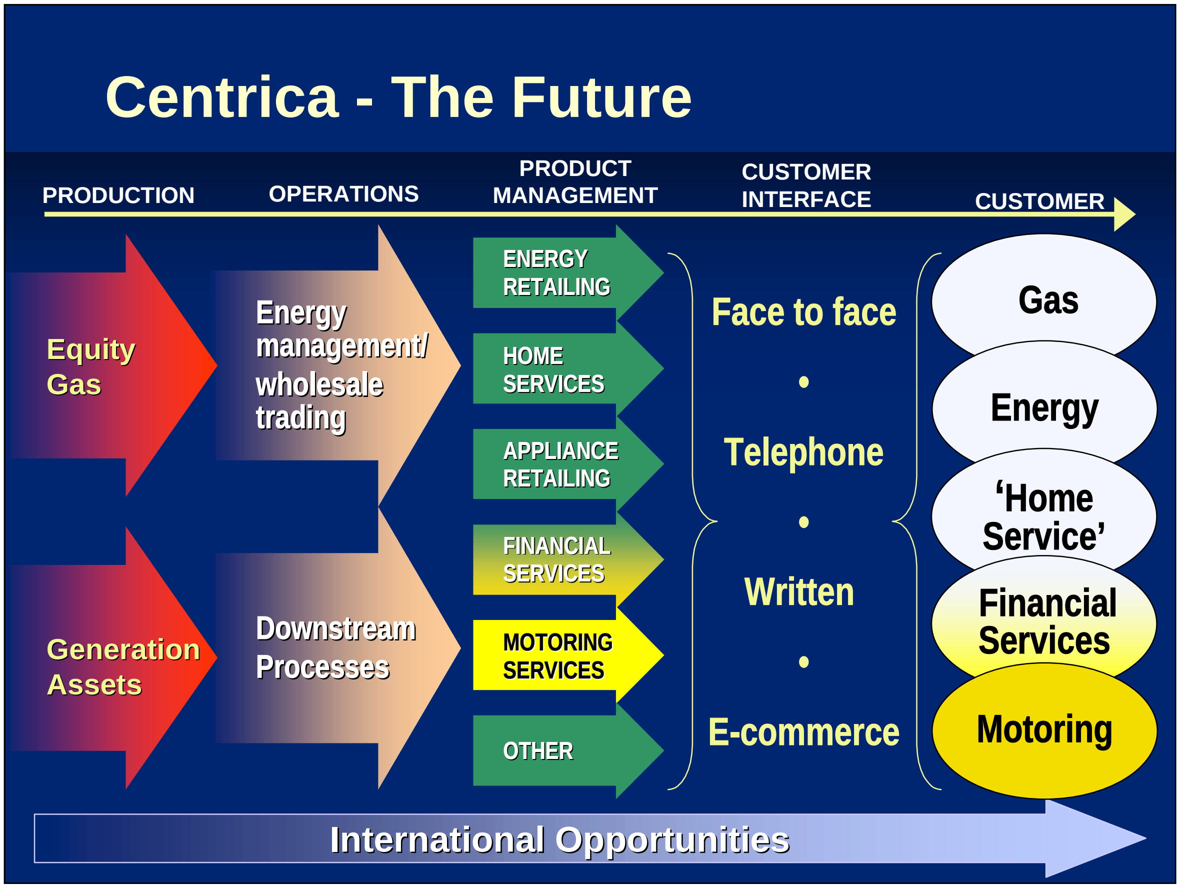
Retail

- Losses reduced from £66m in 1996 to £31m in 1998
- Plan set for 1999 to break even
- Competition restricted actions
- Retail market/competition
- Options reviewed
- Announced 19 July, closed 28 August
- Future channel strategy

Although Centrica could see the benefit of a High Street presence, in the end it was not prepared to fund the ongoing level of losses. Over a period of 2 years, losses were reduced considerably, but market conditions were depressed and competitors substantially increased their advertising - increasing the level of losses in the first half.

The position was reviewed in great detail - and the decision taken to close the shops as there was no guarantee that further investment would bring adequate returns.

Products are still being sold through Services.



In summary:

• Retail has been reviewed, & the shops closed

• The energy supply cost base is being reduced through closing 2 call centres.

• Opportunities are seen to grow financial services and motoring services under a 'peace of mind' approach.

• The LP Gas presence has been extended through a second acquisition.

• E-Commerce capability is being substantially increased, as is use of the internet.

• A new Group wide integrated approach to dealing with customers is being trialled.

• The Goldfish fixed line telecoms product has made an encouraging start and further opportunities are being explored in this field.

• Trading opportunities in Europe continue to develop. Possibilities to apply Centrica's skills to downstream activities are being explored.

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Both cashflow & earnings were up considerably on first half of 1999 as a result of reductions in the direct cost base, & higher production from Morecambe gas fields.

Gas Volumes, Pricing & Cost

	1999	*1998*
Domestic Gas sales		
Volume (m therms)	**5,510**	6,438
Price (p/therm)	**44.3**	44.6
Business Gas sales		
Volume (m therms)	**3,244**	3,215
Price (p/therm)	**18.5**	19.2
Equity production (m therms)	**2,125**	1,440
Gas costs (p/therm)	**16.2**	19.3

Domestic gas sales fell by 14% due to gas market share losses.

Average price reductions reflected the increased proportion of customers on direct debit, the new Advanced Payment Tariff, & the reduction in prices to pre-payment customers.

Equity gas production increased by 50% - reflected by £55m additional operating profit in gas business.

The full effects of re-negotiation were seen in the 3.1p reduction in WACOG.

Turnover

£m	***1999***	*1998*
Domestic @ SNT	**2,700**	3,151
Business Gas @ SNT	**613**	632
Weather	**(237)**	(262)
Total Gas	**3,076**	3,521
Electricity	**45**	1
Gas production	**13**	2
Accord	**405**	276
Total Energy Supply	**3,539**	3,800
Services	**282**	245
Retail (discontinued)	**65**	80
Financial Services	**1**	-
Total	**3,887**	4,125

Turnover fell by 6% year on year mainly due to the loss of gas market share.

Growth was seen in electricity, wholesale trading & services turnover.

Operating Profit Analysis
(pre-exceptionals)

£m	***1999***	*1998*
Domestic @ SNT	**270**	139
Business Gas @ SNT	**(4)**	(91)
Weather	**(77)**	(59)
Total Gas	**189**	(11)
Electricity	**(59)**	(38)
Gas production	**164**	168
Accord	**9**	14
Total Energy Supply	**303**	133
Services	**8**	3
Retail (discontinued)	**(25)**	(16)
Financial Services	**(7)**	(6)
Total	**279**	114

Both domestic & business gas operating profit benefited from the reduction in gas costs, (due to re-negotiation, lower oil prices & higher equity production).

Losses in electricity reflect expensing customer acquisition costs and infrastructure development.

Although equity gas production was up substantially, the lower market prices used resulted in operating profit at a similar level to 1998 & a benefit in domestic & business gas.

Although Accord turnover grew, tighter margins resulted in a reduction in operating profit.

Services operating performance once again improved - reflecting the revenue growth.

Operating Costs
(pre-exceptionals)

£m	1999	1998
Established business		
Energy Supply		
Gas	**365**	333
Electricity	**5**	1
Services	**106**	93
Retail (discontinued)	**39**	45
Financial Services	**1**	2
	516	474
New business		
Electricity	**60**	36
Other	**10**	4
	70	40
Total	**586**	514

The established business cost base increased by £42m mainly due to one-off specific costs in gas supply to support the business during re-organisation & investment in new customer interfaces.

In the second half, around 700 jobs will disappear together with the operating & overhead cost of 2 sites. We are confident the planned reductions will be delivered by year end.

Earnings

£m	1999	1998
Operating profit	**279**	114
Associates/joint ventures	**-**	(3)
Interest receivable	**7**	17
Taxation	**(43)**	(40)
Underlying performance	**243**	88
Exceptionals	**(66)**	(35)
Earnings	**177**	53

Improvement in associates was due to better performance of Accuread and a reduction in losses from the Goldfish card (despite continued investment in business development).

Interest fell due to lower interest rates, & the effect of the Sale & Leaseback transactions.

Exceptionals

£m	***1999***	*1998*
Restructuring/severance costs		
Energy Supply	**18**	-
Retail (discontinued)	**42**	-
Gas contract renegotiations	**-**	27
Year 2000 costs	**6**	8
Total	**66**	35

Energy supply costs of £18m related to the closure of Croydon & Barnet offices. Retail £42m was the first part of the total closure cost of £60m.

Year 2000 costs were £6m. We have completed our year 2000 readiness programme for all our key systems.

The total cost of the year 2000 project is still estimated to not exceed £40m.

Cash Flow before Financing

£m	***1999***	*1998*
Energy Supply	**433**	231
Services	**25**	21
Retail (discontinued)	**(19)**	(12)
Financial Services	**(4)**	(5)
	435	235
Working capital	**466**	438
Operating cash flow	**901**	673
Capital expenditure	**(57)**	(19)
Acquisitions	**-**	(7)
Taxation & interest	**6**	20
	850	667
Exceptional payments	**(46)**	(51)
Special dividend	**(530)**	-
Total	**274**	616

Cash flow was up considerably - mainly due to increased equity gas production. Capital expenditure includes £10m for a share in the Victor field, and £12m for IT hardware to support electricity customers.

The first half also included the payment of £530m special dividend.

The net cash position at the half year was £498m - which together with funding arrangements in place will provide finance for the AA acquisition.

1998 Energy Supply Profit Profile

		H1	H2	F/yr
Turnover	£m	3,800	2,984	6,784
	%	*56%*	*44%*	
Gross profit	£m	503	493	996
	%	*51%*	*49%*	
Gas cost adjustment	£m	85	(85)	-
Adjusted gross profit	£m	588	408	996
	%	*59%*	*41%*	
Operating costs	£m	(370)	(378)	(748)
Adjusted operating profit	£m	218	30	248
	%	*88%*	*12%*	

The seasonal nature of the business affects the first half/second half split of profits. In 1998, there was a material distortion to the split because of a significant drop in gas costs in Q4.

This slide shows how 1998 would have looked if gas costs had been constant throughout the year. Operating profit would have been very skewed to the first half. This needs to be taken into account when looking at HI 1999 results and extrapolating forwards.

Outlook for Second Half of 1999

- Morecambe production impact on profit
- Trading operating cost reductions
- Lower reduction in Q4 gas costs than 1998
- Reduction in transportation costs
- AA acquisition completes
  - Restructuring costs
  - Cash impact
  - Interest impact
- Transco pre-payment reversal option

Gas business operating costs are expected to fall and there will be a small reduction in gas & transportation unit rates. No further losses will be incurred in retail.

Before amortisation of goodwill, exceptional charges and financing costs, a small contribution to operating profit is expected from the AA.

There will be associated financing costs, and a proportion of the £95m exceptional charges identified on announcement will be booked in H2.

There will be the opportunity to reverse the Transco pre-payment - reducing working capital by up to £450m in H2.